Washington Suburban Sanitary Commission (WSSC)

AGENCY DESCRIPTION

The Washington Suburban Sanitary Commission (WSSC) is a bi-county agency directed by a board of six commissioners, three each from Prince George's County and Montgomery County. The commissioners are appointed by the respective jurisdiction's Executive and confirmed by its County Council.

The WSSC is responsible for providing water and sanitary sewer service within the Washington Suburban Sanitary District, which includes most of Montgomery and Prince George's counties and which, in Montgomery County, excludes the Town of Poolesville and portions of the City of Rockville.

PROGRAM DESCRIPTION AND OBJECTIVES

The principal objective of the Capital Improvements Program (CIP) is the programming of planning, design, land acquisition, and construction activities on a yearly basis for major water and sewerage facilities. These facilities may be necessary for system improvements and/or service to existing customers, to comply with Federal and/or State environmental mandates, and to support new development in accordance with the counties' approved plans and policies for orderly growth and development.

The CIP submission includes all major projects, defined as extensions, projects, or programs of water and sewer facilities. Major projects include: sewer lines 15 inches in diameter or larger; sewage pumping stations, storage facilities, and force mains; sewage treatment facilities; water mains 16 inches in diameter or larger; water pumping stations; water storage facilities for raw and potable water; water treatment facilities; and other major facilities.

The section following this narrative shows only the WSSC project description forms (PDFs) for which the Executive recommends changes to the WSSC's request. Those PDFs are preceded by project briefs which provide a description of the change and the Executive's rationale. The complete set of PDFs submitted by the Commission can be found on the WSSC web site at www.wssc.dst.md.us/budget/cip/FY2009Proposed/FY09ProposedCIP_Rollup.pdf.

PROGRAM CONTACTS

Contact Mark Brackett of WSSC's Budget Group at 301.206.8179 or John Greiner of the Office of Management and Budget at 240.777.2765 for more information regarding this agency's capital budget.

CAPITAL PROGRAM REVIEW

This narrative applies only to the Montgomery County and Bi-County water and sewerage projects. Projects that serve only Prince George's County are not included.

Agency Request

The total of $626.048 million in six-year expenditures proposed by WSSC for FY09-14 is $21.916 million, or 3.4 percent, less than the FY08-13 approved total of $647.964 million. The decrease in six-year costs is primarily attributable to the selection of a lower-cost upgrade alternative for the Duckett and Brighton Dam Upgrades, a lower than estimated bid for the Potomac Water Filtration Plant Improvements, and movement of the Bi-County Water Tunnel through the construction phase.

The FY09-14 CIP request includes 45 ongoing, 5 closeout, and 7 pending closeout projects. The proposed CIP includes five new projects: Countryside Drive Water Loop, Shady Grove Standpipe Replacement, Anacostia No. 2 Screening Handling Facilities, Sewer Basin Planning Program, and Wastewater Pumping Station Capacity Evaluation.

The following table compares the six-year expenditures and funding approved for FY08-13, requested by WSSC for FY09-14, and recommended by the County Executive for FY09-14.

WSSC CIP COMPARISON: FY08-13 vs. FY09-14 ($000)

(SIX-YEAR DATA)	CURRENT APPROVED FY08-13	AGENCY REQUEST FY09-14	CHANGE FROM APPROVED	CE RECOMMENDED FY09-14	CHANGE FROM APPROVED
EXPENDITURES					
MONTGOMERY COUNTY SEWERAGE	33,329	41,959	8,630	41,959	8,630
BI-COUNTY SEWERAGE	248,213	255,179	6,966	493,031	244,818
MONTGOMERY COUNTY WATER	13,018	20,380	7,362	20,380	7,362
BI-COUNTY WATER	353,404	308,530	(44,874)	308,530	(44,874)
TOTAL EXPENDITURES	647,964	626,048	(21,916)	863,900	215,936
FUNDING					
WSSC BONDS	398,820	380,492	(18,328)	382,849	(15,971)
SYSTEMS DEVELOPMENT CHARGE	204,114	196,005	(8,109)	196,005	(8,109)
CONTRIBUTIONS	14,359	11,198	(3,161)	11,198	(3,161)
ALL OTHER SOURCES	30,671	38,353	7,682	273,848	243,177
TOTAL FUNDING	647,964	626,048	(21,916)	863,900	215,936

Executive Recommendations
The Executive's recommended FY09-14 CIP is identical to the Commission's proposed CIP except for the Blue Plains Advanced Wastewater Treatment Plant projects, which should be adjusted to reflect the cost estimates included in the Proposed FY07-16 CIP for the District of Columbia Water and Sewer Authority (WASA). The latter amounts were not incorporated into the WSSC's Proposed FY09-14 CIP because WASA's Proposed FY07-16 CIP was received after WSSC's CIP was published.

Due to the revised estimates for the Blue Plains projects, the Executive's recommended six-year expenditures for the WSSC CIP total $863.9 million, which is a $215.9 million, or 33.3 percent, increase from the approved FY08-13 CIP of $648.0 million. Most of the increase can be attributed to WASA's inclusion for the first time of the design and construction costs associated with the Blue Plains Enhanced Nutrient Removal Project.

The recommended figures for the Enhanced Nutrient Removal (ENR) Project incorporate adjustments by the WSSC to WASA's original cost allocation to reduce contributions toward the cost of certain ENR facilities. These costs are subject to further negotiations between the WSSC and WASA.

The following table summarizes the recommended changes for each of the Blue Plains projects.

BLUE PLAINS WWTP PROJECTS - COST COMPARISON ($000)							
Projects	TOTAL 6 YR	FY09	FY10	FY11	FY12	FY13	FY14
WSSC REQUEST							
Liquid Train Projects, Part 2	42,422	18,284	14,726	6,293	783	954	1,382
Biosolids Management, Part 2	107,787	3,381	8,384	8,348	17,543	32,096	38,035
Biological Nutrient Removal	28,265	11,229	10,888	6,072	76	0	0
Plant Wide Projects	31,893	14,207	10,303	5,386	391	359	1,247
Enhanced Nutrient Removal	375	348	7	5	5	5	5
WSSC REQUEST TOTAL	210,742	47,449	44,308	26,104	18,798	33,414	40,669
CE RECOMMENDED							
Liquid Train Projects, Part 2	27,779	15,981	6,774	2,511	832	839	842
Biosolids Management, Part 2	119,484	5,617	14,380	13,665	19,060	30,938	35,824
Biological Nutrient Removal	30,866	14,706	10,880	4,785	5	33	457
Plant Wide Projects	36,034	11,769	10,279	3,160	5,735	4,478	613
Enhanced Nutrient Removal	234,431	4,190	8,051	13,104	67,755	92,829	48,502
CE RECOMMENDED TOTAL	448,594	52,263	50,364	37,225	93,387	129,117	86,238
Increase (Decrease)	237,852	4,814	6,056	11,121	74,589	95,703	45,569

HIGHLIGHTS

- Continue to enhance wastewater treatment and solids handling facilities at the regional Blue Plains Advanced Wastewater Treatment Plant in order to achieve environmental goals and greater efficiency.
- Continue to improve reliability and reduce treatment costs at the Potomac Water Filtration plant.
- Increase the replacement/rehabilitation of water and sewer lines by 18 miles per year in FY09 (9 additional miles of water mains and 9 of sewer mains).
- Accelerate the replacement and rehabilitation of WSSC's aging water and sewer mains. Introduce a fixed Infrastructure Renewal Fee (Ready to Serve Charge) to provide reliable funding dedicated to this goal.
- Upgrade the Blue Plains, Seneca, and Damascus wastewater treatment plants for enhanced nutrient removal to meet environmental goals in the Chesapeake 2000 plan.
- Enhance water quality and efficiency by introducing two new projects: Shady Grove Standpipe Replacement and Anacostia No. 2 Screening Handling Facilities.

SPENDING CONTROL LIMITS

In order to reduce the level of water and sewer rate increases, the Montgomery and Prince George's councils adopted a spending affordability process in April 1994. The process requires the counties to set annual ceilings on WSSC's water and sewer rates and debt (both bonded indebtedness and debt service), and then to adopt corresponding limits on the size of the capital and operating budgets.

While the spending limits technically apply only to the first year of the six-year program, the purpose of the limits includes controlling debt, debt service, and rate increases over the longer term. The FY09 spending control limits recommended by the Executive and adopted by the Montgomery County Council are shown below with their outyear projections.

FY09 WSSC SPENDING CONTROL LIMITS ADOPTED BY THE MONTGOMERY COUNTY COUNCIL (AND OUTYEAR PROJECTIONS)*						
	FY09	FY10	FY11	FY12	FY13	FY14
Water Production (mgd)	169.5	170.0	170.5	171.0	171.5	172.0
New Debt Requirement ($000)	$182,326	$219,274	$226,176	$251,038	$200,078	$248,724
Total W/S Operating Budget ($000)	$564,343	$698,402	$749,906	$785,808	$793,058	$818,568
Debt Service ($000)	$165,854	$183,749	$191,723	$209,025	$221,912	$240,116
Rate Increase	9.7%	9.0%	6.3%	6.3%	6.3%	6.3%

*These limits assume the introduction of an Infrastructure Renewal Fee (expanded Ready to Serve Charge) based on meter size.
Source: Montgomery County Council Resolution 16-398 and WSSC Budget Group.

The FY09 spending control limits adopted by the Montgomery Count Council are predicated on the adoption of a fixed Infrastructure Renewal Fee (Ready to Serve Charge) based on meter size ($20 per month for residential customers) to underwrite accelerated replacement/rehabilitation of aging water and sewer mains. All water and sewer replacement/ rehabilitation efforts above the level approved in the WSSC's FY08-13 CIP would be funded by this fee on a PAYGO basis, rather than through debt financing. The amount of the fee would be unchanged for ten years.

The first year of WSSC's proposed CIP is consistent with the spending control limits shown above. However, the effects of the Blue Plains project changes on the proposed CIP will need

to be considered in this and future CIPs and operating budgets to ensure adherence to the spending affordability limits.

The Prince George's County Council has adopted spending control limits for WSSC that differ from those adopted by the Montgomery County Council. The Prince George's County limits include a maximum average rate increase of 8.0% but no Infrastructure Renewal Fee (Ready to Serve Charge).

An estimate of the impact on the water or sewer rate (i.e., the charge to users) is calculated for each project for which estimated annual debt service and operation and maintenance (O&M) costs would result in at least a one-cent increase per 1,000 gallons of total consumption. The WSSC Budget Group estimates the relationship between annual debt service and O&M costs and the water and sewer rates. For water projects, approximately $505,821 of debt service and/or O&M costs equates to a one-cent increase in the water rate. For sewer projects, approximately $464,005 of debt service and/or O&M costs equates to a one-cent increase in the sewer rate.

WSSC has cautioned that the calculated impact on water and sewer rates represents only a broad indication of the effect that a particular project has on the rate schedule. The impact on water and sewer rates is influenced by a number of factors, including the actual interest rate on the bonds sold to fund the project, the availability of grants for sewer projects, and fluctuations in water usage (sales revenue).

WSSC'S LEVEL OF BONDED INDEBTEDNESS

Debt Service

The Executive and Council monitor the WSSC's bonded indebtedness and debt service level. The rate of growth in the absolute size of the outstanding water and sewer debt and in debt service has been relatively stable over the last six years, as shown in the following table, while debt service as a percentage of water and sewer operating expenditures has fluctuated between 33.7 and 36.5 percent.

WSSC BONDED INDEBTEDNESS AND DEBT SERVICE

($ in Millions)	ACTUAL FY03	ACTUAL FY04	ACTUAL FY05	ACTUAL FY06	ACTUAL FY07	ESTIMATE FY08
End of Fiscal Year - Total Outstanding Bond Debt (includes Storm Water Drainage Bonds)	$1,481.7	$1,465.1	$1,454.1	$1,425.4	$1,342.0	$1,347.5
Outstanding Water and Sewer Bond Debt	$711.0	$732.3	$755.4	$788.3	$768.8	$831.0
Total Debt Service - All Operating Funds	$197.1	$186.7	$196.6	$214.6	$218.6	$223.0
Debt Service as a % of Total Operating Exp.	45.1%	45.9%	44.8%	43.9%	45.1%	43.4%
Debt Service in Water/Sewer Operating Exp.	$126.8	$125.9	$133.0	$139.5	$141.4	$147.0
Water/Sewer Debt Service as a % of Total Water/Sewer Operating Expenditures	34.7%	36.5%	35.6%	33.9%	34.8%	33.7%

Source: WSSC Budget Group

The debt service ratio is projected to decline to 29.4% in FY09, assuming the implementation of an Infrastructure Renewal Fee (Ready to Serve Charge) to underwrite the accelerated replacement/rehabilitation of aging water and sewer lines, as recommended in connection with the approved spending affordability limits.

PROJECTED WSSC DEBT SERVICE RATIO UNDER THE APPROVED SPENDING CONTROL LIMITS*

	FY09	FY10	FY11	FY12	FY13	FY14
Debt Service as a % of Total Water and Sewer Operating Expenditures	29.4%	29.2%	26.8%	26.6%	28.0%	29.3%

*Assumes implementation of the Infrastructure Renewal Fee (Ready to Serve Charge).

Source: WSSC Budget Group

Debt Capacity

State law provides for the option of a tax levy against all assessable property in the Washington Suburban Sanitary District by Montgomery and Prince George's counties to pay for the principal and interest on WSSC bonds. This provision, which would be exercised only if requested by the WSSC, does not constitute a pledge of the full faith and credit of the two counties. However, WSSC bonds are part of the overlapping debt of county agencies. As of June 30, 2007, WSSC debt represented 51.0 percent of Montgomery County's gross overlapping debt. The amount of debt that the WSSC issues is therefore a factor in rating agency assessments of the credit worthiness of Montgomery County. In addition, increasing levels of debt service can result in increases in the combined water and sewer rate.

"INFORMATION ONLY" PROJECTS

The WSSC is obligated by State law to submit for CIP review and approval only major water and sewerage projects. The agency undertakes other kinds of capital projects as well. These other projects, which total $706.8 million for FY09-14, are presented in the CIP for information only and include Water and Sewer Reconstruction, Engineering Support, the Energy Performance Program, Entrepreneurial Projects, and the Water Storage Rehabilitation Program.

Projects may be included for any number of reasons such as: for fiscal planning purposes; to improve the reader's understanding of the full scope of a specific set of projects; or in response to a request from one or both of the county governments. The information only projects are subject to review and approval as part of the annual WSSC Operating and Capital Budget, which is acted on by the Council in the spring.

WSSC's proposed FY09-14 CIP includes an increase in water main replacement from 27 to 34 miles per year, and an increase in sewer main rehabilitation from 51 to 60 miles per year (see the following table). Adoption of the Infrastructure Renewal Fee (Ready to Serve Charge) as recommended by the Executive and the Montgomery County Council in connection with the approved FY09 spending affordability limits would increase water main replacement by 112 miles (55%) over the six-year period, while sewer rehabilitation would increase by 282 miles (78%).

INFRASTRUCTURE RENEWAL RECOMMENDATIONS									
		Approved	Proposed						FY09-14
		FY08	FY09	FY10	FY11	FY12	FY13	FY14	Total
WSSC Proposed FY09-14 CIP	Water Main Replacement (mi.)	27	34	34	34	34	34	34	204
	Sewer Main Rehabilitation (mi.)	51	60	60	60	60	60	60	360
County Executive/ County Council Recommendation*	Water Main Replacement (mi.)	27	36	36	46	66	66	66	316
	Sewer Main Rehabilitation (mi.)	51	60	80	80	130	146	146	642

*As implied by the spending affordability limits recommended by the Executive and approved by the Montgomery County Council.

Source: WSSC Budget Group

PROGRAM FUNDING

The WSSC Capital Improvements Program is funded through a variety of sources described below.

WSSC Bonds
The WSSC raises revenue for CIP projects by issuing water and sewer bonds. These bonds are amortized through periodic charges to the users of water and sewer services. Bond funding for the FY09-14 CIP, as recommended by the Executive, is $382.8 million.

System Development Charge
The System Development Charge (SDC) is a charge to new development to pay for the part of the CIP which is needed to accommodate growth. The WSSC collects SDC revenue from charges to builders based on the number and type of plumbing fixtures installed in new construction projects. The Executive recommends that $196.0 million in SDC funds be used to underwrite growth projects in FY09-14.

State Aid
For sewerage projects such as Blue Plains Wastewater Treatment Plant (WWTP) Enhanced Nutrient Removal, Blue Plains WWTP Biological Nutrient Removal, Seneca WWTP Enhanced Nutrient Removal, and Damascus WWTP Enhanced Nutrient Removal, State funds are recommended to cover $262.8 million of the costs in FY09-14 (including all costs associated with the Blue Plains WWTP Enhanced Nutrient Removal Project).

WSSC asserts that all WSSC projects receiving State aid conform to the requirements of local plans, as required by the Maryland Economic Growth, Resource Protection and Planning Act.

Municipal Financing
The WSSC CIP contains projects in which neighboring jurisdictions, such as the District of Columbia, Rockville, and Fairfax County, join the WSSC in financing the construction of sewerage facilities serving the metropolitan area. These jurisdictions contribute an agreed-upon share of the project cost. A total of $11.1 million in project expenditures is recommended to be financed by these jurisdictions.

Contributions
When actual costs of water and sewerage facilities required to serve new development are estimated to exceed expected revenues, the difference may be financed by developers in the form of contributions. Contributions toward CIP projects are estimated at $11.2 million for FY09-14.

STATUTORY AUTHORITY

The Montgomery County Capital Improvements Program review process for the WSSC is governed by laws and regulations of the State of Maryland, the Montgomery County Charter, and the Montgomery County Code. Relevant projects authorized for Montgomery County review include only Montgomery and Bi-County water and sewer projects.

The Montgomery County Executive reviews relevant WSSC CIP proposals and includes them, along with comments and recommendations, in the Executive's Recommended Capital Improvements Program. After a public hearing and subsequent committee work sessions, the Montgomery County Council approves by resolution WSSC's six-year capital program and annual operating and capital budgets, with modifications as desired.

Bi-County projects are projects located completely or partially within Montgomery County or Prince George's County that are designed to provide service in whole or in substantial part to the other county. A proposed Bi-County project may be disapproved only with the concurrence of the governing body of the county which is to receive the designated service. However, the county in which the project is to be physically located has the authority to direct modifications in project location and scheduling, provided that such modifications or changes do not prevent the service from being available when needed.

This authority to modify location may only be exercised during the year in which the project is first introduced. Thereafter, the authority to make modifications is limited to those changes that would not result in substantial net additional costs to the WSSC, unless the county directing the modification reimburses the WSSC for any additional net cost increases resulting from the modification.

The WSSC is responsible for constructing approved capital projects on a schedule as close as possible to the schedule set forth in the adopted CIP. The Commission is limited to undertaking only those projects which are scheduled in the first year of the program; however, it is not obligated to implement any project determined to be financially infeasible.