T&E COMMITTEE #1
October 6, 2014

MEMORANDUM

October 3, 2014

TO: Transportation, Infrastructure, Energy & Environment Committee

FROM: ~~KL~~ Keith Levchenko, Senior Legislative Analyst

SUBJECT: FY16 Washington Suburban Sanitary Commission (WSSC) Spending Control Limits

	Base Case Scenarios			Council Staff Recommendation: Assumes AMF and 2 Yr Phase-In of Infrastructure Fee
	1 Current Fee Structure	2 With Revised Account Maintenance Fee (AMF)	3 With Revised AMF and New Infrastrucutre Fee	
Gap (Expenditures-Revenues)	**(58,989,000)**	**(58,989,000)**	**(58,989,000)**	**(48,478,000)**
Account Maintenance Fee Revenue		9,036,000	9,036,000	9,036,000
Infrastructure Fee Revenue			38,834,000	19,417,000
Unspecified Reductions				7,613,000
Net Revenue Gap	**(58,989,000)**	**(49,953,000)**	**(11,119,000)**	**(12,412,000)**
Spending Control Limits				
Rate Increase	**10.2%**	**8.6%**	**1.9%**	**2.1%**
New Debt	447,009,000	447,009,000	447,009,000	447,009,000
Debt Service	234,778,000	234,778,000	234,778,000	235,483,000
Total W/S Oper. Expenses	708,205,000	708,205,000	708,205,000	701,846,000
Average Residential Customer Monthly Impact*				
Total	**$5.44**	**$6.28**	**$6.52**	**$4.71**
Rates	$5.44	$4.61	$1.02	$1.12
Changes to Account Maintenance Fee		$1.67	$1.67	$1.67
New Infrastructure Fee			$3.83	$1.92

*Impact assumes 160 gallons per day of water usage.

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

- WSSC Commission Vice Chair Adrienne Mandel
- Jerry Johnson, WSSC General Manager/CEO
- Leticia Carolina-Powell, Acting Budget Group Leader
- Matthew Schaeffer, Office of Management & Budget

Background

WSSC's spending control limits process was established in April 1994 via resolution by both Montgomery and Prince Georges County Councils, with the goal of both Councils agreeing upon certain budgetary limits by November 1 of each year. Some summary information regarding the process is noted below:

- 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.

- 4 limits
  - Maximum Average Rate Increase
  - Debt Service
  - New Debt
  - Total Water and Sewer Operating Expenses

- Limits provide direction to WSSC as to what to request, but do not create a ceiling (or a floor) as to what the Councils may jointly approve later.[1]

- Process has generally worked well over the past 15 years, although Councils did not agree on limits in FY02, FY06, and FY09 through FY12. Even in years when there was not agreement, the process provided a rate increase range for WSSC to build its budget.

- Debate focuses on the average rate increase for the coming year and the rate implications for the out years. The other limits are then adjusted to take into account the impacts of the rate decision.

NOTE: On August 20, the WSSC Commissioners recommended assuming a revised Account Maintenance Fee (AMF) (to recover the five year average cost of providing account maintenance services) and a new infrastructure fee (to cover water and sewer pipe reconstruction) for purposes of fiscal planning for the FY16 budget. Each change results in increased revenue and thus a lower water and sewer rate requirement. Therefore, this year's spending control limits process presents three base case scenarios: 1) no change in fees, 2) changing the AMF only, and 3) changing the AMF and creating a new infrastructure fee.

Schedule

- Bi-County Working Group Meetings: September 10 and September 24, 2014
- Montgomery County Council Public Hearing: September 30, 2014
- T&E Committee Discussion: October 6, 2014
- Council Action: October 14 (tentative)
- Prince George's County Council TH&E Review: TBD
- Prince George's County Council Action: TBD

[1] State law defines the annual WSSC Proposed Budget as the "default" budget, should the Montgomery and Prince George's County Councils not agree on changes. Therefore, the limits are an important first step to define proposed budget parameters that are acceptable to both Councils.

NOTE: The County Executive is expected to transmit his recommendation on WSSC's spending control limits in time for consideration by the T&E Committee at its October 6 worksession.

The goal of the spending control limits process is for the Montgomery and Prince George's County Councils to come to agreement 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.

Multi-Year Context

While the spending control limits process is an annual one, the Bi-County Working Group takes a multi-year look at trends. The outyear estimates help staff identify issues that could arise in future years. For instance, rate increases in the first year help improve WSSC's fiscal situation in future years by increasing WSSC's base revenues. Conversely, deferring rate increases to future years, or using one-time revenue to reduce a rate increase in the first year, increases future fiscal challenges, since the revenue base is lower in future years.

However, with flat water and sewer consumption (92 percent of WSSC's revenue comes from its water/sewer consumption charges) and ongoing infrastructure needs, as well as increased costs for many operating categories, WSSC continues to face significant fiscal challenges going forward.

Spending Control Limits History

The following chart 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.

Table 1:
Spending Control Limits & Actual Rates

	Rate Increase	
Fiscal Year	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%
FY11*	9.9%	8.5%
FY12*	9.9%	8.5%
FY13	8.5%	7.5%
FY14*	8.0%	7.25%
FY15	6.0%	5.5%

*No agreement was reached in FYs 02,06,09,10,11,12, and 14. Limits shown for those years reflect Montgomery County Council recommendations.

- **FY99 through FY04:** 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. In fact, there were six straight years without rate increases (FY99-FY04). During this time, WSSC was implementing its Competitive Action Plan (CAP) effort, which resulted in a reduction in approximately 1/3 of its workforce.

- **FY05 through FY07**: Modest rate increases in the range of 2.5% and 3.0% were approved.

- **FY08 through FY15:** The Councils debated, and ultimately approved, substantial rate increases. These increases were the result of a combination of factors, including:
  - Flat revenues: WSSC's water production has been largely flat in recent years, even as the number of customer accounts has increased.
  - Expenditure Pressures: Increases in excess of inflationary levels in areas such as debt service (to cover many capital needs, including WSSC's need to ramp up its water and sewer main reconstruction efforts and its large diameter water main inspections, repairs, and monitoring program), as well as in many operating cost areas, including: chemicals; heat, light, and power; regional sewage disposal; and benefits and compensation.

General Issues

Economic Indicators

Each year, the Council considers the Bi-County economic context in order to place the concept of affordability in clearer perspective.

While the national economic recession officially ended in June 2009, the national unemployment rate still remains above 6 percent and, by a broader measure including part-time and discouraged workers, about double that level. While stock indexes have shown continuing improvement, housing and other key indicators are uneven.

In 2013, thanks chiefly to federal defense cuts and sequestration, the region's gross domestic product fell by 0.8 percent, with northern Virginia most affected. The State's performance was flat. The current projection of the Board of Revenue Estimates for FY15-16 is a writedown of $405 million.

The County's recovery is progressing slowly. In August, the County unemployment rate was 5.1 percent, well below the national rate. But it was just 2.5 percent in November 2007 and, until January 2009, had not reached even 4 percent at any time in at least 20 years. The County economy grew slowly in FY14 compared to FY13, particularly in real estate and residential construction. Resident employment showed a slight decline. This year's second quarter, compared to last year's, showed declines in employment, residential construction, existing home sales, and median sales prices. Regarding pressures on the disposable income of County residents, energy costs remain a key factor. Gasoline prices have recently declined but remain high, as do costs for heating and electricity.

The continued economic uncertainty is important to keep in mind when considering the impact of WSSC rate increases on ratepayers and the cumulative impact of these increases when combined with possible increases in other County taxes and fees.

Status of the Bi-County Infrastructure Funding Working Group

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. A Bi-County Working Group was established at that time to study the issue.

During the summer of 2012, the Working Group, with the assistance of a consultant, transmitted a report to the Commission that included several unanimous recommendations, including:

- Changes in Debt Policy: Increase the term on new debt issued from 20 to 30 years. Maintain a debt service coverage target of 1.25x. Apply excess cash flow to PAYGO capital funding to reduce borrowing. Maintain reserves of 365 days cash on hand.
- Further analyze the benefits of creating a separate infrastructure charge (either a fixed fee or volumetric charge). *NOTE: this recommendation was later expanded to include a broader look at WSSC's current rate structure.*
- Pursue enactment of State legislation enabling the creation of a more robust customer affordability program that piggybacks on an existing affordability program (MEAP).

The change in debt policy, which the WSSC Commissioners and both Councils later endorsed, had an immediate beneficial impact in the spending control limits process, with about a 2.0 percent reduction in the rate requirement in the first few years of the forecast. These fiscal practices are assumed to continue in FY16 and beyond in the Base Case and all alternative scenarios.

In 2013 and 2014 the Working Group, with the assistance of a consultant, looked at WSSC's current rate structure and considered a variety of options to address WSSC's long-term fiscal issues. The Working Group ultimately recommended and the WSSC Commission supported:

- Restructuring the existing Account Maintenance Fee to better recover costs assumed under current policies;
- Creating a new fixed infrastructure fee to cover the costs for WSSC's water and sewer pipe reconstruction programs;
- Affirming WSSC's pursuit of State enabling legislation to pursue a customer affordability program.

The T&E Committee received a briefing on these recommendations on July 21. The base case scenarios assumed in this spending control limits process reflect the changes proposed for the account maintenance fee and new infrastructure fee. The customer affordability program is still under development and any reduced revenue that would occur if the program is implemented is not assumed in any scenarios at this time. This item can be reviewed by the two Councils in May of 2015 if enabling legislation is enacted by the State.

The Working Group has also discussed water and sewer extension cost issues. Property owners in either county who are seeking to connect to public water and sewer are often faced with unaffordable extension and connection costs. The Working Group has discussed some potential changes to the existing financing mechanisms, and briefed the WSSC Commissioners this past summer.

<u>FY16 Spending Control Limits Base Case Scenarios</u> (see ©1-9)

For the upcoming budget, WSSC staff prepared three versions of a Base Case spending control limits scenario, all based on the same overall projections for expenditures. With regard to revenues, scenario #1 assumes no change in the Account Maintenance Fee and no new infrastructure fee (a "status quo" option). A second scenario assumes a revised Account Maintenance Fee. A third scenario assumes a revised Account Maintenance Fee and a new infrastructure fee. The chart below summarizes these three scenarios:

Table #2:
WSSC Base Case Scenarios Summary

	Base Case Scenarios		
	1 Current Fee Structure	2 With Revised Account Maintenance Fee	3 With Revised Account Maintenance Fee and New Infrastrucutre Fee
Gap (Expenditures-Revenues)	**(58,989,000)**	**(58,989,000)**	**(58,989,000)**
Account Maintenance Fee Revenue		9,036,000	9,036,000
Infrastructure Fee Revenue			38,834,000
Unspecified Reductions			
Net Revenue Gap	**(58,989,000)**	**(49,953,000)**	**(11,119,000)**
	Spending Control Limits		
Rate Increase	**10.2%**	**8.6%**	**1.9%**
New Debt	447,009,000	447,009,000	447,009,000
Debt Service	234,778,000	234,778,000	234,778,000
Total W/S Oper. Expenses	708,205,000	708,205,000	708,205,000
	Average Residential Customer Monthly Impact*		
Total	**$5.44**	**$6.28**	**$6.52**
Rates	$5.44	$4.61	$1.02
Changes to Account Maintenance Fee		$1.67	$1.67
New Infrastructure Fee			$3.83

*Impact assumes 160 gallons per day of water usage.

Each base case scenario raises the same amount of revenue to cover the same amount of expenses. Therefore, all of the spending control limits are identical, with the exception of the rate increase limit.

As shown for Scenario #2, the restructured Account Maintenance Fee would raise an additional $9.04 million per year and thus result in a lower rate requirement (8.6 percent instead of 10.2 percent).

Scenario #3 includes the new infrastructure fee as well, which would raise about $38.8 million and result in a further drop in the required rate (from 8.6 percent to 1.9 percent).

All three base case scenarios assume:

- Full funding of WSSC's Proposed FY16-21 Capital Improvements Program.

- Inflationary increases in current programs.
- Adjustments in regional sewage disposal, GASB 45 funding, and employee compensation.
- Use of $9.8 million in excess fund balance in FY16 ($1.5 million for REDO extinguishment, $2.0 million AMI/billing system replacement, and a $6.3 million operating reserve contribution). These uses are consistent with prior assumptions supported by both Councils during last year's spending control limits process.
- No "additional or reinstated" programs are assumed in these scenarios. However, WSSC has identified some items for consideration in the context of this spending control limits process (see ©10). In some cases, excess fund balance could be used to fund some non-recurring items. Council Staff's recommended scenario assumes the use of additional fund balance (consistent with prior uses of fund balance).

The elements of the Base Case revenue gap, before including any additional and reinstated programs or assuming the changes in the Account Maintenance Fee or the new Infrastructure fee (i.e., Scenario #1), are shown in Table 3 below. The overall funding gap is $58.989 million.

Table 3:
Components of the Base Case Rate Increase (No "A&R")

Components of the FY16 Base Case Gap (No "Additional & Reinstated" assumed)	Change from FY15 (in $Millions)	Impact on Rate	Cumulative Rate Increase	
Changes in Funds Available (with oper. reserve contribution)	32.87	5.68%	5.68%	Per Latest Estimates
Debt Service	7.74	1.34%	7.02%	To Meet Requested CIP
PAYGO (Debt Service Coverage of 1.25x)	2.67	0.46%	7.48%	Per Fiscal Policy Goal
Regional Sewage Disposal	(0.28)	-0.05%	7.43%	Established by DCWater
GASB 45 Ramp Up	-	0.00%	7.43%	Per Fiscal Policy Goal
Heat, Light, and Power	1.30	0.22%	7.66%	Per Latest Estimates
Salaries and Wage Increases	5.36	0.93%	8.58%	5% increase in costs assumed
All Other	9.34	1.62%	10.20%	4% increase in costs assumed
Additional and Reinstated Programs (including new S&W)	-	0.00%	10.20%	One-Time Items Could be funded with FB
Total Base Case Gap	**58.99**	**10.20%**		

Changes in funds available (including revenue estimates, revenue adjustments, and use of fund balance) by itself requires about a 5.7 percent rate increase. *NOTE: This increase is somewhat overstated, since the fund balance used in FY15 for one-time expenses is removed from the FY16 revenues. The one-time expenses are removed as well, but from expenditure line items elsewhere in the table.*

Debt service costs are up modestly compared to past years (1.34 percent rate impact) as WSSC continues to experience beneficial interest rates, and some bond-funded expenditures are going down as major capital projects (such as several large projects at the Blue Plains Wastewater Treatment facility) are moving toward completion. WSSC is also utilizing more PAYGO funding (consistent with fiscal policy changes implemented two years ago as a result of a consultant study that also recommended moving from 20-year to 30-year debt). For FY16, the Base Case assumes increases in PAYGO equivalent to a 0.46 percent rate increase.

Some other WSSC expenditures, which are essentially fixed (at least in the short run), are also presented. Regional sewage disposal expenses (which are based on actual WSSC sewage flows to the Blue Plains Wastewater Treatment Plant) are down slightly. The GASB 45 ramp up was completed as part of the FY15 budget and therefore no increase is assumed in FY16. Heat, light, and power is up slightly (.22 percent rate impact). The "All Other" category is up slightly as well (1.62 percent rate impact).

To cover changes in funds available, debt service, PAYGO, regional sewer disposal, GASB 45, and heat, light, and power (all essentially fixed costs in the short run) requires about a 7.66 percent rate increase. Assuming salary adjustments as well moves the rate requirement up to 8.58 percent. Finally, "All Other" inflationary increases bumps the rate increase requirement up to 10.2 percent.

The monthly impact on an average residential customer (assuming 160 gallons per day of water usage) ranges from $5.44 to $6.52 (from an FY15 total of $57.15 per month) for these three base case scenarios.

Building the Base Case Scenario

The first step the Working Group took in reviewing spending control limits and the Base Case scenario was to review the major revenue and expenditure assumptions for WSSC. Many of these assumptions are the same as or similar to assumptions in past years. These assumptions involve various inflators assumed in categories such as salaries and wages, construction inflation, Blue Plains operating costs, and others.

Use of Fund Balance

Each year, WSSC carries over fund balance from the prior year. The FY13 carryover into FY14 was $133.9 million. For FY14, WSSC latest estimates are that it carried over an additional $19.4 million, bringing the total up to $152.3 million. Of this amount, $53.3 million is needed to maintain WSSC's working capital reserve at FY15 levels. The chart on ©17 shows how WSSC is proposing to allocate the balance of these dollars in FY16 and beyond.

The chart includes the following components:

- **An increase in the reserve requirement from $53.3 million to $55.6 million by the end of FY15 and up to $61.9 million by the end of FY16.** These two infusions of funding will keep WSSC's fund balance up to about 10 percent of estimated water and sewer revenues in FY15. This level of reserve is consistent with Montgomery County's own general fund reserve policies and is based on past WSSC discussions with rating agencies and WSSC's interest in having sufficient working capital to overcome a potential short-term revenue shortfall.

- **The resulting excess fund balance available for FY16 uses (apart from the $2.3 million operating reserve contribution mentioned earlier) is estimated at $100 million.** This surplus is the result of several factors, including: continued lower than expected interest rates (reducing the cost to borrow money for the CIP) and some delays in CIP spending (such as WSSC's consent degree work in its trunk sewer rehabilitation program).

- **WSSC recommends an additional $14.8 million in FY17 through FY20** to bump up the fund balance to keep the total revenue ratio at or close to the goal of 10 percent.

- **Of the remaining excess fund balance, WSSC recommends allocating most of it to a number of specific projects detailed on ©10.** These items will be discussed in more detail during the budget process next spring.

About $3.2 million of excess fund balance is left. Council Staff believes this balance should remain unallocated and available in case supplemental funding is needed during the fiscal year or possibly to cover reduced revenue in the case that a customer affordability program is implemented in FY16.

Revenues

Total revenue (setting aside the requested change in the Account Maintenance Fee and the new infrastructure fee and assuming no use of fund balance or other adjustments) is expected to be down from FY15 by approximately $6.5 million, as shown in Table 4 below. This revenue drop requires the equivalent of approximately a 1.13 percent rate increase.[2]

Table 4:
WSSC Total Revenue (FY15 Approved and FY65 Projected)

Revenue	FY15	FY16	change	% change
Water and Sewer Rate Revenue	586,255,000	579,276,000	(6,979,000)	-1.2%
Account Maintenance Fee	22,900,000	23,338,000	438,000	1.9%
Interest Income	1,000,000	1,000,000	-	0.0%
Other Fees	9,574,000	9,574,000	-	0.0%
Miscellaneous	17,000,000	17,000,000	-	0.0%
Total Revenue	**636,729,000**	**630,188,000**	**(6,541,000)**	**-1.0%**
	equivalent rate impact:		1.13%	

WSSC's most important revenue-related assumption is its estimated water production in millions of gallons per day (mgd). WSSC produces approximately 160 to 170 mgd (approximately 60 billion gallons per year). This production (minus unbilled water), multiplied by a billing factor, determines water and sewer rate revenue. Water and sewer rate-related revenue currently accounts for about 92 percent of all WSSC revenue. On average, every 1 mgd produced provides approximately $3.5 million in annual revenue.

The decline in revenue is the result of continued flat water consumption levels and reductions in recent years of the effective "billing factor".[3]

WSSC is assuming average water production to be 166 mgd (down 2 mgd from the 168 assumed for FY15 and down 4 mgd from the 170 mgd assumed for FY14). FY16 through FY20 are also assumed at 166 mgd (also reflecting declines of 2 mgd from last year's forecast). Since the first spending control limits were approved (20 years ago), the population served has increased 21.9 percent. However, WSSC's water production estimates are nearly the same.

For FY11, average daily water production averaged a record high of 175 mgd. This level was most likely an anomaly resulting from a one-time sale of water sold to the City of Rockville as a result of a major water main break and extremely dry weather conditions that led to increased water usage in the

[2] For FY16, each one percent increase in rates raises approximately $5.8 million in revenue.

[3] Complicating any projection of water production revenue is WSSC's graduated rate structure and the fact that, in any given year, the average mix of customers at different rate levels may change, meaning the "billing factor" or average rate charged per gallon produced can fluctuate from year to year. WSSC most recently lowered its projected "billing factor" for FY15.

WSSC service area. FY12 water production dropped back down to 165.7 mgd. FY13 dropped again (to 161.2 mgd) and FY14 came in at its lowest total in decades, at 160 mgd.

Water production is extremely sensitive to various factors, such as weather conditions and customer choices. WSSC's graduated rate structure (in which the more water one uses, the more one pays for all water used) provides a major conservation incentive, and WSSC's flat water production—even as the number of customers has increased—may be reflective of successful long-term water conservation efforts in the region.

Overall, WSSC's revenue trends continue to be flat. With regard to rate revenues, the WSSC customer base is increasing slightly, but the billing factor is falling slightly. Absent new revenue sources, future rate revenue growth is also likely to be modest or non-existent, given expected flat water demand trends over the next six years. As a result, inflationary pressures alone result in additional rate increase pressure for FY16 and the foreseeable future.

Expenditures

Expenditure assumptions include both debt-related assumptions (interest rates, construction inflation, completion factors) to meet WSSC's soon-to-be Proposed FY15-20 CIP and ongoing operating cost assumptions (salary and wage increases, energy, Blue Plains operating charges, "All Other," etc.). These assumptions are noted on ©6, are similar to assumptions presented during last year's review, and are either consistent with historical levels of increase in these areas or are based on locked-in rates (such as energy costs).

- **PAYGO**: In past years, PAYGO has been allocated with excess fund balance and with some rate revenue in order to try to bring down the debt service to budget ratio. However, fiscal pressures and relatively low interest rates had made PAYGO a less appealing option in recent years. No PAYGO was assumed in the FY13 spending control limits forecast two years ago. However, last year, the Bi-County Working Group recommended both extending the term of new debt (from 20 to 30 years) and investing some of the resulting debt savings in PAYGO in order to achieve long-term savings in debt service over time. As a result, PAYGO was ramped up in the FY14 Approved Budget and continued in the FY15 budget. A similar approach is assumed for FY16.

- **Salaries and Wages**: The salaries and wages rate of increase assumed in the Base Case for FY16 (5 percent) is the same percentage assumed in past spending control limits. This increase would accommodate cost of living adjustments (COLAs) as well as merit increases, although the details of any increase are assumed to be worked out during the Council review process rather than assumed in WSSC's budget transmittal. This way, the two Councils can take into account approved compensation levels for its own employees when considering WSSC employee compensation.

  WSSC compensation has been the subject of much debate in past years. However, both Councils ultimately came to agreement on WSSC employee compensation for FY14 and FY15 after difficult processes in FY12 and FY13.

The Council included specific language in its FY14 and FY15 resolutions. The FY15 language says:

4. Montgomery County Council action on FY15 spending control limits does not presume approval of any specific level of WSSC workforce compensation or benefits adjustments for FY15. Compensation and benefits decisions for the FY15 budget will be made during the budget review process next spring, in the context of the Council's review of compensation and benefit adjustments across all County agencies.

5. With regard to employee compensation changes in FY15, the Council will not support any base salary or lump sum increases that exceed the amounts provided to County general government employees.

This language reflects the Council's position of the past several years supporting equity across employee groups with regard to annual compensation adjustments, and it also provided some guidance to WSSC management moving forward with the FY15 budget process.

Council Staff believes both Councils should include this language in their FY16 spending control limits resolutions.

NOTE: Benefit costs are included in the "All Other" expense category. During the annual operating budget review, the MFP Committee reviews all of the County agency compensation and benefit assumptions, with the intent of treating each agency equitably.

- **Heat, Light, and Power**: Energy costs are expected to increase about 5.7 percent in FY16, continuing a trend of modest declines and increases in recent years. These costs are based on actual energy contracts and expected energy usage. WSSC is experiencing an increase in its energy requirements as a result of the implementation of a UV process at its water filtration plants, but these increased costs are largely being offset by lower energy costs per kWh, resulting from WSSC's longtime energy performance program and long-term large direct wind power purchase agreement.

- **Regional Sewage Disposal**: The Blue Plains regional sewage disposal costs are expected to decrease slightly (about -.5 percent) in FY16, based on lower than expected costs in FY14. WSSC is reviewing these trends to determine the cause for the decline given steady increases have been more typical over the past decade.

- **GASB 45**: The multi-year implementation of increased funding to address GASB 45 (an 8 year phase-in) was completed in FY15, so no increase in base funding is required for this item in FY16.

- **"All Other" Costs**: With the exception of the cost increases noted above, "All Other" costs are assumed to go up 4.0 percent in FY16 and 5.0 percent per year thereafter. This is the same level of increase assumed at this time last year. Within this category are health care costs, as well as employee benefits and regulatory compliance costs (including SSO compliance). For comparison purposes, the CPI-U for the DC area has increased by 1.7 percent over the past year (from July 2013 to July 2014), a slight decline from the 1.9 percent increase from July 2012 to July 2013.

- **Additional and Reinstated Programs**: Finally, WSSC did an initial review of its needs for additional and reinstated programs, and identified a list of items for consideration. These are not included in the base case scenarios but could be funded potentially through a combination of use of fund balance and increased rates. A summary of these items is attached on ©11, with detail of each item beginning on ©12. The total FY16 operating expense impact of these efforts (after use of fund balance) is estimated at $3.2 million, with a rate impact of about 0.55 percent in FY16.

  Some of the items noted reflect a continued ramping up of efforts begun in prior years (such as the supply chain management transformation effort and the large valve assessment/ repairs/replacement). Others are one-time items.

  Council Staff believes all of these items should be further reviewed in the context of the FY16 budget next spring. However, many are "one-time" items with potential for future budget savings that appear well-suited for funding from the unallocated reserve.

Overall, the expenditure assumptions noted above (including increases to the Operating Reserve) result in a rate increase requirement of about 5.2 percent. Combined with the rate impact of revenue changes, as well as reduced funds available, the rate increase requirement to meet the requirements noted above is 10.2 percent to cover a gap of $58.9 million.

Alternative Scenarios

As in past years, the Bi-County Working Group developed a number of scenarios based on varying rate increases in FY16. This effort was complicated for FY16 because of the three base case scenarios (rather than one) this year resulting from the fee changes discussed earlier.

For reference, each 1.0 percent added to the rate provides approximately $5.8 million in revenue to the budget. Alternatively, each 1 percent reduction in the rate removes that amount in revenues for that year and future years. Each 1 percent rate increase results in about a 53.3 cent monthly impact to the average residential customer.

Closing the Gap

As noted earlier, any rate increase below the 10.2 percent rate will result in a projected gap from the Base Case that must be addressed either through increased revenues or decreased expenditures. Some of the options for closing the gap are summarized in the following list:

- Revenues
  - Increase Reconstruction Debt Service Offset (REDO). *This has been done in past years, but since a sizeable amount is already assumed to be used each year, increases have tended to be marginal in size. In addition, by design this fund is gradually being drawn down to zero over the next decade and gradual reductions in this revenue assumption are needed to create a "soft landing" when the Fund is extinguished.*

- Allocate excess fund balance to reduce the rate requirement. *The base cases assume to use $9.8 million to increase the operating reserve, to gradually reduce REDO funding to the WSSC budget, and to fund a portion of the AMI/billing system replacement. WSSC has suggested utilizing another $12.5 million for funding of the IT Strategic Plan work and a number of one-time items discussed earlier. Note: In past years, the Councils have utilized additional excess fund balance to reduce the rate requirement. Council Staff believes this action, if required, should be considered at the end of the budget process, rather than assumed up front in the spending control limits process.*

- Expenditures
  - Assume unspecified reductions to be determined later in the budget process.
  - Reduce additional and reinstated programs.
  - Reduce compensation assumptions.
  - Assume lower "All Other" costs rate of increase.

In past years, WSSC estimated that approximately 70 percent of its budget involves costs that would be extremely difficult, if not impossible, to cut in the short term. Three items alone – debt service/PAYGO; regional sewage disposal; and heat, light, and power – make up nearly 50 percent of the FY16 Base Case expenditure assumptions.

Council Staff Recommendations

Given WSSC's budget profile discussed earlier (i.e., its high level of fixed and/or mandated costs, its flat revenue projections, plus the need to make up for reduced funds available this year), unless the Account Maintenance Fee changes and the new infrastructure fee are put in place, Council Staff believes a significant rate increase is required to avoid unacceptable impacts on WSSC's mission and its ratepayers.

This budget squeeze can be offset somewhat in FY16 by the fact that WSSC has run up significant unallocated reserves over the past several years, which may indicate that some of its model inflators have been too high. Also, the rate model does not take into account the elimination of some one-time items funded in prior years and productivity efficiencies gained from past initiatives.

Council Staff recommends the following scenario (see ©18-19 for details):

- **Remove one-time and non-recurring items from the base budget (about $6.3 million in reductions in FY16).**
- **Include a number of technical adjustments identified by staffs during the review of the base case scenarios.**
- **Assume to use Fund Balance to fund the IT Strategic Plan in FY16 ($8.0 million) and several smaller one-time items ($3.7 million).**
- **Assume unspecified reductions of $7.6 million.**
- **Fully implement in FY16 the Account Maintenance Fee changes proposed by WSSC (approximately $9.0 million in additional revenue).**
- **Phase in over two years (50 percent in FY16 and 50 percent in FY17) the new infrastructure fee ($19.4 million in new revenue in FY16 and the same in FY17). These fee change assumptions should be clearly referenced in the Spending Control Limits resolution.**

While the actual rate after factoring in the revenue from the fee changes would be 2.1 percent, including the impact of the fee changes results in a net impact on ratepayers of approximately 7.0 percent. Council Staff believes this is a reasonable increase, given that under this scenario about 3.0 percent of the rate is needed to offset revenue changes and 4.0 percent for expenditures.

WSSC would need to do some reprioritization within its Base Case expenditure and/or revenue assumptions to address the unspecified reductions noted above ($7.6 million). The Montgomery and Prince George's Councils can consider more specific budget actions as part of the budget review next spring and are free to agree upon lower or higher expenditures at that time.

With regard to the additional and reinstated programs that could be funded out of the unallocated reserve in Council Staff's recommendation, Council Staff will work collaboratively with Executive staff and Prince George's County staff to analyze these items so that more specific funding recommendations can be made to the Council next spring. For purposes of the spending control limits (specifically the Operating Expense limit), Council Staff supports giving WSSC the flexibility to utilize the excess fund balance within its FY16 budget transmittal.

Council Staff Recommendation

Given the Prince George's Council's actions to date, Council Staff recommends the Council consider adopting the same limits:

New Debt:	**$442.533 million**
Debt Service:	**$235.483 million**
Total W/S Operating Expenses:	**$701.846 million**
Maximum Average Rate Increase:	**2.1 percent***

Assumes the Account Maintenance Fee changes and two-year phase in of the new infrastructure fee.

As noted earlier, Council Staff recommends inserting the Council's compensation language from the FY15 resolution in the FY16 resolution, as follows:

Montgomery County Council action on FY16 spending control limits does not presume approval of any specific level of WSSC workforce compensation or benefits adjustments for FY16. Compensation and benefits decisions for the FY16 budget will be made during the budget review process next spring, in the context of the Council's review of compensation and benefit adjustments across all County agencies.

With regard to employee compensation changes in FY16, the Council will not support any base salary or lump sum increases that exceed the amounts provided to County general government employees.

Council Staff also recommends adding language in the resolution to note the implementation of the Account Maintenance Fee changes and the two-year phase in of the new infrastructure fee.

Finally, Council Staff also supports keeping the language in the spending control limits resolution, noting the County's support for WSSC's large diameter pre-stressed concrete cylinder pipe (PCCP) inspection, repair, and fiber optic cabling program and its water and sewer main reconstruction programs.

Attachments

- Details for each base case scenario (see ©1-9)
- Summary of FY16 Additional and Reinstated Programs Identified by WSSC (see ©10)
- Detail of FY16 Additional and Reinstated Programs identified by WSSC (see ©11-16)
- Fund Balance Analysis (©17)
- Council Staff Recommended Scenario (©18-19)

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WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Capital and Bond Funds Summary

FY 2016 thru 2021 Forecast : Preliminary Budget with Current Fee Structure (Status Quo) - 1

Estimated Revenues and Expenditures ($1,000)

		FY 2015 Approved	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
	Capital Expenditures							
1	Water & Sewer CIP Projects	$ 472,036	$ 542,880	$ 471,270	$ 438,303	$ 266,073	$ 183,029	$ 141,450
2	Information Only Projects (@ < 100% completion)	27,933	25,961	35,239	39,501	38,599	34,012	10,787
3	Additional High Probability Future CIP Projects	-	-	-	-	-	-	-
4	SAG Adjustments (unspecified capital spending reductions)	-	-	-	-	-	-	-
5	Subtotal - Capital Expenditures less unspecified SAG capital spending reductions	499,969	568,841	506,509	477,804	304,672	217,041	152,237
6	Subtotal - Capital Expenditures w/ scaling, completion, & inflation index factors	$ 399,976	$ 455,073	$ 417,364	$ 405,523	$ 266,340	$ 195,426	$ 141,188
	Information Only Projects (@ 100% completion)							
7	Water Reconstruction	104,509	101,658	103,843	105,808	105,808	105,808	105,808
8	Sewer Reconstruction	16,419	34,784	36,124	41,071	58,449	54,707	41,340
9	EPP & Water Storage Facility Rehab	5,000	5,550	7,860	8,860	6,100	5,000	5,000
10	***Total Capital Funding Required***	525,904	597,065	565,191	561,262	436,697	360,941	293,336
	Funding							
11	Debt Issues (includes SRF Water and Sewer Debt)	260,345	447,009	416,532	431,893	333,561	280,326	219,764
12	5% Debt Buydown of Short-term Construction Notes	9,880	22,270	21,712	22,731	17,556	14,754	11,567
13	System Development Charges (w/ scaling, completion & inflation index factors)	55,915	64,263	56,246	37,826	21,043	9,930	5,127
14	PAYGO	19,996	22,663	30,277	38,372	44,914	50,648	55,446
15	Grants - Federal & State (includes ENR Grants)	22,179	21,498	26,082	22,857	17,665	771	268
16	Developers and Government Contrib. (w/ scaling, completion & inflation index factors)	24,204	19,362	14,340	7,581	1,955	4,510	1,164
17	Previous Year's Funds Available after Construction	133,384	1	2	1	2	2	0
18	***Total Funds Available***	525,904	597,065	565,191	561,262	436,697	360,941	293,336
19	Funds Available after Construction	-	-	-	-	-	-	-

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2016 thru 2021 Forecast : Preliminary Budget with Current Fee Structure (Status Quo) - 1

Estimated Revenues and Expenditures ($1,000)

		FY 2015 Approved	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
1	**Revenue**							
2	Water & Sewer Rate Revenue	$586,255	$579,276	$638,265	$688,452	$744,712	$792,721	$841,494
3	All Other Sources	91,834	69,940	65,628	64,376	63,395	60,859	59,902
4	Total Revenue	678,089	649,216	703,893	752,828	808,107	853,580	901,396
5	**Expenses**							
6	Maintenance & Operating	373,576	389,569	408,610	428,308	448,978	470,685	493,474
7	Regional Sewage Disposal	55,176	54,895	56,926	59,032	61,216	63,481	65,830
8	Debt Service	227,042	234,778	254,867	279,775	297,207	313,539	323,789
9	PAYGO	19,996	22,663	30,277	38,372	44,915	50,649	55,447
10	Additional Operating Reserve Contribution	2,300	6,300	3,400	3,600	3,800	4,000	4,200
11	Unspecified reductions	-	-	-	-	-	-	-
12	Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
13	Total Expenses	678,089	708,205	754,080	809,088	856,116	902,353	942,740
14	Revenue Gap (Revenue - Expenses)	-	(58,989)	(50,188)	(56,260)	(48,009)	(48,774)	(41,344)
15	**Water Production (MGD)**	168.0	166.0	166.0	166.0	166.0	166.0	166.0
16	**Debt Service Ratio (debt service / budget)**	33.5%	33.2%	33.8%	34.6%	34.7%	34.7%	34.3%

		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
17	Rate Increase	5.5%	10.2%	7.9%	8.2%	6.4%	6.2%	4.9%
18	Operating Budget	$678,089	$708,205	$754,080	$809,088	$856,116	$902,353	$942,740
19	Debt Service Expense	227,042	234,778	254,867	279,775	297,207	313,539	323,789
20	New Debt	260,345	447,009	416,532	431,893	333,561	280,326	219,764

NOTE:

		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
21	Impact of Rate Increase on Average Residential Monthly Bill	*$5.44*	*$4.63*	*$5.19*	*$4.43*	*$4.50*	*$3.82*

N

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2016 thru 2021 Forecast : Preliminary Budget with Current Fee Structure (Status Quo) - 1

Estimated Revenues and Expenditures ($1,000)

		FY 2015 Approved	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
1	**REVENUE**							
2	Water / Sewer Use Charges	$586,255	$579,276	$638,265	$688,452	$744,712	$792,721	$841,494
3	Account Maintenance Fee (Ready to Serve Charge)	22,900	23,338	23,461	23,584	23,707	23,831	23,954
4	Interest Income	1,000	1,000	1,000	1,000	1,000	1,000	1,000
5	Plumbing/Inspection Fees	6,880	6,880	6,930	6,930	6,980	6,980	7,030
6	Rockville Sewer Use	2,694	2,694	2,827	2,858	2,893	2,910	2,943
7	Products & Technology	-	-	-	-	-	-	-
8	Miscellaneous	17,000	17,000	17,303	17,404	17,515	17,638	17,775
9	Total Revenue	636,729	630,188	689,786	740,228	796,807	845,080	894,196
10	**Adjustments to Revenue**							
11	Use of Fund Balance	30,193	9,800	6,900	7,100	7,300	6,000	6,200
12	Less Rate Stabilization							
13	SDC Debt Service Offset	1,167	728	207	-	-	-	-
14	Reconstruction Debt Service Offset	10,000	8,500	7,000	5,500	4,000	2,500	1,000
15	Adjustments to Total Revenue	41,360	19,028	14,107	12,600	11,300	8,500	7,200
16	**FUNDS AVAILABLE**	678,089	649,216	703,893	752,828	808,107	853,580	901,396
17	**EXPENDITURES**							
18	Salaries and Wages	107,087	112,442	118,065	123,970	130,170	136,680	143,515
19	Salaries and Wages - Additional & Reinstated Programs	-	-	-	-	-	-	-
20	Heat, Light and Power	22,906	24,202	25,473	26,513	27,591	28,726	29,916
21	Regional Sewage Disposal	55,176	54,895	56,926	59,032	61,216	63,481	65,830
22	All Other	243,582	252,925	265,072	277,825	291,217	305,279	320,043
23	All Other - Additional & Reinstated Programs	-	-	-	-	-	-	-
24	Additional Operating Reserve Contribution	2,300	6,300	3,400	3,600	3,800	4,000	4,200
25	Unspecified reductions	-	-	-	-	-	-	-
26	Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
27	**Total Operating Expenses**	431,051	450,764	468,936	490,940	513,994	538,166	563,504
28	Debt Service	227,042	234,778	254,867	279,775	297,207	313,539	323,789
29	Debt Reduction (PAYGO)	19,996	22,663	30,277	38,372	44,915	50,649	55,447
30	**Total Financial Expenses**	247,038	257,440	285,145	318,148	342,122	364,188	379,237
31	**TOTAL GROSS EXPENSES (Operating & Financial)**	678,089	708,205	754,080	809,088	856,116	902,353	942,740
32	**NET EXPENSES**	678,089	708,205	754,080	809,088	856,116	902,353	942,740
33	Revenue - Expenditure Gap before rate increase	-	(58,989)	(50,188)	(56,260)	(48,009)	(48,774)	(41,344)
34	Rate Increase	5.5%	10.2%	7.9%	8.2%	6.4%	6.2%	4.9%

W

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2016 thru 2021 Forecast : Preliminary Budget with Recalibrated AMF - 2

Estimated Revenues and Expenditures ($1,000)

		FY 2015 Approved	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
1	**Revenue**							
2	Water & Sewer Rate Revenue	$586,255	$579,276	$629,229	$679,361	$735,564	$783,517	$832,235
3	All Other Sources	91,834	78,976	74,720	73,524	72,599	70,118	69,218
4	Total Revenue	678,089	658,252	703,949	752,885	808,163	853,635	901,452
5	**Expenses**							
6	Maintenance & Operating	373,575	389,569	408,610	428,308	448,978	470,685	493,474
7	Regional Sewage Disposal	55,176	54,895	56,926	59,032	61,216	63,481	65,830
8	Debt Service	227,042	234,778	254,867	279,775	297,207	313,539	323,789
9	PAYGO	19,996	22,663	30,277	38,372	44,915	50,649	55,447
10	Additional Operating Reserve Contribution	2,300	6,300	3,400	3,600	3,800	4,000	4,200
11	Unspecified reductions	-	-	-	-	-	-	-
12	Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
13	Total Expenses	678,089	708,205	754,080	809,088	856,116	902,353	942,740
14	Revenue Gap (Revenue - Expenses)	-	(49,953)	(50,131)	(56,204)	(47,952)	(48,718)	(41,288)
15	**Water Production (MGD)**	166.0	166.0	166.0	166.0	166.0	166.0	166.0
16	**Debt Service Ratio (debt service / budget)**	33.5%	33.2%	33.8%	34.6%	34.7%	34.7%	34.3%

		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
17	Rate Increase	5.5%	8.6%	8.0%	8.3%	6.5%	6.2%	5.0%
18	Operating Budget	$678,089	$708,205	$754,080	$809,088	$856,116	$902,353	$942,740
19	Debt Service Expense	227,042	234,778	254,867	279,775	297,207	313,539	323,789
20	New Debt	260,345	447,009	416,532	431,893	333,561	280,326	219,764

NOTE:

		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
21	Impact of Rate Increase on Average Residential Monthly Bill	*$4.61*	*$4.63*	*$5.19*	*$4.43*	*$4.50*	*$3.81*
22	Impact of Recalibrated AMF on Average Residential Monthly Bill	*$1.67*	*$1.67*	*$1.67*	*$1.67*	*$1.67*	*$1.67*
	Total	*$6.28*	*$6.30*	*$6.86*	*$6.10*	*$6.17*	*$5.48*

ASSUMPTIONS

WSSC's Multi-Year Financial Forecast

FY 2016 thru 2021 Forecast : Preliminary Budget with Current Fee Structure (Status Quo) - 1

	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
WATER PRODUCTION						
Yearly Growth Increment (MGD)	-	-	-	-	-	-
Estimated Annual Average Water Production (MGD)	166.0	166.0	166.0	166.0	166.0	166.0
OPERATING FUNDS						
Salaries & Wages Rate of Increase	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Heat, Light & Power Annual Expenses (Includes savings from Energy Performance Program)						
Water ($ thousands)	13,311	14,010	14,582	15,175	15,799	16,454
Sewer ($ thousands)	10,891	11,463	11,931	12,416	12,927	13,462
Blue Plains (Regional Sewage Disposal) Rate of Increase	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
All Other - % Annual Increase	4.00%	5.00%	5.00%	5.00%	5.00%	5.00%
GASB 045 Expense	10,000	10,000	10,000	10,000	10,000	10,000
Water REDO ($ thousands)	4,250	3,500	2,750	2,000	1,250	500
Sewer REDO ($ thousands)	4,250	3,500	2,750	2,000	1,250	500
Work Years / FTE $s	-	-	-	-	-	-
Operating Program	-	-	-	-	-	-
Capital Programs	-	-	-	-	-	-
BOND FUNDS						
Short-term Construction Note Rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Long-Term Bond Interest Rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Life for Non-SRF Water and Sewer Debt (years)	30	30	30	30	30	30
Life for SRF Water and Sewer Debt (years)	20	20	20	20	20	20
CAPITAL EXPENDITURES RELATED PARAMETERS						
Construction Inflation	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Construction Completion Factor	80%	80%	80%	80%	80%	80%
Sewer Construction Completion Factor	80%	80%	80%	80%	80%	80%
Blue Plains Sewer Construction Completion Factor	80%	80%	80%	80%	80%	80%
ENR Construction Completion Factor	80%	80%	80%	80%	80%	80%
Reconstruction Completion Factor	100%	100%	100%	100%	100%	100%

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2016 thru 2021 Forecast : Preliminary Budget with Recalibrated AMF - 2

Estimated Revenues and Expenditures ($1,000)

		FY 2015 Approved	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
1	**REVENUE**							
2	Water / Sewer Use Charges	$586,255	$579,276	$629,229	$679,361	$735,564	$783,517	$832,235
3	Account Maintenance Fee (Ready to Serve Charge)	22,900	32,374	32,553	32,732	32,911	33,090	33,270
4	Interest Income	1,000	1,000	1,000	1,000	1,000	1,000	1,000
5	Plumbing/Inspection Fees	6,880	6,880	6,930	6,930	6,980	6,980	7,030
6	Rockville Sewer Use	2,694	2,694	2,827	2,858	2,893	2,910	2,943
7	Products & Technology	-	-	-	-	-	-	-
8	Miscellaneous	17,000	17,000	17,303	17,404	17,515	17,638	17,775
9	Total Revenue	636,729	639,224	689,842	740,285	796,863	845,135	894,252
10	**Adjustments to Revenue**							
11	Use of Fund Balance	30,193	9,800	6,900	7,100	7,300	6,000	6,200
12	Less Rate Stabilization							
13	SDC Debt Service Offset	1,167	728	207	-	-	-	-
14	Reconstruction Debt Service Offset	10,000	8,500	7,000	5,500	4,000	2,500	1,000
15	Adjustments to Total Revenue	41,360	19,028	14,107	12,600	11,300	8,500	7,200
16	**FUNDS AVAILABLE**	678,089	658,252	703,949	752,885	808,163	853,635	901,452
17	**EXPENDITURES**							
18	Salaries and Wages	107,087	112,442	118,065	123,970	130,170	136,680	143,515
19	Salaries and Wages - Additional & Reinstated Programs	-	-	-	-	-	-	-
20	Heat, Light and Power	22,906	24,202	25,473	26,513	27,591	28,726	29,916
21	Regional Sewage Disposal	55,176	54,895	56,926	59,032	61,216	63,481	65,830
22	All Other	243,582	252,925	265,072	277,825	291,217	305,279	320,043
23	All Other - Additional & Reinstated Programs	-	-	-	-	-	-	-
24	Additional Operating Reserve Contribution	2,300	6,300	3,400	3,600	3,800	4,000	4,200
25	Unspecified reductions	-	-	-	-	-	-	-
26	Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
27	**Total Operating Expenses**	431,051	450,764	468,936	490,940	513,994	538,166	563,504
28	Debt Service	227,042	234,778	254,867	279,775	297,207	313,539	323,789
29	Debt Reduction (PAYGO)	19,996	22,663	30,277	38,372	44,915	50,649	55,447
30	**Total Financial Expenses**	247,038	257,440	285,145	318,148	342,122	364,188	379,237
31	**TOTAL GROSS EXPENSES (Operating & Financial)**	678,089	708,205	754,080	809,088	856,116	902,353	942,740
32	**NET EXPENSES**	678,089	708,205	754,080	809,088	856,116	902,353	942,740
33	Revenue - Expenditure Gap before rate increase	-	(49,953)	(50,131)	(56,204)	(47,952)	(48,718)	(41,288)
34	Rate Increase	5.5%	8.6%	8.0%	8.3%	6.5%	6.2%	5.0%

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary.

FY 2016 thru 2021 Forecast : Preliminary Budget With Changes to Ready-to-Serve Charge - 3

Estimated Revenues and Expenditures ($1,000)

		FY 2015 Approved	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
1	**Revenue**							
2	Water & Sewer Rate Revenue	$586,255	$579,276	$590,395	$640,397	$696,473	$744,297	$792,886
3	All Other Sources	91,834	117,810	113,683	112,615	111,819	109,467	108,696
4	Total Revenue	678,089	697,086	704,078	753,012	808,292	853,764	901,582
5	**Expenses**							
6	Maintenance & Operating	373,575	389,569	408,610	428,308	448,978	470,685	493,474
7	Regional Sewage Disposal	55,176	54,895	56,926	59,032	61,216	63,481	65,830
8	Debt Service	227,042	234,778	254,867	279,775	297,207	313,539	323,789
9	PAYGO	19,996	22,663	30,277	38,372	44,915	50,649	55,447
10	Additional Operating Reserve Contribution	2,300	6,300	3,400	3,600	3,800	4,000	4,200
11	Unspecified reductions	-	-	-	-	-	-	-
12	Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
13	Total Expenses	678,089	708,205	754,080	809,088	856,116	902,353	942,740
14	Revenue Gap (Revenue - Expenses)	-	(11,119)	(50,003)	(56,076)	(47,824)	(48,590)	(41,158)
15	**Water Production (MGD)**	168.0	166.0	166.0	166.0	166.0	166.0	166.0
16	**Debt Service Ratio (debt service / budget)**	33.5%	33.2%	33.8%	34.6%	34.7%	34.7%	34.3%

		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
17	Rate Increase	5.5%	1.9%	8.5%	8.8%	6.9%	6.5%	5.2%
18	Operating Budget	$678,089	$708,205	$754,080	$809,088	$856,116	$902,353	$942,740
19	Debt Service Expense	227,042	234,778	254,867	279,775	297,207	313,539	323,789
20	New Debt	260,345	447,009	416,532	431,893	333,561	280,326	219,764

NOTE:

		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
21	**Impact of Rate Increase on Average Residential Monthly Bill**	***$1.02***	***$4.63***	***$5.20***	***$4.44***	***$4.47***	***$3.81***
22	**Impact of Recalibrated AMF on Average Residential Monthly Bill**	***$1.67***	***$1.67***	***$1.67***	***$1.67***	***$1.67***	***$1.67***
23	**Impact of Infra. Investment Fee on Avg Residential Monthly Bill**	***$3.83***	***$3.83***	***$3.83***	***$3.83***	***$3.83***	***$3.83***
	Total	***$6.52***	***$10.13***	***$10.70***	***$9.94***	***$9.97***	***$9.31***

7

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2016 thru 2021 Forecast : Preliminary Budget With Changes to Ready-to-Serve Charge - 3

Estimated Revenues and Expenditures ($1,000)

		FY 2015 Approved	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
1	**REVENUE**							
2	Water / Sewer Use Charges	$586,255	$579,276	$590,395	$640,397	$696,473	$744,297	$792,886
3	Account Maintenance Fee (Ready to Serve Charge)	22,900	32,374	32,553	32,732	32,911	33,090	33,270
4	Infrastructure Renewal Fee (Ready to Serve Charge)	-	38,834	38,963	39,091	39,220	39,349	39,478
5	Interest Income	1,000	1,000	1,000	1,000	1,000	1,000	1,000
6	Plumbing/Inspection Fees	6,880	6,880	6,930	6,930	6,980	6,980	7,030
7	Rockville Sewer Use	2,694	2,694	2,827	2,858	2,893	2,910	2,943
8	Products & Technology	-	-	-	-	-	-	-
9	Miscellaneous	17,000	17,000	17,303	17,404	17,515	17,638	17,775
10	Total Revenue	636,729	678,058	689,971	740,412	796,992	845,264	894,382
11	**Adjustments to Revenue**							
12	Use of Fund Balance	30,193	9,800	6,900	7,100	7,300	6,000	6,200
13	Less Rate Stabilization							
14	SDC Debt Service Offset	1,167	728	207	-	-	-	-
15	Reconstruction Debt Service Offset	10,000	8,500	7,000	5,500	4,000	2,500	1,000
16	Adjustments to Total Revenue	41,360	19,028	14,107	12,600	11,300	8,500	7,200
17	**FUNDS AVAILABLE**	678,089	697,086	704,078	753,012	808,292	853,764	901,582
18	**EXPENDITURES**							
19	Salaries and Wages	107,087	112,442	118,065	123,970	130,170	136,680	143,515
20	Salaries and Wages - Additional & Reinstated Programs	-	-	-	-	-	-	-
21	Heat, Light and Power	22,906	24,202	25,473	26,513	27,591	28,726	29,916
22	Regional Sewage Disposal	55,176	54,895	56,926	59,032	61,216	63,481	65,830
23	All Other	243,582	252,925	265,072	277,825	291,217	305,279	320,043
24	All Other - Additional & Reinstated Programs	-	-	-	-	-	-	-
25	Additional Operating Reserve Contribution	2,300	6,300	3,400	3,600	3,800	4,000	4,200
26	Unspecified reductions	-	-	-	-	-	-	-
27	Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
28	**Total Operating Expenses**	431,051	450,764	468,936	490,940	513,994	538,166	563,504
29	Debt Service	227,042	234,778	254,867	279,775	297,207	313,539	323,789
30	Debt Reduction (PAYGO)	19,996	22,663	30,277	38,372	44,915	50,649	55,447
31	**Total Financial Expenses**	247,038	257,440	285,145	318,148	342,122	364,188	379,237
32	**TOTAL GROSS EXPENSES (Operating & Financial)**	678,089	708,205	754,080	809,088	856,116	902,353	942,740
33	**NET EXPENSES**	678,089	708,205	754,080	809,088	856,116	902,353	942,740
34	Revenue - Expenditure Gap before rate increase	-	(11,119)	(50,003)	(56,076)	(47,824)	(48,590)	(41,158)
35	Rate Increase	5.5%	1.9%	8.5%	8.8%	6.9%	6.5%	5.2%

ASSUMPTIONS

WSSC's Multi-Year Financial Forecast

FY 2016 thru 2021 Forecast : Preliminary Budget with Current Fee Structure (Status Quo) - 4 (Includes A & R)

	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
WATER PRODUCTION						
Yearly Growth Increment (MGD)	-	-	-	-	-	-
Estimated Annual Average Water Production (MGD)	166.0	166.0	166.0	166.0	166.0	166.0
OPERATING FUNDS						
Salaries & Wages Rate of Increase	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Heat, Light & Power Annual Expenses (Includes savings from Energy Performance Program)						
Water ($ thousands)	13,311	14,010	14,582	15,175	15,799	16,454
Sewer ($ thousands)	10,891	11,463	11,931	12,416	12,927	13,462
Blue Plains (Regional Sewage Disposal) Rate of Increase	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
All Other - % Annual Increase	4.00%	5.00%	5.00%	5.00%	5.00%	5.00%
GASB 045 Expense	10,000	10,000	10,000	10,000	10,000	10,000
Water REDO ($ thousands)	4,250	3,188	2,125	1,063	-	-
Sewer REDO ($ thousands)	4,250	3,188	2,125	1,063	-	-
Work Years / FTE $s	-	-	-	-	-	-
Operating Program	-	-	-	-	-	-
Capital Programs	-	-	-	-	-	-
BOND FUNDS						
Short-term Construction Note Rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Long-Term Bond Interest Rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Life for Non-SRF Water and Sewer Debt (years)	30	30	30	30	30	30
Life for SRF Water and Sewer Debt (years)	20	20	20	20	20	20
CAPITAL EXPENDITURES RELATED PARAMETERS						
Construction Inflation	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Construction Completion Factor	80%	80%	80%	80%	80%	80%
Sewer Construction Completion Factor	80%	80%	80%	80%	80%	80%
Blue Plains Sewer Construction Completion Factor	80%	80%	80%	80%	80%	80%
ENR Construction Completion Factor	80%	80%	80%	80%	80%	80%
Reconstruction Completion Factor	100%	100%	100%	100%	100%	100%

Increased FY'16 Expenditure Assumptions Over and Above Inflation Factor

FY'16 Additional & Reinstated Programs:

	Cost	W/S Impact	
New Workyears Impacting Water & Sewer Rates			
Large Valve Assessment, Repairs, Replacement			
4 Utility Technicians	227,200	227,200	
1 Principal Engineer	98,000	98,000	
PCCP Program			
5 Utility Technicians	284,000	284,000	
PCCP Management Program			
1 Project Manager	98,000	98,000	
Operations			
1 Operational Hydraulic Planner	79,900	79,900	
Asset Management Program			
1 Asset Management Project Manager	82,900	40,142	
Construction Communication			
1 Construction Communication Coordinator	90,000	72,000	
14 Subtotal Workyears			
New Workyears With No Water & Sewer Rate Impact			
Water Main Reconstruction Program (capital)			
1 Contract Manager	72,800	-	
Electronic As-Built Preparation			
1 Engineering Assistant IV	56,300	-	
Relocations			
1 Lead Project Manager	88,500	-	
1 Associate Project Manager	68,000	-	
18 Total Workyears			
	Cost	**W/S Impact**	
New Workyears Impact	$ 1,245,600	$ 899,200	
Benefits	436,000	314,700	
Other Additional & Reinstated Programs			
Large Valve Assessment, Repairs, Replacement	1,879,300	1,708,800	
PCCP Program (Mainenance trucks, pick-up trucks & equipment)	325,700	45,200	
Wellness Program	240,000	192,000	
Easement & Land Acquisition for Watershed Protection (PAYGO)	1,600,000	-	*
Vibration Analysis Pilot	150,000	150,000	*
Analysis of Water Production Trends & Projections	125,000	125,000	*
Climate Change Vulnerability Assessment	300,000	300,000	*
Stategic Energy Plan Implementation	200,000	200,000	*
Warehouse Distribution & Inventory Optimization Study	500,000	500,000	*
Communications & Community Relations Special Projects	156,000	156,000	*
Globally Harmonized System of Classification and Labeling	100,000	100,000	*
Supply Chain Management Transformation (final year)	555,000	555,000	*
Total Other Additional & Reinstated Programs	6,131,000	4,032,000	
Total Additional & Reinstated Programs	**$ 7,812,600**	**$ 5,245,900**	
*Projects funded via use of fund balance.		(2,086,000)	
Water & Sewer operating impact of additional & reinstated programs.		**$ 3,159,900**	

WSSC
FY 2016 ADDITIONAL & REINSTATED PROGRAM REQUESTS SUMMARY

Program: LARGE VALVE ASSESSMENT, REPAIRS, & REPLACEMENT PROGRAM

Request: 1 Principal Engineer, 4 Utility Technicians
Cost including vehicles & equipment: $2,318,320, Water/Sewer Impact: $2,147,820
Justification:

Many of the valves that were installed in the 1920's thru the 1960's (approx. 775 valves) are past their useful life. Often times, these valves cannot be operated without repairs. In many instances, when repairs are needed, the parts cannot be purchased because the manufacturers are no longer in business. While the WSSC currently uses an outside contractor to service its small diameter valves, the larger diameter valves (16" and larger) now require immediate and aggressive attention. In collaboration with the Asset Management Program, this initiative is for the continuous assessment, inspection and exercising of approximately 430 valves annually starting with FY'15 through FY'22. Program also includes repairs to approximately 85 valves per year through FY'22, right-of-way clearing and temporary roads to access valves for about 50 valves per year.

Program: PCCP PROGRAM

Request: 5 Utility Technicians
Cost including vehicles & equipment: $709,100 Water/Sewer Impact: $428,600
Justification:

There is currently only one crew supporting the PCCP inspection program. As the program continues to develop, inspections are less seasonal. The dedicated PCCP crews will be more effective due to their experience in entering confined spaces to support inspection efforts. These Utility Technicians would also be used to support other programs, such Large Valve Rehabilitation.

Program: PCCP MANAGEMENT PROGRAM

Request: 1 Project Manager
Cost including benefits: $132,300 Water/Sewer Impact: $132,300
Justification:

The PCCP program has increased the annual inspection rate from 12 miles to 18 miles. The inspections, along with Acoustic Fiber Optic (AFO) monitoring, are identifying critical pipe segments in need of repair or replacement. Due to the intense nature of this work, the current PCCP team is at capacity for providing the necessary on-site field investigations, the associated contract management for the inspections and AFO technologies, coordinating the scheduling of planned and emergency shut-downs, and recommending repair or replacements. The requested Project Manager will be involved in the management of inspection and AFO monitoring task orders, determining repair recommendations, the management of the PCCP inspection schedule, and prioritizing inspection efforts.

Program: OPERATIONS

Systems Control
Request: 1 Operational Hydraulic Planner
Cost including benefits: $107,734, Water/Sewer Impact: $83,253
Justification:

The number of water main replacement contracts, PCCP lines that are scheduled each year to be inspected, CIP projects, water storage facilities out of service for rehabilitation and additional water main emergency work have been steadily increasing. The increasing number of long duration shutdowns is having a detrimental impact on the water system. This is also impacting water quality, increasing water velocity in pipes, and potentially causes construction delays when multiple contracts are requesting shutdowns across the same transmission system. It is also important to evaluate the impacts of the frequently required increases in pressure to meet system needs and minimize high pressures as much as possible. This position will assist in scheduling, monitoring, coordinating all shutdowns in the water distribution system.

Program: ASSET MANAGEMENT PROGRAM

Request: 1 Asset Management Project Manager
Cost including benefits: $111,915, Water/Sewer Impact: $54,192
Justification:

This position was identified as part of the Asset Management Program Long Term Organization Structure approved in November 2008. This is a key position to manage the development and analysis of the capital investment requirements needed to sustain infrastructure, provide economic analysis and input to the Enterprise Asset Management Program business planning process, develop the Enterprise Asset Management Plan, and manage the new CIP/ESP Validation and Prioritization.

Program: CONSTRUCTION COMMUNICATION

Request: 1 Construction Communication Coordinator
Cost including benefits: $121,500, Water/Sewer Impact: $97,200
Justification:

The number of construction projects has and continues to increase. Communications to customers, HOAs, neighbors, and other stakeholders around construction projects is not coordinated. There is no uniform procedure on communicating with stakeholders nor is there a procedure on developing a uniform message or a message tailored to the type of construction. Some communications are handled by contractors, others by project managers. Sometimes there are changes or delays and often customers are not informed. The proposed workyear would address these issues.

Program: CATHODIC PROTECTION

Request: 1 Contract Manager
Cost including benefits: $98,280, Water/Sewer Impact: $0
Justification:

The Commission will begin an extensive cathodic protection rehabilitation program on our large water transmission mains in FY'16. It is anticipated that 27 miles of transmission main will have existing cathodic protection repaired, upgraded and/or replaced each fiscal year. It is anticipated that this amount of work will translate into the need to manage at least 5 concurrent cathodic protection contracts at any given time during the fiscal year. Accordingly, one contract manager is needed to handle this additional work load. It would be appropriate to use a merit employee rather than a contractual employee for this position since this program does not have an end point.

Program: ELECTRONIC AS-BUILT PREPARATION

Request: 1 Engineering Assistant IV
Cost including benefits: $76,000, Water/Sewer Impact: $0
Justification:

Recently, the WSSC has significantly improved the process of as-built preparation for the water rehabilitation contracts. Instead of marking changes in red on a hard copy of the plans and using ties to locate appurtenances, electronic as-builts have been prepared using AutoCad. All appurtenances are now located using hand held GPS units and added to the AutoCAD as-built file. We would like to expand this effort by preparing electronic as-builts for sewer rehabilitation contracts and System Enhancement Unit jobs. Currently, we are using three consultant inspectors to perform this function and there is a significant backlog of work to prepare as-builts for 43 miles of water main rehabilitation. Since this initiative adds significant value to the as-built process, we are requesting one (1) Engineering Assistant IV to permanently establish this program and expand it to include 20 miles of sewer rehabilitation contracts and 12 miles of SEU work. This initiative converts a pilot using consultant inspectors to improve as-built preparation into a lasting part of the organization.

Program: RELOCATIONS

Request: 2 Project Managers
Cost including benefits: $211,200, Water/Sewer Impact: $0
Justification:

These positions support the relocations program and will not impact water and sewer rates as it is part of the CIP.

Program: WELLNESS PROGRAM

Request: $240,000 Water/Sewer Impact: $192,000
Justification:

The purpose of this program is to show employees that the Commission cares about their wellbeing; to take advantage of some of the Affordable Care Act provisions; to provide educational and hands-on opportunities for members to learn about the choices available to them for healthy living; to reduce absenteeism & increase productivity at work; to increase moral & retention rate. We will partner with internal and external resources, including our carriers and other companies to develop programs and strategies to promote health & wellness; evaluate aggregate health risk assessment data to determine priorities to be addressed, the type and number of educational programs needed; benchmark best practices; assemble data and metrics for an annual report on the effectiveness of the wellness program in improving employee health as well as reducing the Commission's health care cost; provide on-going review and measurement of the program's success; recommend changes to the programs and provide on-going communications regarding the wellness program. All of the Montgomery County agencies have dedicated staffing and financial resources in place for such programs. The Montgomery County Council has made wellness a priority and has high expectations that each agency will go above and beyond to have comprehensive programs in place for their employees.

Program: WATERSHED PROTECTION

Request: $1,600,000, Water/Sewer Impact: $0
Justification:

Despite almost 20 years of partnership with local government agencies aimed at protecting the Patuxent reservoirs as drinking water sources, little has been accomplished other than studies. Partner agencies consider the reservoirs' watershed to be a low priority, compared to other waterways in their jurisdictions that need protection and improvement. Funding resources from partners range from extremely limited to non-existent. As the water supplier and owner of the reservoirs, WSSC is looked upon as the beneficiary of improved water quality, and it has been argued by the partners that WSSC should pay for the improvements. A limited source water protection effort by WSSC, completed as a Supplemental Environmental Program in compliance with the SSO Consent Decree, totaled $3.47 million on land purchases (39.66 acres) and conservation easements (32.81). These acquisitions of larger, isolated parcels have only limited benefits for drinking water source protection compared to measures focused on riparian buffers along streams, which are smaller in area but provide many important water quality benefits.

It is proposed that initiative be funded out of the Fund Balance.

Program: STRATEGIC ENERGY PLAN IMPLEMENTATION

Request: $200,000, Water/Sewer Impact: $0 (Total cost is $1.2 million over 5 years)
Justification:

The WSSC has a $24 million energy budget. The Strategic Energy Plan needs to be finalized, expanded and updated annually in order for WSSC to optimize costs, consumption and load shifting opportunities. The Strategic Plan will result in the rollout of energy metrics (such as kWh/million gallons) to all Commission users and reduction of energy consumption per unit (kWh/MG, kWh/SF, etc.). Year 1: Develop goals beyond water and wastewater treatment facilities (i.e., remote pumping stations, fleet vehicles, depots and buildings), assistance in developing and prescreening projects with regard to energy impact with the goals of the AMP, assist other WSSC departments in detailed development, evaluation and revisions to policies and procedures as recommended in the SEP. Year 2: Evaluate future resource options, energy efficiency investments against WSSC energy supply requirements and forecasted market conditions to provide a basis for future decisions on block energy purchases, long-term wind and solar contracts, and other alternatives for energy purchases. Prepare RFP for next 10 year electricity supply and wind contract. Year 2-5: assist the Energy Management office in guiding energy projects through the AMP process, providing input to be used by AMP Business Case consultants, assist WSSC in development, implementation, and on-going maintenance of SEP support systems (as recommended by the SEP), including detailed sub-metering plan and software applications to provide appropriate reporting to various WSSC stakeholders, assist WSSC in managing facility energy audit program (based on life cycle audit plan).

It is proposed that initiative be funded out of the Fund Balance.

Program: CLIMATE CHANGE VUNERABILITY ASSESSMENT, ADAPTATION & MITIGATION PLAN

Request: $300,000, Water/Sewer Impact: $0 (Total cost is $1.3 million over 5 years)
Justification:

WSSC infrastructure planning currently does not address changing wet weather conditions, sea level rise, storm surge, and other considerations inherent in Climate Change as evidenced by scientific consensus - the Intergovernmental Panel on Climate Change (IPCC) and The National Climate Assessment. Both AWWA and WEF have recommended and many other water/wastewater utilities have conducted assessments to assess Climate Change vulnerability, strategies for reducing these risks, and mitigation of greenhouse gas (GHG) emissions. While WSSC currently has a GHG Action (reduction plan), that is only a piece of the overall Climate Change resiliency planning that needs to be accomplished for WSSC to be fully prepared for the next 50-80 years to protect our infrastructure and to maintain our status as a first class provider of water and wastewater treatment services to our ratepayers.

It is proposed that initiative be funded out of the Fund Balance.

Program: VIBRATION ANALYSIS PILOT

Request: $150,000 Water/Sewer Impact: $0
Justification:

An asset strategies consultant has recommended that several of our large and expensive assets have vibration analysis as part of their condition assessment and tracking of degradation. The resulting data would be monitored, documented and reviewed to identify potential catastrophic failures before they occur. The data would also be used to determine current condition of the asset. This service would be piloted on very large pumps and motors.

It is proposed that initiative be funded out of the Fund Balance.

Program: SAFETY

Implementation of Globally Harmonized System of Classification and Labeling (GHS)
Request: $100,000 Water/Sewer Impact: $0
Justification:

The primary benefit of the GHS is to increase the quality and consistency of information provided to workers, employers and chemical users by adopting a standardized approach to hazard classification, labels and safety data. The GHS provides a single set of harmonized criteria for classifying chemicals according to their health and physical hazards and specifies hazard communication elements for labeling and safety data sheets. Under the GHS, labels would include signal words, pictograms, and hazard and precautionary statements and safety data sheets would have standardized format. This system was agreed on at an international level by governments, industry, and labor, and adopted by the UN in 2002 with a goal of 2008 for implementation.

It is proposed that initiative be funded out of the Fund Balance.

Program: ANALYSIS OF WATER PRODUCTION TRENDS & PROJECTIONS

Request: $125,000 Water/Sewer Impact: $0
Justification:

Historically, the Commission's water production figures have been flat. In response to these trends, the Commission lowered its water production projection for the FY'15 budget and held future water production figures constant. However, recent trends are showing declining water production figures (several recent months have experienced the lowest production numbers in 20 years). The primary criterion to evaluate revenues is sufficiency, i.e. how much money is generated. Water and sewer rate revenues account for almost 90% of the Commission's operating revenues. Flat water production places tremendous stress on the sufficiency of these revenues. As water production declines, water and sewer rates have to be increased just to generate the same amount of money as the previous year in order to maintain the status quo, let alone fund any additional needs or initiatives. When Commission staff is queried as to why water production is flat or declining, only anecdotal evidence is provided. Some of the most valuable information provided during the recent utility rate study was that the average residential customer uses 159 gallons per day and that this figure has been declining for each of the past three fiscal years. The proposed initiative would build upon this data analysis by going back further in the customer data in the CSIS system to ascertain a more precise understanding of historic water production trends and project these trends into the future.

It is proposed that initiative be funded out of the Fund Balance.

Program: WAREHOUSE DISTRIBUTION & INVENTORY OPTIMIZATION STUDY

Request: $500,000 Water/Sewer Impact: $0
Justification:

WSSC has increased capital project improvement efforts resulting in increased volume of inventory transactions (receipts and issues). Operations are further impacted by the physical deterioration and inadequacies of physical storage features at the Central Commission warehouse (Anacostia) - the facility has been in operational existence since the 1960's without substantial renovations. As an example, industry packaging standards (pallet configuration) have changed to a state that is not compatible with warehouse racking systems. Warehouse capacities (including lighting, racking, environmental features, and configuration) are not optimizing the use of operational, administrative, and human resources. Limitations and restrictions also create significant safety and workplace environment concerns. A consultant would be tasked with developing a plan for optimizing warehouse distribution and inventory management at Anacostia and the depots.

It is proposed that initiative be funded out of the Fund Balance.

Program: COMMUNICATIONS & COMMUNITY RELATIONS SPECIAL PROJECTS

Request: $156,000, Water/Sewer Impact: $0
Justification:

In an effort to sustain relationships with our stakeholders and provide educational opportunities for the community, Communications is proposing several special projects. The first is the development of a "Can the Grease" program for middle school students in MCPS, similar to the one that exists in PGCPS. This will allow WSSC, in partnership with MCPS, to develop a lesson plan so that every student can learn the importance of the "Can the Grease" program. This funding will also include upgrading WSSC's Kids Page which will help us teach and instruct our community's future leaders on important topics relating to water and wastewater in an engaging way that supports Maryland's core curriculum standards. In addition, the requested funds will support the creation of an educational video on water treatment. The animated film will be geared towards upper primary students (3rd – 6th grade) in both counties. Lastly, the funds will assist with WSSC Historical Archiving. Converting photographs, negatives, and documents to a digital format will facilitate the ease of accessibility of information through the use of a network-based program.

It is proposed that initiative be funded out of the Fund Balance.

Program: SUPPLY CHAIN MANAGEMENT TRANSFORMATION (final year)

Request: $555,000 Water/Sewer Impact: $0
Justification:

Supply Chain Transformation, as it is implemented, will allow WSSC to reduce the costs of doing business. Our transformation efforts will result in WSSC realizing value through cooperatively working with suppliers. This cooperative relationship with suppliers will include supplier identification, management and development. Enhanced supplier relationships will lead to improved demand management by WSSC. The success will be measured by the amount of savings generated by implementing transformation initiatives across six key dimensions: Best Practices, Innovation and Technology, Supply Chain Roles, Stretch Objectives from a Total Cost of Ownership perspective, and an Optimized Organization supported by Good Leadership. It will also result in a training program that focuses on those primarily accountable for managing contracts. It will support strategies around entrepreneurship and innovation by providing highly skilled procurement and supply chain management professionals and a commitment to continuous learning.

The success of this process will support our strategic priority by creating a culture and a center led sourcing process that will ultimately drive cost out of the business. It will allow WSSC to review the direct and indirect spend of all dollars over a selected period of time to determine best in class strategies to reduce multiple solicitations, and begin building supplier relationships for contractors to consider WSSC as the customer of choice. Realignment of responsibilities will help utilize cross functional teams to gather and evaluate data to select the most appropriate acquisition strategy, identify a negotiations approach and ultimately select the "right" supplier. The impact will not just be in Procurement but for all business units. The impact will be sustainable over multiple years, reflected in time reductions from cradle to grave purchasing, resource savings and lower costs of goods, supplies and services.

It is proposed that initiative be funded out of the Fund Balance.

Fund Balance Analysis

		Total
Water and Sewer Operating Fund Balance at end of FY'13		133,930,000
Water and Sewer Operating Fund Balance from FY'14		19,364,000
Less Working Capital Reserve		(53,300,000)
FY'14 Year-end Unallocated Fund Balance	**$**	**99,994,000**
FY'15 Use of Fund Balance Billing Factor Reduction Offset		(5,643,000)
FY'15 Use of Fund Balance IT Strategic Plan		(9,000,000)
FY'15 Use of Fund Balance AMI/Billing System Replacement		(3,500,000)
FY'15 Use of Fund Balance PAYGO		(5,000,000)
FY'15 Use of Fund Balance Supply Chain Management Transformation		(1,000,000)
FY'15 Operating Reserve Contribution		(2,300,000)
FY'15 Modular Data Center		(2,000,000)
FY'15 Watershed improvements		(1,500,000)
FY'15 Electric Rate Intervention Cases		(250,000)
Unallocated Reserve (end of FY'15)		**69,801,000**
FY'16 REDO Extinguishment		(1,500,000)
FY'16 Use of Fund Balance IT Strategic Plan		(8,000,000)
FY'16 Use of Fund Balance AMI/Billing System Replacement		(2,000,000)
FY'16 Operating Reserve Contribution (to maintain 10% of budgeted revenues)		(6,300,000)
FY'16 Contact Center Optimization		(1,300,000)
FY'16 Implementation of Space Study recommendations for support facilities		(12,500,000)
FY'16 Easements & Land Acquisition for Watershed Protection (A&R) - PAYGO		(1,600,000)
FY'16 Use of Fund Balance Supply Chain Management Transformation (A&R)		(555,000)
FY'16 Vibration Analysis Pilot (A&R)		(150,000)
FY'16 Analysis of Water Production Trends & Projections (A&R)		(125,000)
FY'16 Climate Change Vulnerability Assessment (A&R)		(300,000)
FY'16 Communications & Community Relations Special Projects		(156,000)
FY'16 Strategic Energy Plan Implementation (A&R)		(200,000)
FY'16 Warehouse Distribution & Inventory Optimization Study (A&R)		(500,000)
FY'16 Globally Harmonized System of Classification and Labeling of Chemicals (GHS) (A&R)		(100,000)
Unallocated Reserve (end of FY'16)		**34,515,000**
FY'17-'20 REDO Extinguishment (to fully phase in 100% extinguishment)		(8,500,000)
FY'17-'20 Use of Fund Balance AMI/Billing System Replacement		(6,000,000)
FY'17-'20 Climate Change Vulnerability Assessment (A&R)		(1,000,000)
FY'17-'20 Strategic Energy Plan Implementation (A&R)		(1,000,000)
FY'17-'20 Operating Reserve Requirement (to maintain 10% of budgeted revenues)		(14,800,000)
Unallocated Reserve	**$**	**3,215,000**
Working Capital Reserve		
Working Capital Reserve 6/30/14		53,300,000
FY'14 Operating Reserve Contribution		2,300,000
Working Capital Reserve 6/30/15		55,600,000
FY'15 Operating Reserve Contribution		6,300,000
Working Capital Reserve 6/30/16 (10% of budgeted revenue)	**$**	**61,900,000**
CSIS/AMI PAYGO Reserve (FY'15 - FY'20 Use of Fund Balance)	**$**	**11,500,000**

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WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2016 thru 2021 Forecast : Preliminary Budget with Current Fee Structure (Status Quo) - 4Revised (Includes A & R)

Estimated Revenues and Expenditures ($1,000)

		FY 2015 Approved	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
1	**Revenue**							
2	Water & Sewer Rate Revenue	$586,255	$579,276	$591,687	$621,114	$675,782	$722,339	$768,647
3	All Other Sources	91,834	110,158	113,707	111,961	110,538	109,077	105,680
4	Total Revenue	678,089	689,434	705,394	733,075	786,320	831,416	874,327
5	**Expenses**							
6	Maintenance & Operating	373,575	388,517	396,584	415,681	435,718	456,760	478,851
7	Regional Sewage Disposal	55,176	54,895	56,926	59,032	61,216	63,481	65,830
8	Debt Service	227,042	235,483	255,627	279,452	296,041	312,089	322,240
9	PAYGO	19,996	24,263	30,277	38,372	44,915	50,649	55,447
10	Additional Operating Reserve Contribution	2,300	6,300	3,400	3,600	3,800	4,000	4,200
11	Unspecified reductions	-	(7,613)	-	-	-	-	-
12	Unspecified reduction of future year's expenditure base	-	-	(7,994)	(8,394)	(8,814)	(9,255)	(9,717)
13	Total Expenses	678,089	701,846	734,821	787,743	832,877	877,724	916,851
14	Revenue Gap (Revenue - Expenses)	-	(12,412)	(29,427)	(54,669)	(46,556)	(46,309)	(42,524)
15	**Water Production (MGD)**	168.0	166.0	166.0	166.0	166.0	166.0	166.0
16	**Debt Service Ratio (debt service / budget)**	33.5%	33.6%	34.8%	35.5%	35.5%	35.6%	35.1%

		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
17	Rate Increase	5.5%	2.1%	5.0%	8.8%	6.9%	6.4%	5.5%
18	Operating Budget	$678,089	$701,846	$734,821	$787,743	$832,877	$877,724	$916,851
19	Debt Service Expense	227,042	235,483	255,627	279,452	296,041	312,089	322,240
20	New Debt	260,345	442,533	409,666	416,494	326,663	278,285	218,649

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2016 thru 2021 Forecast : Preliminary Budget with Current Fee Structure (Status Quo) - 4Revised (Includes A & R)

Estimated Revenues and Expenditures ($1,000)

		FY 2015 Approved	FY 2016 Proposed	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate	FY 2021 Estimate
1	**REVENUE**							
2	Water / Sewer Use Charges	$586,255	$579,276	$591,687	$621,114	$675,782	$722,339	$768,647
3	Account Maintenance Fee (Ready to Serve Charge)	22,900	32,374	32,553	32,732	32,911	33,090	33,270
4	Infrastructure Renewal Fee (Ready to Serve Charge)	-	19,417	38,963	39,091	39,220	39,349	39,478
4	Interest Income	1,000	1,000	1,000	1,000	1,000	1,000	1,000
5	Plumbing/Inspection Fees	6,880	6,880	6,930	6,930	6,980	6,980	7,030
6	Rockville Sewer Use	2,694	2,773	2,851	2,829	2,862	2,895	2,927
7	Products & Technology	-	-	-	-	-	-	-
8	Miscellaneous	17,000	17,000	17,303	17,404	17,515	17,638	17,775
9	Total Revenue	636,729	658,720	691,287	721,100	776,270	823,291	870,127
10	**Adjustments to Revenue**							
11	Use of Fund Balance	30,193	21,486	7,525	7,725	7,925	8,125	4,200
12	Less Rate Stabilization							
13	SDC Debt Service Offset	1,167	728	207	-	-	-	-
14	Reconstruction Debt Service Offset	10,000	8,500	6,375	4,250	2,125	-	-
15	Adjustments to Total Revenue	41,360	30,714	14,107	11,975	10,050	8,125	4,200
16	**FUNDS AVAILABLE**	678,089	689,434	705,394	733,075	786,320	831,416	874,327
17	**EXPENDITURES**							
18	Salaries and Wages	107,087	112,442	118,064	123,967	130,165	136,673	143,506
19	Salaries and Wages - Additional & Reinstated Programs	-	900	946	994	1,044	1,096	1,150
20	Heat, Light and Power	22,906	24,202	25,473	26,513	27,591	28,726	29,916
21	Regional Sewage Disposal	55,176	54,895	56,926	59,032	61,216	63,481	65,830
22	All Other	243,582	246,626	250,058	262,062	274,666	287,900	301,796
23	All Other - Additional & Reinstated Programs	-	4,347	2,043	2,145	2,252	2,365	2,483
24	Additional Operating Reserve Contribution	2,300	6,300	3,400	3,600	3,800	4,000	4,200
25	Unspecified reductions	-	(7,613)	-	-	-	-	-
26	Unspecified reduction of future year's expenditure base	-	-	(7,994)	(8,394)	(8,814)	(9,255)	(9,717)
27	**Total Operating Expenses**	431,051	442,099	448,916	469,919	491,920	514,986	539,164
28	Debt Service	227,042	235,483	255,627	279,452	296,041	312,089	322,240
29	Debt Reduction (PAYGO)	19,996	24,263	30,277	38,372	44,915	50,649	55,447
30	**Total Financial Expenses**	247,038	259,746	285,905	317,824	340,957	362,738	377,687
31	**TOTAL GROSS EXPENSES (Operating & Financial)**	678,089	701,845	734,821	787,743	832,877	877,724	916,851
32	**NET EXPENSES**	678,089	701,845	734,821	787,743	832,877	877,724	916,851
33	Revenue - Expenditure Gap before rate increase	-	(12,411)	(29,427)	(54,669)	(46,556)	(46,309)	(42,524)
34	Rate Increase	5.5%	2.1%	5.0%	8.8%	6.9%	6.4%	5.5%