

T&E Committee #2
April 18, 2016

Worksession

MEMORANDUM

April 15, 2016

TO: Transportation, Infrastructure, Energy & Environment Committee

FROM: *KL* Keith Levchenko, Senior Legislative Analyst

SUBJECT: **Worksession: FY17 Washington Suburban Sanitary Commission (WSSC) Operating Budget**

Summary of Council Staff Recommendations

- Concur with WSSC to maintain System Development Charge rates for FY17 at current approved levels, but to increase the maximum chargeable rate (the rate the charge could be increased in the future) by a CPI adjustment as allowed for under State law.
- Approve the Infrastructure Investment Fee second year phase-in and the 3.0 percent rate increase as proposed by WSSC **Average Residential Customer Impact = \$2.00 + \$1.28 = \$3.28 per month**
- Assume the following adjustments within the FY17 WSSC Operating Budget:
 - Revise Customer Assistance Program Revenue Impact Down Based on Latest Projections (Revenue Increase = \$856,000)
 - Approve FY17 compensation adjustments for WSSC staff comparable to compensation adjustments for County Government staff. (-\$2.1 million)
 - Remove Both Newly Requested Permit Specialist Positions (-\$103,300)
 - Assume Higher Regional Sewage Disposal Costs Based on Latest Projections (+\$2.9 million)
 - Add Higher Department of Finance Property Tax Billing Costs (+\$7,940)
 - Apply the net savings from the above actions (\$151,664) to fund balance

Attachments to this Memorandum

Excerpts from the Proposed FY17 WSSC Budget¹ (©1-36)
County Executive's FY16 Recommended Budget Section for WSSC (©37-39)
Rate Increase Components (©40)
Summary Table of FY16 Additional and Reinstated Programs (©41)
Detail of FY16 Additional and Reinstated Programs (©42-49)
Slide: National Trends – Rate Increases since 2002 (©50)
Public Hearing Testimony (©51-53)
The following officials and staff are expected to attend this meeting:

WSSC

Howie Denis, Commissioner
Fausto Bayonet, Commissioner
Carla Reid, General Manager/CEO
Tom Street, Deputy General Manager for Administration
Joe Mantua, Deputy General Manager for Operations
Monica Johnson, Deputy General Manager for Strategic Partnerships
Letitia Carolina-Powell, Budget Group Leader
Julie Pohutsky, Budget Unit Coordinator

County Government

Dave Lake, Manager, Water and Wastewater Management, Department of Environmental Protection (DEP)
Matthew Schaeffer, Management and Budget Specialist, OMB

Budget Highlights

Below are some major highlights of WSSC's Proposed FY17 Budget:

- The combined total of the Capital and Operating Budget is \$1.42 billion, an increase of \$21.2 million (or 1.5 percent) from the Approved FY16 amount of \$1.4 billion.
- The total proposed Operating Budget is \$735.5 million, an increase of \$20.4 million (or 2.8 percent) from the Approved FY16 Operating Budget of \$715.2 million.
- Includes the second year phase-in of the Infrastructure Investment Fee (additional revenue generated of \$19.5 million).
- Assumes continued implementation of a new customer assistance program (reducing FY17 revenue by \$2.2 million) waiving the Account Maintenance Fee and Infrastructure Investment Fee for eligible customers.
- 3.0 percent average rate increase. *During the spending control limits process last fall, the Montgomery and Prince George's County Councils both recommended a 3.5 percent rate increase ceiling.*

With the second year phase-in of the Infrastructure Investment Fee, the equivalent rate increase is approximately 6.5 percent. A 2.5 percent rate increase is needed to cover a shortfall of funds

¹ WSSC's Proposed FY17 Operating Budget is available for download at:
https://www.wsscwater.com/files/live/sites/wssc/files/Financial/FY17%20Proposed%20Budget%20document_February%2026th%20version.pdf

available. An additional 1.5 percent increase is needed to cover debt service, Paygo heat, light, and power and regional sewage disposal. The remaining 2.5 percent rate increase covers compensation adjustments, additional and reinstated programs, and other operating expenses.

- A pool of \$5.5 million for salary enhancements is included in the Proposed Budget, with the final amount and allocation of these dollars to be considered in the context of both Councils' actions regarding their employee union bargaining agreements. The \$5.5 million is equivalent to a 3.0 percent COLA and 3.0 percent merit increases (with \$119,600 reserved for IT bonuses)
- Water production is projected at 164 million gallons per day (mgd), which is a reduction from the amount assumed in FY16 (166 mgd) and the same as assumed for FY17 during the spending control limits process last fall.
- Includes \$51.6 million (a decrease of \$3.3 million, or 6.0 percent, from FY16) for regional sewage disposal costs for WSSC sewage treated at the Blue Plains Wastewater Treatment Facility. *However, subsequent to the transmittal of the WSSC budget, WSSC has revised its cost assumption for FY17 to \$54.5 million (an additional \$2.9 million) based on recent discussions with DCWater.*

Note: WSSC estimates that the cost per thousand gallon of treatment of WSSC sewage at Blue Plains is \$1.37 compared to \$2.05 at WSSC facilities. About 64 percent of all WSSC sewage and 84 percent of Montgomery County's sewage (generated within the WSSC service area) are treated at the Blue Plains Wastewater

- Includes \$12.8 million (\$9.5 million rate impact) for "additional and reinstated" programs in both the Operating Budget and CIP (\$9.51 million rate supported). This includes an increase of 26 positions, plus additional equipment and contractual costs. NOTE: WSSC is proposing to use \$5.9 million in excess fund balance for one-time initiatives in FY17. This leaves \$3.6 million affecting rates in FY17 (.64 percent equivalent rate impact) *(Additional details are attached on ©41-49)*
- Includes \$29.9 million for large diameter pre-cast concrete cylinder pipe (PCCP) water main inspection, repairs, and acoustic fiber optic (AFO) installation, as well as acoustic fiber optic monitoring of all previously installed AFO. Also includes \$16.1 million for large diameter repairs and cathodic protection and \$7.3 million for large valve inspections, replacement, and repairs. *These expenditures represent a similar level of effort to FY16.*
- Funds 57 miles of water main reconstruction and associated house connection renewals (consistent with the Proposed FY17-22 CIP and similar in scope to the current budget. *The FY17 request is consistent with WSSC's goal of a steady state of approximately 55 miles of replacement per year (or about a 100-year replacement cycle).*

Schedule

On March 1, WSSC transmitted its proposed FY17 Operating Budget to the Montgomery and Prince George's County Executives and County Councils. On March 15, the County Executive transmitted his recommendations to the Council. Council review will be in early May. The Bi-County meeting to resolve any CIP and Operating Budget differences with Prince George's County is scheduled for May 12.

NOTE: The Prince George's County Council's TH&E worksession on the WSSC Budget is on April 28.

General Information about WSSC

WSSC provides public water and sewer services to nearly 1.8 million residents in a sanitary district covering nearly 1,000 square miles in Montgomery and Prince George's Counties. WSSC has 3 reservoirs and 2 water treatment plants (providing about 165 mgd of drinking water) and maintains 7 wastewater treatment plants (including the Blue Plains Plant in Washington DC). WSSC has more than 5,600 miles of water mains and about 5,500 miles of sewer mains. WSSC has about 450,000 customer accounts (see ©34 for more statistical information) and is one of the ten largest water and wastewater utilities in the country.

WSSC's governing board consists of six commissioners, three from Montgomery County and three from Prince George's County, serving staggered 4 year terms. The positions of Chair and Vice Chair alternate annually between the counties. Montgomery County currently has one commissioner vacancy. The current commissioners are:

Montgomery County

Fausto Bayonet
Howie Denis
Vacant

Prince George's County

Chris Lawson, Acting Chair
Omar M. Boulware
Mary Hopkins-Navies

Over the past year, all three of Montgomery County's previous serving Commissioners left office. Mr. Bayonet and Mr. Denis were appointed and the County Executive is expected to appoint a Commissioner shortly to fill the remaining vacant position. During this transitional period, Prince George's County Commission Vice Chair Chris Lawson has been serving as Acting Chair.

Prior General Manager Jerry Johnson retired last year and Carla Reid was appointed by the Commissioners as the next General Manager earlier this year.

An organizational chart is attached on ©39. The Chair's budget transmittal letter and other excerpts from the Proposed FY17 budget are attached on ©1-36.

About 64 percent of all WSSC sewage and 84 percent of Montgomery County's sewage (generated within the WSSC service area) are treated at the Blue Plains Wastewater Treatment Plant in the District of Columbia. This plant is managed by DCWater.² WSSC makes operating and capital payments each year to DCWater, consistent with the Blue Plains Intermunicipal Agreement (IMA) of 2012. Blue Plains-related costs are a major element of the sewer program and reflect a majority of overall CIP expenditures. The projected FY17 operating payment is \$51.6 million (about 7.0 percent of WSSC's Proposed Operating Budget).

² The Montgomery and Prince George's County Governments each have two representatives (with two alternates) on the eleven-member DCWater Board of Directors. Fairfax County has one representative. The other six members represent the District of Columbia. The Montgomery, Prince George's, and Fairfax County board members only vote on "joint use" issues (i.e., issues affecting the suburban jurisdictions). These board members do not vote on issues affecting only the District of Columbia.

County Executive Recommendations for the FY17 WSSC Budget
(See Operating Budget Excerpt on ©37-39)

In his March 15 transmittal, the County Executive recommended approval of WSSC's FY17 Budget expenditures as proposed.

The County Executive recommended some adjustments within the WSSC budget but without changing the proposed rates or budget total itself:

- Adding \$7,940 in additional property tax billing costs payable to the Department of Finance.
- Removing an additional permitting inspector (\$51,650 included in the Proposed Budget) who would work out of Montgomery County's permit office.
- Removing the dental mercury inspectors (\$137,000 included in the Proposed Budget) until the Environmental Protection Agency (EPA) Dental Mercury remediation rule becomes final.

Performance Measures and Benchmarking Study

WSSC has included a number of performance measures in its FY17 Proposed Budget. Most of these measures speak to water quality, quality of service, timeliness of service, and customer satisfaction.

As noted in WSSC's budget document, "WSSC has never exceeded a maximum contaminant level (MCL) or failed to meet a treatment technique (TT) requirement established by the US. Environmental Protection Agency (EPA) in accordance with the Safe Drinking Water Act."

However, one area of concern for WSSC is "Customer Calls for Maintenance Assistance" (see ©32). WSSC's "percent of calls answered" goal is 95 percent, but this measure has been declining since FY13 and was 88 percent in FY15. *NOTE: WSSC has been engaged in a "Contact Center Optimization" project since 2014 and five additional positions are requested within WSSC's Budget (see later discussion).*

WSSC also provides some efficiency measures (see ©33 for a sample). However, Council Staff has previously noted that it would be helpful if WSSC published information on how these measures and other fiscal measures compare over time to other similarly-sized water and sewer utilities. WSSC has not had a comprehensive benchmarking study since a Competitive Action Program (CAP) effort was done in the late 1990's. That effort (which included benchmarking and then substantial multi-year follow-up by WSSC work teams) ultimately led to a reduction in WSSC staffing from 2,120 in FY96 to 1,458 in FY06 (a reduction of 662 positions, or over 30 percent of the workforce).

Since FY06, WSSC has steadily increased its workforce. The Approved FY16 budget assumes 1,747 positions. The Proposed FY17 budget assumes 1,773 positions. WSSC's volumetric water and sewer rates have also increased substantially. Table A below shows that from FY06 through FY15 (prior to the change in the Account Maintenance Fee and implementation of the first phase of the Infrastructure Investment Fee in FY16) rates have increased 89.5 percent (with an average of 7.8 percent per year). Interestingly, expenditures have only increased about 43 percent over that same time (equivalent to a 4.06 percent increase per year).³

³ The rate of increase in water and sewer rates over the FY06 through FY15 period is more than double that of the rate of increase in expenditures. This is because WSSC's primary source of funding is from volumetric water and sewer fees. Water production has been flat over the past 20 years, despite increases in the population served, due to declining per capita water

Table: A
WSSC Rate Increase and Budget Increase Percentages
FY06 through FY15

	Rate Increases		Operating Budget	Percent Increase
	Annual	Compounded		
FY06	2.5%	2.5%	494,347	
FY07	3.0%	5.6%		
FY08	6.5%	12.4%		
FY09	8.0%	21.4%		
FY10	9.0%	32.4%		
FY11	8.5%	43.6%		
FY12	8.5%	55.8%		
FY13	7.5%	67.5%		
FY14	7.3%	79.6%		
FY15	5.5%	89.5%	707,190	43.1%
average annual increase =	7.75%			4.06%

Two years ago, Council Staff asked WSSC for comparative rate increases for other utilities. The slide on ©50 shows rate increases since 2002 for a number of utilities. The utilities are clustered into categories of 70 to 89 percent, 90 to 129 percent and 130 to 233 percent. WSSC's rate increase from 2002 to FY14 is 85 percent. The regional CPI during that time was 34.4 percent. The chart shows that many water and sewer utilities have increased rates well above the CPI in the last decade. WSSC's rate increase trend over that time is not the lowest, but is on the edge of the lower third and middle third of the utilities presented.

Last fall, WSSC did some FY16 residential bill comparisons (see ©16) and a bill comparison as a percentage of median income (see ©17) across a number of water utilities. In both cases, WSSC's level appears in the lower half of the spread of utilities.

Much of WSSC's ramp-up in staffing and rates has been a result of its increased infrastructure recapitalization work in recent years to address aging water/sewer pipe infrastructure. WSSC has also faced increased environmental regulation costs over time (such as its sanitary sewer overflow (SSO) Consent Decree).

Given the length of time since the last major benchmarking effort and the fact that WSSC's rates, expenditures, and staffing have steadily increased over the past decade, last May, the Councils agreed that WSSC should hire a consultant to perform a benchmarking study. This study began in December 2015 and is ongoing. Staffs from both counties and WSSC are participating in a benchmarking review group which is meeting periodically with the consultant to receive milestone updates and provide feedback. The study is looking at a number of WSSC's major cost centers including: Water Treatment, Wastewater Treatment, Field Services, Procurement, Customer Service, Fleet/Logistics, and CIP/Asset Management.

usage. This trend has resulted in rate increases being needed to offset revenue shortfalls, in addition to funding increased expenditures.

The Commission and the two Councils will be briefed on the results of this study this summer. The results of this work are expected to influence the FY18 spending control limits process this fall and may also result in follow-up review of specific WSSC cost centers.

System Development Charge (SDC) Fees and Exemptions

WSSC’s Proposed CIP and draft Operating Budget assumes no change in the SDC rate. However, WSSC supports increasing the maximum rate the charge could be increased in future years by a CPI adjustment for FY17, as permitted under State law. The proposed charge and the maximum allowable charge are presented in Table 1.

**Table 1:
Proposed SDC Charges**

Item	FY17 Charge	Max. Allowable Charge
Apartment		
- Water	\$896	\$1,274
- Sewer	\$1,140	\$1,624
1-2 toilets/residential		
- Water	\$1,344	\$1,914
- Sewer	\$1,710	\$2,432
3-4 toilets/residential		
- Water	\$2,240	\$3,189
- Sewer	\$2,850	\$4,056
5 toilets/residential		
- Water	\$3,135	\$4,463
- Sewer	\$3,991	\$5,681
6+ toilets/residential*		
- Water	\$88	\$126
- Sewer	\$115	\$165
Non-residential*		
- Water	\$88	\$126
- Sewer	\$115	\$165

*costs shown are per fixture unit

The SDC fund itself is discussed in more detail in the Council CIP packet from March 1 (Agenda Item #8).

Council Staff is supportive of WSSC’s approach, with the caveat that the issue of SDC rates is an annual decision. *NOTE: Both the maximum rate and the adopted rate will be noted in the annual Council resolution approved in mid-May.*

Account Maintenance Fee and Infrastructure Investment Fee

For FY16, the Councils approved a recalibrated account maintenance fee and a new Infrastructure Investment Fee (phased in over two years). The impact of these changes on WSSC’s revenues is reflected in Table #2 below and provides the equivalent of a 3.5 percent increase in volumetric rates (almost entirely due to the second-year phase-in of the Infrastructure Investment Fee).

**Table 2:
Rate Impact of Changes to Account Maintenance Fee and
New Infrastructure Renewal Fee**

	FY16	FY17	Change from FY16	
	Approved	Proposed	\$\$\$	Rate Impact
Account Maintenance Fee	32,374,000	32,552,000	178,000	0.0%
Infrastructure Investment Fee	19,418,000	38,962,000	19,544,000	3.5%
Totals	51,792,000	71,514,000	19,722,000	3.5%

NOTE: Most residential customers would pay an additional \$6.00 per quarter (\$2.00 per month) with the 2nd year phase-in of the Infrastructure Investment Fee. This combined with WSSC's recommended volumetric rate increase of 3.0 percent would result in a total estimated impact of \$3.28 per month.

Background on Fee and Rate Study

In January 2014, the Municipal & Financial Services Group, in association with PEER Consultants, P.C., completed a Water and Sewer Rate Study for WSSC. This rate study was initiated as a result of recommendations from the Bi-County Infrastructure Working Group⁴ to look at WSSC's current volumetric rate structure and account maintenance fee, options for creation of a new infrastructure fee, and the potential creation of a new customer affordability program.

The consultant report looked at these issues and made recommendations to update the account maintenance fee (the fee had not been adjusted since its inception in the 1990s)⁵ and create a new infrastructure fee and affordability program (discussed later). The consultant did not recommend any changes to the volumetric rate structure at this time.

At the time, WSSC relied on its volumetric water and sewer fees for about 95 percent of its revenue. However, over the past decade, water production has been flat, even as the population served in the water and sewer district has increased by about 10 percent. This steady reduction in per capita water usage has resulted in reduced revenue for WSSC, which is compounded by WSSC's graduated rate structure.⁶ Given this continuing trend, the Working Group agreed that a revenue structure that included a larger mix of fixed fees should be considered.

⁴ The Bi-County Infrastructure Working Group was formed in 2010 to consider how best to finance WSSC's major infrastructure recapitalization needs while managing debt and minimizing rate increases. The group included representatives from the Montgomery and Prince George's Council Staffs, Executive staff from both counties, WSSC staff, and WSSC Commissioner Gene Counihan from Montgomery County and former WSSC Commissioner Antonio Jones from Prince George's County.

⁵ Council Staff believes the account maintenance fee should capture costs originally intended to be captured by the fee when it was first created. As those costs increase over time (unrelated to volumetric use), the fee should also be periodically recalibrated to accomplish its original intent.

⁶ WSSC's graduated rate structure has a strong water conservation incentive, since ratepayers pay a higher rate for every gallon used as their average daily consumption moves up to the next block rate.

The Working Group supported the consultant recommendations, as did the WSSC Commissioners in March 2014. For both fee changes, the Working Group recommended that the new revenue structure should be “revenue neutral” in that any additional revenue obtained from the changes in fixed fees should be offset by reductions in the volumetric fees.

The Working Group also agreed with the consultant recommendation to not consider broader changes to the volumetric rate structure at that time, but that a review of the rate structure should be considered within the next few years.

Both Councils were later briefed on these recommendations in July 2014. These issues were discussed again during discussion of WSSC’s FY16 spending control limits in October 2014 and again during the FY16 budget process last year. Ultimately, for the FY16 Budget, both Councils agreed with the account maintenance fee recalibration and an assumed two-year phase-in of the new Infrastructure Investment Fee.

The Councils’ FY17 spending control limits actions last fall assumed the second year of the Infrastructure Investment Fee phase-in for FY17 and WSSC’s Proposed FY17 Budget includes this assumption as well. Council Staff concurs with this assumption.

Customer Assistance Program

A new customer assistance program was also begun during FY16 after the State General Assembly passed the necessary enabling legislation during the 2015 legislative session. Under this program (which is still in the implementation phase), WSSC intends to provide a substantial ongoing benefit to approximately 19,900 eligible customer accounts across the WSSC service area (based on current Maryland Office of Home Energy Program eligibility in the two counties). The benefit includes waivers of the full Account Maintenance Fee (typically \$16 per quarter), the Infrastructure Investment Fee (\$6.00 per quarter), and the existing Bay Restoration Fee (\$15 per quarter). The Bay Restoration Fee waiver is available now and as of last year almost 400 WSSC customers were receiving the waiver. WSSC is including the Bay Restoration Fee waiver process into its customer assistance program. The total benefit off of WSSC charges only (not counting the Bay Restoration Fee waiver) for most eligible residential customers in FY16 is \$7.33 per month. These waivers result in participating customers paying lower WSSC bills in FY16 than they paid in FY15.

WSSC is still working to fully implement the program in FY16 and expects the program cost to be \$636,000 this fiscal year for 7,223 enrollees (out of an original budget estimate of \$1.7 million and 19,900 potential enrollees). One major focus is on implementing the waiver for tenants in multi-unit homes.

For FY17, WSSC’s latest assumptions are that the program will grow to 12,000 enrollees with waivers totaling \$1.34 million (about \$860,000 less than the FY17 Proposed Budget assumption of \$2.2 million). **Council Staff recommends using these latest projections for the FY17 Budget.**

Rate Structure Study

Last fall, during the FY17 Spending Control Limits process, both Councils noted their support for WSSC to review the current rate structure as had been suggested by the Working Group at the conclusion of the previous consultant study. Below is some background information on this issue first provided to the Council last fall.

per day (each with two occupants for per capita water usage of 72.5 gallons of water per day), compared with another home with six occupants, with each occupant also using 72.5 gallons of water per day (for a total household water usage of 435 gpd). Because of the higher rates charged as usage increases and the fact that every gallon is charged at the higher rate, the large household pays 58.5 percent more than the three smaller households combined. A 47 percent “penalty” occurs when assuming lower per capita water usage (50 gpd) and when comparing 4 homes, each with 2 occupants, to a single home with 8 occupants (66 percent “penalty”).

Going to a more traditional inclining block rate structure where water is charged at different rates as water usage increases would reduce this “penalty” to about 39.1 percent under the example above. However, as the household size increases, the “penalty” under this more traditional structure rises (51.2 percent for a family of 8, for instance).

One way to eliminate the penalty entirely would be to adopt a single uniform rate for all water used. Based on WSSC’s 2014 consultant report, moving to a single uniform rate would require a uniform rate of \$12.97 in FY15 rates (and \$13.10 in FY16 rates). Currently, about 84 percent of WSSC’s residential customers are in the first five tiers and are paying less than \$13.10 per thousand gallons. All of these customers’ rates would increase under a uniform rate.

A key reason for this bump in costs for most residential customers is that large commercial ratepayers would pay much less under a uniform rate. State law (MD Code, Public Utilities, §25-501 Service Rates) requires that WSSC charge a uniform rate “throughout the service district”. WSSC and County legal staff interpret this to mean that WSSC cannot charge one rate for residential and another rate for commercial customers. Although this assumption complicates matters, there may be ways to work within State law to address the large household penalty issue. A change in State law could also be sought.

It is also important to note that WSSC is in the midst of upgrading its Customer Service Information System (i.e., its billing system) and is also in the early stages of planning for its Advanced Meter Reading (AMR) project.

The customer benefits of the new AMR system include: monthly billings based on actual water usage, more rapid identification of leaks, and the ability of the customer to better monitor water usage. For WSSC, the elimination of the need for manual reading of all customer meters could present significant cost savings. WSSC would also gain the capability to do more and better analysis of actual water usage and potential billing structures.

Council Staff believes WSSC’s current rate structure is in need of comprehensive review given the issues raised above. The current rate structure dates back to 1978 and some of the negative impacts of the rate structure noted earlier have been exacerbated as rates have increased.

Other Fees

A list of WSSC fees (and proposed revenue changes) is attached on ©20-26. Most of these fees have to do with construction activity. The Maryland Building Industry Association (MBIA) wrote to WSSC noting that fees and charges were proposed to increase by an average of 10 percent and suggested that the upcoming rate study also include a review of the fees and charges.

Spending Control Limits

Background

In April 1994, the Council adopted Resolution No. 12-1558, which established a spending affordability process for the WSSC budget. Under this process, which stems from the January 1994 report of the Bi-County Working Group on WSSC Spending Controls, each Council appoints a Spending Affordability Committee (SAC). For Montgomery County, the SAC is the Transportation, Infrastructure, Energy and Environment (T&E) Committee.

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

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

FY17 Spending Control Limits

Last fall, the T&E Committee and the Council reviewed WSSC's major revenue and expenditure assumptions as part of the FY17 spending control limits process. WSSC developed a "base case" scenario (roughly a "same services" scenario with some enhancements) that included a 5.0 percent rate increase and assumed the second-year phase-in of the Infrastructure Investment Fee.

The Montgomery County and Prince George's County Councils supported a 3.0 percent rate ceiling along with the second-year phase-in of the Infrastructure Investment Fee. The "effective" rate increase (i.e., the equivalent rate increase that would be needed if the fee changes were not done) for an average residential customer with 160 gallons per day of usage would be 6.4 percent.

Table 4, below, shows how WSSC's Proposed FY17 Budget compares to the approved limits and to the County Executive's FY17 budget recommendations. The FY17 Proposed WSSC Budget is within each of the limits for Water and Sewer Debt Service, Water and Sewer Operation Expenses, and the Maximum Average Rate Increase. WSSC's New Debt assumption is higher than the approved limit due to an adjustment down in FY17 PAYGO resulting from more favorable interest rates than projected on actual FY15 debt issuances during the spending control limits review last fall, which resulted in lower debt service assumed for FY17.

**Table 4:
FY17 Spending Control Limits Approved by Each Council
versus the FY17 Proposed WSSC Budget and CE Recommendation**

Spending Control Limit Categories	Recommended Limits		WSSC	CE
	MC	PG	Proposed	Rec
New Debt (in \$000s)	476.8	476.8	479.4	479.4
Water and Sewer Debt Service (in \$000s)	250.8	250.8	243.8	243.8
Water/Sewer Operating Expenses (in \$000s)	729.2	729.2	716.2	716.2
Maximum Avg. Rate Increase	3.5%	3.5%	3.0%	3.0%

Fund Balance Status

WSSC's fund balance projections and potential uses for excess fund balance were previously discussed last fall during the Council's spending control limits discussion. An updated chart is presented below:

**Table 5:
Estimated Excess Fund Balance Calculation (in \$000s)**

	Estimated Fund Balance (end of FY15)	83,880
FY16	REDO Extinguishment	(1,500)
	Debt Service on Bi-County adjustments to Blue Plains Projects	(91)
	Use of Fund Balance - IT Strategic Plan	(8,000)
	FY15 Use of Fund Balance: AMI/Billing System Replacement	(2,000)
	Operating Reserve Contribution (to maintain 10% of budgeted revenues)	(6,300)
	Easements and Land Acquisition for Watershed Protection	(1,600)
	use of Fund Balance - Supply Chain Management Transformation	(555)
	Vibration Analysis Pilot	(150)
	Analysis of Water Production Trends and Projections	(125)
	Climate Change Vulnerability Assessment	(300)
	Communications & Community Relations Special Projects	(156)
	Strategic Energy Plan Implementation	(200)
	Warehouse Distribution & Inventory Optimization Study	(500)
	Globally Harmonized System of Classification and Labeling of Chemicals	(100)
	Total Use of Fund Balance in FY16 (no additional and reinstated programs)	(21,577)
	Unallocated Reserve (end of FY16)	62,303
FY17	Additional Use of Fund Balance (Included in Base Case Scenario #3)	
	FY17 Use of Fund Balance: IT Strategic Plan	(12,080)
	FY17 Use of Fund Balance: One-Time Additional and Reinstated Projects	(1,082)
	Operating Reserve Contribution (to maintain 10% of budgeted revenues)	(6,524)
	Easements and Land Acquisition for Watershed Protection (A&R)	(1,600)
	Decrease in Water Production	(3,514)
	Contact Center Optimization (FY17 A&R)	(750)
	Strategic Energy Plan Implementation (FY16 A&R)	(250)
	Climate Change Vulnerability Assessment (FY16 A&R)	(250)
Additional Use of Fund Balance in FY17 Total	(26,050)	
	Unallocated Reserve (end of FY17)	36,253
FY18+	Uses of Fund Balance in FY18 and Beyond	
	FY18-20 Climate Change Vulnerability Assessment	(750)
	FY18-20 Strategic Energy Plan Implementation	(750)
	FY18-21 AMI Billing System Replacement	(3,000)
	FY18-21 Implementation of Space Study Recommendations for Support Facilities	(12,500)
	FY18-21 Additional Operating Reserve Increase	(18,100)
Total Use of Fund Balance in FY16 and Beyond	(35,100)	
	Remaining Excess Fund Balance after All Uses	1,153

Both Montgomery and Prince George’s County Council Staffs have been supportive of WSSC’s use of excess fund balance to fund items such as PAYGO, one-time items, and special projects rather than to provide one-time rate relief. **Using one-time excess fund balance for rate relief would result in a revenue shortfall the following year, which could cause rates to rise higher in the next year than would otherwise be required.**

The additional and reinstated programs to be funded with excess fund balance total \$5.9 million. The use of fund balance for these items is taken into account when considering the rate increase requirement later in this memorandum.

WSSC’s February 2016 Monthly Status Report assumes revenues to be \$26.5 million less than budgeted, primarily as a result of lower than previously projected water production. This is a similar reduction to that assumed at this time last year for FY15. However, expenditure projections for FY16 have also been lowered (by the same amount) as a result of savings in debt service, salaries and wages, and various operating expenses. Therefore, there is no net overall financial change since the spending control limits discussion last fall. **Council Staff suggests that if any additional unallocated reserve amount is realized, this can be considered in the context of the FY18 spending control limits process this fall.**

Revenues

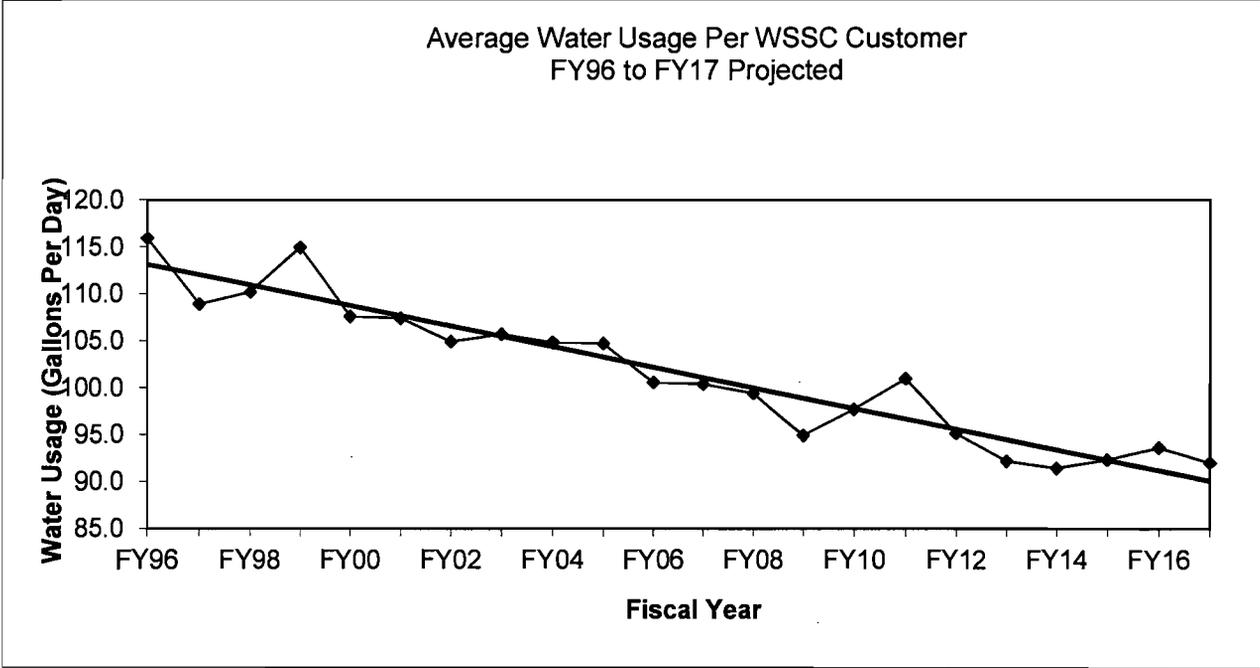
Table 6:

WSSC Revenue Trends: FY16 to FY17

Revenue	Approved FY16	Proposed FY17	change	% change	Impact on Rate (%)
Water and Sewer Rate Revenue	585,075,000	563,665,000	(21,410,000)	-3.7%	3.80
Customer Affordability Program	(1,700,000)	(2,200,000)	(500,000)	29.4%	0.09
Account Maintenance Fee	32,374,000	32,552,000	178,000	0.5%	(0.03)
Infrastructure Renewal Fee	19,418,000	38,962,000	19,544,000	100.6%	(3.47)
Interest Income	1,000,000	700,000	(300,000)	-30.0%	0.05
Plumbing/Inspection Fees	7,920,000	9,380,000	1,460,000	18.4%	(0.26)
Rockville Sewer Use	2,773,000	2,632,000	(141,000)	-5.1%	0.03
Miscellaneous	16,000,000	17,500,000	1,500,000	9.4%	(0.27)
Total Revenues	662,860,000	663,191,000	331,000	0.0%	(0.06)
Use of Fund Balance	21,577,000	26,050,000	4,473,000	20.7%	(0.79)
Adjustments for REDO and SDC Debt	9,228,000	10,006,000	778,000	8.4%	(0.14)
Funds Available	693,665,000	699,247,000	5,582,000	0.8%	(0.99)

Revenue trends were discussed in detail during last fall's spending control limits process. The above chart compares WSSC's FY17 revenue assumptions (assuming no water/sewer rate increase) with FY16 approved revenues. The chart shows that water/sewer rate revenue (WSSC's dominant source of revenue) is expected to decline by \$21.4 million. WSSC is also assuming for the second year reduced revenue from the implementation of a customer assistance program (-\$2.2 million). WSSC is proposing to use some additional fund balance for some one-time FY17 expenditures. The second year phase-in of the Infrastructure Investment Fee provides an additional \$19.5 million in revenue, which offsets much of the revenue shortfall. However, without the Infrastructure Investment Fee second year phase-in, funds available would be down about \$14 million from FY16 (equivalent to about a 2.5 percent rate increase). With the phase-in, funds available are increasing by \$5.5 million (which is equivalent to about a 1.0 percent rate reduction).

This trend of flat to declining revenues is not new and is the result of overall water consumption in the WSSC service area being essentially unchanged from 20 years ago, despite 23 percent growth in the WSSC customer base over that same time. Per capita water usage is down 21 percent since FY96. While water conservation is a good thing from an environmental standpoint, it means WSSC's dominant revenue source has been stagnant, putting more pressure on rates.



FY17 WSSC Proposed Budget

Summary Charts

The following chart presents summary budget data for WSSC for the FY16 Approved and FY17 Proposed Budgets.

**Table 7:
WSSC Expenditures by Fund (in \$000s)**

	Approved	Proposed	Change	
	FY16	FY17	\$	%
Capital				
Water Supply	266,623	314,906	48,283	18.1%
Sewage Disposal	400,470	353,083	(47,387)	-11.8%
General Construction	17,539	17,536	(3)	0.0%
Total Capital	684,632	685,525	893	0.1%
Operating				
Water Operating	303,163	321,403	18,240	6.0%
Sewer Operating	390,502	394,756	4,254	1.1%
Subtotal W&S Operating	693,665	716,159	22,494	3.2%
Interest and Sinking	21,508	19,367	(2,141)	-10.0%
Total Operating	715,173	735,526	20,353	2.8%
Grand Total	1,399,805	1,421,051	21,246	1.5%

The combined total of the FY17 Capital and Operating Budget is \$1.42 billion, an increase of \$21.2 million (or 1.4 percent) from the Approved FY16 amount of \$1.4 billion.

The total proposed FY16 Operating Budget is \$735.5 million, an increase of \$20.4 million (or 2.8 percent) from the Approved FY16 Operating Budget of \$715.2 million.

The following chart summarizes the Approved and Proposed operating expenditures by major category.

**Table 8:
Total Operating Expenditures by Category**

Expense Categories	Approved	Proposed	Change	
	FY16	FY17	\$	%
Salaries and Wages	111,964	116,922	4,958	4.4%
Heat, Light, and Power	23,353	23,581	228	1.0%
Regional Sewage Disposal	54,895	51,601	(3,294)	-6.0%
All Other	269,651	281,985	12,334	4.6%
Debt Service	255,310	261,437	6,127	2.4%
Total	715,173	735,526	20,353	2.8%

Apart from the “All Other” category (which includes a variety of operating expense items), debt service continues to be the biggest single expenditure item (about 36 percent of total operating expenditures).

The heat, light, and power category is up slightly for FY16 (by 1.0 percent). This follows small declines the past several years and more substantial declines in previous years as a result of reductions in the weighted average unit price of electricity and also reductions in natural gas usage. Over the past 10 years, WSSC has also pursued a number of electricity retrofit initiatives, funded mostly through a large performance contract with Constellation Energy, that have helped offset operational changes increasing WSSC’s energy requirements (such as installation of ultraviolet disinfection processes). WSSC also has made a major long-term investment in wind power through wholesale purchases from a wind farm in

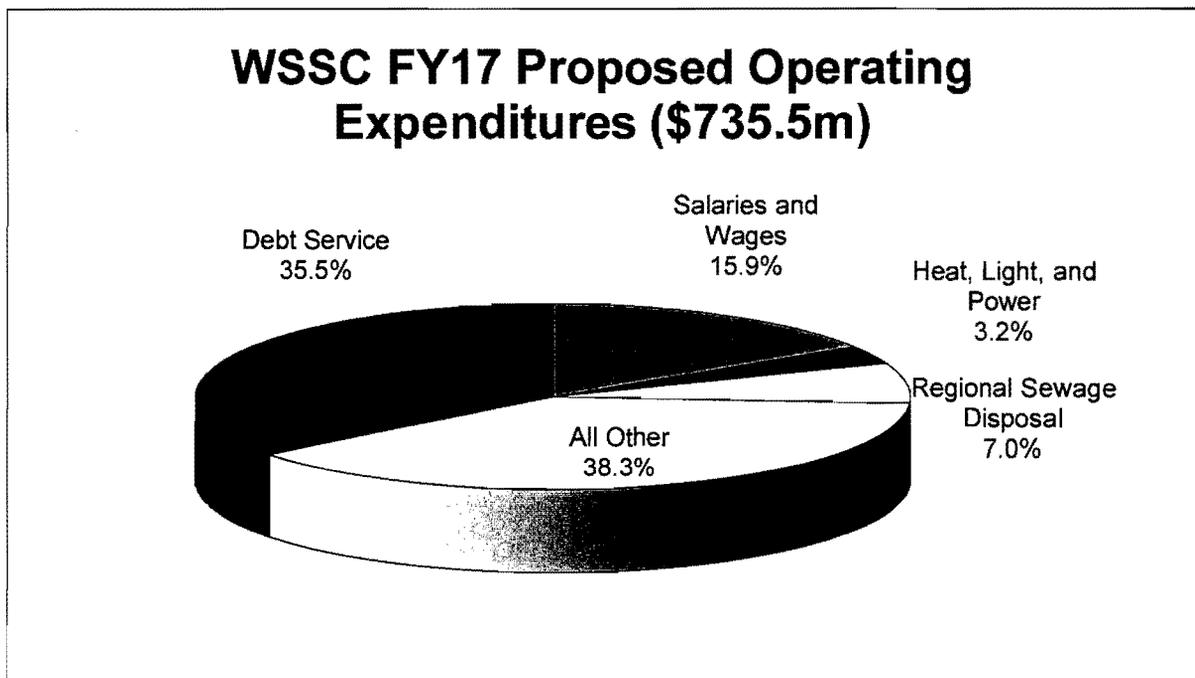
Pennsylvania. This purchase provides approximately 29 percent of WSSC’s power needs at fixed kWh rates for a ten year period ending in March 2018. WSSC expects to advertise for a new 10 year agreement to follow the expiring agreement.

The “All Other” category includes all operating costs not otherwise broken out above, including: services by others (\$66.3 million), employee benefits (\$63 million), outside engineering (\$19 million), chemicals (\$12.5 million), materials (\$11.9 million), implementation of the IT Strategic Plan (\$12 million), and a number of other items.

Regional sewage disposal costs are paid by WSSC to DCWater to cover WSSC’s portion of costs for the Blue Plains Wastewater Treatment Plant’s operations. The costs are based on actual flows. Subsequent to the transmittal of the FY17 Proposed Budget, DCWater updated its allocation methodology, which resulted in a higher projection of WSSC’s FY17 costs: \$54.5 million (an increase of \$2.9 million from the original projection). **Council Staff recommends assuming the more recent projection.**

Compensation

Salary and wages remain a comparatively small, although still significant, part of the WSSC Operating budget (as shown in the following pie chart).



Even adding employee benefits (which are included in the “All Other” category) to look at personnel costs as a whole, personnel costs for FY17 make up less than 25 percent of operating budget expenditures. This ratio contrasts sharply with ratios in County Government, where personnel costs are 52.5 percent of County Government expenditures in the FY17 Recommended Budget. MCPS’ personnel costs represent about 90 percent of its budget.

“Salaries and Wages”⁸ costs are proposed to increase by 5.5 percent overall and 4.4 percent within the Operating Budget. This increase covers WSSC’s proposed salary enhancements totaling \$5.5 million (\$4.36 million impact on rates) as well as 26 new positions (discussed in more detail later), with an estimated ratepayer impact of \$1.5 million. The type of salary enhancements to be provided were left to the two Councils to decide, based on their decisions regarding County Government employee compensation.

WSSC’s personnel costs (and increases) are a small part of WSSC’s budget. The ratepayer impact of the salary enhancements (assuming a ratepayer impact of \$4.6 million) equates to about a .98 percent rate increase. *Note: since WSSC’s budget is funded by ratepayers rather than by tax dollars, WSSC’s compensation increases do not directly compete for the same tax-supported funding that covers other County agency employees. However, both the County Executive and the Council have expressed support for the concept of the equitable treatment of employees across agencies, especially in the context of annual pay increases.*

For FY17, the County Executive’s agreements with the three unions (and passed on to non-represented employees) include 1.0 percent cost of living adjustments (0.5 percent applied at the beginning of the fiscal year and 0.5 percent applied In January 2017) for all employees and 3.5 percent service increments to eligible employees not at the top of their salary grade (typically about 2/3 of the workforce). The Executive also agreed to create longevity step increases for eligible employees.

WSSC’s total salary costs for each one percent COLA is \$1,411,800. Each one percent merit (i.e., service increment) costs \$384,133. Putting aside WSSC’s allocation for IT bonuses (\$119,600)⁹ and the mid-year COLA breakout assumed by the County Executive, WSSC’s budget for salary enhancements would provide for a 3.0 percent COLA and 3.0 percent merits. This compensation is about double the cost to WSSC of providing similar COLA and merits as the County Executive has recommended. Equivalent increases for WSSC employees (1.0 percent COLA and 3.5 percent service increments) would cost about \$2.76 million.

Council Staff supports the concept of treating employees consistently across all agencies, whenever possible, in the context of compensation adjustments. WSSC’s additional compensation as proposed would be higher than what would be needed to match what County Government employees are assumed to receive under the County Executive’s recommendation.

Based on this, Council Staff supports a lower compensation dollar amount for WSSC of \$2.88 million (\$2.76 million plus \$119,600 for IT bonuses) instead of the \$5.5 million assumed in the WSSC budget. The estimated rate-related increase would be \$2.26 million (instead of \$4.36 million). The savings (\$2.1 million) is equivalent to a reduction in rates of .37 percent.

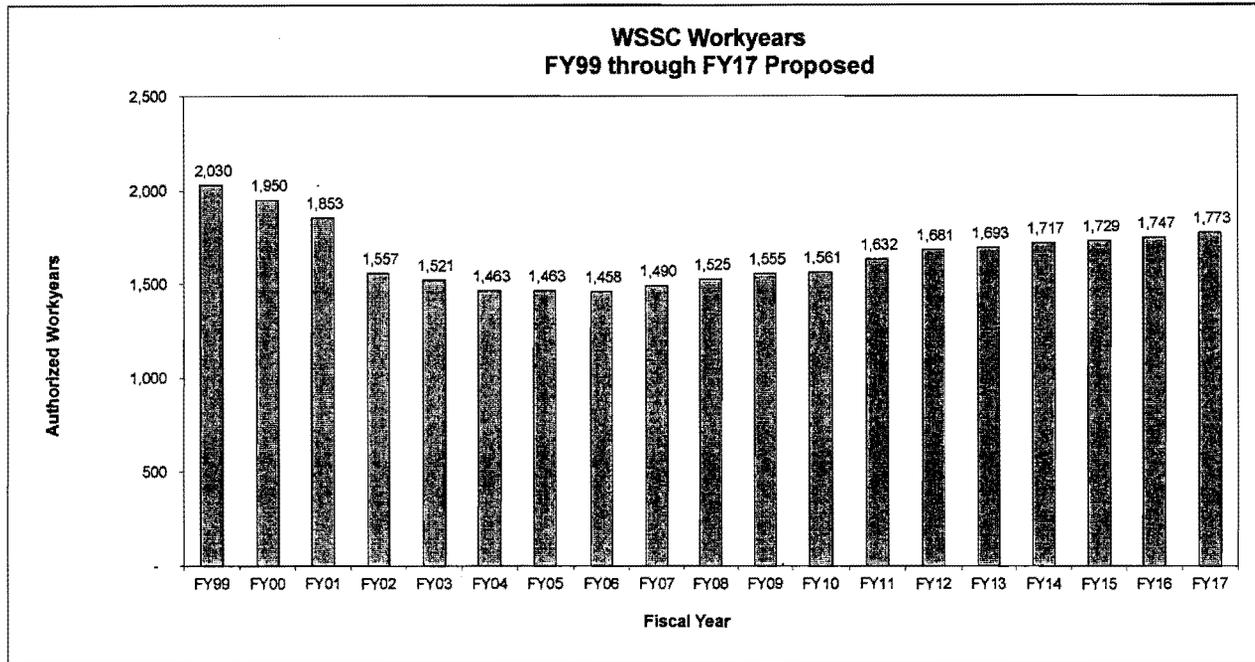
On April 21, the Government Operations and Fiscal Policy Committee is scheduled to discuss compensation and benefits for all agencies and the County’s collective bargaining agreements. Full Council review and action is tentatively scheduled for April 26.

⁸ Benefit costs (such as Social Security, Group Insurance, and Retirement) are loaded in the “All Other” expense category and total about \$62.98 million for FY17.

⁹In addition to WSSC’s regular employees, WSSC has contract employees working in their IT office who are not eligible for COLA or merit increases. WSSC’s FY17 Proposed Budget assumes \$119,600 for bonus awards for these employees, which is consistent with past practice. **Council Staff supports this bonus pay for these employees, since they are not otherwise eligible for the other compensation increases.**

Workyear Trends

After about a 1/3 reduction in the workforce achieved as a result of a Competitive Action Program (CAP) and retirement incentive program, WSSC has been adding workyears since FY07. Workyears by organizational unit for the Approved FY16 and FY17 Proposed budget are presented on ©35-36. The chart below presents workyear trends since FY99.



For FY17, 26 new positions are requested, as summarized on ©41. The total annual cost of these new positions is about \$2.0 million, with \$1.5 million in water and sewer rate-related costs. More information on each new position was provided by WSSC and is attached on ©42-49.

As noted earlier, the County Executive recommends not approving the additional WSSC permit specialist who would work out of the Montgomery County Permitting Services office. This would be a second WSSC position in the County's office. WSSC added these positions in response to the Counties' request to include permitting specialists in each County office. However, neither WSSC nor Executive staff feel the second position is needed. Based on these positions, **Council Staff supports removing both new positions from the WSSC budget.** Council Staff has asked Prince George's Council staff about whether a similar recommendation could be put forth by their county.

The County Executive also recommends not approving the two Dental Mercury Compliance positions at this time as well, since the Federal rule has not been finalized. According to WSSC, EPA expects the Dental Mercury regulations to be promulgated this July. WSSC would not fill the positions unless and until the compliance program goes into effect. If the law does go into effect, WSSC would have to permit and regulate 708 dental facilities. **Council Staff is okay including these new positions with the above caveat noted by WSSC.**

Seven new positions are requested as part of WSSC's supply chain management transformation process. WSSC expects cost reductions resulting from this effort in the range of \$10 million and cost avoidance of about \$8.0 million, both realized over a 3-year horizon.

Five new positions are included in the WSSC Proposed Budget (plus additional operating expenses) to implement the recommendations of the Contact Center Optimization Project and handle the increased workload of the Customer Assistance Program. According to WSSC, the optimization study recommended 10 new positions. Based on recent communication with WSSC leadership, the new General Manager, who is seeking to enhance WSSC's customer service focus, would like both counties to support 10 new positions. WSSC officials and staff will be available at the Committee worksession to further explain the need for these additional positions.

Council Staff recognizes that WSSC's operating and capital workload has grown substantially and that much of the additional staffing approved over the past several years has been needed to support this work throughout WSSC. The benchmarking study under way now is intended to provide a look across WSSC's major cost centers and help provide a snapshot of how WSSC compares to other water and sewer utilities and whether future increases or decreases in staffing can be expected. This study will be completed in June (with briefings to both Councils this summer). **It would be helpful to understand from WSSC how it sees the benchmarking study (and any follow-up reviews) potentially affecting any of these new position requests.**

Other Additional New and Expanded Programs

The chart on ©41 presents a list of non-staff related additional and reinstated programs included in the FY17 Proposed Budget. Each of the items is described in more detail on ©42-49. These items total about \$12.8 million, with an operating budget impact of about \$8.0 million. Several "one-time" items totaling \$5.9 million are assumed to be funded via the use of fund balance. Taking into account the new positions described earlier, the resulting operating budget impact of all of these additions is about \$9.5 million. This would result in a rate increase of approximately 1.7 percent. However, with the one-time items utilizing excess fund balance removed, the rate increase impact drops to 0.64 percent.

Closing the Gap

Each 1.0 percent of rate increase provides an estimated \$5.64 million in revenue. WSSC's Proposed budget assumes a 3.0 percent rate increase, combined with the second year phase-in of the Infrastructure Investment Fee discussed earlier. These changes, plus the expenditures previously discussed, are summarized on the chart on ©40 which presents all of the elements (plus and minus) that go into the rate increase request for FY17.

Summary of Council Staff Recommendations

- Concur with WSSC to maintain System Development Charge rates for FY17 at current approved levels, but to increase the maximum chargeable rate (the rate the charge could be increased in the future) by a CPI adjustment as allowed for under State law.
- Approve the second year phase-in of the Infrastructure Investment Fee as proposed by WSSC.
- Approve a 3.0 percent rate increase as proposed by WSSC.
- Approve the WSSC Budget with the following adjustments:

Council Staff's Recommended Changes to WSSC's FY17 Proposed Budget

Item	Cost Change
Assume Higher Regional Sewage Disposal Costs	2,900,000
Assume Lower Participation in the Customer Assistance Program	(856,000)
Remove Both New Permit Specialist Positions	(103,300)
Additional Property Tax Billing Costs (Dept of Finance)	7,940
Reduced Compensation Increase	(2,100,304)
net change from WSSC's Proposed Budget	(151,664)

Given the overall impact of these budget changes is relatively small, Council Staff recommends that the surplus dollars revert to WSSC fund balance.

Attachments

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14501 Sweitzer Lane, Laurel, MD 20707-5901
(301) 206-8000 1(800) 828-6439 TTY: (301) 206-8345 www.wsscwater.com

March 1, 2016

To The Honorable:

Rushern L. Baker, III, Prince George's County Executive
Isiah Leggett, Montgomery County Executive

Derrick Leon Davis, Chair, Prince George's County Council
Nancy Floreen, President, Montgomery County Council

Members of Prince George's County Council
Members of Montgomery County Council

Elected Officials, Valued Customers, and Interested Citizens:

We are hereby transmitting the Fiscal Year 2017 (FY'17) Proposed Capital and Operating Budget Document for the Washington Suburban Sanitary Commission (WSSC). In January, a preliminary FY'17 budget was published and distributed for review by interested customers, citizens, and elected officials. Public Hearings were held on February 3, 4, and 10, 2016. The FY'17 Proposed WSSC Budget is now submitted to the County Executives and Councils of Prince George's and Montgomery Counties for hearings and other procedures as directed by Section 17-202 of the Public Utilities Article, Annotated Code of Maryland, before a final budget is adopted for the next fiscal year, beginning July 1, 2016.

This proposed budget reflects our continued mission to provide safe and reliable water, life's most precious resource, and return clean water to the environment, all in an ethical, sustainable, and financially responsible manner. The programs, goals, and objectives included in this budget seek to achieve the Commission's mission through the following strategic priorities:

- Sustain Infrastructure
- Ensure Financial Sustainability
- Optimize Workforce Management
- Integrate Supply Chain Management and Supplier Diversity
- Deliver Excellent Customer Service
- Ensure Security and Safety
- Enhance Communications and Stakeholder Relationships
- Demonstrate Environmental Stewardship

The proposed budget for Fiscal Year 2017 for all operating and capital funds totals \$1.4 billion or \$21.2 million (1.5%) more than the Approved FY'16 Budget. The proposed operating budget of \$735.5 million represents an increase of \$20.4 million (2.8%) over the FY'16 Approved Operating Budget of \$715.2 million while the proposed capital budget of \$685.5 million represents an increase of \$0.9 million (0.1%) over the FY'16 Approved Capital Budget of \$684.6 million.

The budget calls for a combined 3.0% average increase in water and sewer rates. This proposed increase is lower than the 3.5% increase included in the Spending Affordability Guidelines approved by Prince George's and Montgomery Counties. The budget also proposes the full phase-in of the Commission's Infrastructure Investment Fee as recommended by the two Counties in last year's FY'16 Spending Affordability Guidelines and again in this year's FY'17 guidelines. The FY'16 budget included the first year of the phase-in of 50% of the Infrastructure Investment Fee with 100% of the fee total now proposed in the FY'17 budget. This change to the Infrastructure Investment Fee component of the Ready to Serve Charge will not result in new revenues to the Commission as the revenues from the fee will be used to offset required revenues from rates dollar-for-dollar. Even with this change, WSSC rates continue to be favorable when compared to other comparable water and sewer utilities, and the average WSSC residential bill is approximately 1% of the median household income. The 3% rate increase combined with the change to the Infrastructure Investment Fee will add \$3.28 per month to the bill of a customer using 145 gallons per day. Without the proposed change to the Infrastructure Investment Fee, the proposed rate increase would be 6.4%.

The Commission's current rate structure dates back to 1978 and is in need of a comprehensive review. The implementation of the infrastructure fee in FY'16, as recommended by the Bi-County Infrastructure Working Group and supported by the most recent rate study, was just the first step. The Commission is in the process of procuring a firm to review WSSC rates and fees including the 16 tier water and sewer rate schedule. This new study will involve both counties and require extensive stakeholder outreach and input.

Like many utilities across the country, WSSC continues to face the challenge of balancing increasing costs for infrastructure and operations and affordability to our customers. While the average costs to ensure access to clean water and wastewater treatment remain a relative bargain when compared to other household utilities and expenses, there are still too many residents who struggle to meet their monthly expenses. The Customer Assistance Program (CAP), created in FY'16 to target economically disadvantaged

customers and provide financial assistance with water and sewer bills, has already reached over four thousand customers in the current fiscal year. For the FY'17 budget the required CAP revenue offset has been increased from \$1.7 million to \$2.2 million.

This budget reflects the Commission's commitment to maintaining affordability through the active pursuit and implementation of numerous cost saving measures. New procurement activities have led to lower chemical costs for both water and wastewater operations. In addition, savings from successful debt service activities, including refunding of water and sewer bonds at a lower interest rate, will reduce existing debt service payments by approximately \$3.8 million for FY'17. As a result of FY'16 debt issuances receiving more favorable rates than budgeted, FY'17 debt service payments will be \$6.4 million lower than originally projected. WSSC has projected a reduction in biosolids hauling requirements and lower energy costs for regional sewage disposal as a result of our investment in the District of Columbia Water and Sewer Authority's (DC Water) new anaerobic digester and combined heat and power project at Blue Plains (\$3.3 million in savings). However, it should be noted that the cost reductions for regional sewage disposal reflected in the budget may not be fully realized. DC Water recently notified WSSC that the anticipated savings from the digester project included in the spending affordability process may be offset by increases in other operating costs at Blue Plains. WSSC is reviewing recent changes to cost allocations which may impact this line item.

Water and Sewer Infrastructure

The state of WSSC's infrastructure remains a significant concern as our buried assets continue to age. On the water side, the budget proposes the rehabilitation of 57 miles of smaller water mains (less than 16 inches in diameter), house connections, large water service meters, and vaults. For large diameter water mains, the Prestressed Concrete Cylinder Pipe (PCCP) Program provides for the ongoing acoustic fiber optic (AFO) monitoring of 90 miles, inspection of 18 miles of PCCP, and any identified repairs or rehabilitation of large diameter pipes. Funding is also included for large valve inspection, replacement, and repairs. On the wastewater side, funding is included for continued compliance with the Consent Decree. WSSC is negotiating with the U.S. Environmental Protection Agency, the U.S. Department of Justice and the Maryland Department of the Environment on a Consent Decree extension. All construction contracts for Environmentally Sensitive Area (ESA) work have been awarded and work is underway in ESA basins. Finally, it should be noted that a new consent decree is pending for the Potomac Water Filtration Plant which will impact future budgets.

FY'17 Proposed Capital and Operating Budgets

Our Proposed Budget for FY'17 includes funds for an additional 26 workyears to support critical programs and enhanced customer service. The new positions will support reconstruction of the Commission's infrastructure, new regulatory requirements, wastewater preventive maintenance, supply chain management and operations. In addition to investments in the Commission's physical infrastructure, the budget also provides for investment in the Commission's internal infrastructure through the use of strategic contributions from Fund Balance. Funds are included to support the fourth year of the Information Technology (IT) Strategic Plan.

The IT Strategic Plan is an aggressive undertaking to improve our operations, contain costs, and vastly improve customer service. Just as we invest in our aging infrastructure, it is imperative that we invest in planning, designing, and implementing IT systems that will replace legacy systems and drastically improve business processes. The Proposed Budget also includes funds to continue the Climate Change Vulnerability Assessment and to continue the implementation of the Strategic Energy Plan to further reduce our energy consumption.

Comparative Expenditures by Fund				
	FY'16	FY'17	FY'17	
	Approved	Proposed	Over / (Under)	%
			FY'16	Change
<u>Capital Funds</u>				
Water Supply	\$266,623,000	\$314,906,000	\$48,283,000	18.1 %
Sewage Disposal	400,470,000	353,083,000	(47,387,000)	(11.8) %
General Construction	17,539,000	17,536,000	(3,000)	(0.0) %
Total Capital	684,632,000	685,525,000	893,000	0.1 %
<u>Operating Funds</u>				
Water Operating	303,163,000	321,403,000	18,240,000	6.0 %
Sewer Operating	390,502,000	394,756,000	4,254,000	1.1 %
General Bond Debt Service	21,508,000	19,367,000	(2,141,000)	(10.0) %
Total Operating	715,173,000	735,526,000	20,353,000	2.8 %
GRAND TOTAL	\$1,399,805,000	\$1,421,051,000	\$21,246,000	1.5 %

The FY'17 Proposed Budget further secures the long-term fiscal sustainability of the Commission with a contribution of \$6.5 million from Fund Balance to maintain the operating reserve at 10% of water and sewer revenues. At this point in our budget process, we are including a pool of funds for salary enhancements. The specific use of these funds will be determined during the budget approval process as the two Counties decide how they will address salary enhancements for their employees. The FY'17 Proposed Capital Budget of \$685.5 million is approximately the same as the FY'16 Approved Budget.

The FY'17 Proposed Operating Budget of \$735.5 million represents an increase of \$20.4 million (2.8%) from the FY'16 Approved Operating Budget. The primary drivers of the increase in operating costs are water and sewer debt service, PAYGO financing of capital projects as recommended by the Bi-County Infrastructure Funding Working Group, cost increases associated with

(4)

the IT Strategic Plan, salary enhancements and new workyears. These costs are partially offset by refundings that reduce general bond debt service expenses and cost decreases for regional sewage disposal, and biosolids hauling.

Spending Affordability

The Commission, in cooperation with the Montgomery County and Prince George’s County governments, continues to participate in the spending affordability process. The spending affordability process focuses debate, analysis, and evaluation on balancing affordability considerations against the provision of resources necessary to serve existing customers (including infrastructure replacement/rehabilitation), meet environmental mandates, and provide the facilities needed for growth in both Counties served by WSSC. In October 2015, the Montgomery County Council and Prince George’s County Council approved resolutions establishing four limits on the WSSC’s FY’17 budget. As indicated in the following table, the proposed FY’17 budget is in compliance with three of the spending affordability limits. New water and sewer debt is slightly outside of the limit due to an adjustment to FY’17 PAYGO resulting from more favorable interest rates than projected on actual FY’15 debt issuances.

WSSC FY’17 Proposed Budget vs. Spending Affordability Limits
(\$ in Millions)

	<u>FY’17 Proposed Budget</u>	<u>Prince George’s County Limit</u>	<u>Montgomery County Limit</u>
New Water and Sewer Debt	\$479.4	\$476.8	\$476.8
Total Water and Sewer Debt Service	\$243.8	\$250.8	\$250.8
Total Water/Sewer Operating Expenses	\$716.2	\$729.2	\$729.2
Water/Sewer Bill Increase	3.0%	3.5%	3.5%

The proposed budget provides for:

- Funding the first year of the Fiscal Years 2017-2022 Capital Improvements Program;
- Complying with the Sanitary Sewer Overflow Consent Decree;
- Inspecting and monitoring our large diameter water main transmission system;
- Promptly paying \$261.4 million in debt service on \$2.8 billion in outstanding debt to WSSC bondholders;
- Meeting or surpassing all federal and state water and wastewater quality standards and permit requirements;



- Keeping maintenance service at a level consistent with the objective of arriving at the site of a customer's emergency maintenance situation within 2 hours of receiving the complaint and restoring service within 24 hours of a service interruption;
- Enhancing customer service through expanded investment in contact center operations;
- Paying the WSSC's share of operating (\$51.6 million in FY'17) and capital costs (\$86.3 million in FY'17; \$331.8 million in FY'17-FY'22) for the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant;
- Funding for employee salary enhancements;
- Operating and maintaining a system of 3 reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 6 wastewater treatment plants, 5,600 miles of water main, and 5,500 miles of sewer main 24 hours a day, 7 days a week;
- Continuing to make recommended safety and access improvements in our watershed;
- Maintaining an operating reserve of 10% of water and sewer revenues; and
- Funding the annual required contribution for non-retirement post-employment benefits based on Government Accounting Standards Board Statement No. 45.

In addition to reviewing expenses and revenues for water and sewer services, we have analyzed the cost and current fee levels for other WSSC services. Based upon these analyses, some new fees and adjustments to current fees are recommended in Table XI (pages 24 through 31).

Budget Review Process

The Proposed Budget is subject to the Counties' hearings, procedures, and decisions, as provided under Section 17-202 of the Public Utilities Article, of the Annotated Code of Maryland, before the final budget is adopted for the fiscal year beginning July 1, 2016.

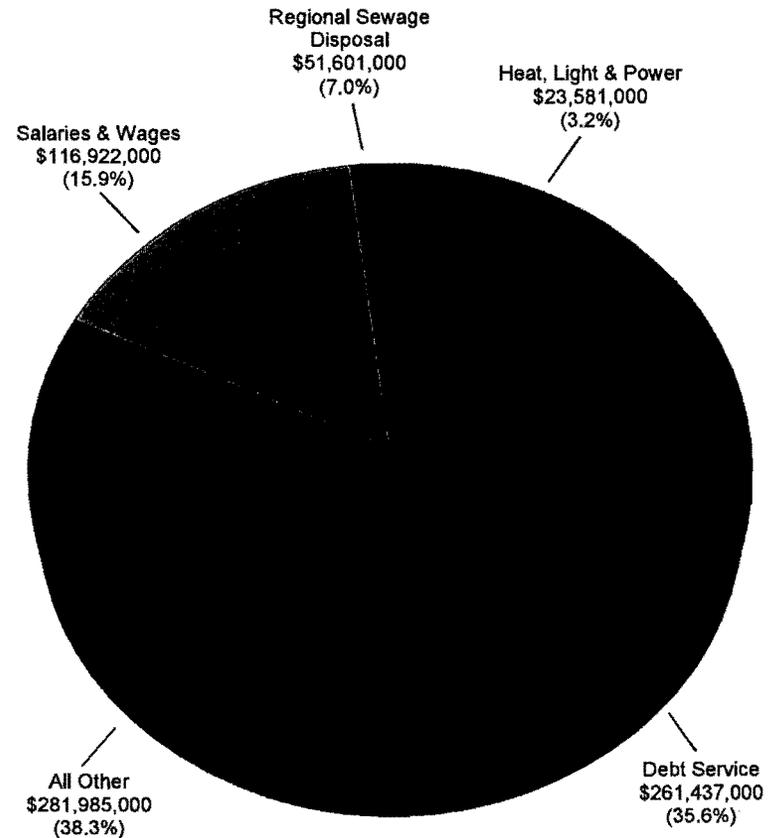
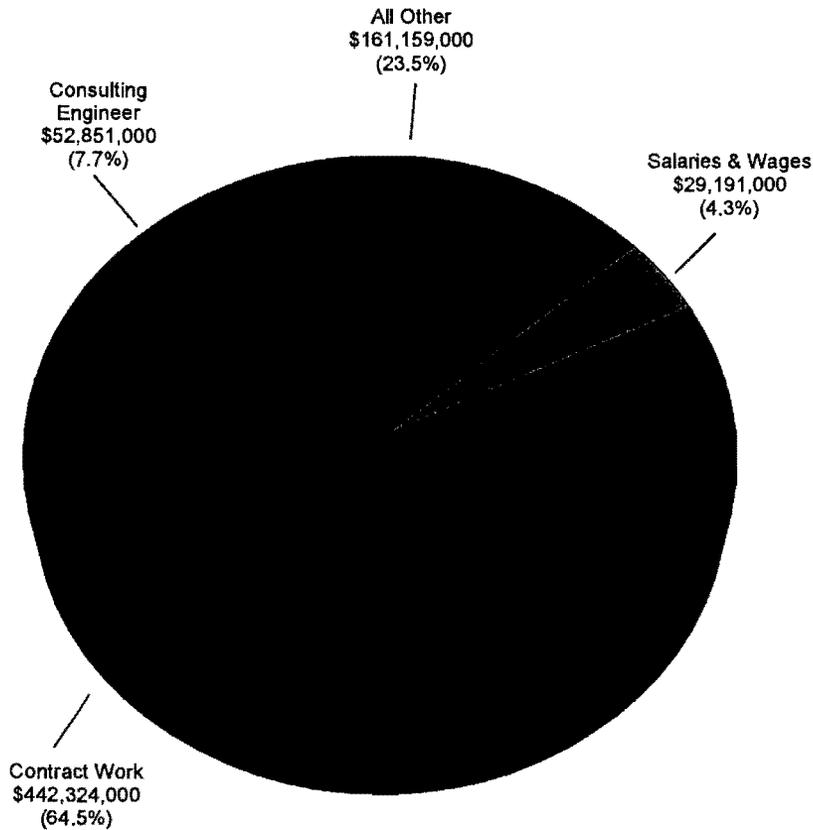


 Chris Lawson, Vice-Chair
 Washington Suburban Sanitary Commission

FY 2017 PROPOSED BUDGET BY MAJOR EXPENSE CATEGORY

CAPITAL = \$685,525,000

OPERATING = \$735,526,000



GRAND TOTAL = \$1,421,051,000



TABLE II

Comparative Expenditures by Major Expense Category

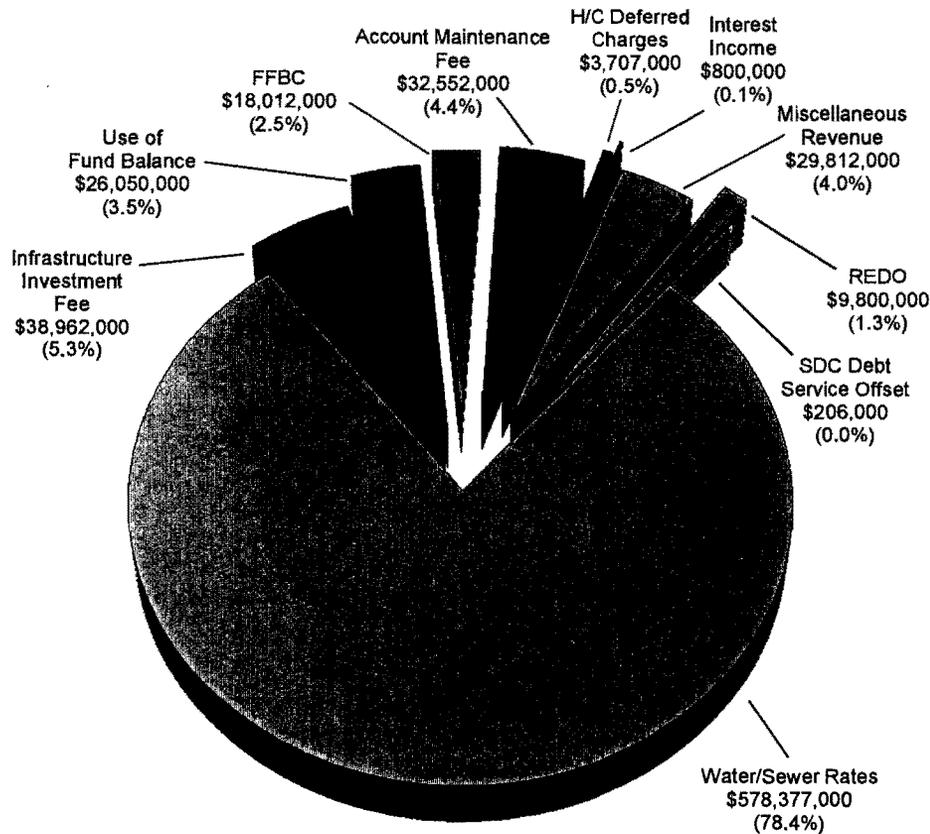
(\$ in Thousands)

Expense Categories	FY'15 Actual			FY'16 Approved			FY'17 Proposed		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Salaries & Wages	\$ 27,502	\$ 100,722	\$ 128,224	\$ 26,503	\$ 111,964	\$ 138,467	\$ 29,191	\$ 116,922	\$ 146,113
Heat, Light & Power	-	24,229	24,229	-	23,353	23,353	-	23,581	23,581
Regional Sewage Disposal	-	54,485	54,485	-	54,895	54,895	-	51,601	51,601
Contract Work	307,160	-	307,160	421,992	-	421,992	442,324	-	442,324
Consulting Engineers	45,246	-	45,246	57,912	-	57,912	52,851	-	52,851
All Other	184,249	226,848	411,097	178,225	269,651	447,876	161,159	281,985	443,144
Debt Service	-	248,022	248,022	-	255,310	255,310	-	261,437	261,437
TOTAL	\$ 564,157	\$ 654,306	\$ 1,218,463	\$ 684,632	\$ 715,173	\$ 1,399,805	\$ 685,525	\$ 735,526	\$ 1,421,051

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FY 2017 PROPOSED BUDGET OPERATING

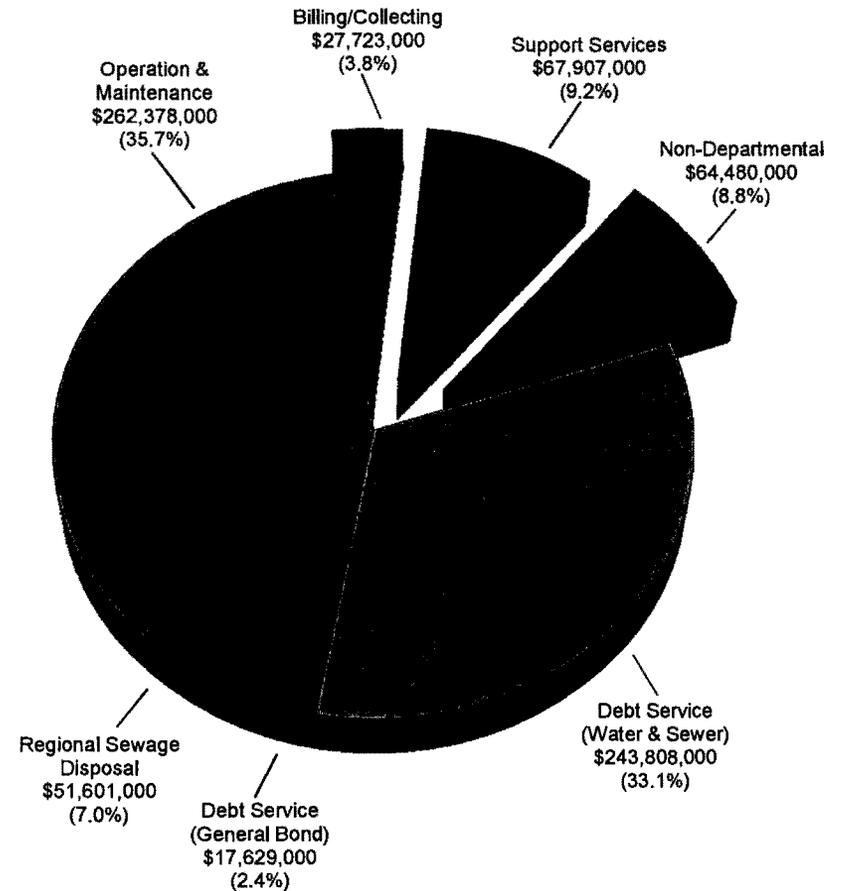
FUNDING SOURCES



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

TOTAL SOURCES = \$738,278,000

FUNDING USES



TOTAL USES = \$735,526,000

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TABLE III

FY 2016 - FY 2017 Summary of Revenue & Expenses

(\$ in Thousands)

	Water Operating Fund		Sewer Operating Fund		General Bond Debt Service Fund		Capital Funds	
	2016	2017	2016	2017	2016	2017	2016	2017
	Approved	Proposed	Approved	Proposed	Approved	Proposed	Approved	Proposed
REVENUES								
Water Consumption Charges	\$ 251,636	\$ 256,221	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer Use Charges	-	-	331,739	322,156	-	-	-	-
Front Foot Benefit & House Connection Charges (Deferred)	-	-	-	-	24,620	21,719	-	-
Account Maintenance Fees	16,187	16,276	16,187	16,276	-	-	-	-
Infrastructure Investment Fee	9,709	19,481	9,709	19,481	-	-	-	-
Interest Income	200	100	800	600	585	100	-	-
Miscellaneous	13,260	15,360	13,433	14,152	450	300	-	-
Use of Fund Balance								
Reserve Contribution	3,213	3,100	3,087	3,424	-	-	-	-
Other	7,745	7,862	7,532	11,664	8,500	9,800	-	-
Reconstruction Debt Service Offset	1,000	2,800	7,500	7,000	(8,500)	(9,800)	-	-
SDC Debt Service Offset	213	203	515	3	-	-	-	-
Bonds & Cash	-	-	-	-	-	-	554,205	571,893
Anticipated Contributions:								
Federal & State Grants	-	-	-	-	-	-	26,872	11,306
System Development Charge	-	-	-	-	-	-	80,327	77,978
Other	-	-	-	-	-	-	23,228	24,348
TOTAL REVENUES	\$ 303,163	\$ 321,403	\$ 390,502	\$ 394,756	\$ 25,655	\$ 22,119	\$ 684,632	\$ 685,525
EXPENSES								
Salaries & Wages	\$ 58,752	\$ 62,064	\$ 52,557	\$ 54,217	\$ 655	\$ 641	\$ 26,503	\$ 29,191
Heat, Light & Power	13,042	12,843	10,311	10,738	-	-	-	-
Regional Sewage Disposal	-	-	54,895	51,601	-	-	-	-
Contract Work	-	-	-	-	-	-	421,992	442,324
Consulting Engineers	-	-	-	-	-	-	57,912	52,851
Contribution to Required Reserve	3,213	3,100	3,087	3,424	-	-	-	-
All Other	112,477	127,384	130,080	123,885	1,117	1,097	178,225	161,159
Debt Service	106,435	105,305	129,139	138,503	19,736	17,629	-	-
PAYGO	9,244	10,707	10,433	12,388	-	-	-	-
TOTAL EXPENSES	\$ 303,163	\$ 321,403	\$ 390,502	\$ 394,756	\$ 21,508	\$ 19,367	\$ 684,632	\$ 685,525
Net Increase (Decrease) in Fund Balance	-	-	-	-	4,147	2,752	-	-
Fund Balance - July 1	\$ 22,054	\$ 14,309	\$ 118,346	\$ 110,814	\$ 56,796	\$ 52,443	\$ -	\$ -
Net Increase (Decrease) in Fund Balance	-	-	-	-	4,147	2,752	-	-
Use of Fund Balance	(7,745)	(7,862)	(7,532)	(11,664)	(8,500)	(9,800)	-	-
Fund Balance - June 30	\$ 14,309	\$ 6,447	\$ 110,814	\$ 99,150	\$ 52,443	\$ 45,395	\$ -	\$ -



TABLE V

ANNUAL HISTORICAL AND PROJECTED BILLED CONSUMPTION

(In Thousand Gallons)

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Projected	FY 2017 Projected
Residential	22,769,943	22,129,129	21,837,210	21,623,754	21,398,084	21,184,103	20,972,262
Multi-Family	12,474,781	11,891,193	12,336,578	12,214,570	12,230,267	12,107,964	11,986,885
Commercial	8,148,638	8,073,772	8,008,745	7,809,123	7,937,236	8,056,295	8,177,139
Municipal / Government	5,644,440	5,448,990	5,378,633	5,591,368	5,806,908	5,748,839	5,691,351
Total Use	49,037,802	47,543,084	47,561,166	47,238,815	47,372,495	47,097,201	46,827,636

The table above reflects actual billed water consumption from FY 2011 through FY 2015 in the Washington Suburban Sanitary District. (Wholesale and industrial customers are not included.) As with many water utilities across the country, the WSSC is experiencing declining water sales which may be attributable to a variety of factors, including: changes in climate, water-conserving fixtures and appliances, changes in household type and size, or even price. Falling consumption adversely impacts revenues. Rates are raised to maintain revenues as well as to pay for the rising cost of infrastructure repair and replacement.

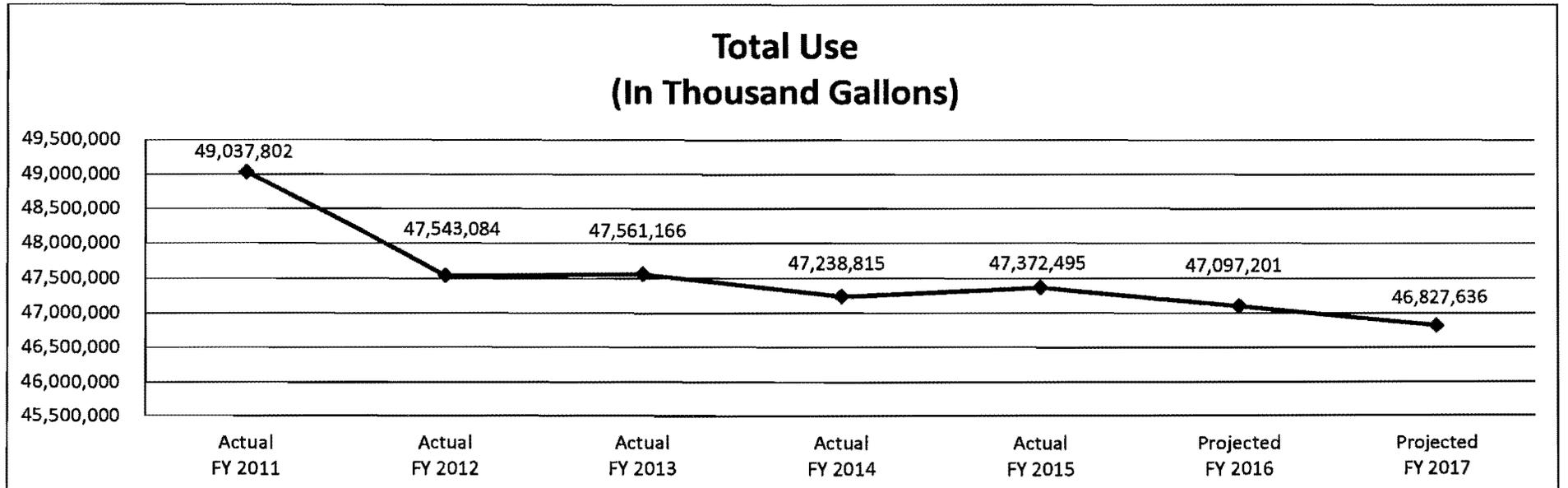


TABLE VI

Combined Water/Sewer Operating Funds - FY'17 Proposed Rate Impact

(\$ in Thousands)

(3.0% AVERAGE RATE INCREASE PROPOSED FOR FY'17)

<u>Funding Sources</u>	<u>FY'17 Proposed</u>
<u>Revenues at Current Rates</u>	
Consumption Charges	\$ 561,465
Account Maintenance Fee	32,552
Infrastructure Investment Fee *	38,962
Interest Income	700
Miscellaneous Revenues	29,512
Sub-Total	<u>663,191</u>
Reconstruction Debt Service Offset	9,800
SDC Debt Service Offset	206
Use of Fund Balance	26,050
Total Funding Sources	<u>699,247</u>
<u>Requirements</u>	
Operating, Maintenance & Support Services Expenses	442,732
Debt Service	243,808
PAYGO	23,095
Operating Reserve Contribution	6,524
Total Requirements	<u>716,159</u>
Shortfall to be Covered by Rate Increase	<u>\$ (16,912)</u>
 PROPOSED AVERAGE WATER AND SEWER RATE INCREASE	 3.0%

* Second year of two year phase-in

TABLE VII

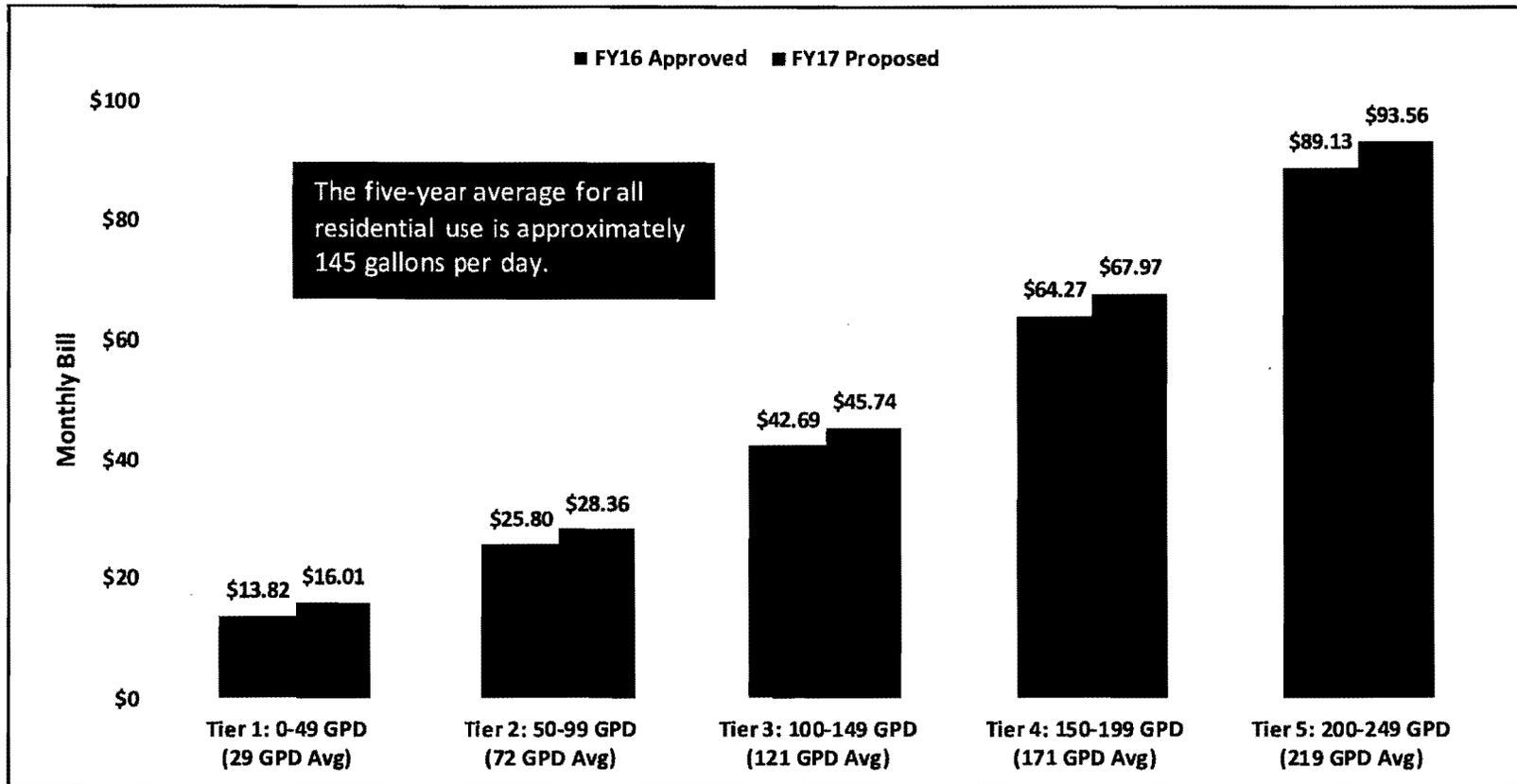
Annual Customer Bills At Various Consumption Levels

Average Daily Consumption (ADC) Gallons Per Day	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
100 (36,500 GAL/YR) 3/4" Residential Meter	\$ 354.98	\$ 377.61	\$ 395.86	\$ 443.51	\$ 478.10
145 (52,925 GAL/YR) 3/4" Residential Meter	494.92	527.73	554.20	603.49	642.84
500 (182,500 GAL/YR) 3/4" Residential Meter	2,631.85	2,819.83	2,973.13	3,046.33	3,159.75
1,000 (365,000 GAL/YR) 2" Meter	5,675.35	6,073.20	6,394.40	6,730.45	7,286.60
5,000 (1,825,000 GAL/YR) 3" Meter	28,363.50	30,389.25	32,031.75	33,408.00	35,527.00
10,000 (3,650,000 GAL/YR) 6" Meter	58,983.00	63,180.50	66,611.50	69,466.50	73,967.60

Annual customer bills include the Account Maintenance Fee shown on page 22 and the Infrastructure Investment Fee shown on page 23.

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WSSC MONTHLY RESIDENTIAL BILL BASED ON AVERAGE USE BY TIER



Water usage by most residential customers falls within the first five tiers of the WSSC 16 tier rate structure. This chart illustrates the average use by WSSC residential customers within each of the first five tiers and the approximate monthly bill associated with that usage. For example, the average residential usage for tier 3 is 121 gallons per day. This level of usage would cost a customer \$42.69 per month in FY'16 and \$45.74 per month in FY'17. Note that multifamily master-metered facilities are not classified as residential.



TABLE VIII

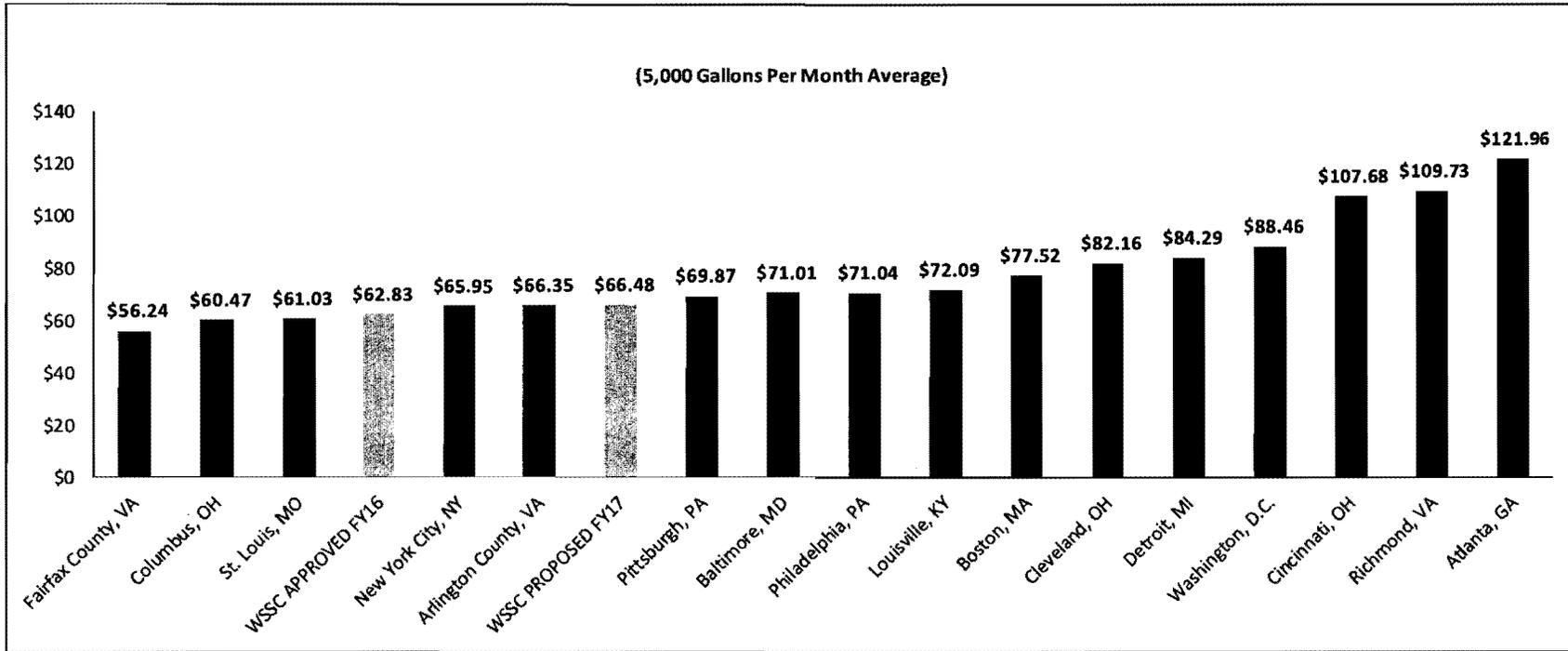
WSSC Water/Sewer Rate Schedules Effective July 1, 2015 & Proposed for Implementation July 1, 2016

(3.0% AVERAGE RATE INCREASE PROPOSED FOR FY'17)

Average Daily Consumption by Customer Unit During Billing Period (Gallons Per Day)	Water Rates		Sewer Rates		Combined Water & Sewer Rates	
	July 1, 2015 Rates Per 1,000 Gallons	July 1, 2016 Rates Per 1,000 Gallons	July 1, 2015 Rates Per 1,000 Gallons	July 1, 2016 Rates Per 1,000 Gallons	July 1, 2015 Rates Per 1,000 Gallons	July 1, 2016 Rates Per 1,000 Gallons
0-49	\$ 3.20	\$ 3.38	\$ 4.26	\$ 4.30	\$ 7.46	\$ 7.68
50-99	3.57	3.78	4.98	5.03	8.55	8.81
100-149	3.94	4.18	5.80	5.85	9.74	10.03
150-199	4.41	4.67	6.69	6.76	11.10	11.43
200-249	5.16	5.46	7.29	7.36	12.45	12.82
250-299	5.59	5.92	7.90	7.97	13.49	13.89
300-349	5.92	6.27	8.42	8.50	14.34	14.77
350-399	6.16	6.53	8.84	8.92	15.00	15.45
400-449	6.40	6.78	9.04	9.12	15.44	15.90
450-499	6.58	6.98	9.32	9.40	15.90	16.38
500-749	6.70	7.10	9.51	9.60	16.21	16.70
750-999	6.86	7.27	9.72	9.81	16.58	17.08
1,000-3,999	6.99	7.41	10.14	10.23	17.13	17.64
4,000-6,999	7.15	7.58	10.37	10.46	17.52	18.04
7,000-8,999	7.25	7.68	10.52	10.62	17.77	18.30
9,000 & Greater	7.37	7.81	10.80	10.90	18.17	18.71

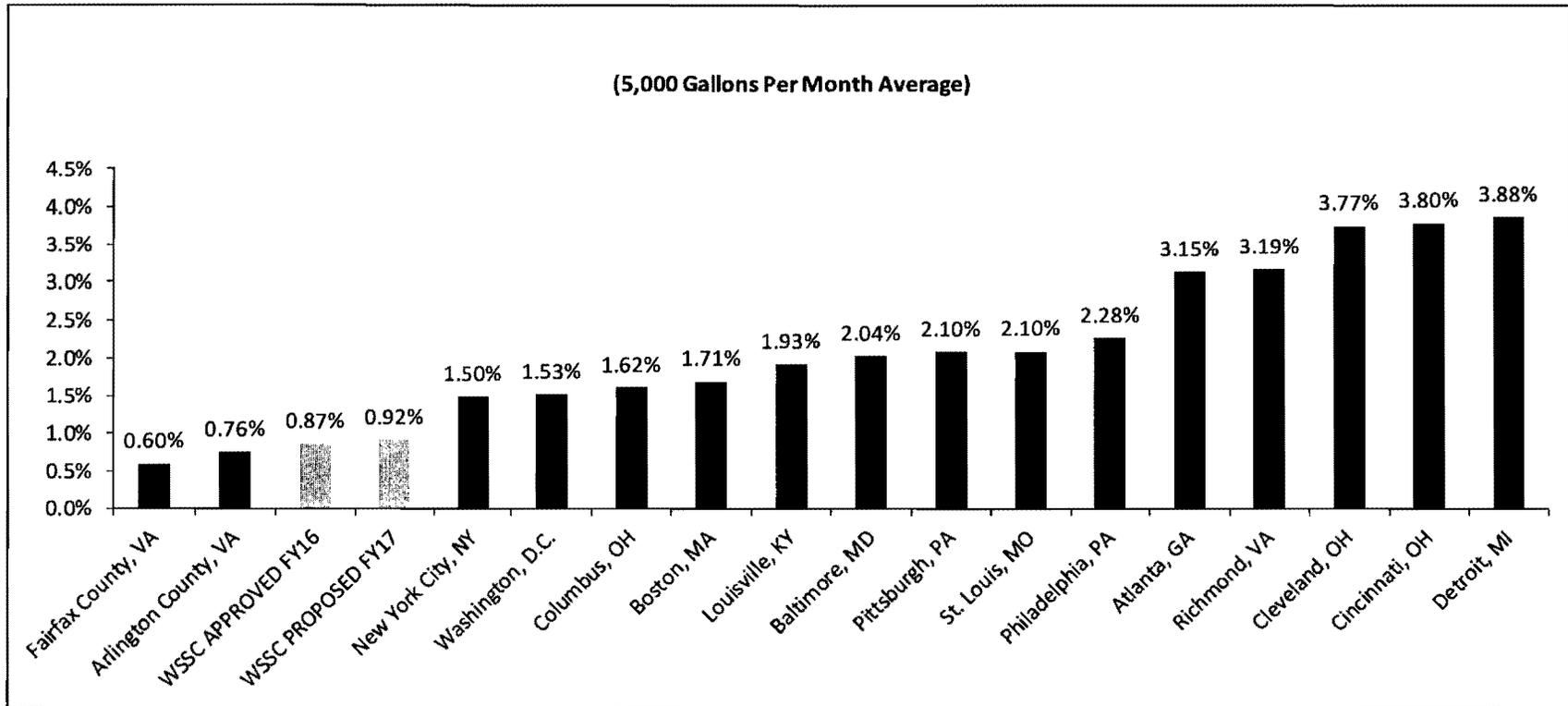
Current Flat Rate Sewer Charge - \$104.00 per quarter
 Proposed Flat Rate Sewer Charge - \$105.00 per quarter

FY 2016 RESIDENTIAL MONTHLY WATER/SEWER BILL COMPARISON



Presented is a comparison of WSSC's rates to other cities and communities, both nationally and locally, for residential customers using 5,000 gallons of water per month. The rates used in this comparison were in effect in November 2015 at the time of this analysis. The chart includes WSSC bills at FY'16 approved and FY'17 proposed rates.

AVERAGE MONTHLY BILL COMPARISON AS A PERCENTAGE OF MEDIAN INCOME



Median household income (in 2014 dollars) 2010-2014. (Source: www.census.gov)

TABLE IX

Account Maintenance Fees Proposed for Implementation July 1, 2016

<u>Meter Size</u>	<u>Current FY'16 Quarterly Charges</u>	<u>Proposed FY'17 Quarterly Charges</u>
<u>Small Meters</u>		
5/8" to 1"	\$ 16.00	\$ 16.00
<u>Large Meters</u>		
1-1/2"	16.00	16.00
2"	27.00	27.00
3"	66.00	66.00
4"	142.00	142.00
6"	154.00	154.00
8"	200.00	200.00
10"	246.00	246.00
<u>Detector Check Meters</u>		
2"	33.00	33.00
4"	177.00	177.00
6"	255.00	255.00
8"	461.00	461.00
10"	633.00	633.00
<u>Fire Service Meters</u>		
4"	182.00	182.00
6"	293.00	293.00
8"	452.00	452.00
10"	682.00	682.00
12"	989.00	989.00

This is a quarterly fee which is prorated based on the length of the billing cycle.

All 1-1/2" meters are now included under the Large Meters category.

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TABLE X

Infrastructure Investment Fees Proposed for Implementation July 1, 2016

<u>Meter Size</u>	<u>Current FY'16 Quarterly Charges</u>	<u>Proposed FY'17 Quarterly Charges *</u>
<u>Small Meters</u>		
5/8"	\$ 5.50	\$ 11.00
3/4"	6.00	12.00
1"	7.00	14.00
<u>Large Meters</u>		
1-1/2"	42.00	90.00
2"	92.50	185.00
3"	292.50	585.00
4"	406.50	813.00
6"	632.50	1,265.00
8"	1,422.50	2,845.00
10"	2,212.50	4,425.00
<u>Fire Service Meters</u>		
4"	249.50	499.00
6"	308.00	616.00
8"	1,262.00	2,524.00
10"	1,357.00	2,714.00
12"	2,607.00	5,214.00

* The Infrastructure Investment Fee is being phased in over two years. This is the second year of the 2-year phase-in. The full fee, proposed to be implemented in FY'17, will remain fixed over the existing five year period.

This is a quarterly fee which is prorated based on the length of the billing cycle.

All 1-1/2" meters are now included under the Large Meters category.

TABLE XI

Miscellaneous Fees and Charges – Proposed Changes

The Commission provides a number of services for which separate fees or charges have been established. Recent review of the costs required to provide these services indicates a need to change the amounts charged for some of the services. The fee and charge changes listed below are proposed to be effective July 1, 2016.

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2016</u>
1. Inspection Fees - Water/Sewer Connection Hookup, Well/Septic Hookup, Plumbing and Gasfitting Inspections		
New Single Family Detached Dwellings	\$600	** \$660
New Attached Dwellings (townhouse/multiplex excluding apartments)	600	** 660
All Other Residential:		
Water/Well Hookup	85	** 95
Meter Yoke Inspection (meter only installation)	85	** 95
Water Hookup Converting from Well (includes 2 inspections)	170	** 185
Sewer/Septic Hookup	85	** 95
First Plumbing Fixture	85	** 95
SDC Credit Fixture Inspection (per fixture)	25	** 30
Minimum Permit Fee	180	** 200
Permit Reprocessing Fee	50	** 55
Long Form Permit Refund Fee	180	** 200
Long Form Permit Re-Issue Fee	180	** 200
All Non-Residential:		
Plan Review (without Permit Application)		
50 Fixtures or Less	360	** 395
51-200 Fixtures	1,220	** 1,340
Over 200 Fixtures	2,430	** 2,670
2 nd or 3 rd Review (with or without Permit Application)		
50 Fixtures or Less	145	** 160
51-200 Fixtures	275	** 300
Over 200 Fixtures	580	** 640
Water/Well Hookup	140	** 155
Meter Yoke Inspection (meter only installation)	140	** 155
Sewer/Septic Hookup	140	** 155
FOG Interceptor	140	** 155
First Plumbing Fixture	140	** 155
Each Additional Fixture	35	** 40
Minimum Permit Fee	210	** 230

* New Fee
** Changed Fee

TABLE XI

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2016</u>
Permit Reprocessing Fee	\$55	** \$60
Long Form Permit Refund Fee	210	** 230
Long Form Permit Re-Issue Fee	210	** 230
2. Site Utility (On-Site) Review Fee		
Base Fee	2,900	** 3,190
Additional Fee per 100 feet	250	** 275
Minor (Waived) Site Utility (On-Site) Fee	725	** 795
3. Fee for Sale of Copies of Plans, Plats & 200' Reference Maps		
Xerographic	5.00/sheet	** 6.00/sheet
Sepia/Mylar	5.00/sheet	** Delete
4. Septic Hauler Discharge Permit Fee		
<u>Category I</u>		
<u>Residential & Septic Waste & Grease</u>		
1 - 49 gallons	230/vehicle	** 250/vehicle
50 - 799 gallons	3,315/vehicle	** 3,645/vehicle
800 - 2,999 gallons	9,450/vehicle	** 10,395/vehicle
3,000 - gallons and up	22,415/vehicle	** 24,655/vehicle
January through June	50% of fee	50% of fee
Transfer and/or Replacement Permit Sticker	75	** 85
Industrial/Special Waste Disposal Fee	295/1,000 gallons	** 325/1,000 gallons
Zero Discharge Permit Fee	75	** 85
Temporary Discharge Permit Fee	75 + Sewer Rate/1,000 gallons	** 85 + Sewer Rate/1,000 gallons
Sewer Rate – Domestic Low Strength Wastewater	10.05/1,000 gallons of truck capacity	** 10.14/1,000 gallons of truck capacity
Sewer Rate – Domestic High Strength Wastewater	44.74/1,000 gallons of truck capacity	** 53.69/1,000 gallons of truck capacity
5. Long Form Permit Transfer Fee	130	** 140
6. Small Meter Replacement Fee (at Customer Request)	180	** 195

* New Fee

** Changed Fee

TABLE XI

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2016</u>
7. Meter Replacement Fee (Damaged or Stolen Meter)		
1" Encoder (outside)	\$165	** \$180
1" Encoder	165	** 180
1-1/2" Encoder	680	** 750
2" Standard	1,000	** 1,100
3" Compound	2,900	** 3,190
4" Compound	3,600	** 3,960
6" Compound	5,300	** 5,830
2" MVR	1,100	** 1,210
3" MVR	1,850	** 2,035
4" MVR	2,650	** 2,915
6" MVR	4,100	** 4,510
4" Fire Service Meter	7,000	** 7,700
6" Fire Service Meter	8,925	** 9,820
8" Fire Service Meter	10,450	** 11,495
8. Meter Testing Fees		
5/8" to 1"	210	** 230
1-1/2"	365	** 400
2" and up	425	** 470
9. Sub-Meter Installation Fee		
One-time Sub-Meter Charge - Small	225	** 245
One-time Sub-Meter Charge - Large	440	** 485
Minimum Permit Inspection Fee	180	** 200
10. Tapper License Fee		
Permit Fee	300	** 330

* New Fee

** Changed Fee

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TABLE XI

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2016</u>
11. Temporary Fire Hydrant Connection Fee		
3/4" Meter - Deposit		
Over 2 Weeks/Less than 2 weeks w/unapproved payment record	\$340	** \$370
3" Meter - Deposit		
Over 2 Weeks/Less than 2 weeks w/unapproved payment record	2,200	** 2,420
Service Charge		
2 Weeks or Less (3/4" meter)	40	** 45
12. Water Turn-Off, Turn-On Fee		
Small Meter Turn-Off	65	** 70
Small Meter Turn-On	65	** 70
Large Meter Turn-Off	175	** 195
Large Meter Turn-On	175	** 195
13. Feasibility Review Fee (Non-SEP)		
Feasibility Submission Fee (Non-refundable)	1,250	** 1,375
Feasibility Review & Report Fee Deposit (can be deferred as deficit when extension is completed)	7,750	** 8,525
14. Industrial Discharge Control Program Fees By Category		
Industrial users subject to Categorical Pretreatment Standards		
Less than 5,000 gpd (double visit)	3,325	** 3,655
Greater than 5,000 gpd (double visit)	5,090	** 5,600
Non-discharging Categorical Industries (zero discharge)	895	** 985
Significant Industrial User		
Less than 25,000 gpd (single visit - priority pollutant sampling)	3,325	** 3,655
Greater than 25,000 gpd (double visit - priority pollutant sampling)	5,090	** 5,600
15. Call Back Fees (small meters, plumbers)	85	** 90
16. Call Back Fees (large meters, plumbers)	165	** 180

* New Fee

** Changed Fee

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TABLE XI

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2016</u>
17. Missed Appointment Fee		
First Missed Appointment or Turn-On	\$75	** \$80
Each Additional Missed Appointment	100	** 110
18. Connection Abandonment Fee		
County Roads (Except Arterial Roads) - Water	1,200	** 1,320
County Roads (Except Arterial Roads) - Sewer	1,600	** 1,760
State Roads and County Arterial Roads - Water	1,600	** 1,760
State Roads and County Arterial Roads - Sewer	2,000	** 2,200
19. Fire Hydrant Inspection Fee	100/hydrant	** 110/hydrant
20. Utility Erosion and Sediment Control Permit Fee		
Minor Projects	.13 per linear foot	** .14 per linear foot
Major Projects	.16 per linear foot	** .18 per linear foot
21. Erosion and Sediment Control Training Package Fee	660	** 725
22. Erosion and Sediment Control Training Certification Session Fee	55	** 60
23. Fire Hydrant Flow Test Fee		
No Current Test	575	** 630
24. Shut Down/Charge Water Main Fee	825	** 905
Shut Down/Complex Water Main Fee	1,540	** 1,695
25. Right-of Way Release Review Fee	825	** 905

* New Fee

** Changed Fee

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TABLE XI

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2016</u>
26. Fee for Review and Inspection of Site Work Potentially Impacting WSSC Pipelines		
Simple Review	\$300	** \$330
Complex Review / Non-DR Developer Review	1,725	** 1,895
Inspection for minor adjustment / Non-DR Developer	200	** 220
27. Chlorination Confirmation Test Fee	200	** 220
28. Meter Reinstallation Correction Fee	310	** 340
29. Sewer Meter Maintenance Fee	9,020/year	** 9,920/year
Quarterly Calibrations	2,255/quarter	** 2,480/quarter
30. Discharge Authorization Permit Fee		
Significant Industrial User – Initial Permit	3,950/4 years	** 4,345/4 years
Significant Industrial User – Renewal	1,940/4 years	** 2,130/4 years
Initial zero-discharge CIU Permit		* 1,650/4 years
Reissued zero-discharge CIU Permit		* 1,100/4 years
Temporary Discharge Permit (Non – SIU)	3,950	** 4,345
31. Property Inspection Fee	80	** 85
32. Construction Services Fee	12% of construction bond less design review fee	12% of construction bond less design review fee
Re-Test or Additional Tests or Inspector Overtime	175	** 190
33. Systems Inspection Group Review Fee for Additional Reviews of Contract Documents & As-builts	175	** 190
34. Hydraulic Planning Analysis and System Planning Forecast		
Modeling and Re-Modeling Fee - Up to 3 parts	1,150	** 1,265
Modeling and Re-Modeling Fee - per part Over 3	500	** 550
Pressure Sewer System Review Fee	265	** 290

* New Fee

** Changed Fee

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TABLE XI

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2016</u>
35. Partial Release Fee	\$1,000	** \$1,100
36. Service Connection Application and Inspection Fee (per permit)	1,800	** 1,980
37. Discharge Fee - Food Service Establishment		
Full Permit FSE	385	** 425
BMP Permit FSE	110	** 120
38. Feasibility Review Fee for On-Site Takeover Projects	700	** 770
39. Fee for the Preparation of Hold Harmless Agreement	770	** 845
40. Government Referred Plan Review Fee		
Major Development – Over 10 Units	1,250	** 1,375
Minor Development – 10 or Less Units	600	** 660
Re-Review Fee for Major Development	600	** 660
Re-Review Fee for Minor Development	300	** 330
41. Residential Outside Meter Housing Upgrade/Pipe Alteration	4,700	** 5,170
42. Pre-Screen Re-Submission Fee	275	** 300
43. Cross Connection Fee		
Test Report Fee	25	** 28
Base Fee for High Hazard Commercial Water Customer - per month	12	** 13
Base Fee for All Other Commercial Water Customer- per month	6	** 7
44. Name/Transfer of Ownership Change Fee	165	** 180
45. Protest Filing Fee	500	** 550
* New Fee		
** Changed Fee		

TABLE XI

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2016</u>	<u>CURRENT MAXIMUM ALLOWABLE CHARGE</u>	<u>PROPOSED MAXIMUM ALLOWABLE CHARGE</u>
46. *** System Development Charge				
Apartment				
Water	\$896	\$896	\$1,269	\$1,274
Sewer	1,140	1,140	1,618	1,624
1-2 toilets/residential				
Water	1,344	1,344	1,906	1,914
Sewer	1,710	1,710	2,422	2,432
3-4 toilets/residential				
Water	2,240	2,240	3,176	3,189
Sewer	2,850	2,850	4,040	4,056
5 toilets/residential				
Water	3,135	3,135	4,445	4,463
Sewer	3,991	3,991	5,658	5,681
6+ toilets/residential (per fixture unit)				
Water	88	88	125	126
Sewer	115	115	164	165
Non-residential (per fixture unit)				
Water	88	88	125	126
Sewer	115	115	164	165

*** No increase is proposed for the System Development Charge for FY'17 in any category. The maximum allowable charge is being adjusted pursuant to Division II, Section 25-403(c) of the Public Utilities Article of the Annotated Code of Maryland, based on the 0.4% change in the Consumer Price Index for Urban Wage Earners and Clerical Workers for all items in the Washington, D.C. metropolitan area from November 2014 to November 2015.

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EXPLANATION OF THE BUDGET

(Continued)

Short-Term Fiscal and Service Policies

Short-term policies are specific to the budget year. They address key issues and concerns that frame the task of preparing a balanced budget that achieves Commission priorities within the context of current and expected economic and political realities. The General Manager and the Commission adopted the following key policies in preparing the FY'17 Proposed Budget.

- Forecast FY'17 water production conservatively at 164.0 million gallons per day.
- Propose a 3.0 percent average increase in water and sewer rates for FY'17.
- Increase the budget by 26 workyears to support critical programs and enhance customer service.
- Continue to address the WSSC's aging infrastructure by proposing the following:
 - ▶ Rehabilitation of 57 miles (301,000 feet) of small diameter water main.
 - ▶ Inspection and repair of 18 miles (95,000 feet) of Prestressed Concrete Cylinder Pipe (PCCP).
 - ▶ Acoustical fiber optic monitoring of 90 miles (475,200 feet) of PCCP.
 - ▶ Continuation of the Trunk Sewer Reconstruction Program.
- Continue the implementation of Supply Chain Management transformation.
- Ensure adequate funding for regulatory compliance requirements.
- Utilize \$6.5 million of fund balance to maintain the operating reserve at 10 percent of water and sewer revenues.
- Fund the fourth year of the five-year Information Technology Strategic Plan.
- Justify all additional, reinstated, and expanded programs.
- Fund the annual required contribution for other post-employment benefits in accordance with Governmental Accounting Standards Board Statement No. 45.
- Offset \$9.8 million of debt service with REDO.

EXPLANATION OF THE BUDGET

(Continued)

5. New Debt - The debt service estimates for FY'17 assume that \$213.0 million in Water bonds and \$245.2 million in Sewer bonds will be issued in FY'17, in addition to repayment of existing debt. An estimated \$21.2 million in 20-year sewer loans will be borrowed from the Maryland Department of the Environment (MDE). The WSSC water and sewer issues will be 30-year bonds with an estimated 5.0 percent net interest rate.
6. Salary and Wage Increase - Funding for employee salary enhancements in a manner coordinated with the Counties is included in the budget.

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

WORKLOAD DATA	ACTUAL					ESTIMATED						
	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	FY'17	FY'18	FY'19	FY'20	FY'21	FY'22
Water to be supplied (MGD)	175.0	165.7	161.2	160.6	162.9	166.0	164.0	164.0	164.0	164.0	164.0	164.0
Sewage to be treated (MGD)	182.4	183.7	177.2	195.6	190.8	215.8	217.5	219.2	220.9	222.6	224.1	225.6
Billed consumption (BG)†	49.0	47.5	47.6	47.2	47.4	47.1	46.8	46.6	46.3	46.1	45.8	45.6
Water lines to be added by the WSSC (miles)	0	.3	*7.3	.5	**9.0	2	2	2	2	2	2	2
Sewer lines to be added by the WSSC (miles)	0	0	0.4	0	0	1	1	1	1	1	1	1
Water lines to be added – contributed (miles)***	12.5	20.5	15.3	26.3	22.4	25	25	25	25	25	25	25
Sewer lines to be added – contributed (miles)***	19.7	19.4	12.6	25.7	21.4	25	25	25	25	25	25	25
Population to be served (thousands)	1,734	1,742	1,749	1,757	1,765	1,774	1,783	1,792	1,801	1,810	1,821	1,832
House connections to be added												
Water	1,574	2,591	2,269	2,880	3,671	2,800	2,800	2,800	2,800	2,800	2,900	3,000
Sewer	1,417	2,374	2,018	2,335	2,834	2,600	2,600	2,600	2,600	2,600	2,600	2,800

† Billed consumption figures do not include wholesale and industrial customers.

* Includes Laytonsville Project (4.4 miles). ** Includes Potomac Vista (8.1 miles).

*** Contributed lines are built by developers and maintained by the WSSC (includes Joint Base Anacostia-Bolling).

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EXPLANATION OF THE BUDGET

(Continued)

VII. KEY PROVISIONS OF THE FY'17 BUDGET

The total proposed budget for all funds is approximately \$1.4 billion - \$685.5 million in capital and \$735.5 million in operating. A 3.0 percent average increase in water and sewer rates, and the final phasing-in of the Infrastructure Investment Fee are required to fund water and sewer operating expenses. The budget provides for:

- Implementing the first year of the FYs 2017-2022 Capital Improvements Program;
- Treating and delivering 164.0 MGD of water to over 450,000 customer accounts in a manner that meets or exceeds the Safe Drinking Water Act standards;
- Treating 217.5 MGD of wastewater and responsibly managing up to 1,000 tons of biosolids per day in a manner that meets or exceeds federal and state permit requirements and regulations;
- Operating and maintaining a system of 3 water reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 6 wastewater treatment plants, 5,600 miles of water main, and 5,500 miles of sewer main, 24 hours a day, 7 days a week;
- Paying the WSSC's share of the cost of operating the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant;
- Maintaining an operating reserve of 10% of water and sewer rate revenues;
- Paying debt service of \$261.4 million - of which \$243.8 million is in the Water and Sewer Operating Funds;
- Funding the annual required contribution for post-employment benefits other than retirement based on Government Accounting Standards Board Statement No. 45;
- Continuing to provide maintenance services at a level consistent with the objective of responding to the customer within 2 hours of receiving notification of a maintenance problem and restoring service to the customer within 24 hours from the time a service interruption occurs;
- Complying with the Sanitary Sewer Overflow Consent Order;
- Answering at least 95 percent of all customer billing calls received;
- Maintaining and fueling 1,047 vehicles, maintaining approximately 798 pieces of large field equipment, and operating 6 repair facilities;
- Replacing 27 pieces of major equipment which are needed to support construction, operations, and maintenance activities;

EXPLANATION OF THE BUDGET

(Continued)

- Replacing 151 and purchasing an additional 8 vehicles which are needed to support construction, operations, and maintenance activities; and
- Funding employee salary enhancements in a manner coordinated with the Counties, and continuing other benefits.

PERFORMANCE OF KEY SERVICES

(Continued)

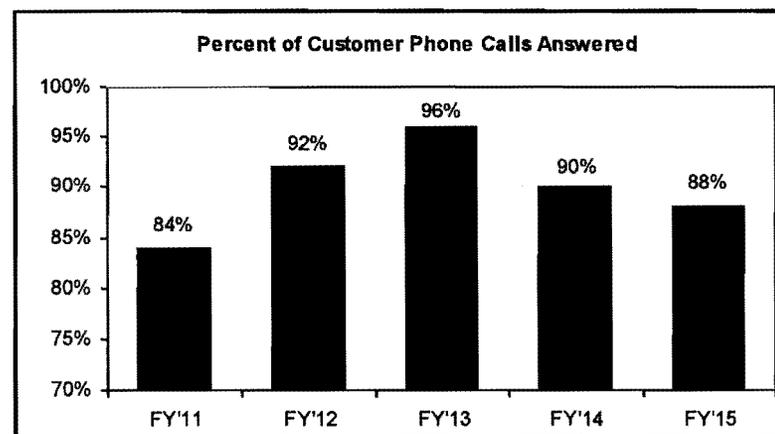
Sewer House Connection Renewal

The sewer house connection renewal program replaces sewer house connections when structural problems have caused customer backups. Damaged or deteriorated sewer house connections are replaced as necessary to ensure that customers do not suffer repeated sewer backups into their homes. The program objective is to prevent a second backup after the WSSC has confirmed there is a problem with the service. At the beginning of FY'15, 307 house connections met the criteria for renewal. During FY'15, the Commission replaced a total of 682 connections.

Customer Calls for Maintenance Assistance

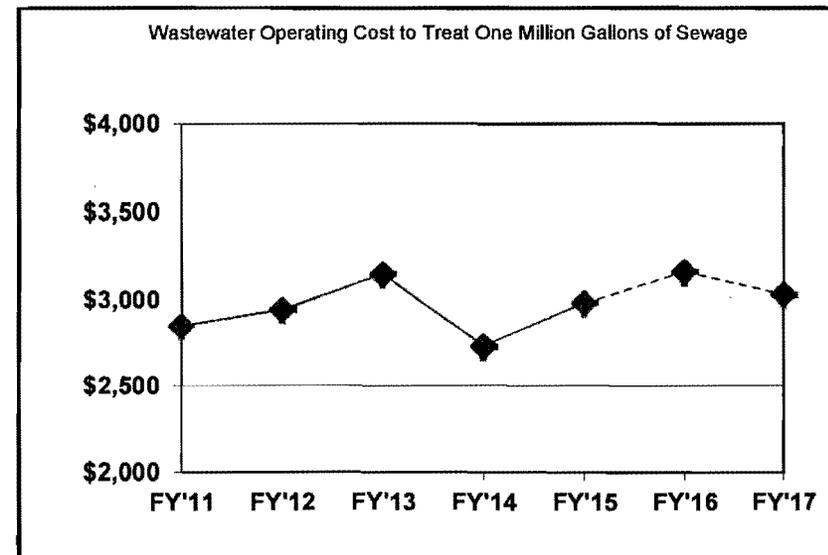
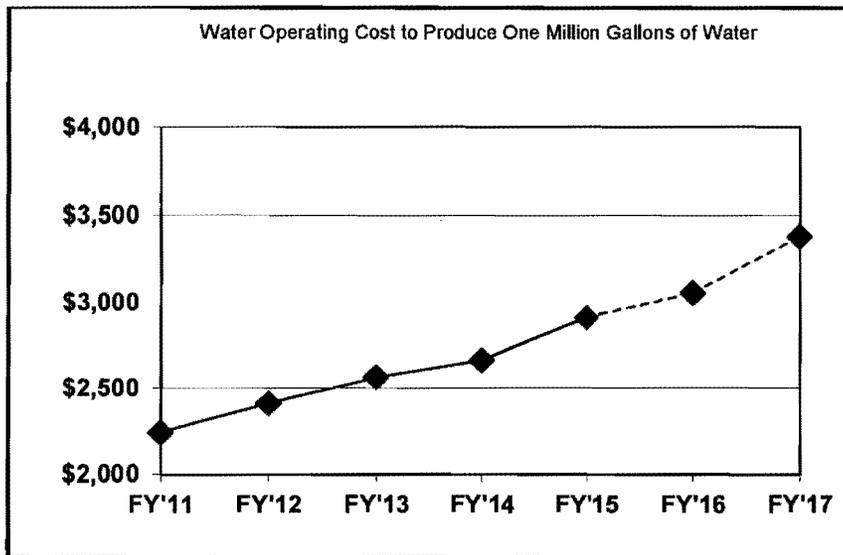
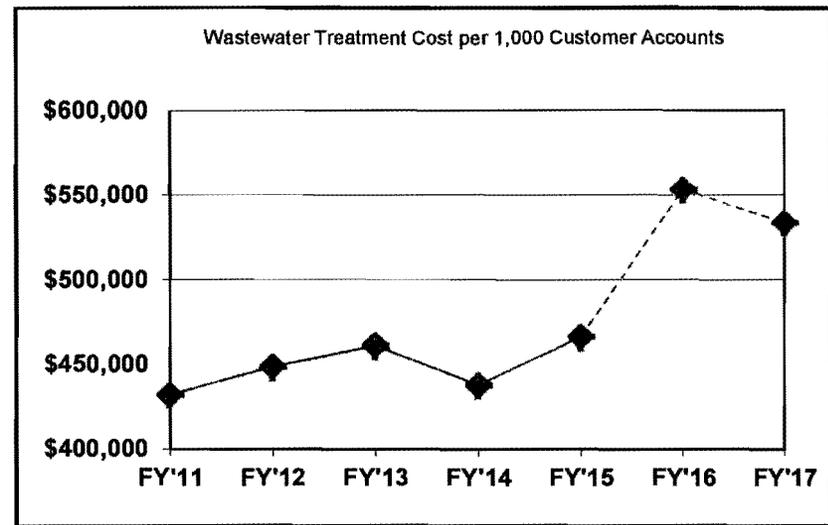
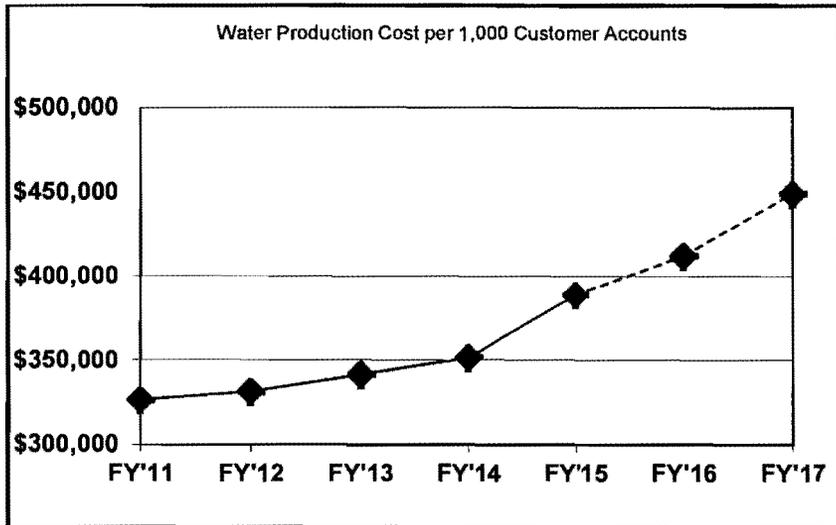
During FY'15, the Commission answered 88% of customer calls for maintenance assistance, as shown in the graph to the right. Our goal continues to be a 95% response rate. We continue to work through several measures in furtherance of this goal. Cross-training agents from the Non-Emergency Call Center allows for greater flexibility in staffing and an improved knowledge base. A Geographic Information System (GIS) application enables customers to report emergencies using their smart phones. The system complements the Maintenance Management Information System (MMIS) by placing needed information about leaks and other emergencies at the dispatchers' fingertips, thereby allowing representatives to provide consistent and knowledgeable responses. Detailed help in determining the proper response to customers' problems and questions is included along with other frequently required reference materials, such as phone numbers and standard operating procedures.

In addition, a Workforce Management Center of Excellence (CoE) is being implemented to forecast, plan, schedule, and handle intra-day adjustments so staffing levels required to meet service levels are achieved. The benefit of this initiative is that the Workforce Management CoE will proactively monitor staffing levels and maintain best services, routing between in-house and out-sourced staff.



WSSC

OPERATING EFFICIENCY MEASURES



Note: FY'16 & FY'17 are budgeted, not actual.

SELECTED STATISTICAL DATA

	<u>FY'11</u> <u>ACTUAL</u>	<u>FY'12</u> <u>ACTUAL</u>	<u>FY'13</u> <u>ACTUAL</u>	<u>FY'14</u> <u>ACTUAL</u>	<u>FY'15</u> <u>ACTUAL</u>	<u>FY'16</u> <u>APPROVED</u>	<u>FY'17</u> <u>PROPOSED</u>
Population Served	1,734,000	1,742,000	1,749,000	1,757,000	1,765,000	1,774,000	1,783,000
Customer Accounts	438,193	439,805	441,480	443,827	445,385	449,427	450,785
Water Produced (average MGD)	175.0	165.7	161.2	160.6	162.9	166.0	164.0
Water Produced (millions of gallons)	63,861	60,648	58,830	58,603	59,469	60,590	59,860
Billed Consumption (billions of gallons) †	49.0	47.5	47.6	47.2	47.4	47.1	46.8
Water Mains Maintained (miles)	5,451	5,471	5,494	5,521	5,552	5,575	5,606
Water Mains Constructed (miles added by WSSC)	-	0.3	7.3	0.5	9.0	2.0	2.0
Water Mains Constructed (miles added by developers)	12.5	20.5	15.3	26.3	22.4	25.0	25.0
Water House Connections Maintained	441,593	444,184	446,453	449,333	453,004	454,933	458,604
Water House Connections Installed	1,574	2,591	2,269	2,880	3,671	2,800	2,800
Water Meters Issued	13,696	11,598	18,554	14,675	17,540	16,365	18,065
Sewage Systems Total Flow (average MGD)	182.4	183.7	177.2	195.6	190.8	215.8	217.5
Sewage Systems Total Flow (millions of gallons)	66,581	66,950	64,666	71,232	69,650	78,767	79,388
Sewer Mains Maintained (miles)	5,344	5,363	5,376	5,402	5,424	5,454	5,476
Sewer Mains Constructed (miles added by WSSC)	-	-	0.4	-	-	1.0	1.0
Sewer Mains Constructed (miles added by developers)	19.7	19.4	12.6	25.7	21.4	25.0	25.0
Sewer House Connections Maintained	418,718	421,092	423,110	425,445	427,279	430,645	433,479
Sewer House Connections Installed	1,417	2,374	2,018	2,335	2,834	2,600	2,600
Maintenance Work Orders (Emergency and Routine)	84,473	84,906	99,469	108,482	114,007	90,600	98,300
Vehicles in Fleet	927	933	955	1,079	1,004	1,092	1,047
Miles Traveled by Fleet	5,514,312	5,866,778	5,250,810	5,028,532	5,432,420	5,313,819	5,230,476
Water Meter Readings Completed	1,937,265	2,006,837	1,967,090	1,987,261	2,028,473	2,052,208	2,052,950
Authorized Positions	1,632	1,681	1,693	1,717	1,729	1,747	1,773
Authorized Workyears	1,632	1,681	1,693	1,717	1,729	1,747	1,773
Actual Employment Level - Beginning	1,468	1,528	1,549	1,549	1,550	1,561	
Actual Employment Level - Ending	1,528	1,549	1,549	1,550	1,561		
Actual Workyears	1,486	1,522	1,535	1,530	1,546		

† Billed consumption figures do not include wholesale and industrial customers.

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Comparative Expenditures by Organizational Unit

	FY'16 Approved		FY'17 Proposed	
	Workyears	Amount	Workyears	Amount
Commissioners Office/Corporate Secretary's Office	2	\$ 364,400	2	\$ 365,600
Internal Audit	10	1,231,400	10	1,265,400
General Manager's Office	6	1,079,500	6	1,294,100
Intergovernmental Relations Office	4	675,100	4	719,600
Strategic Systems Management Office	7	967,600	7	971,000
General Counsel's Office	16	4,046,600	16	4,045,900
Communications & Community Relations Office	18	2,436,300	18	2,773,600
Human Resources Office	25	4,089,400	25	4,567,600
Small, Local and Minority Business Enterprise Office	9	1,320,500	9	1,353,800
Fair Practice Office	1	118,100	1	117,700
Procurement Office	28	3,070,700	35	3,493,200
Engineering & Construction Team	378	652,182,300	386	627,826,400
Production Team	299	152,702,200	303	164,296,200
Logistics Office	174	30,944,900	174	30,852,300
Finance Office	61	6,227,300	61	6,756,900
Utility Services Team	503	112,362,300	505	116,932,400
Customer Relations Team	96	10,861,000	101	13,666,600
Information Technology Team	110	38,148,900	110	45,292,800
Non-Departmental (Finance)	-	44,401,000	-	47,337,800
Non-Departmental (Human Resources)	-	35,556,800	-	35,531,500
Debt Service	-	255,310,000	-	261,437,000
PAYGO	-	19,677,000	-	23,095,000
Depreciation Expense	-	15,731,700	-	16,301,600
Operating Reserve Contribution	-	6,300,000	-	6,524,000
Salary Enhancements *	-	-	-	4,233,000
SUMMARY-TOTAL	<u>1,747</u>	<u>\$ 1,399,805,000</u>	<u>1,773</u>	<u>\$ 1,421,051,000</u>

* A total of \$5.5 million is budgeted for salary enhancements of which \$1.3 million is budgeted within the individual organizations.

Comparative Personnel Complement by Organizational Unit

	<u>FY'15 Actual</u>		<u>FY'16 Approved</u>		<u>FY'17 Proposed</u>	
	<u>Authorized Positions</u>	<u>Workyears</u>	<u>Authorized Positions</u>	<u>Workyears</u>	<u>Authorized Positions</u>	<u>Workyears</u>
Commissioners Office/Corporate Secretary's Office	*8	1.9	*8	2.0	*8	2.0
Internal Audit	10	9.1	10	10.0	10	10.0
General Manager's Office	6	5.0	6	6.0	6	6.0
Intergovernmental Relations Office	4	2.1	4	4.0	4	4.0
Strategic Systems Management Office	7	5.0	7	7.0	7	7.0
General Counsel's Office	16	14.6	16	16.0	16	16.0
Communications & Community Relations Office	17	15.3	18	18.0	18	18.0
Human Resources Office	23	24.3	25	25.0	25	25.0
Small, Local and Minority Business Enterprise Office	9	5.3	9	9.0	9	9.0
Fair Practice Office	1	1.0	1	1.0	1	1.0
Procurement Office	27	15.5	28	28.0	35	35.0
Engineering & Construction Team	371	341.8	378	378.0	386	386.0
Production Team	297	280.1	299	299.0	303	303.0
Logistics Office	176	139.8	174	174.0	174	174.0
Finance Office	60	56.3	61	61.0	61	61.0
Utility Services Team	496	457.6	503	503.0	505	505.0
Customer Relations Team	94	85.7	96	96.0	101	101.0
Information Technology Team	113	86.1	110	110.0	110	110.0
SUMMARY-TOTAL	<u>1,729</u>	<u>1,546.5</u>	<u>1,747</u>	<u>1,747.0</u>	<u>1,773</u>	<u>1,773.0</u>

* Commissioners (6) not included in total positions or workyears.



Washington Suburban Sanitary Commission

Mission Statement

The Washington Suburban Sanitary Commission (WSSC) is a bi-county governmental agency established in 1918 by an act of the Maryland General Assembly. It is charged with the responsibility of providing water and sanitary sewer service within the Washington Suburban Sanitary District, which includes most of Montgomery and Prince George's counties. In Montgomery County, the Town of Poolesville and portions of the City of Rockville are outside of the District.

WSSC'S PROPOSED BUDGET

WSSC's proposed budget is not detailed in this document. The Commission's budget can be obtained from WSSC's Budget Group at the WSSC Headquarters Building, 14501 Sweitzer Lane, Laurel, Maryland 20707 (phone: 301.206.8110) or from their website at <http://www.wsscwater.com>.

Prior to January 15 of each year, the Commission prepares preliminary proposed capital and operating budgets for the next fiscal year. On or before February 15, the Commission conducts public hearings in both counties. WSSC then prepares and submits the proposed capital and operating budgets to the County Executives of Montgomery and Prince George's counties by March 1.

By March 15 of each year, the County Executives of Montgomery and Prince George's counties are required by law to transmit the proposed budgets, recommendations on the proposed budgets, and the record of the public hearings held by WSSC to their respective County Councils.

Each County Council may hold public hearings on WSSC's proposed operating and capital budgets, but no earlier than 21 days after receipt from the County Executive. Each County Council may add to, delete from, increase, or decrease any item in either budget. Additionally, each Council is required by law to transmit by May 15 any proposed changes to the other County Council for review and concurrence. The failure of both Councils to concur on changes constitutes approval of the item as originally proposed by WSSC. Should the Councils fail to approve the budgets on or before June 1 of each year, WSSC's proposed budgets are adopted.

Accomplishments and Initiatives

- Operating and maintaining a system of three reservoirs impounding 14 billion gallons of water, two water filtration plants, six wastewater treatment plants, 5,600 miles of water main, and 5,550 miles of sewer main 24 hours a day, seven days a week.
- In FY17, WSSC will be continuing to enhance customer service by expanding investment in contract center operations.
- Continuing to maintain the customer service goal of arriving on a customer emergency maintenance situation within two hours and restoring service within 24 hours of the service interruption.
- Continuing to renew WSSC's underground infrastructure through the Water and Sewer Reconstruction Programs - in FY17, the Commission will reconstruct 57 miles of small water main.
- Continuing to inspect and repair large diameter pre-stressed concrete cylinder pipe (PCCP) water mains for 18 miles of pipe in FY17.
- To maintain the current ratings of WSSC-issued debt, the commission will continue to increase the operating reserve to maintain a reserve equal to 10 percent of water and sewer rate revenues.

Spending Control Limits

The spending control limits process requires that the two counties set annual ceilings on WSSC's water and sewer rate increase and on debt (bonded indebtedness as well as debt service) and then adopt corresponding limits on the size of the capital and operating budgets. The two councils must not approve capital and operating budgets in excess of the approved spending control limits unless a majority of each council votes to approve them. If the two councils cannot agree on expenditures above the spending control limits, they must approve budgets within these limits.

The following table shows the FY17 spending control limits adopted by the Montgomery and Prince George's County councils, compared to

the spending control results projected under WSSC's Proposed FY17 Budget and under the County Executive's Recommended Budget for WSSC. The Commission's Proposed Budget complies with all of the spending control limits approved by the two county councils.

FY17 Spending Control Limits Comparison				
SPENDING CONTROL LIMITS	Approved Spending Control Limits		Projected Levels Under	
	Montgomery County	Prince George's County	WSSC's Proposed Budget	County Executive Recommended Budget*
Maximum Average Water/Sewer Rate Increase	3.5%	3.5%	3.0%	3.0%
New Debt (\$millions)	\$476.8	\$476.8	\$479.4	\$479.4
Water and Sewer Debt Service (\$millions)	\$250.8	\$250.8	\$243.8	\$243.8
Total Water and Sewer Operating Expenses (\$millions)	\$729.2	\$729.2	\$716.2	\$716.2

County Executive Recommendations

Operating Budget

The County Executive recommends that WSSC's proposed FY17 budget be approved with the following conditions:

- The County Executive recommends a water and sewer rate increase of 3.0% in FY17 consistent with the Commission's resource needs outlined in their proposed budget.
- As part of a Countywide recalculation of property tax billing administration costs, include an additional adjustment to the payment made to the Montgomery County Department of Finance for property tax billing collections in the amount of \$7,940. The County Executive further recommends that this increase be provided for within existing resources.
- Do not include the following proposed additions to the Commission's personnel complement:
 1. Additional Permitting Inspector for Montgomery County Department of Permitting Services; and
 2. Dental Mercury inspectors for implementation of the Environmental Protection Agency's (EPA) Dental Mercury remediation rule. Delay the implementation of this function at least and until the rule becomes final in order to gauge the true needs in this additional program area.

Capital Budget

The County Executive recommended the WSSC FY17-22 Capital Improvements Program (CIP) budget be approved as submitted by the Commission.

The County Executive further recommends the cost changes submitted by DC Water for the Blue Plains projects. FY17 fiscal projections for all funds and budgets are shown below.

Expenditures by Category - FY17 WSSC Proposed and Executive Recommended						
Expenditure Categories	(\$000s)					
	WSSC Total	WSSC Total	CE Capital	CE Operating	CE Total	% Change (CE Rec. vs. WSSC Proposed)
	Approved FY16	Proposed FY17	Recommended FY17	Recommended FY17	Recommended FY17	
Salaries and Wages	138,467	146,113	29,191	116,922	146,113	0.0%
Heat, Light, & Power	23,353	23,581	--	23,581	23,581	0.0%
Regional Sewage Disposal	54,895	51,601	--	51,601	51,601	0.0%
Contract Work	421,992	442,324	442,324	--	442,324	0.0%
Consulting Engineers	57,912	52,851	52,851	--	52,851	0.0%
All Other	421,909	413,525	161,159	252,366	413,525	0.0%
PAYGO	19,667	23,095	--	23,095	23,095	0.0%
Reserve Contribution	6,300	6,524	--	6,524	6,524	0.0%
Debt Service	255,310	261,437	0	261,437	261,437	0.0%
Total Budget	1,399,805	1,421,051	685,525	735,526	1,421,051	0.0%

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

Program Contacts

Contact Letitia Carolina-Powell of the Washington Suburban Sanitary Commission at 301.206.8379 or Matt Schaeffer of the Office of Management and Budget at 240.777.2766 for more information regarding this agency's operating budget.

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Commissioners



General Manager/CEO
Carla A. Reid



General Counsel
Jerome K. Blask



**Deputy General Manager
for Strategic Partnerships**
Monica J. Johnson



**Deputy General Manager
for Operations**
Joe Mantua



**Deputy General Manager
for Administration**
Thomas J. Street



Corporate Secretary
Sheila R. Finlayson, Esq.



Internal Audit Director
Maxene Bardwell, CPA, CIA



**Communications and
Community Relations
Director**
Jim Neustadt



Chief Engineer
Gary Gumm



Chief Financial Officer
Yvette Downs



Fair Practice Officer
Rhonda Exum



Chief of Plant Operations
J.C. Langley



**Chief Information
Officer**
Mujib Lodhi



**Human Resources
Director**
Todd Allen



**Chief of Utility
Services**
Clive Mattis (Acting)



**Chief Procurement
Officer**
David Malone



**Intergovernmental
Relations
Office Director**
D. Michael Stroud, Jr.



SLMBE Office Director
Towanda Livingston



**Chief of Customer
Relations**
Crystal Knight-Lee

Rate Increase Components (FY'17 Preliminary Proposed Budget)

	FY 2016 Approved	FY 2017 Estimate	Dollar Change	Rate Impact	Description
<u>Revenue</u>					
Water & Sewer Revenue	583,375,000	561,465,000	(21,910,000)	3.9%	Revenue based on consumption instead of production
Account Maintenance Fee	32,374,000	32,552,000	178,000	0.0%	
Infrastructure Fee	19,418,000	38,962,000	19,544,000	-3.5%	
Miscellaneous Revenue	27,693,000	30,212,000	2,519,000	-0.4%	Based on historical miscellaneous revenue
Use of Fund Balance	-	3,514,000	3,514,000	-0.6%	Lessen impact of decreased water consumption
Use of Fund Balance	91,000	-	(91,000)	0.0%	Blue Plains Debt Service Bi-County Council adjustment
Use of Fund Balance	1,500,000	-	(1,500,000)	0.3%	REDO Extinguishment
Use of Fund Balance	6,300,000	6,524,000	224,000	0.0%	For operating reserve contribution
Use of Fund Balance	2,086,000	2,332,000	246,000	0.0%	Additional & Reinstated including multi-year
Use of Fund Balance	8,000,000	12,080,000	4,080,000	-0.7%	IT Strategic Plan
Use of Fund Balance	2,000,000	-	(2,000,000)	0.4%	AMI
Use of Fund Balance - Watershed	1,600,000	1,600,000	-	0.0%	Easements & Land Acquisition
Reconstruction Debt Service Offset	8,500,000	9,800,000	1,300,000	-0.2%	
SDC Debt Service Offset	728,000	206,000	(522,000)	0.1%	
Revenue Subtotal	693,665,000	699,247,000	5,582,000	-1.0%	
<u>Debt Service</u>					
Debt Service	235,574,000	243,808,000	8,234,000	1.5%	
<u>Expenses</u>					
All Other	242,557,000	243,283,000	726,000	0.1%	
Salaries & Wages	111,309,000	114,756,000	3,447,000	0.6%	
Additional & Reinstated Programs	-	9,511,000	9,511,000	1.7%	
Regional Sewage Disposal	54,895,000	51,601,000	(3,294,000)	-0.6%	
Operating Reserve Contribution	6,300,000	6,524,000	224,000	0.0%	
Additional PAYGO	1,406,000	-	(1,406,000)	-0.3%	Jt. Council Reduction in COLA to PAYGO
Fund Balance PAYGO	1,600,000	1,600,000	-	0.0%	Easements & Land Acquisition
30 Year 1.25x Coverage PAYGO	16,671,000	21,495,000	4,824,000	0.9%	
Heat, Light & Power	23,353,000	23,581,000	228,000	0.0%	Based on projection from WSSC Energy Manager.
Unspecified Reductions	-	-	-	0.0%	
Expenses Subtotal	458,091,000	472,351,000	14,260,000	2.5%	
			Total	3.0%	
Total Gross Expenses	693,665,000	716,159,000			

Increased FY'17 Expenditure Assumptions Over and Above Inflation Factor

FY'17 Additional & Reinstated Programs:

	Cost	W/S Impact
<i>New Workyears Impacting Water & Sewer Rates</i>		
<i>Operations</i>		
1 Potomac Solids Facility Operator	33,100	33,100
1 Patuxent Facility Technician	41,700	41,700
<i>Wastewater Preventive Maintenance</i>		
2 Unit Coordinators	170,000	170,000
<i>Supply Chain Management</i>		
7 Various Positions	628,600	502,880
<i>Water Quality</i>		
1 Water Quality Technician	63,700	63,700
<i>Contact Center Optimization</i>		
5 Various Positions	426,700	426,700
<i>County Permitting Offices</i>		
2 Permit Specialists	103,300	103,300
<i>Dental Mercury Compliance</i>		
2 Industrial Investigators	137,000	137,000
21 Subtotal Workyears		
<i>New Workyears With No Water & Sewer Rate Impact</i>		
<i>Bio-Energy Project</i>		
1 Bio-Energy Superintendent	102,000	-
<i>In-House Design and Infrastructure Projects</i>		
1 Survey Instrument Operator	55,500	-
<i>Infrastructure Projects</i>		
2 Sr. Civil Engineers	145,300	-
<i>Asset Management Program</i>		
1 Investment Planning Manager (50% operating)	91,000	45,500
26 New Workyears Salaries & Wages Impact	\$ 1,997,900	\$ 1,523,900
Benefits	1,098,800	838,100
4 Vehicles	98,000	8,200
<i>Other Additional & Reinstated Programs</i>		
Expansion of Community Outreach Activities	50,000	40,000
IT Security & Compliance	90,000	72,000
Storm Water Pollution Prevention	95,000	95,000
Public Information Dissemination	200,000	160,000
Annual Maintenance Fees on new system implementations	877,000	701,600
Software Licensing	200,000	160,000
Windows 10 / Office 2013 Upgrade	250,000	200,000 *
Water Quality Monitoring System	1,000,000	- *
Historical Archiving	100,000	80,000 *
WSSC 100th Anniversary	270,000	216,000 *
Demolition on Land Acquisition	250,000	250,000 *
Supply Chain Management Transformation	420,000	336,000 *
Contact Center Optimization	750,000	750,000 *
Additional IT Strategic Plan Costs	5,100,000	4,080,000 *
Total Other Additional & Reinstated Programs	10,848,800	7,986,900
Total Additional & Reinstated Programs	\$ 12,846,700	\$ 9,510,800

*Projects funded via use of fund balance. (5,912,000)

Water & Sewer operating impact of additional & reinstated programs. **\$ 3,598,800**

WSSC SPENDING AFFORDABILITY

FY 2017 ADDITIONAL & REINSTATED PROGRAM REQUESTS SUMMARY

Program: OPERATIONS

Request: 1 Solids Facility Operator

Cost including benefits: \$51,200, Water/Sewer Impact: \$51,200

Justification:

The current Discharge Permit for the Potomac WFP expired in 2002 though the request for renewal was duly submitted by WSSC in a timely manner. It is with certainty the new Discharge Permit will include provisions that will include significantly increased water plant residuals processing requirements and continuous operation. It is anticipated, the Potomac Solids Facility will be pushed to its limits operationally, the need for additional dedicated staffing at that facility will be of paramount importance both from a Clean Water Act perspective as well as a Safe Drinking Water Act perspective because if solids are not moved from the basins effectively and on a continuous basis, water quality, WSSC's primary mission, can be negatively impacted. Additionally, this position will be actively involved in sharing the responsibility of maintaining Solids Facilities equipment through the preventative maintenance program.

Request: 1 Facility Technician

Cost including benefits: \$64,600, Water/Sewer Impact: \$64,600

Justification:

A new water treatment process, solids handling, is currently in the construction process as part of the Patuxent Plant Phase II Expansion Project. When completed it is anticipated that up to 70% of the solids currently being treated at the Parkway WWTP will be handled at the Patuxent Water Treatment Plant. There will be considerable efforts required to bring the new treatment process on line and functionally maintained thereafter. Current Patuxent staffing pattern is not sufficient for the operational demands of this new treatment process.

Program: WASTEWATER PREVENTATIVE MAINTENANCE PROGRAM

Request: 2 Wastewater Field Unit Coordinators

Cost including benefits and vehicles: \$312,500, Water/Sewer Impact: \$267,600

Justification:

Currently, the Utility Management Group only has two Field Unit Coordinators and they both manage at least 10 crews in two locations. They are responsible for their entire County Service area, which is making it very difficult to effectively manage field personnel. Two more field unit coordinators would improve management and efficiency for Collection Technicians. If approved, the Field Unit Coordinators will have approximately 10 to 11 (5 to 6 crews) employees to manage. This will increase and encourage more opportunities for field training, coaching sessions, goal setting, improved workload management, improved accountability and performance evaluation, and increased productivity/efficiency.

Program: PISCATAWAY BIO-ENERGY

Request: 1 Bio-Energy Superintendent

Cost including benefits and vehicle: \$182,600, Water/Sewer Impact: \$2,000

Justification:

During the feasibility study for the Anaerobic Digestion/Combined Heat and Power (AD/CHP) Project, the Project Team identified the need for a Superintendent for the project. This position is needed during the design phase of the project to assist in the engineering review and as well as the design of the project.

Program: SUPPLY CHAIN MANAGEMENT TRANSFORMATION

Request: 7 workyears, funds for professions services

Cost including benefits and professional services: \$1,394,300, Water/Sewer Impact: \$779,000

Justification:

Supply Chain Management Transformation allows WSSC to bring all areas of spend within the scope of best in class procurement practices. WSSC will also be able to better control spending and ensure compliance within all major areas of contracting. As WSSC transforms, opportunities abound for cost reductions and added value via improved spend analytics, strategic sourcing, category management, supplier relationship management, procurement dashboards, early pay incentives, improved asset recovery (idle asset identification, internal redeployment and surplus asset disposition that compliments total lifecycle costing, or total cost of ownership). Further, those involved in the process need to be properly trained and provided the right tools for successful implementation.

Programs: CONTACT CENTER STRATEGIC OPTIMIZATION and C.A.P.

Request: Additional funding and 5 workyears to implement the recommendations of the Contact Center Strategic Optimization Project and handle increased workload associated with the Customer Assistance Program

Cost including benefits and professional services: \$1,411,400, Water/Sewer Impact: \$661,400

Justification:

The Contact Center is a complex eco-system that requires specialized skills and tools to plan work, allocate resources, and achieve performance goals. The Contact Center Optimization Project Consultant identified two gaps that are resulting in standard Contact Center operating fundamentals and best practices not being followed. A Workforce Management Center of Excellence (CoE) is needed to forecast, plan, schedule, and handle intraday adjustments, so staffing levels required to meet service levels are achieved. The benefit of this initiative is that the Workforce Management CoE will proactively monitor staffing levels. This includes maintaining best services routing between in-house and out-sourced staff. The Quality Management CoE will develop and lead training in Quality Management processes and standards for supervisors on "how to coach" design, develop, and assist in the delivery of new hire and existing staff training.

Program: SURVEYS

Request: 1 Survey Instrument Operator

Cost including benefits: \$86,000, Water/Sewer Impact: \$0

Justification:

The Commission currently has only one Instrument Operator. Since last year, workload has increased from 7500 man-hours to 9700 man-hours. This instrument operator will complete the second team survey and allow our teams to meet the requirements of our customers. The request addresses an increase in workload for infrastructure, development design, and to support the expansion of the in-house design program in the Civil Engineering Unit as well as to provide for additional survey support for the Asset Management Program. Unable to keep up with the survey support required for the continued expansion will result in having to hire an outside consultant to provide an instrument operator to meet our needs will cost approximately \$110,000/year.

Program: WATER QUALITY

Request: Water Quality Monitoring System

Cost including design and implementation: \$1,000,000, Water/Sewer Impact: \$0

Justification:

WSSC is significantly behind compared to other utilities in the region in its capability to detect contamination events and provide early warning to protect safety of water. Currently the only on-line monitoring specifically designed to detect accidental/deliberate contamination events are the fish monitors and two water quality panels. WSSC will make full use of monitoring capabilities that are regionally owned and shared, but a water quality monitoring system strategically designed and placed in WSSC system will markedly reduce the response time and improve our ability to minimize the impact if a contamination event occurs. The monitoring system will also provide significant dual use benefit in day to day operations, providing real-time water quality data in general water quality problems areas, which will help addressing problems proactively and assure continued compliance with drinking water regulations.

Request: 1 Water Quality Technician

Cost including benefits and vehicle: \$123,200, Water/Sewer Impact: \$100,700

Justification:

WSSC operates three fish bio-monitors at Potomac and Patuxent WFPs, which are currently the only line of defense against drinking water contamination events. These instruments have been minimally operational for several years due to limited staff resources to properly maintain and operate them. In addition, WSSC is in process of implementing additional on-line Water Quality Monitoring (WQM) system at WFPs and in the distribution system. Implementation and successful operation of WQM system will require dedicated staff to monitor, calibrate, and troubleshoot the equipment on routine basis. The Water Quality Technician will allow full operation of existing fish bio-monitors and full operation of on-line water quality monitoring system. This position will also be part of Contamination Rapid Responses Team (CRRT), greatly strengthening the CRRT's capacity to respond to contamination events in timely manner.

Program: INFRASTRUCTURE

Request: 2 Senior Civil Engineers

Cost including benefits: \$225,200, Water/Sewer Impact: \$0

Justification:

Capital Improvement Program includes the replacement of distribution and transmission mains. This supports that effort as well as the relocation of existing infrastructure when others need it done. This program provides engineering design and project management for all new water pipeline projects in the CIP. The Distribution, Transmission and Meter I Vault programs have increased by approximately 51%, 248%, and 67% respectively. New programs such as Looping and Structural Lining have further increased the workload. Additionally, 12 miles are identified for the Systems Enhancement Unit within the Support Services Group, Utility Services Team. These projects must be identified, analyzed, reviewed, and packaged into individual projects before being scoped for designed. The benefit is that the work years will strengthen the Commission's ability to handle the growing workload required for accomplishing the WSSC's mission for infrastructure renewal. Major risks include inadequate resources for complex CIP projects; the increase in CIP projects was not accompanied by the requisite work years to handle the load, lack of resources for the evaluation, analysis, and planning for Water Programs.

Program: ASSET MANAGEMENT

Request: 1 Investment Planning Manager

Cost including benefits: \$141,100, Water/Sewer Impact: \$70,500

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, analysis and optimization of the capital investment requirements needed to sustain the infrastructure, coordinate with the Finance team and perform the financial analysis needed for the Enterprise Asset Management Plan (EAMP), develop the EAMP, and manage the new CIP/ESP Validation and Prioritization process which includes functions transferred from the Project Delivery Group. This position would supervise one or more economics analysts. The analysis will improve the decision making process to ensure that utilization of available resources achieves the best balance in meeting levels of service, reducing risk, and making cost effective decisions to address the infrastructure needs.

Program: STORM WATER POLLUTION PREVENTION INSPECTIONS

Request: Inspection & Monitoring Services Funding

Cost: \$95,000, Water/Sewer Impact: \$95,000

Justification:

In order to meet MDE Permit 12-SW Inspection & Monitoring Requirements; without increasing WSSC staffing levels. The Engineering & Construction Team's Environmental Group identified a new MDE/NPDES Requirement for WSSC to register and manage their Depots [Maintenance, Repair, & Operations (MRO)] Facilities under MDE General Permit for Discharges from Storm water Associated with Industrial Activities: Permit 12-SW; by December 31, 2014, WSSC Submitted to MDE Notice of Intent (NOI) to Comply with and Register our Depots for Discharge Permit No. 12-SW; An Engineering Consultant was hired to develop the required Pollution Prevention Plans and Inspection, Monitoring, and Record Keeping Programs for WSSC Staff/Contractors; All Depot Permits are managed

by the Utilities Services Zone Group Leaders with half of Anacostia assigned to the Property Management Group Leader; To provide additional programming time needed for budgets, the Depot Manager/Zone Group Leaders have decided it to be in the best interest of the Commission to contract this inspection service and not increase staffing levels. This is a request for Inspection & Monitoring Services Funding.

Program: CO-LOCATION OF COUNTY OFFICES

Request: 2 Permit Specialists

Cost including benefits: \$160,100, Water/Sewer Impact: \$160,100

Justification:

The Counties have both requested that WSSC co-locate in County Permit Buildings. This program is to expand the staff in both offices from one Supervisor Program manager and one Project Manager to include one permit specialist. The benefit of this is that it will promote better coordination with a one stop shop at county permitting buildings.

Program: DENTAL MERCURY COMPLIANCE

Request: 2 Industrial Investigators

Cost including benefits: \$212,400, Water/Sewer Impact: \$212,400

Justification:

On the basis of the Commission's 2005 dental survey and the 2011 dental facilities list from the State of Maryland's Department of Health and Mental Hygiene, it is estimated that the Commission would have to permit and regulate an additional 708 dental facilities as Significant Industrial Users (SIUs). The dental amalgam program will be a federal and state requirement. The success of this program can be measured by the percent reduction of mercury concentrations in the wastewater treatment plant headworks, and sludge, as well as the number of dental facilities permitted as SIUs. The need for this expanded program is based on adoption of the proposed Dental Category rule (40 CFR Part 441). Once this rule is finalized, the Commission must comply with all federal pretreatment program implementation requirements. If the Commission does not comply with the rule requirements within 3 years of promulgation, the Commission could be found in significant noncompliance with the federal pretreatment program implementation requirements as well as the Commission's delegation requirements with the State.

Program: WATERSHED PROTECTION

Request: Funds for demolition

Cost: \$250,000, Water/Sewer Impact: \$0

Justification:

An expanded program acquisition of properties and easements to serve as riparian buffers along streams of the Patuxent Reservoirs watershed, upstream from T. Howard Duckett Dam was approved as part of the TSG FY16 budget. Acquisitions of properties and easements to serve as riparian buffers along streams will require some demolition if the property contains an existing structure. This initiative will provide operating budget for demolition of existing structures, re-grading of the property, elimination of any hazardous materials on the sites, installation of fencing, trees and native grasses, if required. These

activities will restore the property to the nature buffer required to protect the riparian buffers along streams.

Program: PROJECT COMMUNICATION AND OUTREACH

Request: Funds for program implementation

Cost: \$50,000, Water/Sewer Impact: \$0

Justification:

WSSC receives a large volume of complaints regarding the lack of communication at the community and municipality level. The goal is to better inform the public at the local level regarding projects and related inconveniences. The Project Outreach Manager (new FY16 workyear) will be responsible for creating the program to ensure reliable dissemination of information about projects to communities and municipalities. This is expected to require a combination of existing resources as well as the potential to use operating and capital funds to contract vendors.

Program: PUBLIC INFORMATION DISSEMINATION

Request: Funds for advertising

Cost: \$200,000, Water/Sewer Impact: \$0

Justification:

WSSC continues to launch new initiatives and promote existing ones, it would be appropriate to add dollars for broadcast time and other outlets. One issue is basement backups and SSOs, which under the Consent Decree, we must reduce. A substantial portion of this money will coincide with efforts by the FOG Unit (Regulatory Services) to see new information and data related to backups and SSOs. The new Project Outreach Manager could conceivably use some of these dollars for public outreach. In general, the benefits will be customers who are not only better-informed about WSSC programs and projects, but also more inclined to think WSSC is doing a good job in the present and in planning for the future, and more inclined to think WSSC is an environmental and valuable organization that performs well.

Program: WSSC HISTORICAL ARCHIVING

Request: Funding for document management vendor

Cost: \$100,000, Water/Sewer Impact: \$0

Justification:

The Commission possesses thousands of photographs, negatives and documents that hold historical value and capture the robust history of WSSC. The goal is to have a searchable database that includes all of the documents. This will allow authorized staff to quickly access digital assets. Digital assets include all kinds of files in different formats: product images, stock photos, audio, video, presentations, etc. This digital asset would be used to create the WSSC 100th Anniversary History Book.

Program: WSSC 100TH ANNIVERSARY

Request: Funding for preparation of the 100th Anniversary

Cost: \$270,000, Water/Sewer Impact: \$0

Justification:

During FY'17, the Commission will begin the necessary planning to properly celebrate the 100th anniversary of WSSC which will occur May 1, 2018. Historically, planning has been done solely by the staff members of the Communications and Community Relations office. The funds will cover the cost of the writer for the 100th Anniversary Book, Promotional Items and Advertising. The objective will be to produce a program that reflects the importance of the Commission's core values of individual initiative, environmental stewardship, integrity & respect, accountability, cost awareness and excellence.

Program: IT SYSTEMS MAINTENANCE

Request: Funding for software fees

Cost: \$877,000, Water/Sewer Impact: \$701,600

Justification:

When new software systems and IT infrastructure systems are implemented, an annual maintenance fee is usually incurred. Software and hardware products, when applicable, incur an annual maintenance fee approximately 20% of its initial purchase price. Maintenance insures that WSSC's IT assets (software and hardware) remain vendor-supported and in compliance with the original software/hardware contract.

Program: IT STRATEGIC PLAN

Request: Funds for implementation of technology initiatives

Cost: \$5,100,000, Water/Sewer Impact: \$0

Justification:

Delivering high quality services in the modern era requires more of a water utility than just our pipes and pumps. The 21st century water and wastewater utility faces many substantial issues in the coming years relative to availability of clean drinking water, new regulations, an aging infrastructure and the increasing funding needs to support it. When it comes to how today's water and wastewater utility must respond to challenges, modernizing business processes and improving infrastructure management practices are the heart of the challenge. Leading utilities are more and more aware that information technology is integral to every aspect of its operations and that an organization's ability to take advantage of new solutions will depend on the strength of its IT investments. This Project will measurably enhance operational efficiency and customer service.

Program: WINDOWS 10/ OFFICE 2013 UPGRADES

Request: Windows 10/ Office 2013 Upgrades

Cost: \$250,000, Water/Sewer Impact: \$0

Justification:

The Commission's desktop computing assets require upgrades in order to sustain new software applications and system integrations built upon ever changing, advancing platforms. IT implements and

configures the necessary infrastructure enhancements to support consolidation efforts. This budget requires extensive amount of severally tasks completed since it would be an enterprise change. Professional services funds are required for the system administrator tasks such as implementation, project management, software testing and more etc. Training is required to ensure all end users are made familiar with the new Windows Operating system and Office.

Program: SOFTWARE LICENSING

Request: Funds for general software licensing

Cost: \$200,000, Water/Sewer Impact: \$160,000

Justification:

WSSC must make sure it is properly licensed for all software products to be deployed to meet our needs. New initiatives require additional software licensing. This project will ensure that WSSC is compliant with all agreements covering deployed software. The software licensing program will enhance monitoring efforts as well as new self-service initiatives. This budget assumes a standard growth of the number of virtual machines and general use. A failure to proceed with this project could cause compliance issues with the software vendors, leading to penalties and/or termination of right-to-use.

Program: IT SECURITY & COMPLIANCE

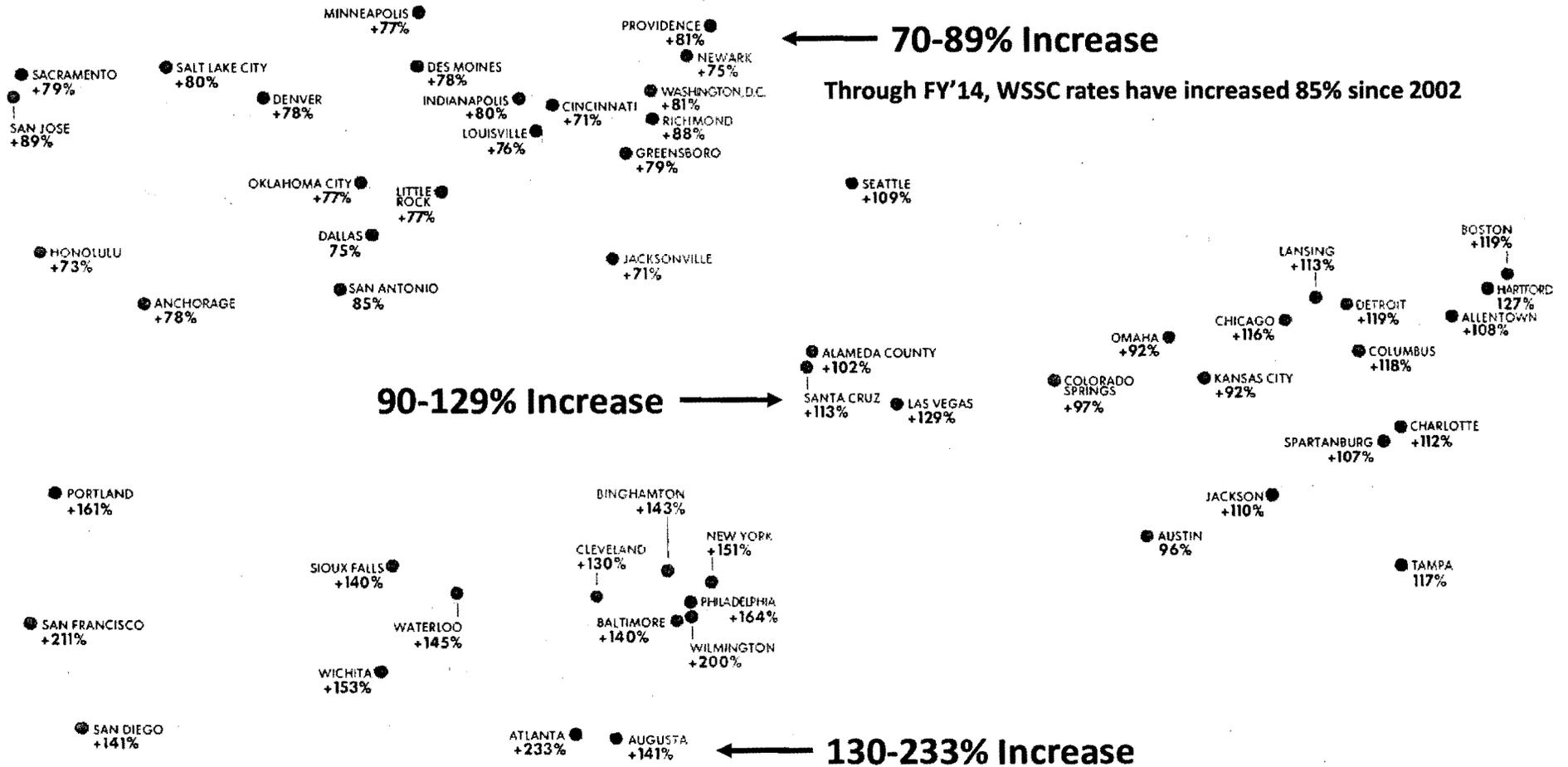
Request: Funds for IT security and compliance

Cost: \$90,000, Water/Sewer Impact: \$72,000

Justification:

Reliable and dependable data are critical for almost every business activity in WSSC. In order to reconfigure the IT security posture at WSSC, IT plans on being able to predict behavior based on information garnered from critical points and assets connected to the network either hard-wired or through wireless fidelity. Policies, Technology and Tools have been created and identified to provide these capabilities and will be implemented over the near, medium and long terms.

National Trends – Rate Increases Since 2002



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Keith
WSSC

Testimony on Proposed Budget - April 7, 2016
Edward Amatetti, 301.728.6505, eamatetti@comcast.net

Good afternoon. I will restrict my testimony to the proposed 3% rate increase for Washington Suburban Water Commission that appears on page 15-1. I am a member of the Montgomery County Taxpayers League, and I have audited and consulted for many dozens of municipal and regulated utilities for 20 years. I hope to put this seemingly innocuous rate increase into perspective and ask that you strongly reconsider:

First - WSSC's current rates. They are quite high and have been rising at an egregious rate. Since 2005, WSSC rates have increased by an average of 6.37%. By comparison, the rate of inflation has averaged 2.30%. When you compound over 10 years, this difference becomes huge. At the rate of inflation, a \$100 WSSC bill WSSC 10 years ago would have risen to only \$126. Instead, it has risen to \$189 - an increase 3.2 times greater than the rate of inflation. I am fully aware of increased regulatory burdens on utilities, but many of these are in the past and there is no way to justify this.

Second - WSSC's rate structure itself is a monstrosity virtually unknown anywhere else in the industry - and needs to be radically redesigned. It is an inverted "stepped usage" rate design, with no less than 16 steps. It leads to unconscionable levels of volatility in customer bills without even pretending to comport with accepted industry rate-making. It is inequitable and severely penalizes larger families, as well as many businesses. If I described this rate design to WSSC's counterparts in the industry, they wouldn't believe it. If I described its consequences on customers to the people in this room, I'm afraid I'd start a range war. Other than that it's a work of art. Sue Lacourse, who came here from PG County to testify today, has been pleading for someone to fix this for years. Sue is tired. I'm tired for Sue.

Third, thankfully there is a benchmarking study currently underway to benchmark WSSC's operations against the industry. Any rate increase can easily wait until its completion. A draft report from the lead consultant, is due in mid-April with a final report and presentations scheduled to the Commission and both counties in June/July. In the meantime, instead of a 3% rate increase, WSSC can find ways to temporarily tighten its belt.

Fourth, this soon-to-be completed benchmarking study should most properly be followed by a serious, full-scale independent operations review/audit. It is long, long overdue. The last operations review of WSSC, by Malcolm Pirnie, was conducted nearly 20 years ago. Typically, regulated utilities are audited every 5-10 years. Based on my experience with dozens of utilities, I would wager 10 to 1 odds that a well-executed audit would uncover cost savings that suggest rate reductions are more appropriate. The previous audit resulted in a 30% cut in the labor force alone. A similar cut in labor costs would by itself save \$40 million annually, or \$2,000 per customer. Incredibly, in the past several years, over 200 jobs have been added to WSSC's rolls even as water demand/production has declined.

Fifth, WSSC has fallen so far behind infrastructure maintenance and rehab, despite the aforementioned inflation-busting rate increases the past 10 years, that it has been asking for an Infrastructure Fee over and above the rate increases. This is an absolutely gigantic red flag.

The bi-County Commission charged with oversight of WSSC has a lot of work to do before rate increases are improved once again.

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Keith

Susan LaCourse

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301-498-8421

VERBAL TESTIMONY

MONTGOMERY COUNTY BUDGET HEARING – FY 2017

7 April 2016

My name is Susan LaCourse, and I'm speaking as a private citizen and a consumer activist on behalf of WSSC customers who struggle to pay their water bills.

WSSC utilizes a stepped rate structure that is unique among water utilities in the US. I'm going to demonstrate what it's like.

(Apple demonstration)

WSSC's rate structure is unique – because it doesn't work. Customer's bills – and WSSC's revenue – are unpredictable as billed amounts step from one rate to another. You can see this on the attached graph, which shows how the customer's billed amount increases as their average daily usage increases. At certain points, the billed amount jumps as the rate changes. As an example, the difference between using 149 gallons a day and 150 gallons a day is about \$20, because the rate jumps from \$9.74 to \$11.10 per thousand gallons, and the higher rate is applied all the way back to the first gallon.

The rate structure also exaggerates the negative impact of "conservation promoting" measures on high volume users, such as large families, in much the same way that, in my demonstration, the customer buying three apples was overcharged. It is important to note: **OVER 27,000 WSSC HOUSEHOLDS HAVE QUARTERLY WSSC BILLS OF OVER \$400.** Some of them are on payment plans, struggling to pay down excessive past bills while trying to keep up with current charges.

This is a crisis. I urge you to freeze usage-based rates for customers in tier 7 and above. The projected lost revenue can be compensated by cutting the 5.5% salary and benefits increase, or if absolutely necessary, by increasing tiers 1-4 by 3.5% rather than 3%.

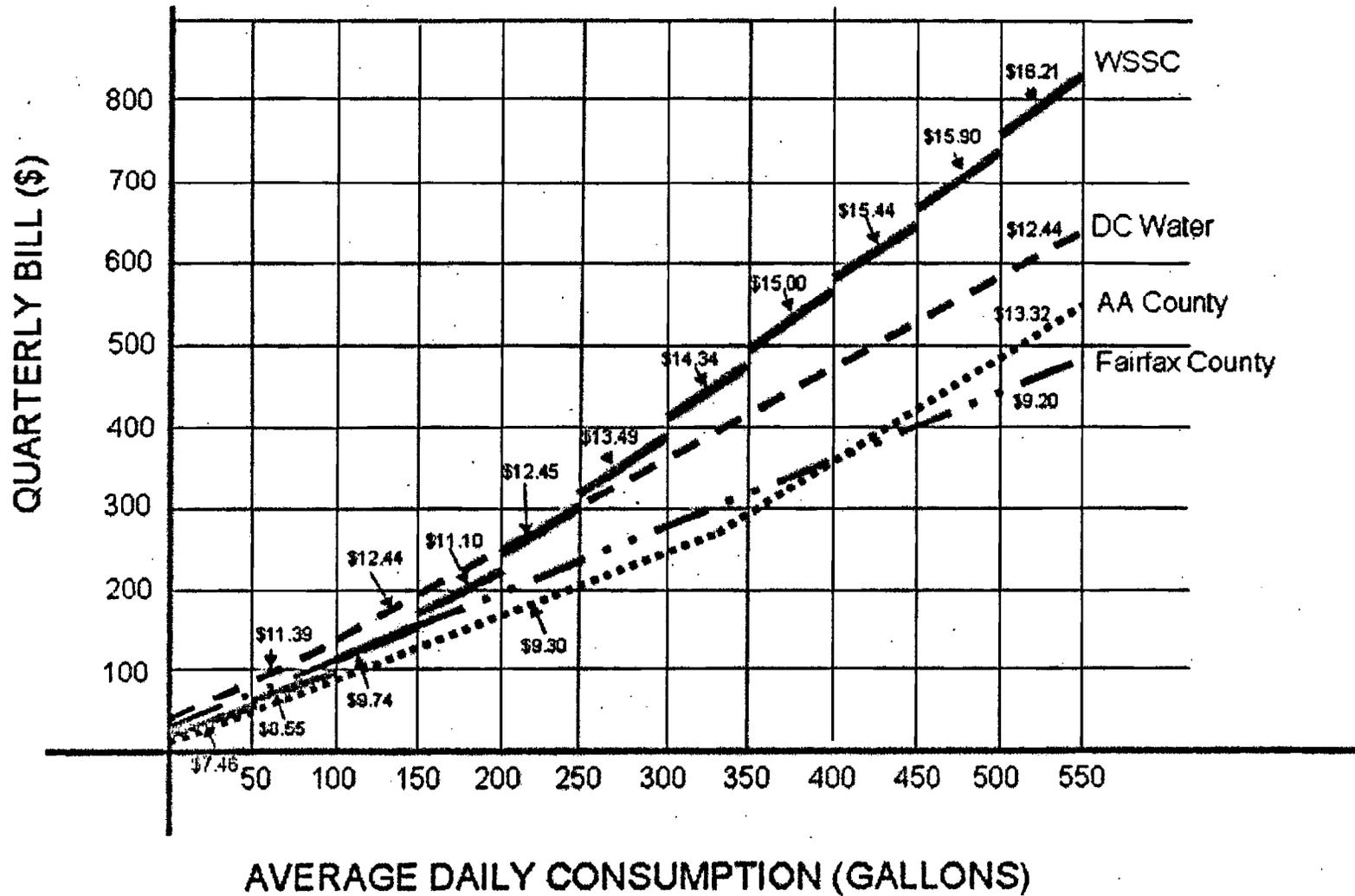
Thank you.

Respectfully Submitted,

Susan LaCourse

COMBINED WATER AND SEWER BILLS FOR SEVERAL DC AREA UTILITIES

FOR RATES IN EFFECT 1 NOVEMBER 2015



Dollar amounts indicate rates per thousand gallons.

Susan Lacourse
sueLacourse@verizon.net

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