

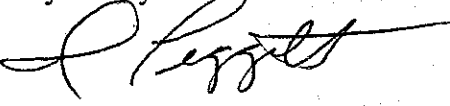


OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

January 14, 2011

TO: Valerie Ervin, President, Montgomery County Council
FROM: Isiah Leggett, County Executive 
SUBJECT: Washington Suburban Sanitary Commission (WSSC)
FY12-17 Capital Improvements Program (CIP) and FY12 CIP Expenditures

I am pleased to transmit to you, in accordance with State law, my recommended FY12-17 CIP and FY12 capital expenditures for WSSC.

WSSC's Proposed FY12-17 CIP totals \$1.728 billion, of which \$1.328 billion is for Montgomery County and bi-county projects. The Commission is requesting \$342.0 million in FY12 capital expenditures for Montgomery County and bi-county projects, up \$81.6 million (31.3%) from the FY11 amount of \$260.5 million approved in May, 2010. The net increase is primarily attributable to significant growth in FY12 expenditures for four of the six Blue Plains projects and for the Large Diameter Water Pipe Rehabilitation Program, the Patuxent Raw Water Pipeline, the Rocky Gorge Pump Station Upgrade, and the Potomac Water Filtration Plant Improvements as those projects move through construction. These increases were partially offset by decreased expenditures for the Trunk Sewer Reconstruction Program (due to a reduction in scope) and the Patuxent Water Filtration Plant Phase II Expansion (which is moving towards completion in FY15).

Spending Control Limits

I recommended and the Council adopted Spending Control Limits for WSSC that include a maximum average rate increase of 9.9 percent for FY12 – 1.4 percentage points higher than the 8.5 percent average increase approved for FY11. While this is less than the 10.6 percent increase that WSSC indicates is necessary to sustain a “same services” budget, it reflects the importance of striking a balance between meeting WSSC's urgent needs and limiting the pressure on customer budgets in this difficult economy.

With the 9.9 percent rate increase allowed under the Spending Control Limits adopted by the Council, WSSC would still have to make nearly \$3.5 million in unspecified reductions to its same services operating budget to balance receipts and expenditures. Such cuts could affect customer services and could potentially impact capital spending. I strongly urge the Commission to ensure that the following high-priority programs are preserved when deciding on reductions:

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

These initiatives, which are critical to the preservation of WSSC's aging infrastructure, must proceed and – to the extent possible – be intensified. I am encouraged by WSSC's establishment of a Bi-County Working Group and the engagement of a consultant to explore and develop a stable source of funding to ensure that WSSC can adequately maintain and renew these key elements of its infrastructure.

Blue Plains Advanced Wastewater Treatment Plant

The total six-year cost of the six Blue Plains Wastewater Treatment Plant (WWTP) projects in WSSC's Proposed FY12-17 CIP decreased by \$47.9 million (6.5 percent) vs. its FY11-16 approved CIP. After WSSC issued its proposed FY12-17 CIP, the District of Columbia Water and Sewer Authority (WASA), now doing business as DC Water, released its own Proposed FY 2010-2019 CIP, which further refined its capital investment needs. Together, the revised FY12 figures from WASA are nearly \$31.8 million less than what WSSC estimated in its proposed FY12-17 CIP, while the total revised six-year cost of the Blue Plains projects is \$10.1 million higher than WSSC's earlier estimate. The revised Blue Plains figures include increases in the projected six-year costs for four projects, with decreases for the other two. The increases arise largely from a number of changes in project scope, the addition of certain subprojects, and cost refinements as the projects move through planning and design.

BLUE PLAINS WWTP PROJECTS - COST COMPARISON (S000)							
Projects	TOTAL 6 YR	FY12	FY13	FY14	FY15	FY16	FY17
WSSC REQUEST							
Liquid Train Projects, Part 2	22,050	9,536	4,516	4,643	1,483	877	995
Biosolids Management, Part 2	216,304	80,765	97,810	29,234	3,226	4,174	1,095
Biological Nutrient Removal	16,977	12,511	4,466	0	0	0	
Plant Wide Projects	31,685	9,836	8,515	7,934	2,325	2,350	725
Enhanced Nutrient Removal	354,438	68,784	93,359	55,936	37,010	46,540	52,809
Pipelines & Appurtenances	52,442	9,561	10,143	7,242	6,949	8,179	10,368
WSSC REQUEST TOTAL	693,896	190,993	218,809	104,989	50,993	62,120	65,992
CE RECOMMENDED							
Liquid Train Projects, Part 2	31,616	9,454	7,742	4,038	2,006	1,971	6,405
Biosolids Management, Part 2	197,650	62,573	88,830	37,326	5,668	2,861	392
Biological Nutrient Removal	19,787	8,264	9,440	1,074	650	359	0
Plant Wide Projects	30,035	7,731	10,117	5,297	3,353	1,920	1,617
Enhanced Nutrient Removal	363,643	61,080	79,145	79,813	42,818	56,664	44,123
Pipelines & Appurtenances	61,309	10,139	12,612	9,297	9,831	9,190	10,240
CE RECOMMENDED TOTAL	704,040	159,241	207,886	136,845	64,326	72,965	62,777
Increase (Decrease)	10,144	(31,752)	(10,923)	31,856	13,333	10,845	(3,215)

Under the 1985 Inter-Municipal Agreement, WSSC must pay for its share of the capital costs associated with the Blue Plains WWTP, as determined by WASA but subject to certain adjustments by WSSC. I recommend that WSSC's Blue Plains WWTP project estimates be modified to align them with the revised amounts proposed by WASA (as adjusted by WSSC). The foregoing table shows the recommended changes. The revised Blue Plains costs will result in a \$31.8 million decrease in FY12 capital spending (vs. WSSC's Proposed FY12-17 CIP). This decrease will reduce the need for WSSC bonds by \$8.5 million, which translates to a \$613,000 decrease in FY12 debt service.

Sewer Basin Planning Program (Project No. 093804)

WSSC has determined that this project should be funded through the operating budget and has moved it to the "Information Only" section of the CIP. However, since it is a Council-approved project in Montgomery County's current CIP, the project needs to be formally closed out of WSSC's FY12-17 CIP, even though it is being transferred intact to the Information Only list. I recommend that this project be placed on the closeout list for FY12.

Debt Capacity

State law provides for the option of a tax levy by Montgomery and Prince George's counties against all assessable property in the Washington Suburban Sanitary District to pay for the principal and interest on WSSC bonds. This provision, which would be exercised only if requested by WSSC, does not constitute a pledge of the full faith and credit of the two counties. However, WSSC bonds are part of the County's overlapping debt. As of June 30, 2010, WSSC debt represented 46.4% percent of Montgomery County's gross overlapping debt. The amount of debt issued by WSSC is therefore a factor in rating agency assessments of the credit worthiness of Montgomery County.

WSSC's financial forecast assuming implementation of its Proposed FY12-17 CIP and the Spending Control Limits adopted by the Montgomery County Council indicates that debt service will increase by nearly 94% percent between FY11 and FY17 and will begin to exceed 40% of operating expenditures in FY15. WASA's updated Blue Plains expenditure estimates will add about \$175 million to the debt required by WSSC's Proposed FY12-17 CIP. On the other hand, one of the reasons for implementing the Systems Development Charge in FY94 was to keep the debt service ratio under 40%. As the Commission and the Bi-County Working Group explore ways to fund the reconstruction and rehabilitation of WSSC's aging infrastructure and its other capital needs, they need to pay close attention to the impacts of those options on WSSC's debt capacity and debt service requirements to ensure that they are not adversely affected.

Information Only Projects

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

WSSC is proposing to increase small water main reconstruction by 5 miles (14%) in FY12, for a total of 41 miles. At the same time, budgeted sewer reconstruction will fall by 20 miles (48%) from 42 to 22 miles, with a corresponding reduction in the lining of lateral sewer lines (see the following table). FY12 funding for the reconstruction of small water mains will increase by 2.1%, while expenditures for rehabilitating and reconstructing small sewers will fall by 28.6%.

WATER AND SEWER RECONSTRUCTION/REHABILITATION: FY12-17 Proposed vs. FY11-16 Approved									
	FY11-16 Approved			FY12-17 Proposed					
	FY11	6-Year	Total	FY12		6-Year		Total	
				Amount	% Change	Amount	% Change	Amount	% Change
Reconstruction Program									
Water Main Replacement (\$000)	64,485	562,345	616,525	65,860	2.1%	538,325	-4.3%	594,421	-3.6%
Sewer Reconstruction (\$000)	69,445	353,665	410,522	49,560	-28.6%	410,119	16.0%	475,292	15.8%
Water Main Replacement (miles)	36	291	--	41	13.9%	321	10.3%	--	--
Sewer Reconstruction (miles)									
Sewer Main Reconstruction	42	197	--	22	-47.6%	207	5.1%	--	--
Lateral Sewer Lining	14	64	--	5	-64.3%	30	-53.1%	--	--

The reductions shown in the Sewer Reconstruction Program reflect WSSC's efforts to address the problems that have been encountered in the reconstruction effort and to be more realistic in projecting the miles of sewer reconstructed and the costs involved. The Commission is now using updated cost factors based on recent experience, taking into account the limited number of contractors available to do this very specialized work as well as the increased cost and complexity of lining lateral sewers, while incorporating better estimates of the time required to complete the work. The Commission anticipates that, despite the expected FY12 reductions in sewer reconstruction, it will be successful in resolving the problems that have hampered this program, and that it will ultimately be able to reconstruct 207 miles of sewers over the FY12-17 period, a 5% increase over the FY11-16 approved level.

As always, Executive Branch staff are available to assist you in your deliberations. I look forward to discussing with you any policy matters or major resource allocation issues that arise this spring.

IL:jmg

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

- Attachments:
- Executive Recommendation – Blue Plains WWTP: Plant Wide Projects
 - Executive Recommendation – Blue Plains WWTP: Biological Nutrient Removal
 - Executive Recommendation – Blue Plains WWTP: Biosolids Mgmt Pt. 2
 - Executive Recommendation – Blue Plains WWTP: Liquid Train Pt. 2
 - Executive Recommendation – Blue Plains WWTP: Enhanced Nutrient Removal
 - Executive Recommendation – Blue Plains WWTP: Pipelines and Appurtenances
 - Executive Recommendation – Sewer Basin Planning Program
 - FY12-17 Executive Recommended CIP: Category Summary
 - Agency Request Compared to Executive Recommended