WSSC FY'24 Spending Control Limits Testimony- October 18, 2022

Gordie Brenne, Treasurer, Montgomery County Taxpayers League

Every year we caution you to do more to control spending and lower rate increases. That hasn't worked very well. Debt has increased 29% in the last 5 years, and spending is at a record high even though customers are consuming less per capita. Now, we're on the brink of a recession that will clobber WSSC reserves, increase its debt service costs, and increase service interruption and taxpayer bailout risks. We know you're not financial or utility experts, but we want you to consult independent experts before you approve the proposed plan.

1. Spending control limits don't control spending, just revenues
2. WSSC rates are double Fairfax for 4 and greater person families who can least afford rate increases. WSSC puts a foreign substance on the ball by using a subsidized 3 person family rate for comparisons. See Fairfax website water rate analysis at this link: https://www.fairfaxwater.org/sites/default/files/customer_service/Rate%20Comparison%20Chart%202021.pdf
3. Last year's state survey benchmarks comparing WSSC to Fairfax County and others in the area showed WSSC spends recklessly while ignoring soaring lost water (now at an all-time high of 20%, just like in 1998) and wasted sewage treatment capacity problems (43% for inflows and Infiltration).
4. Interest rate and liquidity risks are high, making next year a bad time to increase spending, especially with only 70 days of reserves to pay bills once cash flow drops, and PAYGO shortfalls provide little debt service insurance.
5. Better controls are needed to reduce operating and capital spending. The 2016 benchmark study showed management, engineering and technology staffing were bloated. Payroll has been stuck around 1,800 annual person years for ten years. Growth costs, largely in Prince Georges are not covered by new system development charges, resulting in a cross-county subsidy by MC developers who built up the balance. Same for system improvements. Capital spending is not tied to return on investment (resulting in resources allocated to projects that don't pay for themselves), and preventative maintenance for large pipe and valve rehab and trunk sewer reconstruction get less money, increasing failure risks.

For years now, the Taxpayers League has been warning you that there were significant rate and fee increases coming. WSSC agrees and is asking for 8% next year and the year after, on top of 6.5% this year. The rating agencies give WSSC favorable reviews as long as rate payers are on the hook to absorb an ad valorem tax increase when the cash runs out.

Now we're facing recession risks and WSSC faces insolvency and a taxpayer bailout unless you act now to sponsor an independent review that stress tests the long term financial plan, and develop a contingency plan with the state to bolster working capital and avoid a taxpayer bailout.