

WSSC Spending Affordability Testimony -FY 2024- September 26, 2023

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WSSC is close to insolvency without another big rate increase or reductions to costs that gobble up cash and require never ending rate increases. Like heroin addicts' management will ask for an 8% rate increase (2025 capital plan) instead of cutting costs. That's on top of the 7% increase you approved for the current year. A succession of above market rate increases over the last 20 years is an annual ritual to restore cash lost to excessive spending by this bloated monopoly.

It is impossible to say with precision when WSSC will reach the point of not being able to pay it's bills, but that crisis will happen if WSSC remains on its current path of rate hikes, poor decisions about priorities, and excessive costs. This uncertainty is principally due to two factors. First, the timing of a crisis is affected by unknowns in changes to the external economic environment, for instance, interest rates and the possibility of an economic downturn. Second, WSSC has shown itself resourceful in delaying a crisis through various unsustainable tricks in bookkeeping (e.g., debt service coverage ratio- pg. 106 FY 2024 budget request) and fiscal management (excessive operating and capital budget spending) -- tricks that led to a situation Fitch recognized as portending a negative outlook. When an ultimately inevitable crisis occurs, given its current path, WSSC will undoubtedly claim to be surprised by the impact of unforeseeable events. But we are here today to tell you based on forecasts WSSC publishes, that is anything but unforeseeable. WSSC's path toward crisis is one we have documented to elected leaders in testimony and reports over the years. We are not surprised the actual acute phase of the crisis is still ahead of us today -- but that makes it inevitable given the causes are unsustainable.

What will WSSC's acute financial crisis look like when it strikes? First, it would not result in shutting off water or sewer service, but it would result in much higher rates and more service interruptions. And, importantly, it would result in WSSC tapping into its statutory ability to raise revenue from property owners in Prince Georges and Montgomery counties, in its service area -- in effect, a taxpayer bailout pre-authorized by law. A state component to the bailout is also distinctly possible but there's no contingency plan for this. County property owners, WSSC ratepayers, and voters -- generally all the same actual people -- will, of course, be furious, particularly if they conclude, as they should, that the crisis they will have to pay to resolve would have been fully avoidable had prudent proactive measures been taken over the prior years. Consider how property taxpayers have reacted to new line items on their property-tax bills in recent years -- and then multiply that reaction by ten.

Our written testimony (below) highlights seven reasons to conclude that WSSC is on a path headed toward financial insolvency.

1. **Upper Limit on Rate Increases-** rate payers have been punished by above market rate increases for decades, and they are now paying water bills which cost nearly double Fairfax County (link below), placing a huge burden on families of 4 or more, and making businesses less competitive. Expect push back in a state supervised crisis to resolve the failed divided governance by the two counties. It's notable that management uses a deceptive 3 person household for comparisons

and that rate is subsidized by larger households and organizations as shown in the 2016 Cost of Service study.

2. **Fitch Negative Outlook**- this is the third year of this negative outlook on WSSC bonds. Fitch predictably expects more above market rate increases to meet its cash on hand target that just increased from 150 to 250 days. Why? Because Fitch knows the County Executives won't cut costs and doesn't expect you to cut costs either. You've been had every year at the expense of rate payers, while management gets pay raises, spends money recklessly, and gives away or dumps 20% of water production.
3. **Comparative Cost Survey**- the County delegation completed a comparative cost survey with neighboring water and sewer utilities in September 2021 (link below). WSSC costs were way above our neighbors then. It's only gotten worse since management didn't propose any cost cuts, and the Council's response was to approve a 6% rate increase the next year. Management has no incentives to cut costs, and accountability is minimal.
4. **Declining Per Capita Consumption**- due to the use of more efficient water appliances by our residents. This requires even greater rate increases to pace out of control costs. The last cost reduction was 30% and occurred in 23 years ago following state intervention.
5. **Cost Reductions Will Be Painful**- the 7% rate increase the Council approved for this year included a staff increase of 40 persons, bringing the total operating budget payroll to 1,836 people. The increase was mostly to add people to do jobs the new billing system failed to automate. But customer service is critical to collecting revenues and enrolling customers in assistance plans when they can't pay. WSSC's staffing count hasn't dropped for 23 years and remains flat absent any incentives to improve productivity. The average annual employee compensation is a whopping \$91,332 (pg. 157 of 2024 budget request, compensation of \$167,686,052/ 1,836 positions). A 2016 benchmark study done by management showed management, engineering and technology staffing was bloated, and that's a place to start cutting costs, along with low return capital budget items.
6. **Cost Reductions Require Better Governance**- in July the Commission released a report on the \$121 million billing system boondoggle (link below) that cost more than double initial cost estimates, and involved ethical if not legal lapses by employees and overpaid paid consultants that are still being investigated. The report reveals that management didn't disclose increased costs and risks for the new system in 2017, leading to the huge cost overruns, and it appears the Commission, the County Executives and Councils didn't ask the right questions at budget time.
7. **Infrastructure is Expensive, Deteriorating, and New Projects Don't Cover their Costs**- the capital budget request for next year is 13% higher (\$479 million) and debt service is the largest component of the operating budget. Additional Contract Engineers and salaried employees are hidden in the capital budget (\$112 million, pg. 89 of 2024 budget request), and are not shown in the operating budget. Spending on the biggest new capital project, the Piscataway sewage treatment expansion, is over \$300 million and counting, but will reduce operating costs by less than capital costs (1% vs. 3.5%). Capital costs will increase in a high interest rate environment and it could take some time for interest rates to come down. The capital budget continues growth spending, most of which is for Prince Georges County and results in a subsidy by Montgomery County Taxpayers who rely on more cost-effective Blue Plains sewage processing- 64% of sewage is treated by Blue Plains, most of which is from Montgomery County. To make room for this growth, and other unjustified facilities maintenance investments, high return

replacement of large and small water pipes is down to just 34 miles this year, and projected to be just 26 miles next year (out of a total 6,000 miles of aging pipes), increasing service disruption costs and risks.

Excessive spending is not prudent in the face of the aggressive cash reserve target Fitch has set and continuing high interest rates next year. Operating and capital costs should be cut and a contingency plan prepared for an economic slowdown.

Fairfax Water Rate Comparison, July 2023

[https://www.fairfaxwater.org/sites/default/files/customer_service/\(01\)%20Rate%20Comparison%20Summary%20Sheet%2007.01.2023%20-%20Public.pdf](https://www.fairfaxwater.org/sites/default/files/customer_service/(01)%20Rate%20Comparison%20Summary%20Sheet%2007.01.2023%20-%20Public.pdf)

Commission Billing System Investigation Report, July 27, 2023

<https://www.wsscwater.com/sites/default/files/2023-07/Project%20Cornerstone.pdf>

Delegation Cost Survey & Opinion, October 2021

<https://moco360.media/2021/10/23/opinion-another-rate-increase-wont-fix-wsscs-structural-problems/>