

Worksession

MEMORANDUM

April 25, 2022

TO: Transportation and Environment Committee

FROM: Keith Levchenko, Senior Legislative Analyst

SUBJECT: **Worksession: FY23 Operating Budget Washington Suburban Sanitary Commission (WSSCWater)¹**

PURPOSE: To review the WSSCWater FY23 Operating Budget and make recommendations to the Full Council

Budget Highlights

- Expenditures
 - Total FY23 Proposed Operating Budget is \$873.5 million, an increase of \$21.4 million (or 2.5 percent) from the Approved FY22 Operating Budget of \$852.1 million
 - FY23 Water and Sewer Operating Expenses are \$864.8 million, an increase of \$22.5 million (or 2.7 percent)
 - Largest increase is in Debt Service (+\$15.1 million)
 - Increases in Salaries and Wages (+\$3.4 million) and PAYGO (+\$3.4 million)
 - Significant service reductions required at the 7.0 percent rate increase (see ©58-67 for details)
- Revenues
 - Proposed Rate Increase = 7.0 percent (Approved Spending Control Limits rate ceiling is 6.5 percent)
 - Account Maintenance Fee and Infrastructure Investment Fee to increase with the rate increase
 - No change in System Development Charge (SDC) rates proposed
- Amendments to the Proposed Operating Budget (approved by the Commission on April 20, 2022)
 - Net savings of \$4.1 million in Water and Sewer Operating Budget (rate-related impact)

Council Staff Recommendations

- Assume the amendments approved by the Commissioners on April 20
- Approve the FY23 WSSCWater Operating Budget assuming a 6.5 percent rate increase and the equivalent increases in the Account Maintenance Fee and Infrastructure Investment Fee
- Assume no increase in SDC rates, but increase the maximum allowable rate
- Revisiting WSSCWater's structural funding issues after budget
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¹ Key words: #WSSCWaterBudget, Water and Sewer, WSSCWater

Attachments to this memorandum include:

- WSSCWater FY23 Proposed Budget Excerpt (©1-57)²
- FY 2023 Operating Budget Reductions Totaling \$23.1 Million and Impact Statements (©58-67)
- April 20 WSSCWater Proposed Budget Amendments (©68-69)
- County Executive's Recommended FY23 Operating Budget Excerpt for WSSCWater (©70-74)
- Chart: Inflationary Rates of Various Sectors (©75)

The following officials and staff from WSSCWater and the Executive Branch are expected to attend this meeting:

- Howie Denis, Commission Vice Chair,
 - Fausto Bayonet, Commissioner
 - Eloise Foster, Commissioner
 - Carla Reid, General Manager/CEO
 - Joe Beach, Deputy General Manager for Administration
 - Monica Johnson, Deputy General Manager for Strategy and Partnerships
 - James Price, Deputy General Manager for Operations
 - Amanda Conn, General Counsel
 - Karyn Riley, Director, Intergovernmental Relations
 - Monica Marquina, Government Relations Manager, Intergovernmental Relations
 - Patti Colihan, Chief Financial Officer
 - Letitia Carolina-Powell, Budget Division Manager
 - Brian Halloran, Capital Budget Section Manager
 - Fariha Babar, Budget Section Manager
 - Michael Harmer, Chief Engineer
 - Caville Stanbury-Woolery, Pipeline Design Division Leader
 - Rosanna LaPlante, Engineering and Environmental Services Division Leader
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- Steve Shofar, Division Chief, Intergovernmental Affairs, Department of Environmental Protection
 - Rafael Murphy, Fiscal & Policy Analyst, Office of Management and Budget

General Information about WSSCWater

WSSCWater provides public water and sewer services to 1.9 million residents in a sanitary district covering nearly 1,000 square miles in Montgomery and Prince George's Counties. WSSCWater has 3 reservoirs and 2 water treatment plants (providing about 163 million gallons per day of drinking water) and maintains 7 wastewater treatment plants (including the Blue Plains Plant in Washington DC). WSSCWater has approximately 5,900 miles of water mains and over 5,600 miles of sewer mains. WSSCWater has about 475,000 customer accounts (see ©53 for more statistical information) and is one of the ten largest water and wastewater utilities in the country.

WSSCWater'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. The current commissioners are:

² WSSC's complete FY23 Proposed Budget is available [here](#).

Montgomery County

Howard A. Denis, Vice-Chair
Fausto R. Bayonet
T. Eloise Foster

Prince George's County

Keith E. Bell, Chair
Chris Lawson
Regina Y. Speed-Bost

The current General Manager, Carla Reid, was appointed by the Commissioners in 2016.

An organizational chart (see ©74), the Chair's budget transmittal letter (©1-6), and other excerpts from the Proposed FY23 Budget are attached.

About two-thirds of all WSSCWater sewage and four-fifths of Montgomery County's sewage (generated within the WSSCWater service area) is treated at the Blue Plains Wastewater Treatment Plant in the District of Columbia. This plant is managed by DC Water.³ WSSCWater makes operating and capital payments each year to DC Water, consistent with the Blue Plains Intermunicipal Agreement (IMA) of 2012. Blue Plains-related costs are a major element of WSSCWater's capital sewer program. The projected FY23 operating payment is \$60.3 million (6.9 percent of WSSCWater's Proposed Operating Budget).

FY23 WSSCWater Proposed Budget Review Schedule

October 26, 2021: Separate actions by both Councils on WSSCWater FY23 Spending Control Limits
March 1, 2022: Transmittal of WSSCWater's FY23 Proposed Budget
March 23, 2022: Prince George's TIEE Committee Briefing on WSSCWater's FY23 Proposed Budget
April 14, 2022: Prince George's TIEE Committee Worksession on WSSCWater's FY23 Proposed Budget
April 20, 2022: Commission Action on Amendments to WSSCWater's FY23 Proposed Budget
April 28, 2022: Montgomery County T&E Committee Review
Early May 2022: Montgomery County and Prince George's County Full Council Reviews
May 12, 2022: Bi-County Meeting

Racial Equity and Social Justice Considerations

On December 2, 2019, the Council adopted Bill 27-19, Administration -Human Rights - Office of Racial Equity and Social Justice - Racial Equity and Social Justice Committee – Established. Among other provisions, this legislation requires the County Executive to submit a racial equity and social justice (RESJ) impact statement for each bill and each management initiative or program that would be funded in the operating or capital budget.

While the RESJ law does not cover WSSCWater, the Council is working to establish its own RESJ review processes. The WSSCWater Proposed FY23 Budget includes a section on Racial Equity and Social Justice (see ©27-50). This section includes information on:

- Customer Demographics by race/ethnicity, age, and median household income
- WSSCWater Workforce Diversity
- Information on the WSSCWater Office of Supplier Diversity & Inclusion (including the Minority Business Enterprise (MBE) and Small Local Business Enterprise (SLBE) programs and the results of WSSCWater's 2015 Disparity Study.

³ The Montgomery and Prince George's County Governments each have two representatives (with two alternates) on the eleven-member DC Water 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.

- Unserved and Underserved Communities Bi-County Workgroup Report Recommendations⁴
- Capital Project Prioritization Criteria
- WSSCWater Financial Assistance Programs
- Water Bill Affordability
- Quarterly bills and bill increases over time compared with other jurisdictions
- Bill comparisons to electric and cell phone service

Some of the items noted above are discussed in more detail later in this memorandum. Council Staff will continue to coordinate with the Office of Racial Equity and Social Justice, OMB, and WSSCWater on how to consider RESJ issues in the context of the WSSCWater budget going forward.

Spending Control Limits

Background

In April 1994, the Council adopted Resolution No. 12-1558, which established a spending affordability process for the WSSCWater budget. Under this process, which stems from the January 1994 report of the Bi-County Working Group on WSSCWater Spending Controls, each Council appoints a Spending Affordability Committee (SAC). For Montgomery County, the SAC is the Transportation 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. **The spending control limits provide a ceiling regarding what the Councils direct WSSCWater to propose in its budget. The limits do not cap what the Councils can ultimately approve each year.**

FY23 Spending Control Limits

Last fall, the two Councils came to agreement on FY23 spending control limits. Both Councils supported a rate increase limit of 6.5 percent, along with agreed-upon ceilings for New Water and Sewer Debt, Total Water and Sewer Debt Service, and Total Water/Sewer Operating Expenses. For additional information, please see the [Council Staff Report](#) from the Council’s worksession/action on FY23 Spending Control Limits.

The table below, shows how WSSCWater’s Proposed FY23 Budget compares to the approved limits and to the County Executive’s FY23 budget recommendations. The FY23 Proposed WSSCWater Budget is within each of the limits for New Debt and Water and Sewer Debt Service but exceeds the limits for the Maximum Average Rate Increase (7.0 percent compared to 6.5 percent) and Water/Sewer Operating Expenses (\$864.9 million compared to \$859.4 million). Proposed new debt and debt service are substantially below the approved limits as a result of WSSCWater’s midcycle update which significantly reduced debt-funded expenditures proposed for FY23. The County Executive’s assumptions reflect his support for the 6.5 percent rate increase supported by both Councils last fall.

⁴ The Commissioners and the Prince George’s Council have been briefed on the Unserved and Underserved Communities Bi-County Workgroup Report. The Montgomery County Council has not been briefed on this report yet. Council Staff will work to schedule a T&E Committee briefing on this item after budget.

**FY23 Spending Control Limits Approved by Each Council
versus the FY23 Proposed WSSC Budget and CE Recommendation**

Spending Control Limit Categories	Recommended Limits		WSSC	CE
	MC	PG	Proposed	Rec
New Debt (in \$000s)	430.1	430.1	358.8	430.1
Water and Sewer Debt Service (in \$000s)	328.4	328.4	324.1	328.4
Water/Sewer Operating Expenses (in \$000s)	859.4	859.4	864.8	860.9
Maximum Avg. Rate Increase	6.5%	6.5%	7.0%	6.5%

Long-Range Financial Plan

As it has done the past several years, WSSCWater has included a long-range financial plan as part of the Spending Control Limits process and again in its Proposed Operating Budget (see ©55). A related chart is included in the Executive’s Recommended Operating Budget (see ©73). The current plan includes similar assumptions to those used in the spending control limits process last fall. Like Montgomery County’s fiscal plan, this forecast presents a scenario that assumes a balanced budget across the six-year period. The Plan assumes:

- Continued high levels of debt service (approximately 37 percent of total expenses; the target level is <40 percent) primarily due to increased spending on infrastructure work over the past decade as well as environmental mandates. The Financial Plan also assumes to ramp up annual PAYGO levels substantially during the fiscal period.
- A substantial ramping up of PAYGO over the six-year period to help keep debt service at manageable levels.
- Flat Water consumption across the fiscal period (rate revenue makes up about 87 percent of WSSC’s revenues),
- Reduced reconstruction debt service offset (REDO) available to cover operating expenses (balance is down to zero in FY25)
- Assumes undesignated savings totaling \$20 million in FY26-FY28 (\$5.0 million, \$7.5 million, and \$7.5 million, respectively)
- No “additional and reinstated” items, meaning that for new items to be added, cost savings in other areas would be needed.
- Meeting fiscal policy targets such as
 - Increasing “days of operating reserve on hand” (target of 120 to 150 days based on industry standards)
 - Improving debt service coverage over the six-year period (target is 1.10 to 1.25). (*Debt service coverage is Operating Revenues less Operating Expenses (excluding Debt Service and PAYGO) divided by the debt service on bonds and notes*)
 - Staying under 10 times for the Fitch Leverage Ratio (*net adjusted debt divided by adjusted funds available for debt service*)

The above trends result in the Fiscal Plan assuming significant rate increases in FY23 and FY24 but with rate increases moderating in the outyears. Under the above assumptions, the plan assumes a 7.0 percent rate increase in FY23 (as proposed) and an 8.5 percent rate increase in FY24, followed by a 6.0 percent rate increase in FY25 and 4.0 percent rate increases in FY26 and beyond. Some rate increase history and comparisons to other jurisdictions is discussed later.

WSSCWater continues to face some substantial fiscal challenges, including ongoing capital responsibilities that are keeping debt service as a high percentage of the WSSCWater budget (36 to 40 percent). At the same time, water usage by WSSCWater’s customers is flat or declining.

The current pandemic is also impacting revenues through a large increase in delinquent accounts (\$150 million in lost revenue since March 2020 with nearly one in five customers past due on their bills). Savings plans involving one-time expenditure reductions were done FY21 and FY22 to offset the reduced revenue. To date, WSSCWater has not received any Federal or State aid related to the pandemic.

WSSCWater’s long-range financial plan discussed last fall during the Council’s spending control limits deliberations assumed a 9.0 percent rate increase. Assuming no other changes in the plan’s assumptions, the Council’s 6.5 percent ceiling resulted in WSSCWater having to find reductions of about \$20 million to get to the 6.5 percent rate increase. Ultimately, based on its revised long-range financial plan, WSSCWater opted for a 7.0 percent increase but had to find \$23.1 million in cost savings within existing programs. These savings are detailed on ©58-67 and discussed later.

As noted in past Staff Reports, WSSCWater has pursued productivity improvements in its operations over time including in areas such as its Supply Chain Management Transformation project, group insurance and Workers Compensation savings, and overtime reductions. WSSCWater also had no net increase in positions from FY17 through FY21. WSSCWater commissioned a [benchmarking study](#) that provided recommendations in July 2016 that identified areas for focus for improvement including: customer service, Fleet, and CIP-asset management. Procurement and utility services also showed potential for significant improvement.

Rate Increase History

WSSCWater Rate Increases Since FY99

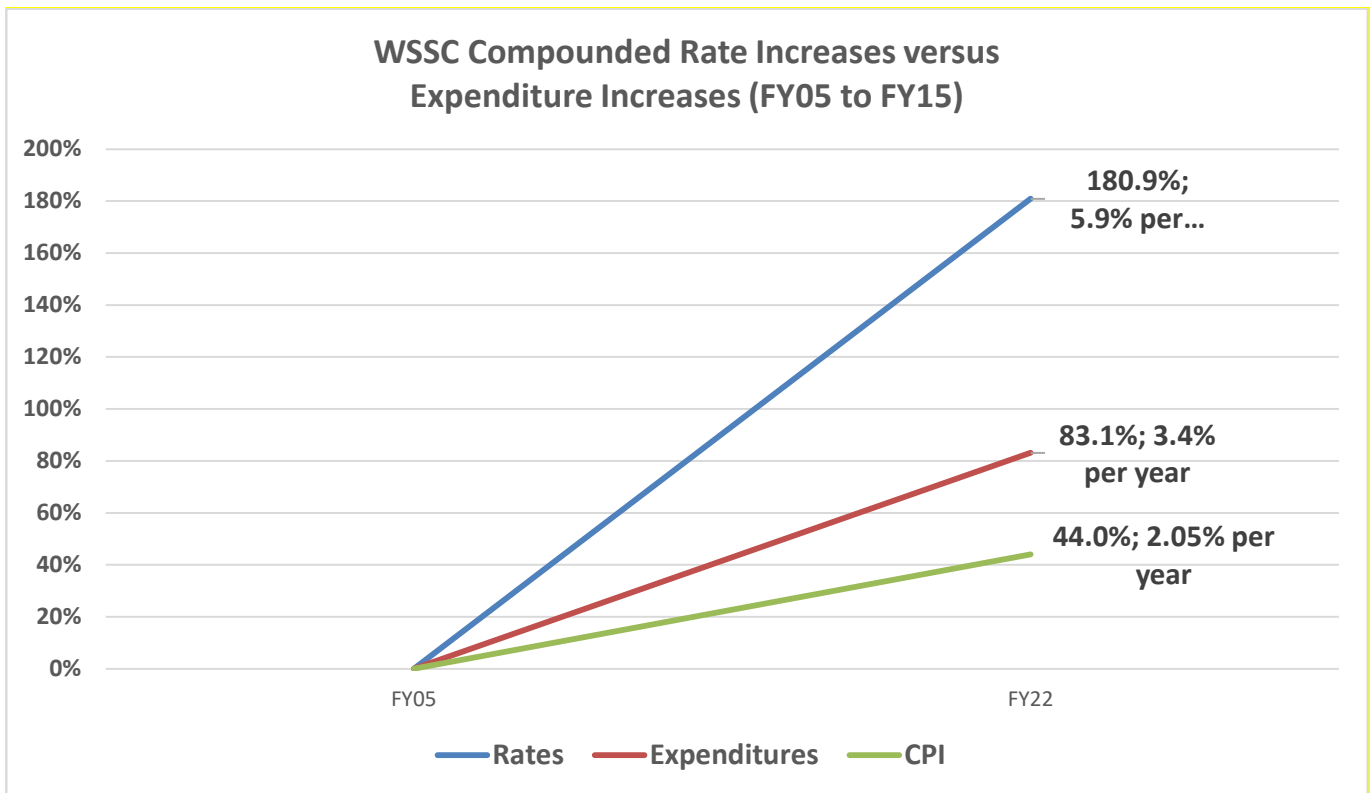
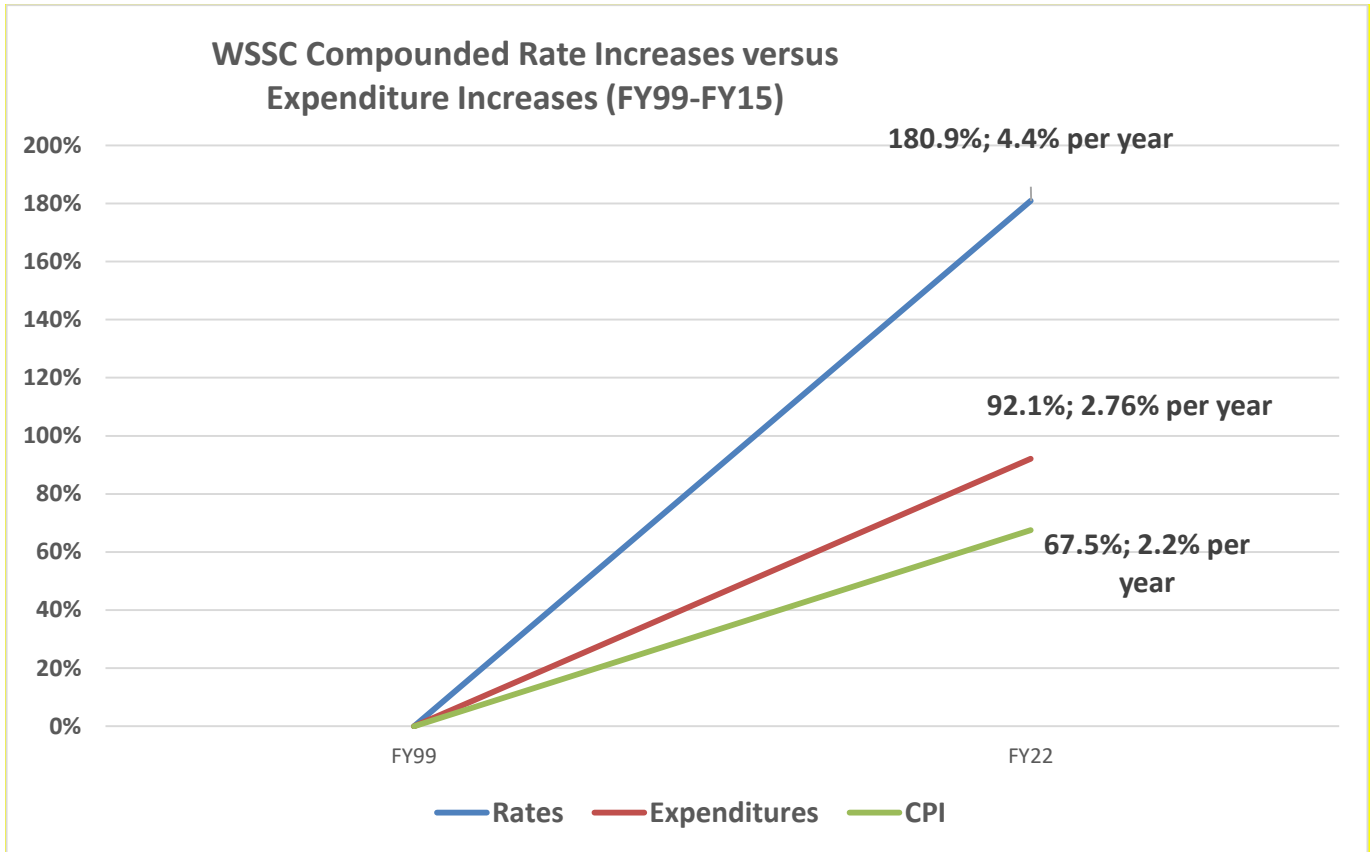
The following table presents WSSCWater’s rate increase history going back over 20 years and compares those increases to WSSCWater’s Budget over that same period.

Fiscal Year	Approved		Fiscal Year	Approved	
	Rate Increase	Budget in (000s)		Rate Increase	Budget in (000s)
FY99	0.0%	443,575	FY11	8.5%	605,550
FY00	0.0%	445,946	FY12	8.5%	626,145
FY01	0.0%	457,488	FY13	7.5%	661,733
FY02	0.0%	463,921	FY14	7.3%	698,773
FY03	0.0%	465,835	FY15	5.5%	707,190
FY04	0.0%	448,580	FY16*	6.0%	715,173
FY05	3.0%	465,253	FY17*	6.5%	736,382
FY06	2.5%	494,347	FY18	3.5%	741,236
FY07	3.0%	502,090	FY19	4.5%	781,581
FY08	6.5%	525,874	FY20	5.0%	817,393
FY09	8.0%	556,035	FY21	6.0%	849,656
FY10	9.0%	590,531	FY22	5.9%	852,093
Cumulative Increase (FY99-15):				180.9%	92.1%
Cumulative Increase (FY05-15):				180.9%	83.1%

*Customer Impact shown for FY16 and FY17 since actual rate increases were lower due to increases in the Account Maintenance Fee and creation of the Infrastructure Investment Fee

The following graphs more starkly show the overall trends since FY99 and FY05 and also show the

equivalent consumer price index trend over the same time periods.



These graphs highlight several key points about WSSC Water rate increases since FY99 and since

FY05.

- Rates increased 180.9 percent from FY99 through FY22.
- While this sounds high, the equivalent annual rate increase to achieve that same level of overall rate increase over that period is 4.4 percent (as reflected in the rates trendline).
- Expenditures increased at a far lower average rate during that same period (92.1 percent; equivalent to a 2.76 percent increase per year).⁵
- The total change in the consumer price index (CPI) from 1999 to 2022 was 67.5 percent.
- A similar analysis from FY05 to FY22 is shown in the second graph. This comparison does not include the earlier five straight years of no rate increase, so the equivalent annual average rate increase is higher. Expenditure increase percentages are also higher during this same period, but still well below the rate increases.

Also, as noted last year, over the past 20 years, water and sewer utilities nationwide have experienced higher increases than other sectors (see ©75); likely the result of aging infrastructure as well as enhanced environmental requirements over time.

Rate Comparisons

The Proposed Operating Budget includes two charts (see ©47-48) showing residential bill comparisons for large water utilities across the country and a bill comparison for these same large water utilities as a percentage of median income. WSSCWater is in the middle for residential bill comparisons and near the bottom for the bill comparison as a percentage of median income.

WSSCWater Fees and Charges

System Development Charge (SDC)

WSSCWater's Proposed CIP and draft Operating Budget assume no change in the SDC rate. However, WSSCWater supports increasing the maximum rate the charge could be increased in future years by a CPI adjustment (6.4 percent) for FY23, as permitted under State law. The proposed charge and the maximum allowable charge are presented below.

⁵ The rate of increase in water and sewer expenditures over time has been substantially lower than the rate of increase in water and sewer rates. This is because WSSCWater'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 usage. Water conservation has a negative impact on WSSCWater's rate revenue. This impact was exacerbated by WSSCWater's billing structure during that time, which billed all water used at the average daily consumption tier reached during a billing period. Therefore, rate increases were needed to offset revenue shortfalls in addition to covering increased expenditures.

Proposed SDC Charges

Item	Max. Allowable	
	FY23 Charge	Charge
Apartment		
- Water	\$896	\$1,456
- Sewer	\$1,140	\$1,852
1-2 toilets/residential		
- Water	\$1,344	\$2,185
- Sewer	\$1,710	\$2,776
3-4 toilets/residential		
- Water	\$2,240	\$3,641
- Sewer	\$2,850	\$4,633
5 toilets/residential		
- Water	\$3,135	\$5,095
- Sewer	\$3,991	\$6,486
6+ toilets/residential*		
- Water	\$88	\$145
- Sewer	\$115	\$189
Non-residential*		
- Water	\$88	\$145
- Sewer	\$115	\$189

*costs shown are per fixture unit

The SDC fund itself is discussed in more detail in the [Council Staff Report for the Proposed FY23-28 WSSCWater CIP from March 17](#).

The SDC is a major source of funding for much of the new Water/sewer infrastructure built in the County. WSSCWater estimates approximately \$171 million in revenue over the FY23-28 period. Developer credits and SDC exemptions reduce the net revenue to about \$144 million. The SDC Fund had a balance of approximately \$26.6 million (as of January 31, 2022).

However, based on assumed expenditures in the FY23-28 CIP, WSSCWater estimates a \$65.1 million gap in growth funding versus expenditures over the six-year period.⁶ This gap is caused by a big increase in CIP Growth expenditures (\$214.4 million over six-years compared to \$129.9 million assumed at this time last year for the FY22-27 CIP). Most of the increase is from WSSCWater revising the scope of the Potomac WFP Main Zone Pipeline and allocating \$63.7 million in SDC funding to this project. The expanded scope will provide additional capacity and redundancy work to meet the projected 2040 maximum day demands of 210 million gallons per day.

WSSCWater staff lead an SDC Bi-County workgroup consisting of staff from the County Council and Executive Branches of both Montgomery and Prince George’s Counties. The group looked at potential changes to how developers are reimbursed for capital-sized improvements made to WSSC’s infrastructure. Currently, developers are eligible to be paid back for these improvements over 20 years. However, the payback is not guaranteed. It is contingent upon sufficient SDC revenues being collected by WSSC from properties within the same sewer basin being received during that time. The workgroup looked at eliminating the geographic requirement for the revenue reimbursement and guaranteeing the payback over a set period. However, these changes would require substantial increases in the SDC rates to cover this

⁶ If necessary, WSSCWater has the authority to issue bonds secured by SDC revenue to cover a gap in SDC fund revenue versus expenditures. This approach may make sense if a gap is assumed to be short-term in nature. A longer-term structural gap, however, would best be covered through increasing SDC rates.

increased liability to WSSCWater.⁷ Based on discussions with business groups, while there was interest in providing a guaranteed payback, the group was concerned about the increases in rates required.

Council Staff is supportive of WSSCWater’s approach to keeping SDC rates unchanged at this time, with the caveat that the issue of SDC rates is an annual decision. A future rate increase may be advisable if the six-year projected gap does not improve. NOTE: Both the maximum rate and the adopted rate will be noted in the annual Council resolution to be approved in mid-May.

Account Maintenance Fee and Infrastructure Investment Fee

For FY16, the Councils approved a recalibrated account maintenance fee (AMF) and a new Infrastructure Investment Fee (IIF) (phased in over two years). The Approved FY17 WSSCWater Budget reflected the full phase-in. No changes were made to either fee for FY18 through FY22. For FY23, as part of the spending control limits process, WSSCWater’s long-range financial plan began to assume to increase both fixed fees by the same percentage as the increase in volumetric rates. Fee schedules for both are based on meter size. Most residential customers currently pay an AMF of \$16 per quarter and an IIF of \$12 per quarter. Both fees would go up by \$1.00 under WSSCWater’s FY23 Proposed Budget. Ratepayers eligible for the customer assistance program have these fixed charges waived.

Given these fees have not been revised since FY16 and that WSSCWater’s fixed fees are relatively low (in cost and as a ratio of total revenues generated) compared to other utilities (see ©48), Council Staff concurs with WSSCWater’s assumed approach to increase these fixed fees by the level of volumetric rate increase. A more comprehensive review of WSSCWater’s “cost of service” and how fixed fees should be set may also be appropriate now that WSSCWater has several years of experience with its current volumetric rate structure.

Customer Assistance Program

A customer assistance program was begun during FY16 after the State General Assembly passed the necessary enabling legislation during the 2015 legislative session. Under this program, WSSCWater provides a substantial ongoing benefit to eligible residential customer accounts across the WSSCWater 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 (\$12 per quarter), and the Bay Restoration Fee (\$15 per quarter). The monthly benefit (not counting the Bay Restoration Fee waiver) for most eligible residential customers is \$9.33 per month (\$112 per year). WSSCWater is seeing growth in program participation, with 18,931 customers enrolled as of April 2022 (an increase of 4,365 since April 2021). The FY23 budget assumes \$2.2 million in fixed fee waivers (reduced revenue) (up from \$2.1 million in FY22).

For the past few years, WSSCWater has been considering how to expand the program to include tenants in multi-unit homes. In many of these situations, the tenant is an “indirect” WSSCWater customer, receiving WSSCWater water and discharging into WSSCWater’s sewer system but paying for water/sewer through monthly rent payments or through apartment/condo association fees.⁸ *NOTE: Multi-family master-*

⁷ SDC Rates have remained unchanged for over 20 years. Also, the Bi-County workgroup found that WSSCWater’s SDC rates are lower than most similar charges elsewhere in the region.

⁸ During the 2019 legislative session, State legislation was passed (HB325 “WSSCWater – Indirect Customer Assistance Program”) which gives WSSCWater the enabling authority to provide assistance to “indirect” customers.

metered accounts are also currently eligible to receive assistance through bill adjustments, under certain circumstances, and flexible payment plans.

The expansion of the program to indirect customers is currently on hold. According to WSSC Water staff, *“the expansion of CAP to indirect customers is being deferred to FY24/25 as a result of the sharp increase in delinquencies during the pandemic as well as other ongoing projects to improve customer experience including reducing call wait times and providing more customer self-service options.”*

The pandemic resulted in a substantial increase in WSSC’s delinquent accounts. There are currently 81,435 delinquent accounts (about 17 percent of all accounts). WSSC continues to offer payment plans to these customers as well as encouraging participation in the Customer Assistance Program (CAP).

Other Fees

A list of WSSC Water fees (and proposed revenue changes) is attached on ©17-26. Most of these fees have to do with construction activity and not with general customer activities.

WSSC Water staff meet regularly with representatives from the Maryland Building Industry Association (MBIA) to go over issues of concern as well as the cost basis for proposed fee increases and WSSC Water’s annual process and methodology. The Council has not received any correspondence or public hearing testimony from MBIA or others on the FY23 fee increases to date.

FY23 Revenue Projections and Funds Available

WSSC Water and Sewer Operating Funds Revenue Trends: FY22 to FY23

	Approved FY22	Proposed FY23	change	% change	Impact on Rate (%)
Water and Sewer Rate Revenue (FY21 rates)	717,803,000	707,460,000	(10,343,000)	-1.4%	1.37
Account Maintenance Fee	31,866,000	31,838,000	(28,000)	-0.1%	0.00
Infrastructure Renewal Fee	38,808,000	38,794,000	(14,000)	0.0%	0.00
Rockville Sewer Use	3,100,000	3,100,000	-	0.0%	-
Plumbing and Inspection Fees	14,350,000	16,780,000	2,430,000	16.9%	(0.32)
Interest Income	1,000,000	2,800,000	1,800,000	180.0%	(0.24)
Miscellaneous	21,600,000	19,000,000	(2,600,000)	-12.0%	0.34
Uncollectable	-	(6,000,000)	(6,000,000)	n/a	0.79
Cost Sharing Reimbursement	-	635,000	635,000	n/a	(0.08)
Total Revenues	828,527,000	814,407,000	(14,120,000)	-1.7%	1.86
Use of Fund Balance	-	-	-	n/a	-
Premium Transfer	-	2,500,000	2,500,000	n/a	(0.33)
Underwriters Discount Transfer	2,000,000	2,000,000	-	0.0%	-
Adjustments for REDO and SDC Debt Service Offset	11,772,000	9,772,000	(2,000,000)	-17.0%	0.26
Funds Available	842,299,000	828,679,000	(13,620,000)	-1.6%	1.80

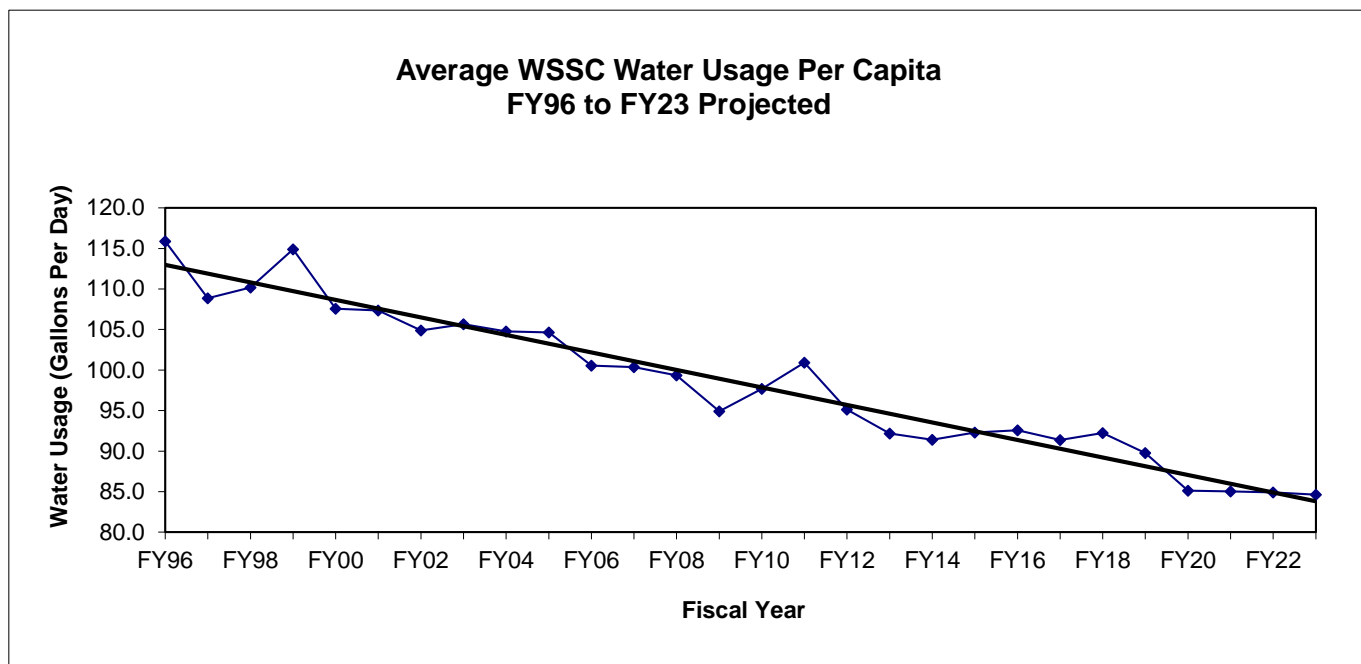
Revenue trends were discussed in detail during last fall's spending control limits process. The above chart compares WSSC Water's FY22 Approved Water and Sewer Operating Budget revenue assumptions with the Proposed FY23 Budget (assuming no water/sewer rate increase). The chart shows that water/sewer volumetric rate revenue (WSSC Water's dominant source of revenue) is expected to drop about \$10.4 million. This reduced revenue results in a rate impact of about 1.4 percent. The revenue loss was subsequently revised (per the Commission’s April 20 action writing down volumetric revenues by an additional \$7.0 million. Therefore, the total write-down is about \$17.4 million (with a rate impact of 2.3 percent).

Interest income is up based on current economic trends. NOTE: The April 20 Commission action increased projected FY23 interest income by \$2.3 million.

The use of REDO and SDC Debt Service Offset is also down \$2.0 million. The premium transfer which has not been budgeted in past years is reflected now and adds \$2.5 million to funds available.

Overall, funds available as assumed in the FY23 Proposed Budget are down by about \$13.6 million (equivalent to a 1.8 percent rate increase). However, when factoring in the April 20 adjustments, funds available are down \$18.4 million (equivalent to a 2.4 percent rate increase).

This trend of flat to declining revenues is not new and is the result of overall water consumption in the WSSCWater service area being essentially unchanged from 25 years ago, despite 33 percent growth in the WSSCWater population base over that same time. Per capita water usage is down 27 percent since FY96. While water conservation is a good thing from an environmental standpoint, it means WSSCWater's dominant revenue source has been stagnant, putting more pressure on rates. WSSCWater's unique rate structure in place until FY19 (where customers were billed at the highest tier into which their water usage fell) exacerbated this revenue decline as per capita usage went down. The current rate structure put in place for FY20 (while still an inclining block structure) bills through the tiers and results less revenue volatility as per capita usage changes than could occur under the old rate structure.



FY23 WSSCWater Proposed Budget Expenditures

Summary Charts

The following chart presents summary budget data for WSSCWater for the FY22 Approved and FY23 Proposed Budgets.

WSSC Expenditures by Fund (in \$000s)

	Approved	Proposed	Change	
	FY22	FY23	\$	%
Capital				
Water Supply	291,667	239,776	(51,891)	-17.8%
Sewage Disposal	384,600	343,508	(41,092)	-10.7%
General Construction	27,478	22,959	(4,519)	-16.4%
Total Capital	703,745	606,243	(97,502)	-13.9%
Operating				
Water Operating	380,565	385,037	4,472	1.2%
Sewer Operating	461,734	479,791	18,057	3.9%
Subtotal W&S Operating	842,299	864,828	22,529	2.7%
Interest and Sinking	9,794	8,700	(1,094)	-11.2%
Total Operating	852,093	873,528	21,435	2.5%
Grand Total	1,555,838	1,479,771	(76,067)	-4.9%

The combined total of the FY23 Capital and Operating Budgets is \$1.48 billion, a decrease of \$76.1 million (or 4.9 percent) from the Approved FY22 amount of \$1.56 billion.

The total proposed FY23 Operating Budget is \$873.5 million, an increase of \$21.4 million (or 2.5 percent) from the Approved FY22 Operating Budget of \$852.1 million.

Total Operating Expenditures by Category (in 000s)

Expense Categories	Approved	Proposed	Change	
	FY22	FY23	\$	%
Salaries and Wages	133,730	137,120	3,390	2.5%
Heat, Light, and Power	18,501	18,829	328	1.8%
Regional Sewage Disposal	59,160	60,343	1,183	2.0%
All Other	323,875	326,413	2,538	0.8%
Debt Service	316,827	330,823	13,996	4.4%
Total	852,093	873,528	21,435	2.5%

Proposed Water and Sewer Operating Expenditures for FY23 are \$864.8 million, an increase of \$22.5 million (or 2.7 percent) from FY22.

Water and Sewer Operating Expenditures by Category (in 000s)

Expense Categories	Approved	Proposed	Change	
	FY22	FY23	\$	%
Salaries and Wages	133,039	136,410	3,371	2.5%
Heat, Light, and Power	18,493	18,817	324	1.8%
Regional Sewage Disposal	59,160	60,343	1,183	2.0%
All Other	294,977	294,099	(878)	-0.3%
PAYGO	27,585	31,016	3,431	12.4%
Debt Service	309,045	324,144	15,099	4.9%
Total	842,299	864,829	22,530	2.7%

Major Changes in Total Operating Costs

Regional sewage disposal costs are paid by WSSCWater to DC Water to cover WSSCWater’s portion of costs for the Blue Plains Wastewater Treatment Plant’s operations. The costs are based on actual flows. For FY23, the amount is proposed at \$60.3 million, an increase of \$1.2 million from FY22.

The heat, light, and power category is up slightly by about 328,000 from FY22 (+1.8 percent) in Total Operating Expenditures (up \$324,000 in Water and Sewer Operating Expenses). However, recent world events are expected to lead to temporary increases in natural gas and electricity prices. Energy usage is ticking up as the volume of treated and pumped wastewater has increased as well as increased EPA requirements for treatment.

Over the past decade, WSSCWater has pursued a number of electricity retrofit initiatives, funded mostly through a large performance contract with Constellation Energy, which have helped offset operational changes increasing WSSCWater’s energy requirements (such as installation of ultraviolet disinfection processes). Also, reduced infiltration and inflow into WSSCWater’s sewer lines (thanks to sewer line rehabilitation efforts) has resulted in reduced flows to wastewater treatment plants and thereby reduced energy requirements as well.

WSSCWater also has made a major long-term investment in wind power through wholesale purchases from a wind farm in Pennsylvania. The current contract covers approximately 30 percent of WSSCWater’s power needs at fixed kWh rates.

Total Operating Expenditures assume an increase in debt service of about \$14 million (+4.4 percent) in FY23 (up about \$15.1 million and 4.9 percent in Water and Sewer Operating Expenses). However, the Commission’s approved mid-cycle update of the CIP is expected to reduce debt service by \$2.3 million in FY23, making the net increase closer to 11.7 million.

“All Other” Costs

The “All Other” category includes all operating costs not otherwise broken out above. The following table breaks out the Water and Sewer Operating Expenditures by major categories in the “All Other” category. NOTE: PAYGO and interest and sinking costs are not included here.

Total Operating "All Other" Category Breakout

Categories	Approved	Proposed	Change	
	FY22	FY23	\$	%
Services by Others and Prof. Serv	89,432	98,850	9,418	10.5%
Employee Benefits	61,414	64,034	2,620	4.3%
Outside Engineering	19,890	17,926	(1,964)	-9.9%
Contract Work	21,337	16,190	(5,147)	-24.1%
Other Professional Services	30,975	26,907	(4,068)	-13.1%
Materials	14,311	13,476	(835)	-5.8%
Contract Restoration	13,784	13,900	116	0.8%
Chemicals	13,103	13,474	371	2.8%
Miscellaneous Items	30,732	29,343	(1,389)	-4.5%
Total	294,978	294,100	(878)	-0.3%

In total, “All Other” Water and Sewer Operating costs are \$294.1 million in FY23 which is a slight decrease FY22.

Employee benefits are up about \$2.6 million to cover increased health insurance costs (\$1.7 million) and FICA (\$0.8 million) and retirement (\$0.1 million)

The largest increase in the “All Other” category is in the Services by Others category (+\$9.4 million). WSSCWater provided some additional detail on this increase as presented below:

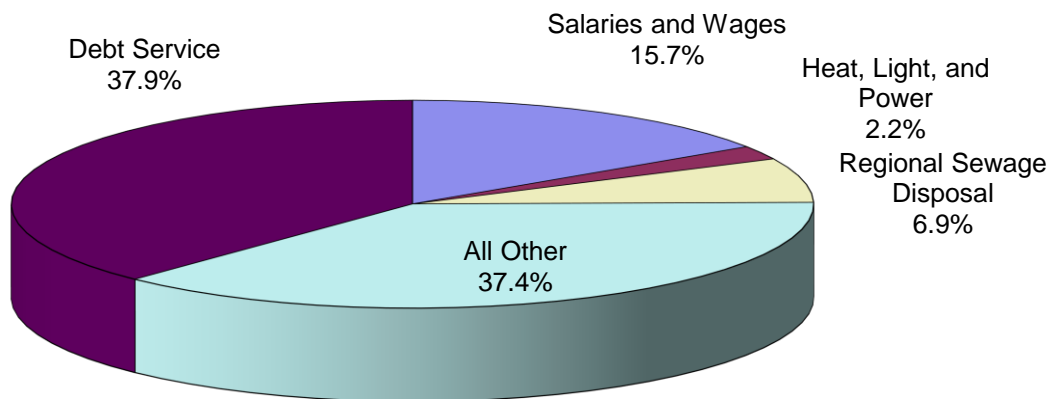
- \$3.0 million for the Call Center optimization project: *Customer service optimization to improve performance in the Customer Call Center.*
- \$1.2 million for the HCI cluster: *Hyperconverged infrastructure (HCI) is a combination of servers and storage with intelligent software to create flexible building blocks that replace legacy infrastructure. The funding for HCI cluster is requested by the IT department to support C2M moving over to HCI platform which currently running on Oracle Exalogic which is almost end of life and will decommission in 2022/2023. This enhancement to the system is also critical for compliance reasons and better disaster recovery.*
- \$3.0 million for the biosolids management support services
- \$1.0 million for the Little Seneca Forebay sediment removal: *The Little Seneca reservoir is a 3.9 billion gallon reservoir that is owned and maintained by WSSC Water, on behalf of the ICPRB CO-OP members. The Little Seneca reservoir was designed to include three sediment forebays for each of the three tributaries that feed into the reservoir: Ten-mile Creek, Cabin Branch, and Little Seneca Creek with purposes of trapping sediment. Since construction in 1983, the forebays have functioned to trap sediment, but without any sediment removal, sediment accumulation has decreased the Little Seneca Lake Reservoir’s capacity. The remaining capacity of the forebays range between 16 and 34 percent. As a result, a need has arisen to begin the planning process for the design, permitting and construction for sediment removal from the three forebays. This work will allow for the continued operation of the reservoir as a regional water supply drought mitigation facility as it was originally intended. Fairfax and the Washington Aqueduct will share the cost with WSSC Water. We have included the cost share amount of \$635k in revenue to offset \$1.0 million in expenditure.*
- \$1.2 million for the residual hauling contract for Western Branch and Patuxent

There are mostly decreases elsewhere in the other categories as noted in the Commission Chair’s Budget letter (see ©1-6) and on ©58-67.

Salary and Wages and Compensation

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

WSSC FY23 Proposed Operating Expenditures (\$873.5m)



WSSCWater’s personnel costs (and increases) are a small part of WSSCWater’s budget. The ratepayer impact of all Operating Budget salary changes from FY22 to FY23 is \$3.4 million (2.5 percent), which equates to about a 0.5 percent rate increase.

Even adding employee benefits⁹ (which are included in the “All Other” category), personnel costs for FY23 make up only 23 percent of operating budget expenditures. This ratio contrasts sharply with ratios in County Government, where personnel costs are 53 percent of County Government expenditures in the FY23 Recommended Budget. MCPS’s personnel costs have historically represented about 90 percent of its budget.

Ten new positions are requested:

- Production Department
 - Six positions are added to the biosolids management program as WSSCWater transitions to its new Bioenergy facility at the Piscataway Wastewater Treatment Facility (expected completion in November 2024).
 - One position is added to support the revised Federal lead and copper rule
- Engineering and Construction
 - One new inspector was added to Regulatory Services to support plumbing inspections
 - One new GIS technician was added to Engineering and Environmental Services to support the revised Federal lead and copper rule
- Office of Supplier Diversity and Inclusion
 - One new position was added to offset reduced contractual temporary services. No change in overall budget.

Compensation: The Approved FY21 WSSCWater Budget assumed no merit pay or COLAs for employees but instead included \$1,250 payments for WSSC employees who worked 50% or more on-site during FY21. For FY22, the agreement included \$750 payments to all employees in lieu of merit pay or

⁹ Benefit costs (such as Social Security, Group Insurance, and Retirement) are loaded in the “All Other” expense category and total about \$64.7 million for FY22.

COLAs.

For FY23, WSSCWater is still engaged in Union negotiations regarding FY23 salary enhancements.

Note: since WSSCWater’s budget is funded by ratepayers rather than by tax dollars, WSSCWater’s compensation increases do not directly compete for the same tax-supported funding that covers other County agency employees. However, in past years 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. Once decisions are finalized regarding County Government employee compensation, the WSSCWater employee compensation can be revisited if necessary.

Balancing Revenues and Expenditures

Each 1.0 percent of rate increase provides an estimated \$7.6 million in volumetric rate revenue. Additional revenue would be generated if the Account Maintenance Fee (AMF) and Infrastructure Investment Fee (IIF) are also increased by the same percentage increase.

WSSCWater’s Proposed Budget assumes a 7.0 percent rate increase with the same percentage increase assumed for its Account Maintenance Fee or Infrastructure Investment Fee. The following chart presents all the elements (plus and minus) that go into the rate increase request for FY23.

WSSC Water and Sewer Operating Funds Revenue and Expenditure Trends: FY22 to FY23

	Approved FY22	Proposed FY23	change	% change	Impact on Rate (%)
Water and Sewer Rate Revenue (FY21 rates)	717,803,000	707,460,000	(10,343,000)	-1.4%	1.37
Account Maintenance Fee	31,866,000	31,838,000	(28,000)	-0.1%	0.00
Infrastructure Renewal Fee	38,808,000	38,794,000	(14,000)	0.0%	0.00
Rockville Sewer Use	3,100,000	3,100,000	-	0.0%	-
Plumbing and Inspection Fees	14,350,000	16,780,000	2,430,000	16.9%	(0.32)
Interest Income	1,000,000	2,800,000	1,800,000	180.0%	(0.24)
Miscellaneous	21,600,000	19,000,000	(2,600,000)	-12.0%	0.34
Uncollectable	-	(6,000,000)	(6,000,000)	n/a	0.79
Cost Sharing Reimbursement	-	635,000	635,000	n/a	(0.08)
Total Revenues	828,527,000	814,407,000	(14,120,000)	-1.7%	1.86
Use of Fund Balance	-	-	-	n/a	-
Premium Transfer	-	2,500,000	2,500,000	n/a	(0.33)
Underwriters Discount Transfer	2,000,000	2,000,000	-	0.0%	-
Adjustments for REDO and SDC Debt Service Offset	11,772,000	9,772,000	(2,000,000)	-17.0%	0.26
Funds Available	842,299,000	828,679,000	(13,620,000)	-1.6%	1.80
Expenditures					
Salaries & Wages	133,039,000	136,410,000	3,371,000	2.5%	0.45
Heat, Light & Power	18,493,000	18,817,000	324,000	1.8%	0.04
Regional Sewage Disposal	59,160,000	60,343,000	1,183,000	2.0%	0.16
All Other	294,977,000	294,099,000	(878,000)	-0.3%	(0.12)
Debt Service	309,045,000	324,144,000	15,099,000	4.9%	1.99
PAYGO	27,585,000	31,016,000	3,431,000	12.4%	0.45
Total Expenditures	842,299,000	864,829,000	22,530,000	2.7%	2.97
Increase Fund Balance Per Financial Plan		18,317,000			
Gap (Surplus)	-	54,467,000			-
Rate Increase Requirement		7.0%			

Overall, the gap at current volumetric rates (plus increasing fund balance to help meet the financial metrics discussed earlier) is about \$54.5 million; equivalent to a 7.0 percent rate increase (when assuming equivalent percentage increases in the AMF and IIF). Of this gap, the change in expenditures from FY22

to FY23 accounts for less than half of the rate increase (\$22.5 million or an equivalent rate increase of 2.97 percent). If taking increased debt service out of the equation, the equivalent rate increase related to expenditures would only be about 1.0 percent.

Reductions Made Within the Proposed Budget

WSSC had to make significant reductions during its internal budget process to meet the 7.0 percent rate increase requirement. These reductions are summarized in the Chair's letter on ©2-3 with more detail provided on ©58-67. These reductions involve emergency response, work order backlogs, various other reductions in monitoring, maintenance and repair activities, and other service reductions.

The cuts WSSCWater made to get to its Proposed Budget reflect difficult choices regarding increasing the risk of infrastructure failures and the potential consequences of those failures. In the short-term these cuts may be manageable with hopefully only marginal impacts on customers or operations. However, these cuts do not appear to be sustainable over time.

The Long-Range Financial Plan indicates that WSSCWater continues to have a structural funding problem (flat revenue trends requiring higher than currently supported volumetric rate increases). This, combined with a change from a stable to negative outlook by the Bond Rating Agency Fitch last year and the difficult service reductions WSSCWater is making as part of the FY23 Budget, indicates to Council Staff that further discussions by both Councils are needed with the goal of coming to agreement on a multi-year fiscal plan.

Council Staff recommends that these structural issues be taken up after budget in advance of the spending control limits discussions this fall.

April 20 Budget Amendments

On April 20, the WSSCWater Commissioners approved amendments to the Proposed Operating Budget including:

- Reduce FY23 projected Water and Sewer volumetric revenue by \$7.04 million based on lower usage in Tier 4 (the highest tier)
- Increase Interest Income by \$2.3 million (already assumed in the FY23 Proposed Budget but an increase from the assumptions used to build the 7.0 percent increase in the Preliminary Proposed budget)
- Reduce debt service by \$2.3 million based on the FY23-28 CIP Mid-Cycle Update Approved by the Commissioners earlier this year.
- Increase lapse from 4 percent to 6 percent (savings of \$3.3 million; \$2.64 million in rate-related expenditures)
- Reduce Project Cornerstone expenditures (savings of \$4.8 million; \$3.9 million in rate-related expenditures) consistent with recent Commission decision to pause the program while an audit is underway.

Overall, these changes will result in net savings to the Total Budget of \$5.6 million and savings of \$4.1 million to the Rate-Related portion of the Operating Budget.

The Commissioners recommend that the savings revert to fund balance to further improve WSSCWater's financial metrics.

Council Staff recommends the T&E Committee support the above changes but that the savings be used to reduce the FY23 Rate increase requirement to 6.5 percent (consistent with the rate ceiling approved by both Council's last fall).

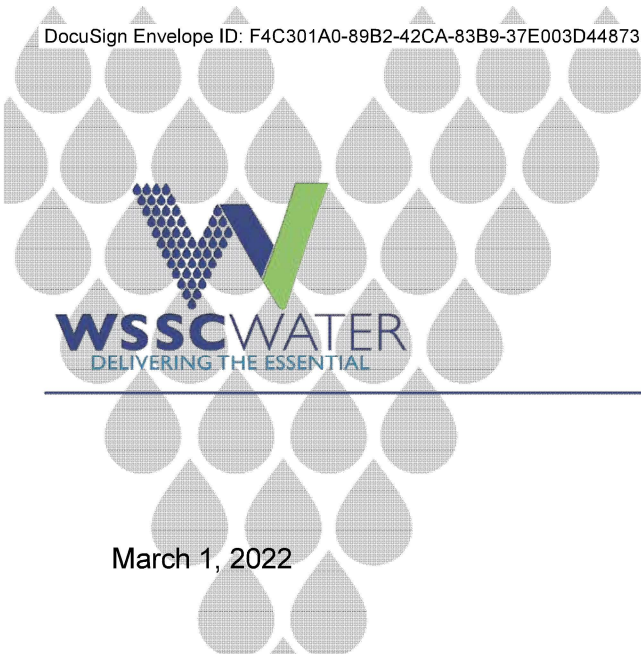
Summary of Council Staff Recommendations

Council Staff concurs with WSSCWater to maintain System Development Charge (SDC) rates for FY23 at current approved levels and to increase the maximum chargeable rate (the rate the charge could be increased in the future) by a CPI adjustment (6.4 percent) as allowed for under State law. *NOTE: Final action on the charge will occur via action on a resolution in mid-May.*

Council Staff recommends:

- Approval of the FY23 WSSCWater Operating Budget amendments approved by the Commission on April 20
- Assuming the FY23 WSSCWater Operating Budget is reduced by the \$4.1 million in net savings from the Commission's April 20 amendments to its Proposed Water and Sewer/rate-related budget.
- Assuming a 6.5 percent rate increase (the rate ceiling supported by both Council's last fall).
- Revisiting WSSCWater's structural funding issues after budget

Attachments



COMMISSIONERS
Keith E. Bell, Chair
Howard A. Denis, Vice Chair
Fausto R. Bayonet
T. Eloise Foster
Chris Lawson

GENERAL MANAGER
Carla A. Reid

March 1, 2022

The Honorable Angela D. Alsobrooks, Prince George's County Executive
The Honorable Marc Elrich, Montgomery County Executive
The Honorable Calvin S. Hawkins II, Chair, Prince George's County Council
The Honorable Gabe Albornoz, President, Montgomery County Council

Dear Ms. Alsobrooks, Mr. Elrich, Mr. Hawkins, and Mr. Albornoz:

I am hereby transmitting WSSC Water's Proposed Fiscal Year 2023 (FY 2023) Capital and Operating Budget document. This document is released and distributed on this date for review by interested customers, citizens and elected officials.

Serious Financial Challenges Due to COVID-19

WSSC Water has lost approximately \$150 million in revenue from March of 2020 to date, which has required budget cuts of roughly \$150 million in FYs 2020 through 2022. Sadly, one in five customers is past due on their bills – equating to approximately 80,000 delinquent accounts and over \$60 million past due. Despite repeated requests for direct assistance to address these delinquencies, we have yet to receive federal, state or county assistance. The ongoing loss of revenue due to the global health and financial crisis has caught the attention of the bond rating agencies. While we maintained our AAA bond rating, one agency changed our outlook from stable to negative. The other rating agencies noted the need to maintain sufficient debt coverage ratios and reserve levels to maintain the rating. The potential loss of our coveted AAA rating would adversely impact debt service, which is our largest expense, and result in millions in additional costs.

Trend: Reduced Revenues and Ongoing Budget Cuts Take Their Toll

The impact of COVID-19 is taking place during a long-term trend of reduced water consumption of nearly 6% over the last 20 years. To keep pace with rising costs and service demands and to help offset revenue loss, we requested a 9% rate increase, which was not supported by the County

Councils when setting our Spending Affordability Guidelines. For the past three years, the councils have recommended rate increases that were 2% lower than our request – resulting in continued budget cuts. The impact of the factors outlined above is creating revenue deficits that are growing bigger each year.

Cutting to the Bone: FY 2023 Proposed Budget

With this as a backdrop, we have built a FY 2023 Proposed Budget based on a 7% average rate increase – requiring over \$133 million in additional cuts to the operating and capital budgets. Our customers will feel the impacts of these cuts. Here are a few examples:

- \$2.6 million for critical sewer work: Increases the likelihood of sewer overflows due to infiltration and inflow in the Piscataway Sewer Basin;
- \$1.8 million for emergency response: Jeopardizes timely response to emergencies resulting in more frequent and longer service disruptions and that may result in increased fines due to sewer overflows;
- \$0.5 million for Acoustic Fiber Optic (AFO) Monitoring: Increases risk of large-diameter pipe failures like the 2008 massive break along River Road requiring the rescue of numerous motorists; and
- \$1.0 million for Customer Service: Increases customer complaints, work backlog and employee stress.
- \$110.5 million to rehabilitate, replace and/or upgrade our aging infrastructure: Includes deferral of 7 wastewater pumping station (WWPS) and force main (FM) projects that lift wastewater from low-lying areas into the gravity-flow systems of adjacent drainage basins; deferral of 2 large water transmission main projects to improve service reliability in Prince George’s County; reductions to our small and large diameter water main rehabilitation and replacement programs; and several other deferrals and reductions as outlined below.
 - Montgomery County (\$1,270,000 cut in FY 2023)
 - Arcola WWPS & FM (\$690,000)
 - Reddy Branch WWPS & FM (\$275,000)
 - Sam Rice Manor WWPS & FM (\$173,000)
 - Spring Gardens WWPS Replacement (\$132,000)
 - Prince George’s County (\$37,653,000 cut in FY 2023)
 - South Potomac Supply Improvement, Phase 2 (\$22,552,000)
 - Prince George’s County 450A Zone Water Main (\$14,410,000)
 - Carondale WWPS & FM (\$345,000)
 - Colmar Manor WWPS & FM (\$173,000)
 - Forest Heights WWPS & FM (\$173,000)
 - Bi-County/Information Only (\$71,567,000 cut in FY 2023)
 - Water Reconstruction Program (\$27,725,000)
 - Large Diameter Water Pipe & Large Valve Rehabilitation Program (\$18,641,000)
 - Septage Discharge Facility Planning & Implementation (\$12,959,000)
 - Engineering Support Program (\$5,699,000)
 - Anacostia Depot Reconfiguration (\$1,314,000)
 - Other Capital Programs (\$5,229,000)

These cuts are not without risks and may increase the likelihood of sanitary sewer overflows (SSOs) and water service outages in many communities throughout both counties, resulting in health hazards and environmental impacts. The cuts will also result in delays to operational and energy efficiency improvements to multiple facilities, which will impact the time it takes for our crews to respond to water/sewer emergencies and increase our vulnerability to events driven by climate change.

See Section 1 of the proposed budget document for the entire list of reductions and their associated impacts.

Budget Overview

The proposed budget for FY 2023 for all operating and capital funds totals \$1.480 billion or \$76.1 million (4.9%) less than the FY 2022 Approved Budget. The proposed operating budget of \$873.5 million represents an increase of \$21.4 million (2.5%) over the FY 2022 Approved Operating Budget of \$852.1 million. When controlling for the non-discretionary increases in debt service and regional sewage disposal expenses, the FY 2023 operating budget is only 1.1% over the FY 2022 Approved Budget.

As stated above, services and operations will be impacted by the reductions included in this budget. However, the budget does fund some essential improvements including much needed repairs at our facilities, water tank painting to prevent metal corrosion, and continuation of cybersecurity enhancements to protect customer data and Information Technology (IT) system security. Funding is also included for positions and funding for training, initial start-up, and testing of the new Biosolids Management Division; for positions and funding to comply with the new regulatory requirements due to a change to the Lead and Copper Rule; for the Little Seneca Reservoir Forebay sediment removal project (at a reduced level); for compliance with the regulatory requirements for dam inspection and monitoring; and for the Call Center Optimization Project to enhance customer experience.

The proposed capital budget of \$606.2 million is \$97.5 million (13.9%) less than the FY 2022 Approved Capital Budget of \$703.7 million. The decrease is due to the reductions to the CIP which are listed on the second page of this letter.

Customer Impacts and Affordability

The 7.0% rate increase will add approximately \$16.92 per quarter to the bill of a customer using 165 gallons per day, the average per person consumption of 55 gallons per day for a 3-person household. Even with the rate increase, WSSC Water rates continue to be favorable when compared to many other comparable, regional water and sewer utilities, and the average residential bill is 1.1% of the median household income.

Like many utilities across the country, WSSC Water continues to face the challenge of balancing increasing costs for infrastructure and operations with affordability considerations for our customers. In FY 2022, for the typical three-person household using 165 gallons per day, WSSC Water (\$241) is lower than Baltimore (\$406) and DC Water (\$398) and comparable to Fairfax (\$219). WSSC Water also has the lowest fixed fees of all four utilities. While the average costs to ensure access to clean,

safe drinking water and efficient wastewater treatment compares favorably to other household utilities and expenses, more residents are struggling to meet their monthly expenses during these unprecedented and uncertain times. However, it is essential to price water at the cost of safely producing and delivering this essential resource and to offer assistance programs for our most vulnerable customers.

The Customer Assistance Program (CAP) was created in FY 2016 to help economically disadvantaged customers by providing financial assistance with water and sewer bills. The CAP has already reached thousands of our customers in the current fiscal year. The CAP will continue in FY 2023 and the proposed budget estimates the revenue offset at \$2.2 million. Note that CAP customers are automatically enrolled in the Bay Restoration Fund exemption, which waives the state-mandated Bay Restoration Fund fee of up to \$60 per year.

The Water Fund is another program that aids eligible customers in need of assistance. Customers can make multiple requests for assistance with water and sewer bills up to \$500 per year. Also, in accordance with House Bill 408 enacted in the FY 2018 legislative session, the budget includes \$100,000 to continue the Connection Pipe Emergency Replacement Loan Program, which provides affordable financing of up to \$5,000 per eligible customer. In total, WSSC Water's FY 2023 budget includes \$3.5 million, a \$200,000 increase from the current fiscal year budget, to help more customers afford their water/sewer bills. This increase was made despite the significant cuts to our budget.

Infrastructure Reliability

The budget proposes the rehabilitation of 25 miles of smaller water mains (<16 inches in diameter). This is a reduction of 12 miles. For large diameter water mains, the PCCP Program provides for the ongoing AFO monitoring of over 100 miles of pipe, ongoing inspection, and rehabilitation and replacement of large diameter pipes. Inspection, rehabilitation and replacement of large valves continues at two per year. The PCCP program will continue building toward a goal of replacing up to two miles per year, with several projects in the planning and design phases. Replacement of ferrous pipes, originally projected at six miles, has been reduced to five miles. Funding is also included for the continued compliance with all requirements of the WSSC Water Sanitary Sewer Overflow and Potomac Water Filtration Plant Consent Decrees.

Several of these programs will be impacted by the reductions to the annual capital budget necessary to fit within funding constraints. Reductions have been made to the AFO monitoring, PCCP inspection and condition assessment and many other programs and there are risks associated with these cuts.

Information Technology Strategic Plan

Unfortunately, cyber threats continue to be an issue nationwide. We must remain vigilant in guarding against attacks targeting our infrastructure, customers, and employees. Although we had to make very deep reductions, the FY 2023 budget invests in our organizational infrastructure. Funding is included to continue enhancing our cybersecurity program to efficiently and effectively mitigate cybersecurity risks by ensuring our electronic data, computer systems and networks are protected from theft, attack, or unauthorized access. Cybersecurity program initiatives include artificial intelligence

threat detection, new end-user security awareness training and risk reduction of identity theft through two-step authentication.

SPENDING AFFORDABILITY

WSSC Water, in cooperation with the Montgomery and Prince George’s County governments, continues to participate in the spending affordability process. This 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, maintain affordable rates, and maintain operating and capital budgets and debt service at prudent and sustainable levels. Last fall, the Montgomery and Prince George’s county councils approved resolutions establishing four limits on WSSC Water’s FY 2023 budget. As indicated in the following table, the proposed budget does not meet the spending affordability limits for Water/Sewer Operating Expenses and Average Water/Sewer Rate Increase for reasons previously discussed.

WSSC WATER FY 2023 PROPOSED BUDGET VS. SPENDING AFFORDABILITY LIMITS
 (\$ in Millions)

	<u>FY 2023 Proposed Budget</u>	<u>Prince George’s County Limit</u>	<u>Montgomery County Limit</u>
New Water and Sewer Debt	\$358.8	\$430.1	\$430.1
Total Water and Sewer Debt Service	\$324.1	\$328.4	\$328.4
Total Water/Sewer Operating Expenses	\$864.8	\$859.4	\$859.4
Water/Sewer Rate Revenue Increase	7.0%	6.5%	6.5%

In addition to reviewing expenses and revenues for water and sewer services, we have analyzed the cost and current fee levels for other WSSC Water services. Based upon these analyses, and to better align fees with program costs, adjustments to current fees are recommended (Section 2).

SYSTEM DEVELOPMENT CHARGE

State law provides that the System Development Charge (SDC), a charge to new applicants for WSSC Water service, which is intended to recover growth costs, may be adjusted annually by the change in the Consumer Price Index for the Urban Wage Earners and Clerical Workers (CPI-W) in the Washington, D.C. metropolitan area. Historically, we have adjusted the maximum allowable charge based on the change in the November CPI-W. We have done the same this year. Rates and policy are currently under review by the SDC Workgroup.

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, 2022.

This is one of the most difficult WSSC Water budgets developed due to the drastic cuts necessary to fit within the 7% average rate increase while ensuring we continue to protect public health and safety by providing safe, clean and reliable water and maintaining our AAA bond rating. This proposed budget does support some of WSSC Water's strategic priorities, but customers will feel the impact on services.

Sincerely,

DocuSigned by:
Keith Bell
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Keith E. Bell
Commission Chair

cc:
Members of Prince George's County Council
Members of Montgomery County Council
Members of the Maryland General Assembly

COMPARATIVE EXPENSES

Comparative Expenses by Fund

(\$ in thousands)	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Approved	FY 2023 Proposed	Over/(Under) FY 2022	% Change
Operating Funds							
Water Operating	\$ 339,200	\$ 338,471	\$ 335,324	\$ 380,565	\$ 385,037	\$ 4,472	1.2 %
Sewer Operating	419,633	413,421	401,300	461,734	479,791	18,057	3.9 %
General Bond Debt Service	18,847	14,292	12,006	9,794	8,700	(1,094)	(11.2)%
Total Operating	\$ 777,680	\$ 766,184	\$ 748,630	\$ 852,093	\$ 873,528	\$ 21,435	2.5 %
Capital Funds							
Water Supply Bond	\$ 210,783	\$ 162,378	\$ 142,441	\$ 291,667	\$ 239,776	\$ (51,891)	(17.8)%
Sewer Disposal Bond	152,891	211,729	265,865	384,600	343,508	(41,092)	(10.7)%
General Construction	23,121	20,278	18,587	27,478	22,959	(4,519)	(16.4)%
Total Capital	\$ 386,795	\$ 394,385	\$ 426,893	\$ 703,745	\$ 606,243	\$ (97,502)	(13.9)%
Grand Total	\$ 1,164,475	\$ 1,160,569	1,175,523	\$ 1,555,838	\$ 1,479,771	\$ (76,067)	(4.9)%

Comparative Expenses by Major Expense Category

(\$ in thousands)	FY 2021 Actual			FY 2022 Approved			FY 2023 Proposed		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Expense Categories									
Salaries & Wages	\$ 25,911	\$ 131,799	\$ 157,710	\$ 27,449	\$ 133,730	\$ 161,179	\$ 28,172	\$ 137,120	\$ 165,292
Heat, Light & Power	-	18,234	18,234	222	18,501	18,723	230	18,829	19,059
Regional Sewage Disposal	-	58,658	58,658	-	59,160	59,160	-	60,343	60,343
Contract Work	217,590	-	217,590	444,405	21,337	465,742	351,478	-	351,478
Consulting Engineers	42,349	-	42,349	79,614	19,890	99,504	72,122	-	72,122
Debt Service	-	291,980	291,980	-	316,827	316,827	-	330,823	330,823
All Other	141,043	247,959	389,002	152,055	282,648	434,703	154,241	326,413	480,654
Grand Total	\$ 426,893	\$ 748,630	\$ 1,175,523	\$ 703,745	\$ 852,093	\$ 1,555,838	\$ 606,243	\$ 873,528	\$ 1,479,771

HOW EACH OPERATING DOLLAR IS SPENT



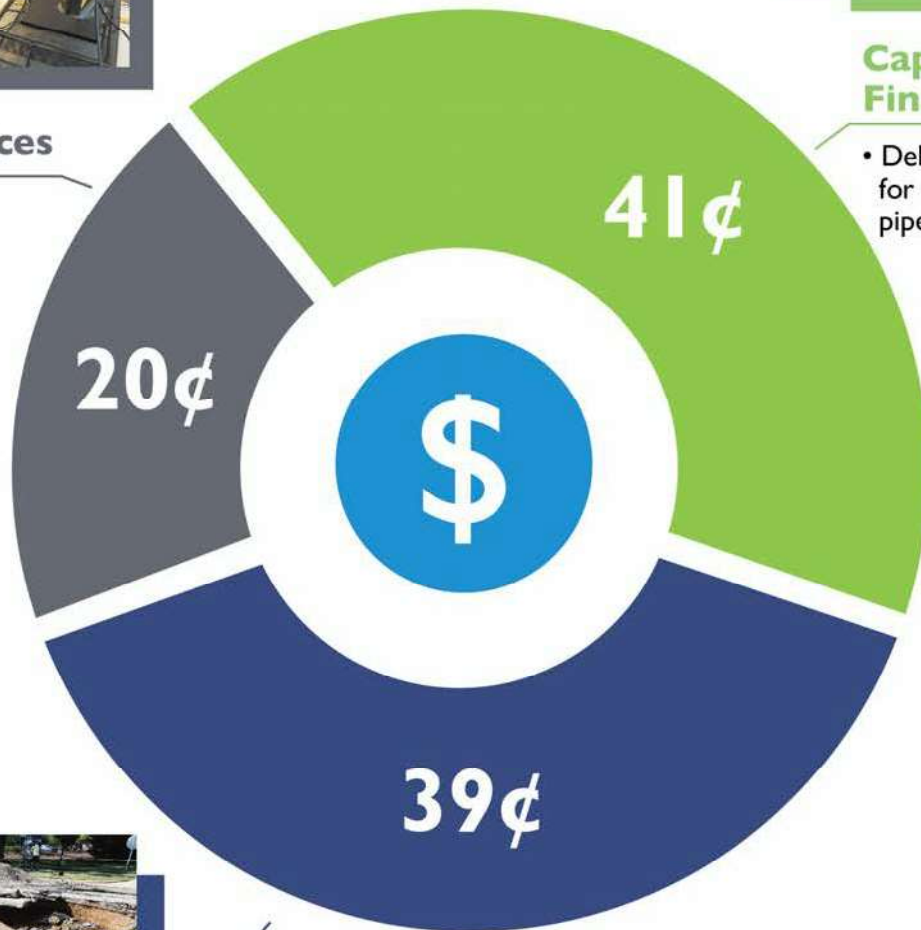
Support Services

- Governance and management of organization
- Customer service
- Corporate finance
- Employee benefits



Capital Project Financing

- Debt payments and cash for the construction of pipes and facilities



Operations & Maintenance

- Operations and maintenance for facilities (including share of Blue Plains)
- Fixing broken or leaking pipes and repairing roads
- Heat, light, and power for facilities
- Maintaining vehicles and equipment



REVENUE AND EXPENSE TRENDS

Water & Sewer Operating Funds - Combined

(\$ in thousands)	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Approved	FY 2023 Proposed
Revenues					
Water Consumption Charges	\$ 273,753	\$ 271,173	\$ 275,019	\$ 318,941	\$ 341,459
Sewer Use Charges	341,496	346,985	353,536	398,862	415,532
Account Maintenance Fees	32,116	35,922	32,346	31,866	34,063
Infrastructure Investment Fees	39,278	42,781	39,886	38,808	41,505
Plumbing and Inspection Fees	13,594	14,425	16,882	14,350	16,780
Rockville Sewer Use	3,106	3,147	3,147	3,100	3,100
Miscellaneous	20,913	21,053	16,948	21,600	19,000
Interest Income	9,306	4,881	392	1,000	2,800
Uncollectable	-	-	-	-	(6,000)
Cost Sharing Reimbursement	-	-	-	-	635
Total Operating Revenues	\$ 733,562	\$ 740,367	\$ 738,156	\$ 828,527	\$ 868,874
Other Credits and Transfers					
Use of Fund Balance	11,580	11,341	8,000	-	-
Reconstruction Debt Service Offset	12,500	11,600	9,500	6,000	4,000
SDC Debt Service Offset	5,551	6,695	5,772	5,772	5,772
Premium Transfer	-	7,904	7,151	-	2,500
Underwriters Discount Transfer	-	-	2,000	2,000	2,000
Total Funds Available	\$ 763,193	\$ 777,907	\$ 770,579	\$ 842,299	\$ 883,146
Expenses					
Salaries & Wages	125,100	131,711	130,884	133,039	136,410
Heat, Light & Power	19,683	15,534	18,234	18,493	18,817
Regional Sewage Disposal	54,809	56,414	58,658	59,160	60,343
Debt Service					
Principal Payments	153,565	154,238	151,398	170,902	182,649
Interest Payments	121,819	125,507	130,446	138,143	141,495
PAYGO	15,754	-	-	27,585	31,016
All Other	268,103	268,488	247,004	294,977	294,099
Total Expenses	\$ 758,833	\$ 751,892	\$ 736,624	\$ 842,299	\$ 864,829

Note: In the FY 2023 Proposed Budget, WSSC Water revenues appear higher than the expenditures as there is a budgeted \$18.3 million increase in reserves to improve the Days Operating Reserve-on-Hand metric. See page 4-4.

SECTION 2
PROPOSED RATES, FEES AND CHARGES

PROPOSED RATES, FEES AND CHARGES

Presented in this section are the Fiscal Year (FY) 2023 proposed variable and fixed rates, as well as fees and charges that will be effective July 1, 2022. The majority of WSSC Water’s revenue is derived from user charges for high-quality water and sewer services provided to customers. WSSC Water assessed these rates through an in-depth process ensuring revenue stability, cost recovery, conservation management and affordability.

COMBINED WATER AND SEWER OPERATING FUNDS - PROPOSED RATE IMPACT

7.0% Average Water and Sewer Rate Increase

FUNDING SOURCES		FY 2023 Proposed (\$ in thousands)
<u>Revenues at Current Rates</u>		
Consumption Charges	\$	707,460
Account Maintenance Fees (AMF)		31,838
Infrastructure Investment Fees (IIF)		38,794
Uncollectable		(6,000)
Miscellaneous Revenues		42,315
Subtotal	\$	814,407
<u>Other Credits and Transfers</u>		
Reconstruction Debt Service Offset		4,000
Systems Development Charges (SDC) Debt Service Offset		5,772
Premium Transfer		2,500
Underwriters Discount Transfer		2,000
Total Funding Sources	\$	828,679
<u>EXPENSES</u>		
Operating, Maintenance & Support Services Expenses		509,669
Debt Service		324,144
Pay-As-You-GO (PAYGO)		31,016
Additional Cash Balance Reserve		18,317
Total Expenses	\$	883,146
Shortfall to be Covered by Rate Increase	\$	<u>(54,467)</u>
Proposed Average Water and Sewer Rate Increase (Shortfall divided by Consumption Charges, AMF and IIF)		<u>7.0 %</u>

The FY 2023 Proposed Budget calls for a combined 7.0% average increase in water consumption, sewer use revenue, AMF and IIF. This proposed increase exceeds the 6.5% Spending Affordability Guidelines (SAG) limit recommended by both Prince George’s and Montgomery Counties. Even with the 7.0% rate increase, WSSC Water rates remain favorable when compared to many other comparable water and sewer utilities as shown on page 3-19.

WATER AND SEWER RATE SCHEDULES

Proposed Rate Schedule Effective July 1, 2022

Average Daily Consumption by Customer Unit During Billing Period (Gallons Per Day)	FY 2023 July 1, 2022 Proposed		Total
	Water Rates	Sewer Rates	Combined
	Per 1,000 Gallons		
0 - 80.9999	\$ 6.13	\$ 8.14	\$ 14.27
81 - 165.9999	6.93	9.05	15.98
166 - 275.9999	7.98	11.35	19.33
276 & Greater	9.35	14.99	24.34

Proposed Flat Rate Sewer Charge - \$142.00 per quarter

Current Rate Schedule

Average Daily Consumption by Customer Unit During Billing Period (Gallons Per Day)	FY 2022 July 1, 2021 Approved		Total
	Water Rates	Sewer Rates	Combined
	Per 1,000 Gallons		
0 - 80.9999	\$ 5.76	\$ 7.58	\$ 13.34
81 - 165.9999	6.51	8.42	14.93
166 - 275.9999	7.50	10.57	18.07
276 & Greater	8.79	13.96	22.75

Approved Flat Rate Sewer Charge - \$142.00 per quarter

QUARTERLY CUSTOMER BILLS AT VARIOUS CONSUMPTION LEVELS

Meter Size	Average Daily Consumption (Gallons Per Quarter)	Approved FY 2019	Approved FY 2020	Approved FY 2021	Approved FY 2022	Proposed FY 2023
3/4" Residential Meter	100 (9,125 gal/qtr)	\$ 127.01	\$ 138.94	\$ 145.58	\$ 152.48	\$ 163.18
3/4" Residential Meter	165 (15,056 gal/qtr)	213.95	217.83	229.21	241.04	257.96
3/4" Residential Meter	500 (45,625 gal/qtr)	851.99	794.66	840.78	888.79	950.95
2" Meter	1,000 (91,250 gal/qtr)	1,952.14	1,903.02	2,004.81	2,110.76	2,258.47
3" Meter	5,000 (456,250 gal/qtr)	9,552.44	9,736.92	10,284.01	10,853.51	11,612.57
6" Meter	10,000 (912,500 gal/qtr)	19,878.88	19,748.55	20,852.26	22,001.19	23,539.69

Amounts include the Account Maintenance Fees and Infrastructure Investment Fees shown on pages 2-4 and 2-5.

ACCOUNT MAINTENANCE FEES

Proposed For Implementation July 1, 2022

Meter Size	FY 2022 Current Quarterly Charges	FY 2023 Proposed Quarterly Charges
<u>Small Meters</u>		
5/8" to 1"	\$ 16.00	\$ 17.00
<u>Large Meters</u>		
1-1/2"	16.00	17.00
2"	27.00	29.00
3"	66.00	71.00
4"	142.00	152.00
6"	154.00	165.00
8"	200.00	214.00
10"	246.00	263.00
<u>Detector Check Meters</u>		
2"	33.00	35.00
4"	177.00	189.00
6"	255.00	273.00
8"	461.00	493.00
10"	633.00	677.00
<u>Fire Service Meters</u>		
4"	182.00	195.00
6"	293.00	314.00
8"	452.00	484.00
10"	682.00	730.00
12"	989.00	1,058.00

This quarterly fee is prorated based on the number of days in the billing cycle.

INFRASTRUCTURE INVESTMENT FEES

Proposed For Implementation July 1, 2022

Meter Size	FY 2022 Current Quarterly Charges		FY 2023 Proposed Quarterly Charges	
<u>Small Meters</u>				
5/8"	\$	11.00	\$	12.00
3/4"	\$	12.00	\$	13.00
1"	\$	14.00	\$	15.00
<u>Large Meters</u>				
1-1/2"	\$	90.00	\$	96.00
2"	\$	185.00	\$	198.00
3"	\$	585.00	\$	626.00
4"	\$	813.00	\$	870.00
6"	\$	1,265.00	\$	1,354.00
8"	\$	2,845.00	\$	3,044.00
10"	\$	4,425.00	\$	4,735.00
<u>Fire Service Meters</u>				
4"	\$	499.00	\$	534.00
6"	\$	616.00	\$	659.00
8"	\$	2,524.00	\$	2,701.00
10"	\$	2,714.00	\$	2,904.00
12"	\$	5,214.00	\$	5,579.00

This quarterly fee is prorated based on the number of days in the billing cycle.

SYSTEM DEVELOPMENT CHARGES

Proposed For Implementation July 1, 2022

SDC Category	FY 2022 Current Charges	FY 2023 Proposed Charges	Current Maximum Allowable	Proposed Maximum Allowable
Apartment				
Water	\$ 896	\$ 896	\$ 1,368	\$ 1,456
Sewer	1,140	1,140	1,741	1,852
1-2 toilets/residential				
Water	1,344	1,344	2,054	2,185
Sewer	1,710	1,710	2,609	2,776
3-4 toilets/residential				
Water	2,240	2,240	3,422	3,641
Sewer	2,850	2,850	4,354	4,633
5 toilets/residential				
Water	3,135	3,135	4,789	5,095
Sewer	3,991	3,991	6,096	6,486
6+ toilets/residential (per fixture unit)				
Water	88	88	136	145
Sewer	115	115	178	189
Non-residential (per fixture unit)				
Water	88	88	136	145
Sewer	115	115	178	189

No increase is proposed for the System Development Charges for FY 2023 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 6.4% change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for all items in the Washington, D.C. metropolitan area from November 2020 to November 2021.

MISCELLANEOUS FEES AND CHARGES - PROPOSED FOR IMPLEMENTATION JULY 1, 2022

WSSC Water 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, 2022.

Fee/Charge Number and Name	Current	FY 2023 Proposed	Charge Change
INSPECTIONS, LICENSES AND PERMITS			
I Inspection Fees - Water/Sewer Connection Hookup, Well/Septic Hookup, Plumbing and Gas-fitting Inspections			
<u>Plumbing and Gas-fitting Inspections</u>			
New Single Family Detached Dwellings and Townhouses	\$ 1,112	\$ 1,225	Yes
New Attached Dwellings (townhouses/multiplex excluding apartments)	1,112	1,225	Yes
<u>All Other Residential</u>			
Water/Well Hookup	145	150	Yes
Meter Yoke Inspection (meter only installation)	145	150	Yes
Water Hookup Converting from Well (includes 2 inspections)	290	300	Yes
Sewer/Septic Hookup	145	150	Yes
First Plumbing Fixture	145	150	Yes
Each Additional Fixture	61	70	Yes
SDC Credit Fixture Inspection (per fixture)	53	60	Yes
Minimum Permit Fee	263	265	Yes
Permit Reprocessing Fee	75	75	-
Long Form Permit Refund Fee	263	265	Yes
Long Form Permit Re-Issue Fee	263	265	Yes
<u>All Non-Residential</u>			
<u>Plan Review without Permit Application</u>			
25 Fixtures or Less	550	535	Yes
26-200 Fixtures	2,344	2,670	Yes
Over 200 Fixtures	4,670	5,370	Yes
<u>2nd or 3rd Review (with or without permit application)</u>			
25 Fixtures or Less	202	215	Yes
26-200 Fixtures	526	605	Yes
Over 200 Fixtures	1,119	1,285	Yes
Water/Well Hookup	259	270	Yes
Meter Yoke Inspection (meter only installation)	259	270	Yes
Sewer/Septic Hookup	259	270	Yes
FOG Interceptor	259	270	Yes
First Plumbing Fixture	259	270	Yes
Each Additional Fixture	64	70	Yes
SDC Credit Fixture Inspection (per fixture)	53	60	Yes
Minimum Permit Fee	371	385	Yes
Permit Reprocessing Fee	75	75	-
Long Form Permit Refund Fee	383	385	Yes
Long Form Permit Re-Issue Fee	383	385	Yes

MISCELLANEOUS FEES AND CHARGES - PROPOSED FOR IMPLEMENTATION JULY 1, 2022

Fee/Charge Number and Name	Current	FY 2023 Proposed	Charge Change
INSPECTIONS, LICENSES AND PERMITS (Continued)			
2 License Fees for the Regulated Trades			
<u>Reciprocal Master Plumber, Gas-fitter</u>			
Initial Registration per type (for 2 years)	\$ 135	\$ 140	Yes
Registration Renewal all types (for 2 years)	117	115	Yes
Late Registration Renewal	69	70	Yes
<u>Examined Master Plumber, Gas-fitter</u>			
Initial Registration per type (for 4 years)	143	150	Yes
Registration Renewal all types (for 4 years)	143	150	Yes
Late Registration Renewal	69	70	Yes
Cross-connection Technician Registration	35	35	-
Sewer and Drain Registration and Renewal (for 2 years)	61	60	Yes
Sewer and Drain Late Renewal Fee	26	30	Yes
<u>Journeyman License Registration</u>			
Initial Registration per type (for 2 years)	41	45	Yes
Registration Renewal (for 2 years)	41	45	Yes
Late Registration Renewal	27	30	Yes
License Transfer Fee	31	30	Yes
License Replacement Fee	19	20	Yes
Apprentice License Registration Renewal	14	15	Yes
3 Short Form Permit Fee (up to 3 fixtures) - Non-Refundable	124	135	Yes
4 Long Form Permit Transfer Fee (with inspection)	213	220	Yes
5 Tapper License Fees			
Permit Fee	363	360	Yes
Duplicate	36	35	Yes
6 Watershed Use Permit Fees			
<u>Boat Removal and Impoundment Fees</u>			
Boat/Craft Removal and Impoundment Fee	105	105	-
Removed Boat/Craft Storage Fee (Monthly)	80	80	-
<u>Watershed Use Permit Fees</u>			
Watershed Use Permit (January 1-December 31)	70	70	-
Watershed Use Permit (Single Day)	5	5	-
Open Season Boat Mooring (March 15 - November 30)	80	80	-
Winter Boat Mooring (December 1 - March 14)	60	60	-
Azalea Garden Rental (4 hours)	75	75	-
Bio-Brick Pavilion Rental (4 hours)	80	90	Yes
Boarding Stable Entrance Permit (Single Day)	260	260	-
Adjacent Landowner Entrance Permit (Single Day)	80	80	-
<u>Picnic Permit</u>			
Picnic Permit - Groups of 1-5 Persons (Single Day)	5	5	-
Picnic Permit - Groups of 6-10 Persons (Single Day)	10	10	-
Picnic Permit - Groups of 11-15 Persons (Single Day)	15	15	-
7 Site Utility Inspection Fees (Non-Minor)			
Base Fee	1,133	1,780	Yes
Pipeline (per foot)	6.00	9.30	Yes

MISCELLANEOUS FEES AND CHARGES - PROPOSED FOR IMPLEMENTATION JULY 1, 2022

Fee/Charge Number and Name	Current	FY 2023 Proposed	Charge Change
DISCHARGE AND WATER PROTECTION			
8 Septic Hauler Discharge Permit Fees			
<u>Category I - Residential & Septic Waste & Grease</u>			
1-49 gallons (per vehicle)	\$ 257	\$ 255	Yes
50-799 gallons (per vehicle)	6,136	6,750	Yes
800-2,999 gallons (per vehicle)	17,501	19,250	Yes
3,000 gallons & up (per vehicle)	38,229	42,050	Yes
January thru June (50% of fee)	50% of fee	50% of fee	-
Transfer and/or Replacement Permit Sticker	143	155	Yes
Industrial/Special Waste Disposal Fee (per 1,000 gallons)	377	380	Yes
Zero Discharge Permit Fee	143	155	Yes
Temporary Discharge Permit Fee <u>plus</u> sewer rate per 1,000 gallons	156	185	Yes
Sewer Rate - Hauled Waste (1,000 gallons of truck capacity)	48	50	Yes
9 Industrial Discharge Control Program Fees By Category			
<u>Industrial Users Subject to Categorical Pretreatment Standards</u>			
Less than 5,000 gpd (double visit)	6,153	6,770	Yes
Greater than 5,000 gpd (double visit)	9,428	10,370	Yes
Non-Discharging Categorical Industries (zero discharge)	1,658	1,825	Yes
<u>Significant Industrial Users</u>			
Less than 25,000 gpd (single visit - priority pollutant sampling)	6,153	6,770	Yes
Greater than 25,000 gpd (double visit - priority pollutant sampling)	9,428	10,370	Yes
Penalty Charge for Late Fee Payment	5% of fee	5% of fee	-
10 Discharge Authorization Permit Fees			
Significant Industrial User - Initial Permit (for 4 years)	7,316	8,050	Yes
Significant Industrial User - Renewal (for 4 years)	3,585	3,945	Yes
Initial Zero-Discharge CIU Permit (for 4 years)	2,779	3,055	Yes
Reissued Zero-Discharge CIU Permit (for 4 years)	1,852	2,035	Yes
Temporary Discharge Permit (non-SIU)	7,316	8,050	Yes
11 Discharge Fees - Food Service Establishment			
Full Permit FSE	537	535	Yes
BMP Permit FSE	152	155	Yes
12 Cross Connection Fees			
Test Report Fee (per report)	46	55	Yes
Base Fee for High Hazard Commercial Water Customer (per month)	20	25	Yes
Base Fee for All Other Commercial Water Customer (per month)	10.00	12.50	Yes

MISCELLANEOUS FEES AND CHARGES - PROPOSED FOR IMPLEMENTATION JULY 1, 2022

Fee/Charge Number and Name	Current	FY 2023 Proposed	Charge Change
METERS AND RELATED SERVICES			
13 Small Meter Replacement Fee (at Customer Request)	\$ 215	\$ 215	-
14 Meter Replacement Fees (Damaged or Stolen Meter)			
5/8" w/ touch pad (inside w/remote)	157	135	Yes
5/8" w/ pit pad (outside w/o remote)	150	140	Yes
5/8 Meter - pad encoder	131	135	Yes
5/8" x 3/4" w/ touch pad (inside w/ remote)	133	135	Yes
3/4" w/ touch pad (inside w/ remote)	160	160	-
3/4" w/ pit pad (outside w/o remote)	162	165	Yes
1" w/ touch pad (inside w/ remote)	202	205	Yes
1" w/ pit pad (outside w/o remote)	205	210	Yes
1" Kamstrup Meter, UT	329	370	Yes
1 1/2" Badger Flanged Meter	584	570	Yes
1 1/2" Flanged Meter	750	630	Yes
1 1/2" Nipple Meter	761	740	Yes
2" Flanged Meter	1,100	960	Yes
2" 1 1/4 Flanged Meter	1,243	1,210	Yes
3" Compound Meter	3,190	2,200	Yes
4" Compound Meter	3,960	3,240	Yes
6" Compound Meter	5,830	5,210	Yes
Turbine, Horizontal 3" Neptune w/ pit pad	1,519	1,475	Yes
Turbine, Horizontal 4" Neptune w/ pit pad	2,034	1,975	Yes
2" Hersey MVR Turbine	1,210	990	Yes
3" Hersey MVR Turbine	2,296	2,300	Yes
4" Hersey MVR Turbine	3,216	3,130	Yes
6" Hersey MVR Turbine	4,970	4,800	Yes
2" Detector Check	4,753	4,620	Yes
4" Detector Check	3,373	3,275	Yes
6" Detector Check	3,966	3,850	Yes
8" Detector Check	5,136	4,990	Yes
10" Detector Check	6,541	6,350	Yes
12" Detector Check	22,877	22,210	Yes
4" Fire Service Meter	8,239	8,160	Yes
6" Fire Service Meter	10,338	10,040	Yes
8" Fire Service Meter	12,877	12,505	Yes
10" Fire Service Meter	14,821	14,390	Yes
12" Fire Service Meter	21,015	20,400	Yes
3" Octave UT L=24	3,188	3,100	Yes
4" Octave UT L=29/ L=33	4,218	4,100	Yes
6" Octave UT L=45	6,207	6,030	Yes
8" Octave UT L=53	9,967	9,680	Yes
10" Octave UT L=68	13,472	13,080	Yes
15 Meter Testing Fees			
5/8" to 1"	261	260	Yes
1-1/2"	424	420	Yes
2" and up	473	470	Yes

MISCELLANEOUS FEES AND CHARGES - PROPOSED FOR IMPLEMENTATION JULY 1, 2022

Fee/Charge Number and Name	Current	FY 2023 Proposed	Charge Change
METERS AND RELATED SERVICES (Continued)			
16 Sub-Meter Installation Fees			
One-time Sub-Meter Charge - Small	\$ 261	\$ 260	Yes
One-time Sub-Meter Charge - Large	528	525	Yes
One-time Inspection Fee	76	85	Yes
Minimum Permit Inspection fee	242	265	Yes
17 Water Turn-Off, Turn-On Fees			
A. Customer Requested - Water Turn-Off, Turn-On Fees			
Small Meter Turn-Off	60	60	-
Small Meter Turn-On	90	90	-
Large Meter Turn-Off	200	200	-
Large Meter Turn-On	230	230	-
B. WSSC Water Scheduled Action - Water Turn-Off, Turn-On Fees			
Small Meter Turn-On	135	135	-
Large Meter Turn-On	405	405	-
18 Call Back Fee (small meters, plumbers)	93	90	Yes
19 Call Back Fee (large meters, plumbers)	346	355	Yes
20 Missed Appointment Fees			
First Missed Appointment or Restoration of Service Turn-On	97	95	Yes
Each Additional Missed Appointment	110	110	-
21 Meter Reinstallation Correction Fee	388	385	Yes
22 Sewer Meter Maintenance Fee (per year)	15,873	18,255	Yes
Quarterly Calibrations (per quarter)	3,969	4,565	Yes
23 Property Inspection Fee	119	120	Yes
24 Warehouse Restocking Fee	56	65	Yes

MISCELLANEOUS FEES AND CHARGES - PROPOSED FOR IMPLEMENTATION JULY 1, 2022

Fee/Charge Number and Name	Current	FY 2023 Proposed	Charge Change
FIRE HYDRANT SERVICES			
25 Temporary Fire Hydrant Connection Fees			
<u>3/4" Meter - Deposit</u>			
3/4" Meter Deposit	\$ 379	\$ 380	Yes
<u>3" Meter - Deposit</u>			
3" Meter Deposit	2,420	2,420	-
<u>Service Charge</u>			
2 Weeks or Less (3/4" meter)	75	85	Yes
2 Weeks or Less (3" meter)	130	130	-
Over 2 Weeks (3/4" and 3" meters)	175	175	-
Water Consumption - 3/4" meter (Minimum charge or Tier 4 rate per 1,000 gallons flat rate)	37	35	Yes
Water Consumption - 3" meter (Minimum charge or Tier 4 rate per 1,000 gallons flat rate)	242	240	Yes
Late Fee for Return of Meter (per day)	10	10	-
Fee on Unpaid Temporary Fire Hydrant Billings	1.5% per month	1.5% per month	-
Loss/Destruction of Meter	Replacement cost	Replacement cost	-
Loss/Destruction of Wrench	40	40	-
26 Truck Inspection Fee with Attached Fire Hydrant Meter (for 2 years)	52	50	Yes
27 Fire Hydrant Flow Test Fees			
No Current Test	693	690	Yes
Current Test	83	80	Yes

MISCELLANEOUS FEES AND CHARGES - PROPOSED FOR IMPLEMENTATION JULY 1, 2022

Fee/Charge Number and Name	Current	FY 2023 Proposed	Charge Change
DEVELOPMENT SERVICES			
28 Feasibility Review Fees (WSSC Water Built)			
Feasibility Submission Fee (non-refundable)	\$ 1,956	\$ 1,960	Yes
Feasibility Review & Report Fee Deposit (can be deferred as deficit when extension is completed)	14,353	15,790	Yes
29 Construction Services Fee	9.3% of WSSC Water's unit cost estimate or 12% of contractor's cost estimate	9.3% of WSSC Water's unit cost estimate or 12% of contractor's cost estimate	-
30 Design Review			
Development is More than 10 Residential Units or Commercial	6,500	8,645	Yes
Development is 10 Residential Units or Less	3,250	4,325	Yes
31 Hydraulic Planning Analysis and System Planning Forecast			
Modeling and Re-Modeling Fee - Up to 3 parts	2,433	3,235	Yes
Modeling and Re-Modeling Fee - per part over 3	842	1,080	Yes
Pressure Sewer System Review Fee (per system)	444	590	Yes
32 Extra Review Fees			
<u>Per SEP Plan Review</u>			
Minor Additional Reviews of Unsigned or Signed Plans (per review)	1,454	1,600	Yes
Major/Splitting Additional Reviews of Unsigned or Signed Plans (per review)	2,968	3,265	Yes
<u>Per Site Utility/Minor Utility Additional Unsigned or Signed Plan Review</u>			
Site Utility (per review)	1,764	1,940	Yes
Minor Site Utility (per review)	459	505	Yes
<u>Per Hydraulic Planning Analysis/Systems Planning Forecast Application</u>			
Additional Review of Required Data (per application)	994	1,145	Yes
33 In-House Design Deposit	Deposit	Deposit	-
34 Partial Certificate of Substantial Completion Release Fee (up to 50% of construction)	1,541	1,620	Yes
35 Off-Property Service Connection Reimbursement	Reimbursement	Reimbursement	-
36 Service Connection Application and Inspection Fee (per permit)	2,434 water and/or sewer connection	2,430 water and/or sewer connection	Yes
37 Government Referred Plan Review			
Major Development - Over 10 Units	1,693	1,695	Yes
Minor Development - 10 or Less Units	791	790	Yes
Re-Review Fee for Major Development	791	790	Yes
Re-Review Fee for Minor Development	396	395	Yes
38 Pre-Screen Fee All Plan Types	404	405	Yes
39 Site Utility (On-site) Review Fees			
Base Fee	3,921	4,025	Yes
Additional Fee per 100 feet	380	390	Yes
Minor (Waived) Site Utility (On-Site) Fee	1,314	1,420	Yes
40 Name/Transfer of Ownership Change Fee	303	325	Yes
41 Variance Review Fee	1,498	1,500	Yes

MISCELLANEOUS FEES AND CHARGES - PROPOSED FOR IMPLEMENTATION JULY 1, 2022

Fee/Charge Number and Name	Current	FY 2023 Proposed	Charge Change
PIPELINE, ENGINEERING AND ENVIRONMENTAL SERVICES			
42 Shutdown/Charge Water Main Fee	\$ 1,177	\$ 1,180	Yes
Shutdown Complex Water Main Fee	2,144	2,145	Yes
43 Review and Inspection Fees for Site Work Potentially Impacting WSSC			
Water Pipelines			
Simple Review	399	400	Yes
Complex Review / Non-DR Developer Review	3,766	4,520	Yes
Inspection for Minor Adjustment / Non-DR Developer (per inspection)	266	270	Yes
44 Relocation Fee			
Inspection for MOU project (minimum charge up to 4 hours)	600	600	-
45 Connection Abandonment Fees			
County Roads (except Arterial Roads) - Water	1,474	1,470	Yes
County Roads (except Arterial Roads) - Sewer	1,873	1,870	Yes
State Roads and County Arterial Roads - Water	1,778	1,770	Yes
State Roads and County Arterial Roads- Sewer	2,200	2,200	-
46 Chlorination Confirmation Test Fee (per first test)	247	245	Yes
Re-Test or Additional Tests (per hour)	182	185	Yes
47 Re-Test or Additional Tests Chlorination and Pressure Test (per test)	182	185	Yes
Inspector Overtime (per hour)	206	205	Yes
48 Review Fee for Additional Reviews of Contract Documents As-Builts (per hour)	206	206	-
49 Residential Outside Meter Housing Upgrade/Pipe Alteration	6,805	6,805	-
50 Utility Erosion and Sediment Control Permit Fees (per linear foot)			
Minor Projects (<125 linear foot OR less than 42 inch deep and 20 inch width)	0.30	0.45	Yes
Major Projects	0.45	0.45	-
Minimum Charge for Major Projects	124	120	Yes
51 Right-of Way Release (or Subordination) Review Fee (per document)	1,442	1,500	Yes
52 Right-of Way Acquisition and Condemnation for SEP Projects	Reimbursement	Reimbursement	-
53 Environmental Site Review Fee			
With Database Search Submitted by Applicant	438	505	Yes
54 Feasibility Report and Committee Review Fee for On-Site Takeover Projects	1,481	1,705	Yes

MISCELLANEOUS FEES AND CHARGES - PROPOSED FOR IMPLEMENTATION JULY 1, 2022

Fee/Charge Number and Name	Current	FY 2023 Proposed	Charge Change
PUBLICATIONS AND ADMINISTRATIVE			
55 Plans, Plats and 200' Reference Maps Copies			
Xerographic bond paper copy (per sheet)	\$ 6	\$ 5	Yes
56 WSSC Water Plumbing and Fuel Gas Code (Plumbing Code)			
Sale of Plumbing Regulation (per book)	51	55	Yes
57 Contract Specifications, Contract Specification Books, Drawings, Design Manuals, Standard Details and General Conditions			
<u>Construction Specifications/Drawings</u>			
Utility Contracts (up to \$20)	11 - 20	11 - 20	-
Facility Contracts (up to \$450)	40 - 450	40 - 450	-
Construction Standard Details	73	80	Yes
Construction General Conditions & Standard Specifications	70	80	Yes
SEP Construction General Conditions & Standard Specifications	70	80	Yes
<u>Procurement Specifications/Drawings/General Conditions</u>			
With Routine Specifications	No charge	No charge	-
With Complex/Voluminous Specifications (up to \$200)	40 - 200	40 - 200	-
58 Photocopies of WSSC Water Documents Charges			
Readily Available Source Material (per single sided page)	0.30	0.30	-
Certified Copy of Readily Available Source Material (per single sided page)	0.60	0.60	-
Scanning Documents (per single sided page)	0.30	0.30	-
(A reasonable fee may be charged for time in excess of two hours expended by WSSC Water in searching for requested records or preparing such records for inspection and copying)			
59 WSSC Water Pipeline Design Manual Fee	90	90	-
60 WSSD Laws			
Bound Volume	83	85	Yes
Supplements	45	45	-
61 Transcribed Tape of a Hearing or Meeting Fee	Prevailing fee charged by vendor	Prevailing fee charged by vendor	-

MISCELLANEOUS FEES AND CHARGES - PROPOSED FOR IMPLEMENTATION JULY 1, 2022

Fee/Charge Number and Name	Current	FY 2023 Proposed	Charge Change
OTHER FEES AND CHARGES			
62 Patuxent Watershed Civil Citation Fees (State Mandated)			
First Offense	\$ 150	\$ 150	-
Each Additional Offense within Calendar Year	300	300	-
63 Civil Citation Fees - Sediment Control, Theft of Service and Plumbing Civil Citations (State Mandated)			
First Offense	250	250	-
Second Offense	500	500	-
Third Offense	750	750	-
Each Violation in Excess of Three	1,000	1,000	-
64 Lobbyist Registration Fee (Code of Ethics)	121	125	Yes
65 Dishonored Check Fee & Electronic Payment Fee (applies to all dishonored checks and dishonored electronic payments)	35	35	-
66 Credit Card Surcharge (Applies to customer payment of the Point-of-Sale fee/charge by credit card other than water and sewer billing)	2% of amount charged	2% of amount charged	-
67 Protest Filing Fee	857	857	-
68 Preparation of Hold Harmless Agreement Fee	1,486	1,635	Yes
69 Connection Redemption Fee	22	16	Yes
70 Financial Disclosure Filer Late Fee (per day/\$500 max)	5	5	-

SECTION 3
RACIAL EQUITY AND SOCIAL JUSTICE

RACIAL EQUITY AND SOCIAL JUSTICE

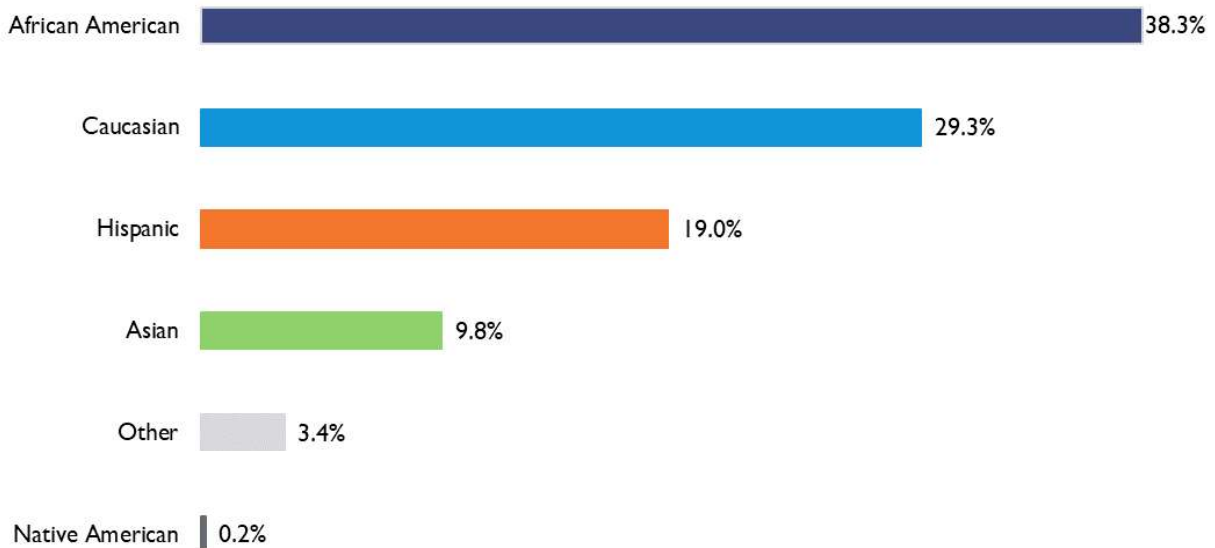
This section discusses racial equity and social justice (RESJ) topics related to WSSC Water’s operations, including demographics about our customer base, equity issues in the provision of water and sewer services, supplier diversity, workforce diversity and customer affordability. In addition, this section highlights future and existing RESJ programs supported by the Fiscal Year (FY) 2023 Proposed Budget and data related to these focus areas.

CUSTOMER DEMOGRAPHICS

WSSC Water provides water and sewer services to a diverse customer base of approximately 1.9 million residents across Montgomery and Prince George’s Counties. The demographic data presented in this section is based on combined 5-year data for Montgomery and Prince George’s Counties from the U.S. Census Bureau’s American Community Survey www.census.gov. The data represents estimates for calendar year 2019, which is the latest year for which data is available, but is based on sampling data for calendar years 2015 through 2019 in order to improve the accuracy of the estimates. Due to the impact of the COVID-19 pandemic, the U.S. Census Bureau changed the 2020 American Community Survey release schedule and calendar year estimates for 2020 based on 5-year data is not scheduled to be available until March 2022. The water and sewer services provided by WSSC Water include most areas, but not all, of the two Counties. Therefore, the demographics of the population served may vary slightly from those reported for the Counties as a whole.

The chart below shows the ethnic and racial makeup of the Montgomery and Prince George’s residents. The two Counties have a diverse and majority-minority population. The residents are 38.3% African American, 29.3% Caucasian, 19.0% Hispanic, 9.8% Asian, 0.2% Native American, and 3.4% Other.

Population by Race/Ethnicity



CUSTOMER DEMOGRAPHICS (Continued)

The table below shows the breakdown of the population of Montgomery and Prince George’s Counties by age. There is a relatively even distribution between the age brackets for those under 65 years of age. Summarizing the data further, 31.6% of the population is under 25 years of age, 41.4% is between the ages of 25 and 54, and 27.0% is 55 years of age or older.

Age Bracket	Share of Population (%)
Under 5 Years	6.4%
5 to 14 Years	12.7%
15 to 24 Years	12.5%
25 to 34 Years	13.7%
35 to 44 Years	13.6%
45 to 54 Years	14.1%
55 to 64 Years	13.0%
65 to 74 Years	8.3%
75 to 84 Years	4.0%
85 Years and Over	1.7%
Total	100.0%

As shown in the table below, the median household income for Montgomery and Prince George’s Counties was \$97,914 in calendar year 2019. This compares favorably to the state-wide median household income of \$84,805 and the national median household income of \$62,843. This means that the median household income in the two Counties is approximately 15.5% higher than the state-wide figure and 55.8% higher than the national figure.

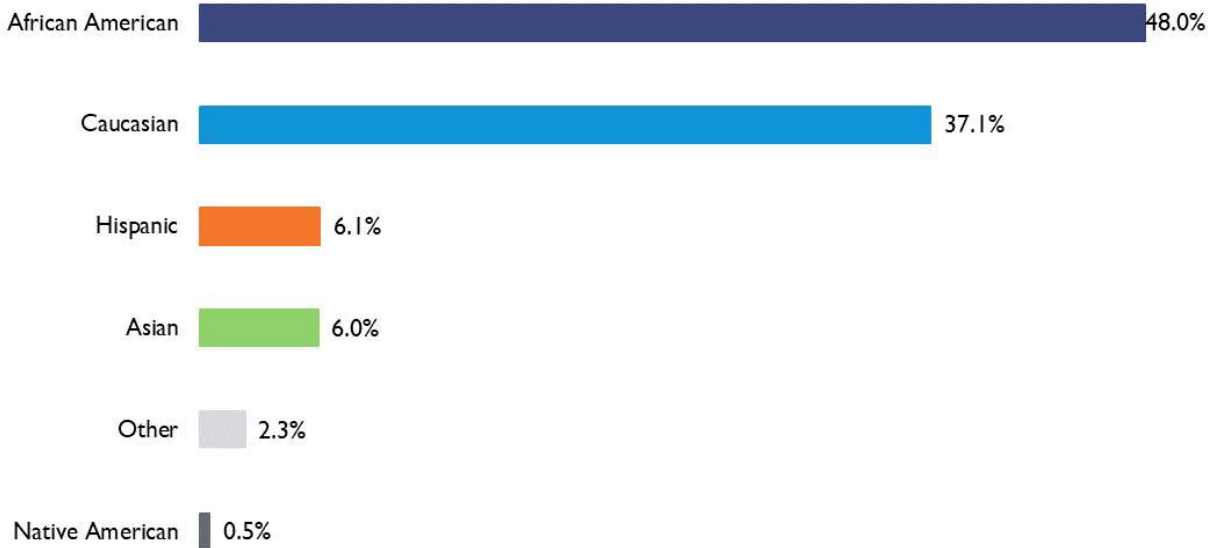
The table below also shows the percent of the population that is below the poverty level in Montgomery and Prince George’s Counties combined, the State of Maryland, and the United States. In Montgomery and Prince George’s Counties, approximately 7.6% of the population is below the poverty level. This is lower than the 9.2% figure for the State of Maryland and well below the national figure of 13.4%.

Region	Median Household Income	Population Below Poverty Level (%)
Maryland	\$ 84,805	9.2%

WSSC WATER WORKFORCE DIVERSITY

WSSC Water employs a diverse, majority-minority workforce. As shown in the chart below, as of December 30, 2020, the workforce is 48.0% African American, 37.1% Caucasian, 6.1% Hispanic, 6.0% Asian, 0.5% Native American, and 2.3% Other. Compared to the ethnic and racial makeup of Montgomery and Prince George's Counties, the WSSC Water workforce is generally overrepresented in the African American and Caucasian groups and underrepresented in the Hispanic and Asian groups. WSSC Water promotes a diverse workplace that is free of discrimination and harassment based upon race, color, religion, gender, sexual orientation, national origin, age, disability, genetic information and retaliation or reprisal through the Equity, Engagement and Inclusion Division within the Human Resources Office.

Workforce by Race/Ethnicity



OFFICE OF SUPPLIER DIVERSITY & INCLUSION

The Office of Supplier Diversity & Inclusion (OSDI) is responsible for carrying out WSSC Water's commitment to ensure that our vendor base is reflective of the community that we serve. OSDI is dedicated to creating an inclusive purchasing environment and adding value to the organization and community by building sustainable relationships, expanding opportunities and cultivating growth with small, local and minority businesses. OSDI helps the organization achieve these goals through its management of the Minority Business Enterprise (MBE) Program and the Small Local Business Enterprise (SLBE) Program. The key components that OSDI uses to support these programs are supplier advocacy, compliance, outreach and development.

OSDI is also responsible for ensuring that the MBE and SLBE programs conform to all legal requirements. As part of these duties, OSDI prepares annual performance reports on the MBE and SLBE programs and conducts a disparity study that is typically done once every five years. The annual performance reports are required under state law to be sent to the elected officials from Montgomery and Prince George's Counties in the Maryland General Assembly by October 31st of each year. The performance reports provide details on the implementation and administration of the MBE and SLBE programs during the prior fiscal year and provide any appropriate recommendations regarding the programs. The disparity studies determine the following:

- The extent to which MBEs participate in the procurement of construction services, architectural and engineering services, goods and general services and professional services with WSSC Water
- If MBE participation is representative of the availability of MBE firms that are ready, willing and able to participate in WSSC Water contracts
- If discrimination exists, and is found, identifies the race, ethnicity and gender of the affected individuals
- Best practices to assist in administering the MBE Program and the establishment of an overall aspirational goal

The 2015 Disparity Study, which is the most recent available, reached the following conclusions:

- Evidence exists to support a WSSC Water MBE Program based primarily on statistical disparities in current MBE utilization, evidence of discrimination in business formation and revenue earned from self-employment, very low MBE utilization in the commercial building permit evidence, credit disparities and business owner reports of disparate treatment
 - WSSC Water should tailor its MBE and SLBE programs participation policies to remedy each of these specific disparities
 - The core theme should be that prime contractors should document their outreach efforts and the reasons why they may have rejected qualified MBEs and MBEs that were the low-bidding subcontractors
- WSSC Water should be commended for its extensive set of incentives for SLBE participation, including SLBE bid incentives, sheltered markets, subcontractor goals, mentor-protégé program and small contracts rotation
 - These SLBE incentives are some of the broadest set of small business incentives by a local government agency in general, let alone a local public utility, in the country
- WSSC Water should be commended for its extensive outreach activities, which include widespread coverage of the program on the WSSC Water website, partnerships with numerous business organizations, participation in numerous events, monthly training and other activities
- One solution to the issues with size standards is to adopt a two-tier standard MBE and SLBE certification in which contracts can be set aside for small and very small firms and goals that include very large MBEs and SLBEs can be established on large projects
- WSSC Water should work to improve prime contractor compliance with entering non-MBE subcontractor data into the system of record

OFFICE OF SUPPLIER DIVERSITY & INCLUSION (Continued)

MBE Program

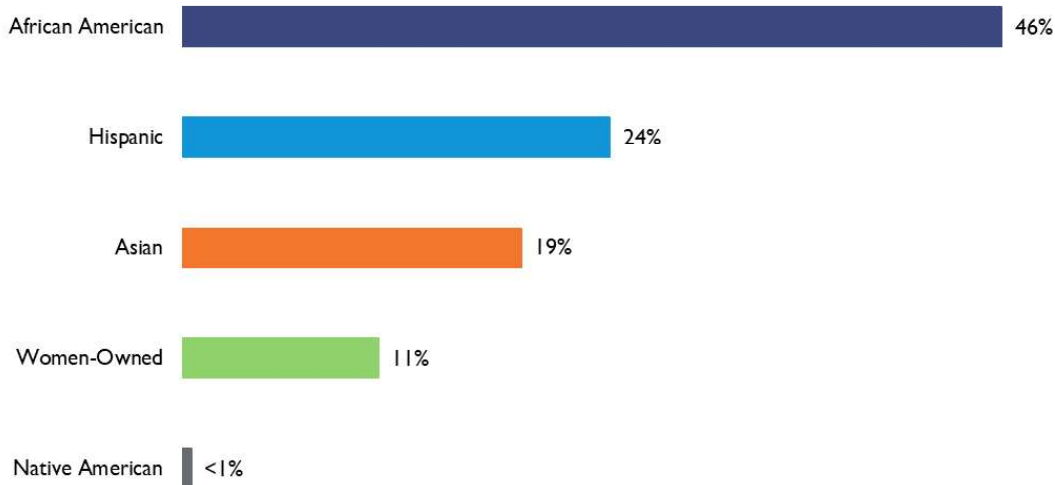
WSSC Water’s MBE Program was originally developed in 1978. For more than 40 years, the MBE Program has sought to promote fair and inclusive contract participation, provide greater access for diverse firms and produce educational content to further develop diverse businesses. The program seeks to eliminate barriers to success in the public marketplace for both prime contractors and subcontractors. The MBE Program recognizes certifications for minority-owned companies, women-owned companies and disadvantaged companies from five local and national entities.

Since 2012, the MBE Program has resulted in more than \$1.6 billion in payments to diverse businesses. In FY 2021, WSSC Water spent more than \$154.8 million with MBE firms. This represents 33% of the total contract payments in FY 2021 for construction services, architectural and engineering services, goods and general services and professional services. Approximately 77% of the payments to MBE firms in FY 2021 went to firms located in the State of Maryland or Washington D.C. The table below summarizes the contract payments performance of WSSC Water’s MBE Program over the last five years.

Fiscal Year	MBE Contract Payments	Total Contract Payments	MBE Share (%)
2017	\$ 156,900,804	\$ 588,775,203	27%
2018	146,562,712	518,434,501	28%
2019	152,510,264	517,153,557	29%
2020	136,209,781	481,475,872	28%
2021	154,826,411	474,978,466	33%
Total	\$ 747,009,972	\$ 2,580,817,599	29%

The chart below shows the breakdown of the FY 2021 contract payments by the type of MBE firm that received the payments. As shown in the chart, African American firms received the largest share of the MBE contract payments with a 46% share.

Share of Contract Payments



The MBE Program also tracks contract awards as they are a leading indicator of future contract payments to MBE firms. In FY 2021, WSSC Water awarded approximately \$136.4 million in contracts to MBE firms in the construction services, architectural and engineering services, goods and general services and professional services contracting areas. This equates to 29% of the approximately \$471.5 million of total contract awards issued in these four contracting areas.

OFFICE OF SUPPLIER DIVERSITY & INCLUSION (Continued)

SLBE Program

WSSC Water's SLBE Program was created in 2001 to provide race and gender-neutral contracting opportunities for small businesses principally located in Montgomery and Prince George's Counties. To qualify for the SLBE Program, firms must meet several eligibility criteria. Some examples of the eligibility criteria include the firm being principally located within or having a significant employment presence (at least 25% of the firm's total number of employees) in Montgomery County or Prince George's County, the firm not being a subsidiary of another business and the firm meeting size eligibility requirements. In FY 2021, approximately \$45.9 million was spent with SLBE firms for construction services, architectural and engineering services, goods and general services and professional services. Another approximately \$24.7 million was awarded in contracts to SLBE firms in these four contracting areas in FY 2021.

Additional information on the WSSC Water MBE and SLBE programs, including copies of the most recent performance report and disparity study, can be found on our website at <https://www.wsscwater.com/supplierdiversity>.

OTHER RACIAL EQUITY AND SOCIAL JUSTICE INITIATIVES

WSSC Water also has several other RESJ initiatives that are currently underway. Two examples of these initiatives are the effort to address the public health, equity and environmental justice concerns with unserved and underserved communities and the effort to incorporate RESJ criteria into the capital project prioritization process. The following sections describe these two initiatives in further detail, including the current status of each.

Unserved and Underserved Communities

An unserved community is defined as an area within the sewer service envelope where a new sewer main greater than 1,500 feet is required to extend sewer service to the homes within the community. An underserved community is defined as an area within the sewer service envelope where public sewer service is available to some homes within the community, but one or more houses cannot access the service until a new sewer main greater than 200 feet is built.

Thousands of homes throughout Montgomery and Prince George's Counties have septic systems despite being in communities that were planned for public sewer service. Many of these homes have old septic systems that are beginning to fail and many of these failing systems cannot be easily repaired or replaced either because the lot is too small or the soil conditions are inadequate. These unserved and underserved communities cannot access sewer service from WSSC Water until sewer mains are extended into their community. Under current state statute, homeowners are responsible for the cost of any new water or sewer infrastructure that is required to extend service to their homes. A typical sewer extension can cost up to \$700 per foot and total project costs can range from \$100,000 to over \$1.0 million. Although the current application process provides for long-term financing and limited subsidies in cases where failing septic systems are causing a public health problem in the community, very few homeowners can afford to extend water or sewer service into their communities. Since 2005, only 16 sewer extension projects have been constructed to provide service to approximately 84 homes with septic systems.

WSSC Water, in conjunction with Montgomery and Prince George's Counties, formed a subset of the Bi-County Infrastructure Working Group to identify policy challenges and deficiencies of the current system and to build a roadmap for an improved system of extending water and sewer service to unserved and underserved communities. The workgroup identified the following key legal, financial and policy challenges:

- The current approach places all of the burden of project financing on the homeowner, which makes most sewer extension projects unaffordable for the majority of homeowners
- There is a lack of fairness and equity in the current approach to extending sewer service to unserved and underserved communities because only homeowners who are requesting service pay for the extension project deficit costs over and above the front foot benefits assessments
 - Homeowners who decide to take advantage of the availability of sewer service in the future get a "free ride" because they only pay a front foot benefit assessment after they connect
- The current sewer extension process, which is applicant driven, impedes the Counties' ability to address septic system problems and other potential community health hazards comprehensively
 - Sewer service is not being extended into communities where it is most needed
 - This is preventing the Counties from addressing the public and environmental health impacts of septic systems in a systematic, cost-effective manner

The workgroup believes that WSSC Water and the Counties must adopt a collaborative approach to address the needs of homeowners in unserved and underserved communities. Over the last 18 months, the workgroup was able to reach consensus on eight discrete recommendations that lay the groundwork for a comprehensive, programmatic solution to the problems facing residents in these communities. The recommendations are as follow:

- Public subsidies for sewer extension projects in unserved and underserved communities should be increased
- A uniform, affordable fee for sewer service for homeowners in unserved and underserved communities should be implemented
- Additional assistance with up-front costs for homeowners who are experiencing other financial hardship should be provided

OTHER RACIAL EQUITY AND SOCIAL JUSTICE INITIATIVES (Continued)

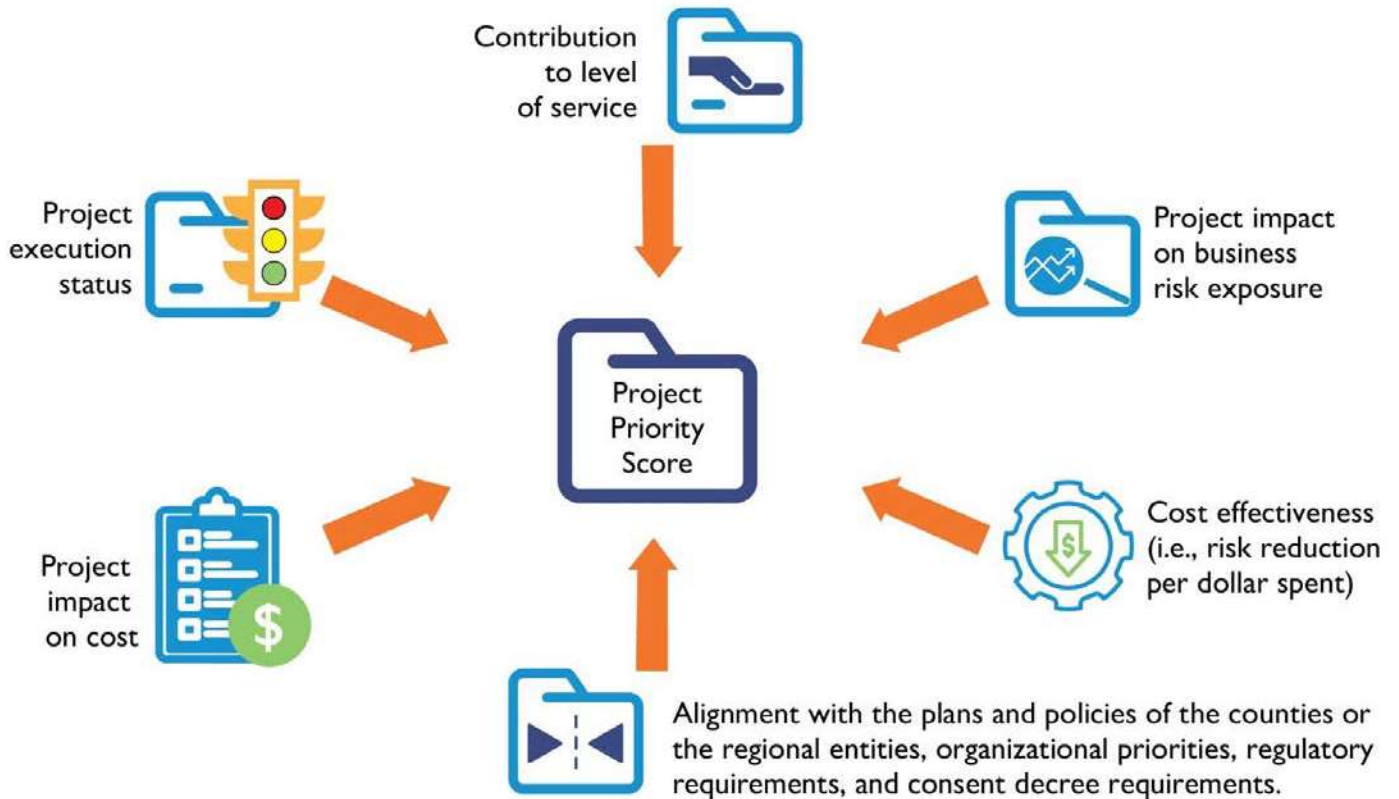
Unserved and Underserved Communities (Continued)

- A Pay-As-You-GO (PAYGO) funded Capital Improvements Program (CIP) project for sewer extensions to unserved and underserved communities should be established
- Program funding should be equitably allocated between Montgomery and Prince George's Counties
- The Counties and WSSC Water should aggressively pursue funding from the State of Maryland's Bay Restoration Fund for sewer extension projects in unserved and underserved communities
- A subdistrict process to secure support within unserved and underserved communities for sewer connection projects should be established
- Each County should develop an approach to identify and prioritize communities with the greatest need for sewer extensions

The workgroup's eight policy recommendations provide a starting point for further discussions between WSSC Water and the Counties on the development of an effective, long-term program to address the lack of water and sewer service in unserved and underserved communities.

Capital Project Prioritization Criteria

As part of the CIP process each year, the Asset Management Division prioritizes the projects in the CIP based on a predetermined set of criteria. The graphic below shows the six elements that make up the CIP prioritization criteria.



OTHER RACIAL EQUITY AND SOCIAL JUSTICE INITIATIVES (Continued)

Capital Project Prioritization Criteria (Continued)

The Asset Management Division undertook a pilot project in FY 2022 to examine ways to incorporate RESJ considerations into the CIP prioritization criteria shown on the prior page. The division identified the element concerning alignment with the plans and policies of the Counties as a potential way to incorporate RESJ factors into the criteria. Both Montgomery and Prince George's Counties have identified parts of their respective jurisdictions as focus areas based on RESJ or related criteria. Montgomery County has designated portions of the County as equity focus areas based on factors such as high concentrations of minorities, low-income households and people age 5 or older with lower levels of English language proficiency. Prince George's County has established revitalization tax credit districts throughout the County based on factors such as median household income, residential density of an area, land use in an area, economic factors and unemployment rates.

For the pilot, the Asset Management Division reviewed the geographic locations of the projects included in the CIP and identified those that either provided widespread benefits that impacted one of the areas designated by either County or that provided benefits to a specific location within one of the areas. The projects were then given a prioritization score that reflected their designation as a project that aligned with the plans and policies of the Counties based on the RESJ factors. All of the CIP projects were then re-ranked based on the new priority scores that incorporated RESJ considerations. The results of the pilot were then presented to other departments throughout WSSC Water. Based on the results of the pilot project, it was decided that the Asset Management Division should incorporate RESJ factors into the CIP prioritization criteria utilizing the identified methodology beginning with the FYs 2024-2029 CIP cycle.

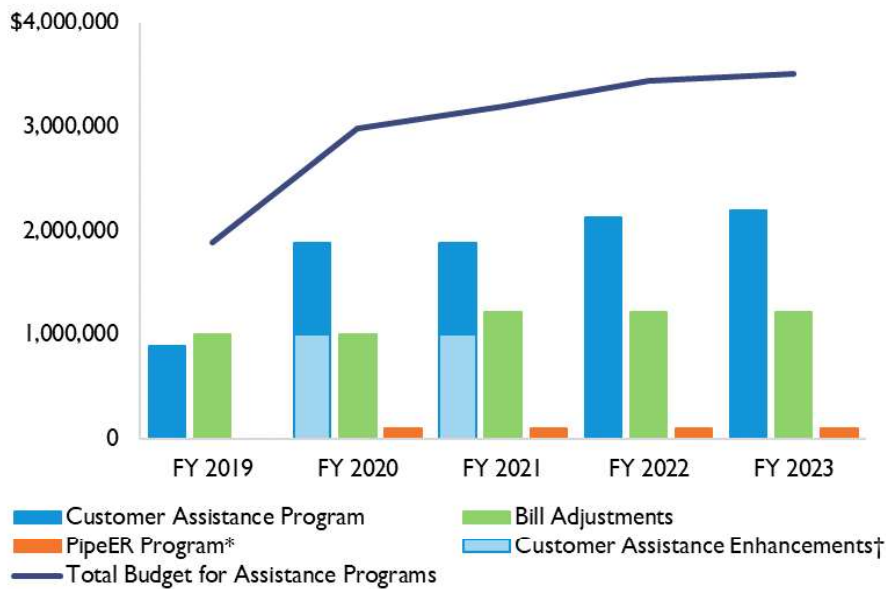
WSSC WATER FINANCIAL ASSISTANCE PROGRAMS

WSSC Water is committed to making water and sewer bills affordable for its customers, which is why the agency offers a multitude of financial assistance programs that are designed to address common affordability issues faced by its customers. The financial assistance programs offered by the agency include the following:

- Customer Assistance Program (CAP)
- Water Fund
- PipeER Program (also known as the Connection Pipe Emergency Replacement Loan Program)
- Bay Restoration Fund Exemption Program
- Bill adjustments
- Flexible payment options

These programs aim to tackle customer affordability from several different angles, depending on the specific needs of the customer. The CAP, PipeER Program, and bill adjustments are funded as part of WSSC Water’s annual budget process. The chart below shows the funding levels for these programs, individually and overall, from FY 2019 through FY 2023. As shown in the chart, WSSC Water has increased the funding for its financial assistance programs by approximately 86% over the last several years, from about \$1.9 million in FY 2019 to over \$3.5 million in FY 2023.

WSSC Water Financial Assistance Programs Budget



*The PipeER Program was established in FY 2020.

†Funding was included in the FY 2020 and 2021 budgets for customer assistance enhancements. This funding was folded into CAP in FY 2022.

The following sections describe each program in detail. Additional information, including guidance on how to enroll in each of the programs, can be found on our website at <https://www.wsscwater.com/assistance>.

WSSC WATER FINANCIAL ASSISTANCE PROGRAMS (Continued)

Customer Assistance Program

CAP provides financial assistance to approved residential customers via credits for WSSC Water’s fixed fees (the Account Maintenance Fee and the Infrastructure Investment Fee). The credits are capped for FY 2022 at \$28 per quarterly bill or \$112 per year, which is equivalent to the fees for a 3/4” meter. The cap will increase to \$30 per quarterly bill or \$120 per year in FY 2023. Eligibility for CAP is determined based on enrollment in the Maryland Office of Home Energy Programs’ (OHEP) energy assistance program. If a customer is enrolled in this state program, then they also qualify for WSSC Water’s CAP. Customers are required to annually re-enroll with OHEP to continue their CAP enrollment. The current income eligibility criteria established by OHEP for its energy assistance program are outlined in the tables below.

Income Eligibility Limits Effective July 1, 2021 to June 30, 2022 (Based on 175% of the Federal Poverty Level) For Households with NO Members 67 Years of Age or Older at the Time of Application		
Household Size	Maximum Gross Monthly Income Standards	Maximum Gross Annual Income Standards
1	\$ 1,878	\$ 22,540
2	2,540	30,485
3	3,203	38,430
4	3,865	46,375
5	4,527	54,320
6	5,189	62,265
7	5,851	70,210
8	6,513	78,155
For Each Additional Person, Add	662	7,945

Income Eligibility Limits Effective July 1, 2021 to June 30, 2022 (Based on 200% of the Federal Poverty Level) For Households with ONE OR MORE Members 67 Years of Age or Older at the Time of Application		
Household Size	Maximum Gross Monthly Income Standards	Maximum Gross Annual Income Standards
1	\$ 2,147	\$ 25,760
2	2,903	34,840
3	3,660	43,920
4	4,417	53,000
5	5,173	62,080
6	5,930	71,160
7	6,687	80,240
8	7,443	89,320
For Each Additional Person, Add	757	9,080

WSSC Water was given the authority to establish CAP via legislation passed by the Maryland General Assembly and signed by the Governor in 2015. Per the enabling legislation, CAP is 100% funded via WSSC Water revenues. For FY 2023, CAP funding increased to \$2.2 million from \$2.1 million in FY 2022. To date, WSSC Water’s CAP has assisted more than 15,500 customers.

WSSC WATER FINANCIAL ASSISTANCE PROGRAMS (Continued)

Water Fund

The Water Fund was established in 1994 by WSSC Water employees to help residential customers in financial need pay their water and sewer bills. Eligible customers may receive up to \$500 in financial assistance per year toward their water and sewer bills. The Salvation Army administers the Water Fund and is responsible for determining whether applicants qualify for assistance. The eligibility criteria are primarily based on household income and size, as shown in the table below.

Income Eligibility Limits Effective July 1, 2021 to June 30, 2022 (Based on 200% of the Federal Poverty Level)		
Household Size	Maximum Gross Monthly Income Standards	Maximum Gross Annual Income Standards
1	\$ 2,147	\$ 25,760
2	2,903	34,840
3	3,660	43,920
4	4,417	53,000
5	5,173	62,080
6	5,930	71,160
7	6,687	80,240
8	7,443	89,320
For Each Additional Person, Add	757	9,080

The Water Fund is funded entirely by contributions from customers, employees and other sources. Customers can donate to the Water Fund via direct online donations, through lump sum donations added when paying their bill or through participation in the bill round up program. WSSC Water employees contribute to the Water Fund through the agency’s annual giving campaign and special events that support the Water Fund, like the annual Manhole Open golf tournament. WSSC Water pays the administrative and promotional fees while The Salvation Army assists participants and manages the fund, which ensures that 100% of all donations go directly to those in need. Since 1994, the Water Fund, in partnership with The Salvation Army, has distributed nearly \$1.9 million to help nearly 20,000 people throughout Montgomery and Prince George’s counties. In FY 2021, the Water Fund provided water bill assistance to 3,774 people by disbursing almost \$514,000 in aid.

PipeER Program



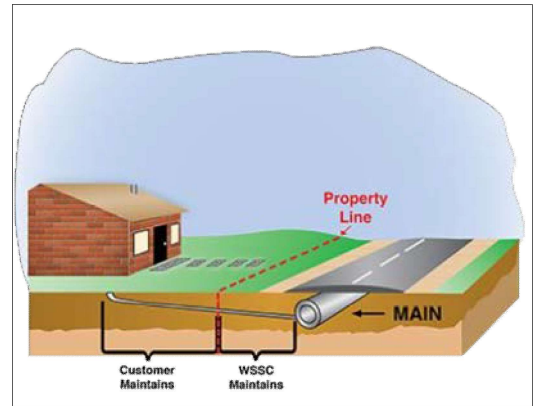
The PipeER Program, also known as the Connection Pipe Emergency Replacement Loan Program, provides loans to eligible residential customers to finance the replacement of their water service line, which is located on their property and connects WSSC Water’s main line to the home. The program makes available \$100,000 annually to customers in need. The funds are available on a first come, first served basis each FY until the fund is depleted. All loans must be used to replace a water service line, not for service line repairs. Once approved, customers are eligible to receive a loan up to \$5,000. The loan proceeds are disbursed directly to a WSSC Water licensed plumber and any additional cost over the loan amount must be paid by the customer.

WSSC WATER FINANCIAL ASSISTANCE PROGRAMS (Continued)

PipeER Program (Continued)

The PipeER Program is administered by the WSSC Federal Credit Union, which includes underwriting the loans. In order to qualify for the program, customers must meet the following criteria:

- The applicant must be a residential customer of WSSC Water and be the owner of the property upon which the pipe replacement will occur
- The customer must have received a WSSC Water 30-day leak letter or notification
- The customer must have received at least two quotes for the work from WSSC Water licensed plumbers
- The applicant must meet the WSSC Federal Credit Union's minimum underwriting standards



The Maryland General Assembly passed, and the Governor signed, legislation that enabled WSSC Water to create the PipeER Program in 2018. In accordance with the legislation establishing the PipeER Program, WSSC Water includes the program funding of \$100,000 in its annual budget. The legislation also limits the total outstanding amount for all loans under the program to \$1.0 million. WSSC Water has committed to transferring any unused funds from the \$100,000 annual budget to the Water Fund each year to further aid customers facing financial hardships.

Bay Restoration Fund Exemption Program

The Chesapeake Bay has experienced a decline in water quality due to over-enrichment of nutrients (mainly phosphorus and nitrogen). Effluent from water resource recovery facilities (WRRFs) is one of the top three major contributors of nutrients entering the bay. Therefore, the Maryland General Assembly established the Chesapeake Bay Watershed Restoration Fund (also known as the Bay Restoration Fund) via legislation that was signed by the Governor in 2004. The legislation also mandated an environmental surcharge, often referred to as the Bay Restoration Fund Fee, to provide a source of revenue for the fund. The fee is imposed upon WRRF users in order to finance enhanced nutrient removal upgrades at Maryland's WRRFs (there is also a similar fee for septic users). In 2012, a bill was passed to increase the fee to \$5.00 per month (or \$15.00 per quarter) for residential customers served by a WRRF that discharges to the Chesapeake Bay and Coastal Bay watersheds.

As part of the legislation establishing the Bay Restoration Fund, WSSC Water was tasked with billing and collecting the fee from its customers. The agency then turns the funds over to the Maryland Department of the Environment (MDE), which administers the fund. As part of the 2012 legislation, WSSC Water was given the authority to establish a Bay Restoration Fund Exemption Program for residential customers that demonstrate substantial financial hardship, subject to the approval of MDE.



WSSC WATER FINANCIAL ASSISTANCE PROGRAMS (Continued)

Bay Restoration Fund Exemption Program (Continued)

In order to qualify for the Bay Restoration Fund Exemption Program, residential customers must either be certified by OHEP or meet at least two of the following criteria:

- Have received assistance from the Water Fund within the last 12 months
- Have received public assistance or food stamps within the last 12 months
- Have received Veteran’s Disability or Social Security Disability benefits within the last 12 months
- Meet the income eligibility criteria based on the current year’s tax return

The current income eligibility criteria for the Bay Restoration Fund Exemption Program are outlined in the table below.

Income Eligibility Limits Effective July 1, 2021 to June 30, 2022 (Based on 175% of the Federal Poverty Level) For Households with NO Members 67 Years of Age or Older at the Time of Application			
Household Size		Maximum Gross Monthly Income Standards	Maximum Gross Annual Income Standards
1	\$	1,878	\$ 22,540
2		2,540	30,485
3		3,203	38,430
4		3,865	46,375
5		4,527	54,320
6		5,189	62,265
7		5,851	70,210
8		6,513	78,155
For Each Additional Person, Add		662	7,945

Income Eligibility Limits Effective July 1, 2021 to June 30, 2022 (Based on 200% of the Federal Poverty Level) For Households with ONE OR MORE Members 67 Years of Age or Older at the Time of Application			
Household Size		Maximum Gross Monthly Income Standards	Maximum Gross Annual Income Standards
1	\$	2,147	\$ 25,760
2		2,903	34,840
3		3,660	43,920
4		4,417	53,000
5		5,173	62,080
6		5,930	71,160
7		6,687	80,240
8		7,443	89,320
For Each Additional Person, Add		757	9,080

WSSC WATER FINANCIAL ASSISTANCE PROGRAMS (Continued)

Bill Adjustments

Leaks due to issues with the plumbing system within a building or from the underground service line can result in higher water bills, which can cause a financial hardship for the property owner. While property owners are responsible for maintaining their plumbing systems and service lines, WSSC Water does make bill adjustments available under certain circumstances in order to relieve the financial hardship caused by an undetected leak. In accordance with WSSC Water's Code of Regulations, the following types of bill adjustments are available:

- High bill adjustment (single-unit residential properties)
- One-time high bill adjustment (single-unit commercial properties)
- Leaks on property – underground leaks (residential or commercial, single or multi-unit)
- Underground leaks, off property (residential or commercial, single or multi-unit)
- Delayed collection action (single-unit residential and single-unit commercial)
- Charitable institutions
- Credits for customers with physical or mental impairment (single-unit residential)
- Fire or vandalism (residential or commercial, single or multi-unit)
- Public fountain use
- Discolored water or sod restoration (single/multi-unit residential)
- Unpaid previous owner charges (residential or commercial, single or multi-unit)
- Gasket leak on meter (residential or commercial, single or multi-unit)
- Illegal consumption (single-unit residential)
- Lining project (residential or commercial, single or multi-unit)

Detailed information on the qualification criteria for each type of bill adjustment can be found in WSSC Water's Code of Regulations, which is published online at <https://wssc.district.codes/code>.

Flexible Payment Options

WSSC Water offers flexible payment options, such as extended due dates and payment plans, to assist customers with unexpected financial hardships that cause them to have trouble paying their water and sewer bills. Customers that have been approved for CAP may also be eligible for a payment plan lasting up to 48 months. Additionally, there is a payment plan option for customers that are not enrolled in CAP. Effective January 4, 2021, this option offers a payment plan that may last up to 36 months. To learn more about the flexible payment options, customers can contact one of WSSC Water's customer service advisors by calling 301-206-4001.



WSSC WATER BILL AFFORDABILITY

Federal Affordability Standard

The U.S. Environmental Protection Agency (EPA) has established affordability criteria for residential water and wastewater services. The EPA criteria establishes an overall affordability standard of 4.5% of median household income. This overall standard is comprised of individual thresholds of 2.5% for potable water and 2.0% for wastewater and combined sewer overflow controls that were set by the EPA. Therefore, given the EPA’s role as the federal agency responsible for regulating drinking water systems, WSSC Water has adopted the EPA standard of 4.5% of median household income as the measure it uses to determine the affordability of its services for its customers.

Median Household Income

Based on 5-year data from the U.S. Census Bureau’s American Community Survey, the median household income for Montgomery and Prince George’s Counties was \$97,914 in calendar year 2019, which is the latest year for which data is available. Based on the FY 2023 proposed rates, WSSC Water’s average annual residential bill for water and sewer services at 165 gallons per day is approximately \$1,032. The consumption level of 165 gallons per day is used because it represents the average household in WSSC Water’s service area, a 3-person household using 55 gallons of water per person per day. Therefore, it is estimated that the annual cost of water and sewer services from WSSC Water for the average customer will be 1.1% of the median household income in FY 2023, absent any changes in household income between 2019 and 2023. This level is well below the 4.5% standard set by the EPA.

Median Household Income	Average WSSC Water Bill	Share of Median Income
\$ 97,914	\$ 1,032	1.1%

Median household income figures (in 2019 dollars) from the U.S. Census Bureau (www.census.gov), American Community Survey 5-Year Estimates for 2015-2019.

Looking more in-depth, the table below shows the share of median household income for the average WSSC Water bill by household size over the FY 2016 to FY 2019 time period. The average WSSC Water bill for each size household is based on consumption of 55 gallons of water per person per day. Over the four-year period analyzed, the share of WSSC Water’s bill to median household income remained steady for all seven household sizes. This means that while WSSC Water’s rates have been going up, they have been increasing in proportion with the changes to median household incomes in Montgomery and Prince George’s Counties.

Household Size	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual
1-person Household	0.5%	0.5%	0.5%	0.5%
2-person Household	0.5%	0.5%	0.5%	0.5%
3-person Household	0.7%	0.7%	0.7%	0.7%
4-person Household	0.9%	0.9%	0.9%	0.9%
5-person Household	1.3%	1.3%	1.3%	1.3%
6-person Household	1.7%	1.7%	1.6%	1.7%
7-or-more Person Household [†]	2.0%	2.0%	2.0%	2.0%

Median household income figures from the U.S. Census Bureau (www.census.gov), American Community Survey 5-Year Estimates for 2012-2016, 2013-2017, 2014-2018 and 2015-2019.

[†]The average WSSC Water bill for the 7-or-more person household size was calculated based on a 7-person household.

WSSC WATER BILL AFFORDABILITY (Continued)

Household Income Quintiles

The table below compares the average household income by income quintile to the average WSSC Water bill for a three-person household. Each income quintile contains 20% of the population of Montgomery and Prince George's Counties based on where their household income falls on the spectrum for all households. As shown in the table, the average household income for the first quintile is \$23,806 per year. At this level of income, a three-person household would spend about 4.3% of their annual income on water and sewer services, which is below the 4.5% EPA affordability threshold. Therefore, WSSC Water's average bill for water and sewer services is affordable for the average customer at the lower end of the household income distribution in Montgomery and Prince George's Counties.

Quintile	Average Household Income	Average WSSC Water Bill*	Share of Average Income
First	\$ 23,806	\$ 1,032	4.3%
Second	61,318	1,032	1.7%
Third	98,399	1,032	1.0%
Fourth	149,591	1,032	0.7%
Fifth	307,194	1,032	0.3%

Average household income figures (in 2019 dollars) from the U.S. Census Bureau (www.census.gov), American Community Survey 5-Year Estimates for 2015-2019.

*The average WSSC Water bill is based on a 3-person household using 55 gallons of water per person per day.

Household Income Brackets

The table below shows a more detailed breakdown of household incomes in Montgomery and Prince George's Counties and how the average WSSC Water bill for a three-person household compares to each income level. Looking at this more detailed breakdown, the average WSSC Water bill begins to exceed the EPA affordability threshold towards the upper bound of the fourth income bracket (\$20,000-\$24,999 per year). The income at which the 4.5% threshold is crossed for a three-person household is about \$22,936 per year. The first through third income brackets contain approximately 7.6% of households and the fourth contains about 2.3%, so the average bill for a three-person household would exceed the EPA threshold for fewer than 9.9% of households in Montgomery and Prince George's Counties without any financial assistance from the agency.

Income Bracket Lower Bound	Income Bracket Upper Bound	Number of Households	Share of Households	Average WSSC Water Bill*	Share of Lower Bound	Share of Upper Bound
\$ -	\$ 9,999	24,601	3.6%	\$ 1,032	N/A	10.3%
10,000	14,999	13,415	2.0%	1,032	10.3%	6.9%
15,000	19,999	13,945	2.0%	1,032	6.9%	5.2%
20,000	24,999	15,365	2.3%	1,032	5.2%	4.1%
25,000	29,999	17,367	2.5%	1,032	4.1%	3.4%
30,000	34,999	20,075	2.9%	1,032	3.4%	2.9%
35,000	39,999	18,736	2.7%	1,032	2.9%	2.6%
40,000	44,999	19,382	2.8%	1,032	2.6%	2.3%
45,000	49,999	18,558	2.7%	1,032	2.3%	2.1%
50,000	59,999	42,137	6.2%	1,032	2.1%	1.7%
60,000	74,999	58,748	8.6%	1,032	1.7%	1.4%
75,000	99,999	91,221	13.4%	1,032	1.4%	1.0%
100,000	124,999	75,834	11.1%	1,032	1.0%	0.8%
125,000	149,999	56,645	8.3%	1,032	0.8%	0.7%
150,000	199,999	80,870	11.9%	1,032	0.7%	0.5%
200,000	N/A	115,394	16.9%	1,032	0.5%	N/A
Total		682,293	100.0%			

Income bracket information from the U.S. Census Bureau (www.census.gov), American Community Survey 5-Year Estimates for 2015-2019.

*The average WSSC Water bill is based on a 3-person household using 55 gallons of water per person per day.

WSSC WATER BILL AFFORDABILITY (Continued)

Household Income Brackets (Continued)

WSSC Water’s income-based financial assistance programs, CAP and the Water Fund, would provide help to most of the customers in the four lowest income brackets, even if they are in single-person households. CAP provides assistance for single-person households with annual incomes of up to \$22,540 if under 67 years of age and \$25,760 if 67 years of age or older. For a three-person household, the income limits increase to \$38,430 if all household members are under 67 years of age and \$43,920 if one household member is 67 years of age or older. The Water Fund provides assistance to single-person households with up to \$25,760 in annual income. For a three-person household, the income limit increases to \$43,920. Therefore, WSSC Water’s financial assistance programs can help keep the costs of water and sewer services affordable for many of those who are most likely to struggle to pay their bills.

The table below shows how WSSC Water’s CAP can increase bill affordability for our lowest income customers. As previously mentioned, CAP provides financial assistance to approved residential customers via credits for WSSC Water’s fixed fees (the Account Maintenance Fee and the Infrastructure Investment Fee). It is anticipated that up to \$120 in assistance will be available in FY 2023 to match the fixed fees for a 3/4” meter. This would lower the average WSSC Water bill, which is based on a three-person household with a 3/4” meter, from approximately \$1,032 per year to \$912 per year. The income at which the 4.5% threshold is crossed for a three-person household would similarly decrease from about \$22,936 per year to \$20,270 per year. Consequently, the percentage of households for which the average three-person bill would exceed the EPA threshold would drop to about 7.6%, from the previous figure of less than 9.9%. The Water Fund, which provides up to \$500 in financial assistance per year for eligible residential customers, can further help those customers facing affordability concerns even after the CAP assistance is taken into account.

Income Bracket Lower Bound	Income Bracket Upper Bound	Number of Households	Share of Households	Average WSSC Water Bill (w/ CAP)*†	Share of Lower Bound	Share of Upper Bound
\$ -	\$ 9,999	24,601	3.6%	\$ 912	N/A	9.1%
10,000	14,999	13,415	2.0%	912	9.1%	6.1%
15,000	19,999	13,945	2.0%	912	6.1%	4.6%
20,000	24,999	15,365	2.3%	912	4.6%	3.6%
25,000	29,999	17,367	2.5%	912	3.6%	3.0%
30,000	34,999	20,075	2.9%	912	3.0%	2.6%
35,000	39,999	18,736	2.7%	912	2.6%	N/A

Income bracket information from the U.S. Census Bureau (www.census.gov), American Community Survey 5-Year Estimates for 2015-2019.

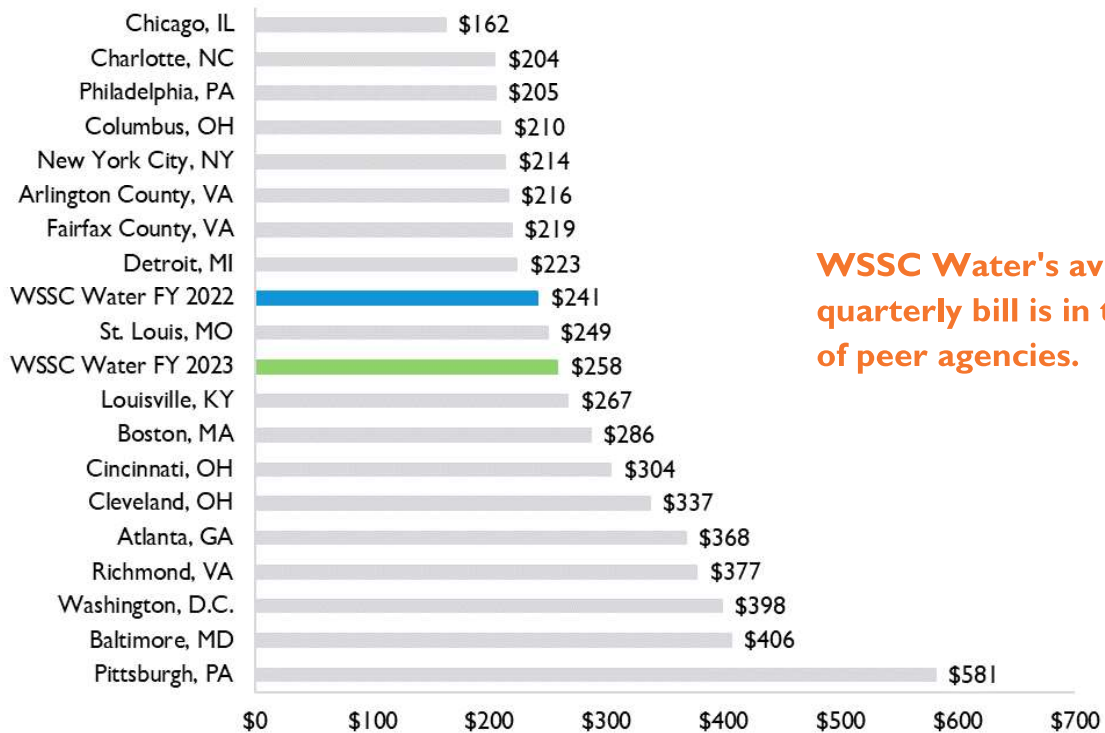
*The average WSSC Water bill is based on a 3-person household using 55 gallons of water per person per day.

WATER AND SEWER BILL COMPARISONS

Quarterly Bill Comparison

Presented below is a comparison of WSSC Water’s average quarterly residential bill for water and sewer services at 165 gallons per day to the equivalent bill from 18 other cities and communities, both locally and nationally. The consumption level of 165 gallons per day represents the average household in WSSC Water’s service area, a 3-person household using 55 gallons of water per person per day. The rates and fees used in this comparison were in effect as of December 2021. The chart includes WSSC Water bills at FY 2022 approved and FY 2023 proposed rates. As shown in the chart, the quarterly bills in the other communities range from a low of \$162 in Chicago, Illinois to a high of \$581 in Pittsburgh, Pennsylvania. WSSC Water ranks in the middle of the peer agencies, with quarterly bills of \$241 in FY 2022 and \$258 in FY 2023. This shows that WSSC Water’s rates and fees are competitive both locally and nationally.

**Residential Quarterly Water/Sewer Bill Comparison
(165 Gallons per Day)**



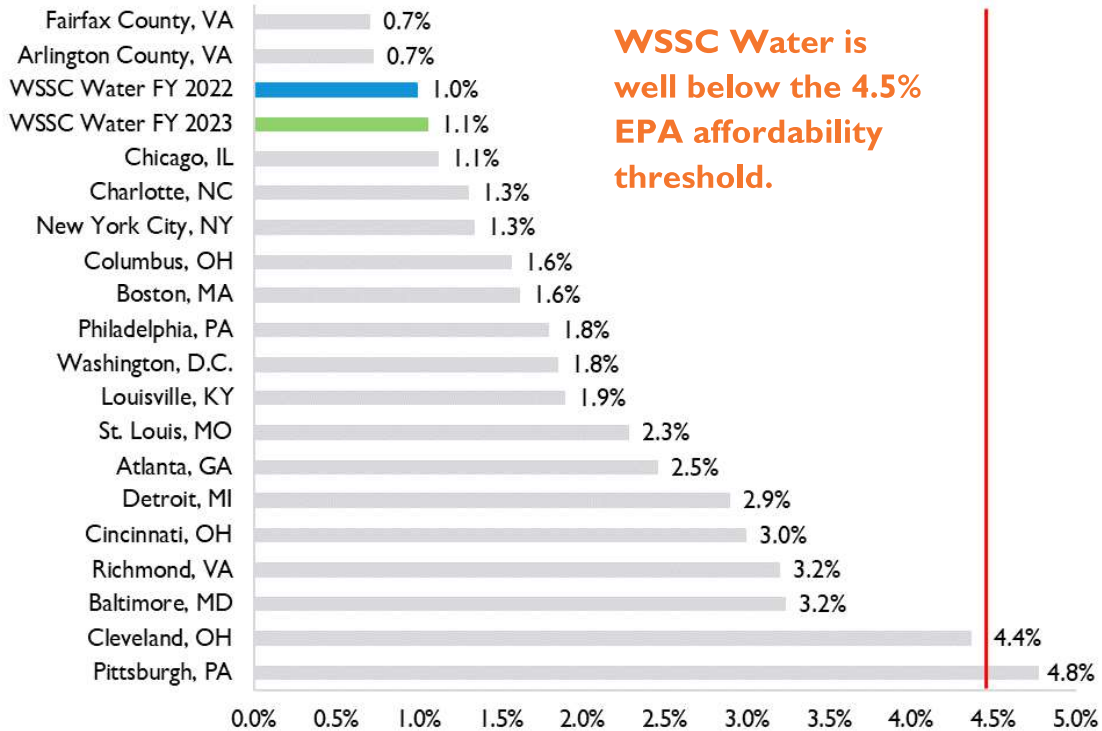
WSSC Water's average quarterly bill is in the middle of peer agencies.

WATER AND SEWER BILL COMPARISONS (Continued)

Bill as a Percentage of Median Household Income Comparison

The chart below shows a comparison of the average residential bills as a percentage of median household income for WSSC Water and the 18 other cities and communities analyzed for customers using 165 gallons of water per day. The average annual bill from WSSC Water in FY 2023 is only 1.1% of the median household income of its customers, a slight increase from the 1.0% in FY 2022. This places WSSC Water among the most affordable of its peer agencies, with only two agencies (Fairfax County and Arlington County in Virginia) having lower percentages. Additionally, WSSC Water is well below the 4.5% threshold that the EPA considers to be affordable for customers.

**Average Residential Bill as a Percentage of Median Income
(165 Gallons per Day)**



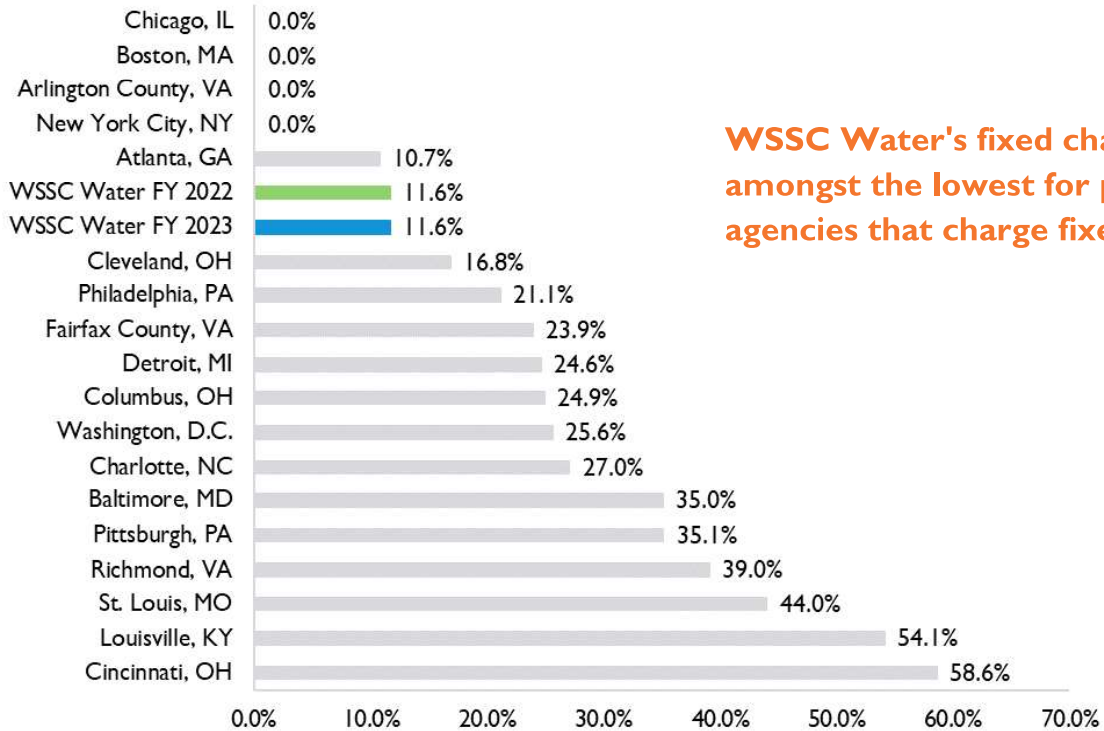
Median household income figures (in 2019 dollars) from the U.S. Census Bureau (www.census.gov), American Community Survey 5-Year Estimates for 2015-2019.

WATER AND SEWER BILL COMPARISONS (Continued)

Percentage of Bill from Fixed Charges Comparison

The chart below compares fixed charges as a portion of the average residential bill for WSSC Water and the 18 other cities and communities reviewed. Four of the peer agencies (Chicago, Illinois; Boston, Massachusetts; Arlington County, Virginia; and New York City, New York) do not have any fixed fees as part of their water and sewer bills. Of the agencies that do charge fixed fees, WSSC Water’s fixed charges are the second lowest as a percentage of the average bill. In FY 2022 and FY 2023, 11.6% of the average residential bill from WSSC Water is attributable to fixed fees. WSSC Water’s CAP focuses on limiting the impact of these fixed fees on those who are most likely to struggle to pay their bills.

**Percentage of Average Residential Bill from Fixed Charges
(165 Gallons per Day)**



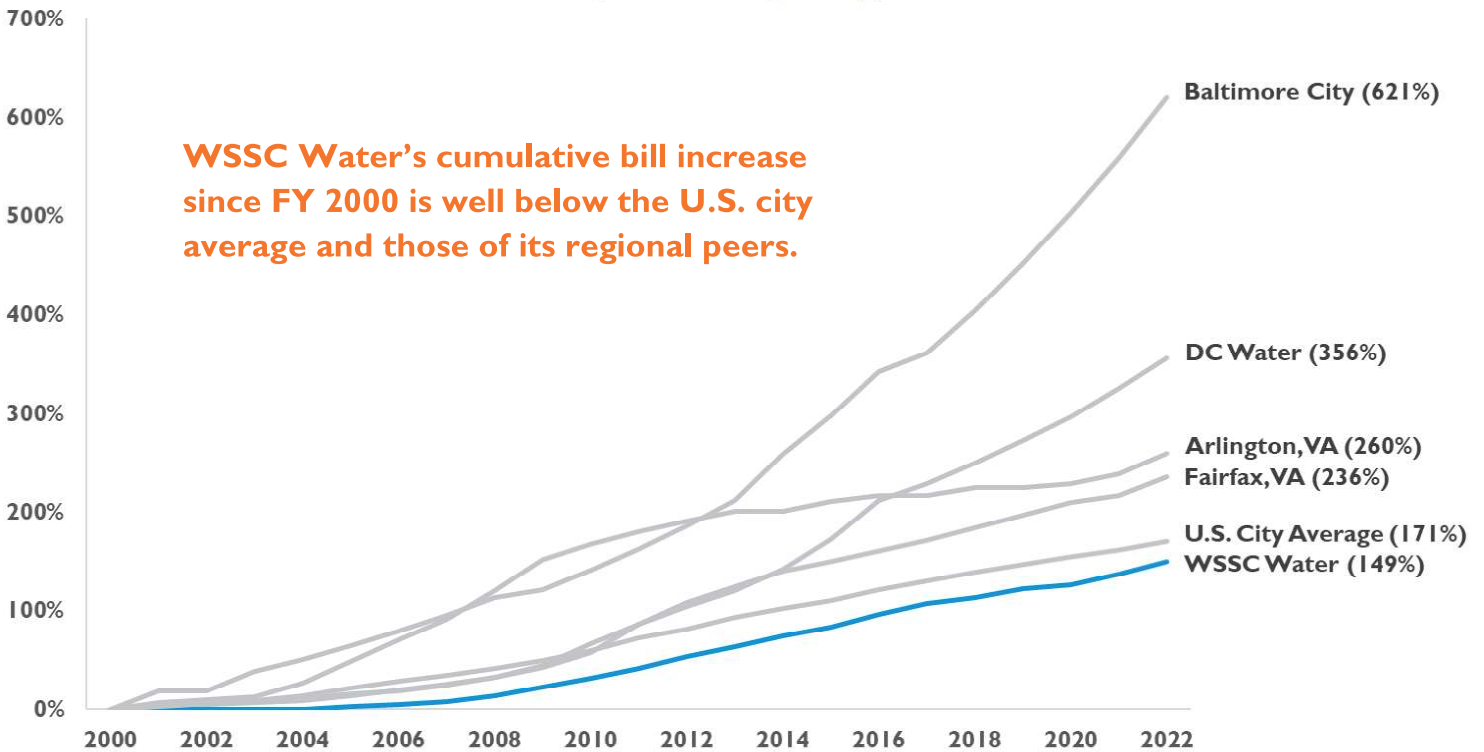
WSSC Water's fixed charges are amongst the lowest for peer agencies that charge fixed fees.

WATER AND SEWER BILL COMPARISONS (Continued)

Bill Increases Over Time Comparison

The chart below shows a comparison of the cumulative bill increases for comparable water and sewer providers in the greater Washington-Baltimore-Arlington combined statistical area and the U.S. city average for FYs 2000-2022. As with the previous comparisons, the consumption level used is 165 gallons per day to represent the average 3-person household using 55 gallons of water per person per day. The chart shows that the cumulative increase in the average WSSC Water bill was about 149% over the last 22 years, which is lower than the increases for all of the peer agencies and the U.S. city average over the same time period. The increases for the comparable regional providers range from a low of 236% for Fairfax, Virginia to a high of 621% for Baltimore City, Maryland. The U.S. city average increased by 171% over the 22-year analysis period.

FYs 2000-2022 Bill Increase Comparison
(165 Gallons per Day)



Assumes a 5/8" residential meter for purposes of determining the appropriate fees.

The U.S. city average is based on the water and sewerage maintenance component of the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, from the U.S. Bureau of Labor Statistics (www.bls.gov). Values for July of each fiscal year (i.e., July 2021 = FY 2022).

WATER AND SEWER BILL COMPARISONS (Continued)

Electric and Cell Phone Service Bill Comparison

Another useful comparison is looking at the cost of other utility or utility-like services. Two such services for which there is readily available data from government sources are electric services and cell phone service. The most recent year for which data are available for all three services (electricity, cell phone and WSSC Water services) is 2020. The data show that in 2020 the average cost of electricity from the two primary providers in Montgomery and Prince George's Counties, Baltimore Gas and Electric Company (BGE) and Potomac Electric Power Company (PEPCO), was approximately \$114 per month. For cell phone service, the 2020 data for the South Census Region, which includes the State of Maryland, has a monthly cost of about \$106. The average monthly cost of water and sewer services from WSSC Water, based on a three-person household using FY 2020 rates and fees, was only about \$73 in comparison. This means that the monthly cost of water and sewer was only around 64% of the cost of electricity and 68% of the cost of cell phone service in 2020.

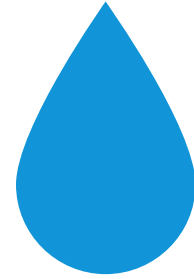
In 2020, the average household spent per month...



\$114
on electricity from
BGE and PEPCO



\$106
on cell phone
service



\$73
on water and sewer
services from **WSSC**
Water

Electric sales, revenue and average price data from the U.S. Energy Information Administration (www.eia.gov), 2020 Electricity Reports.

Cellular phone service expenditures from the U.S. Bureau of Labor Statistics (www.bls.gov), Consumer Expenditure Survey, September 2021.

The average WSSC Water bill is based on a three-person household with consumption of 55 gallons of water per person per day.

SECTION 4
SPENDING AFFORDABILITY AND LONG-RANGE
FINANCIAL PLAN

SPENDING AFFORDABILITY AND LONG-RANGE FINANCIAL PLAN

In May 1993, the Montgomery and Prince George's County Councils created the Bi-County Working Group on WSSC Spending Controls (Working Group) to review WSSC Water's finances and recommend spending control limits. The Working Group's January 1994 report recommended "the creation of a spending affordability process that requires the Counties to set annual ceilings on the WSSC's rates and debt (debt in this context means both bonded indebtedness and debt service), and then place corresponding limits on the size of the capital and operating budgets of the Commission."

Each year, 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 maintain operating and capital budgets and debt service at prudent and sustainable levels.

The FY 2023 Spending Affordability Guidelines (SAG) rate increase recommended by the two County Councils is 6.5% for both water and sewer volumetric and ready-to-serve charges. The agency prepared the preliminary proposed budget based on the 7.0% water and sewer rate increase to the volumetric and ready-to-serve charges that exceeds the recommended limits established by both the Counties to limit the extent the operating budget reductions will have on services.

A long-range financial plan (the Plan) complements the spending affordability process by utilizing approved SAG limits to forecast outer year implications and strategize potential problems and opportunities which may impact WSSC Water's work program. The Plan is the agency's roadmap and reflects financial strategic intent, as well as imposing discipline by highlighting the cumulative effects of decisions. Addressing issues earlier not only protects WSSC Water's long-term financial condition, but also ensures that necessary actions and/or changes are properly communicated to our customers, County Councils and other stakeholders.

MAJOR ASSUMPTIONS, WORKLOAD INDICES AND DEMAND PROJECTIONS

Below is a summary of the budget outcomes from the FY 2023 SAG process.

- Fund Balance – It was assumed for the purpose of preparing the FY 2023 Proposed Budget that, at the end of FY 2022, accumulated net revenues for the water and sewer operating funds would total \$169.7 million. For FY 2023, the total water and sewer operating revenues are \$868.9 million; therefore, at least \$130.3 million will be held in accumulated net revenues in adherence to WSSC Water's 15% reserve policy (see Fiscal Guidelines page 6-1). The budgeted accumulated net revenue of \$187.6 million exceeds the reserve target and is 21.6% of the total operating revenues.
- Revenues – The estimated FY 2023 revenues from water consumption and sewer use charges are \$341.5 million and \$415.5 million, respectively. Water production is assumed to be 163.0 million gallons per day (MGD) in FY 2023 and water consumption is projected to decrease from 125.5 MGD in FY 2022 to 124.5 MGD in FY 2023.
- Capital Budget – The capital budget includes expenditure estimates for all projects for which work is reasonably expected to be accomplished. This provides management with maximum flexibility to proceed on the many and diverse projects approved each year in the budget. The FY 2023 Capital Budget is \$606.2 million.
- Debt Service – The debt service estimates for FY 2023 assume that \$155.2 million in Water Supply bonds and \$203.7 million in Sewage Disposal bonds will be issued in FY 2023, in addition to repayment of existing debt. The water and sewer issues will be 30-year bonds with an estimated 4.0% average interest rate.
- Reconstruction Debt Service Offset (REDO) – For FY 2023, \$4.0 million will be transferred from the General Bond Debt Service Fund to the Water and Sewer Operating Funds. The transfer is made to help defray the debt service on funds borrowed to finance water and sewer systems reconstruction activities.
- Workforce and Compensation – Ten additional authorized workyears are included. A marker is included for salary enhancements in the FY 2023 budget.

MAJOR ASSUMPTIONS, WORKLOAD INDICES AND DEMAND PROJECTIONS (Continued)

The following table presents data used during the SAG process to develop the FY 2023 Proposed Budget.

Workload Data	Actual					Projected	
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Water and Sewer Combined Rate Increase (%)	3.0	3.5	4.5	5.0	6.0	5.9	7.0
Population to be Served (000s)*	1,785	1,777	1,801	1,910	1,915	1,920	1,926
Customer Accounts (000s): **	460	460	461	464	467	475	475
Residential (%)	95.6	95.7	95.5	95.4	95.4	95.4	95.4
Commercial and Industrial (%)	3.7	3.7	3.7	3.8	3.7	3.7	3.7
Government and Other (%)	0.7	0.6	0.8	0.8	0.9	0.9	0.9
Water Program:							
Water Production (Average MGD)	163.1	163.9	161.7	162.6	162.8	163.0	163.0
Water Consumption (Average MGD)	130.5	126.6	123.2	128.6	126.4	125.5	124.5
Water Mains Maintained (Miles)	5,647	5,768	5,816	5,844	5,869	5,900	6,000
Water House Connections Maintained (000s)	461	465	469	471	473	476	479
Sewer Program:							
Sewage Treated (Average MGD)	179.0	172.8	218.7	188.3	204.1	192.1	196.9
Sewer Use (Average MGD)	118.6	116.3	113.3	116.0	114.6	113.7	112.7
Sewer Mains Maintained (Miles)	5,549	5,578	5,604	5,624	5,615	5,620	5,700
Sewer House Connections Maintained (000s)	435	438	441	443	445	447	449
House Connections added:							
Water	3,498	2,931	3,480	2,410	2,553	2,700	2,700
Sewer	2,997	2,500	3,152	1,868	1,869	2,100	2,100
New Water & Sewer Bond & Notes Debt Issues (\$ in millions)	455	459	390	234	350	350	359
Average Annual Interest Rate for New Bond Issuance (%)	3.6	3.3	3.6	2.6	2.0	2.3	4.0

* FY 2020 population served is based on the decennial census which is conducted by the U.S. Census Bureau every 10-years.

** Beginning FY 2020, the data source for the customer accounts is based on the Customer-to-Meter (C2M) billing system.

PENSION OBLIGATIONS AND OTHER UNFUNDED LIABILITY

WSSC Water makes continued funding contributions as part of its operating budget planning to remedy unfunded liabilities. While these liabilities will continue to persist over the long-term, WSSC Water's management is committed to making substantial forward progress in addressing these liabilities as part of our long-term financial plan, while balancing such need within the context of actuarial review, reasonableness, and affordability. If market and/or actuarial changes reflect a need for more strict and rapid progress in addressing these liabilities, WSSC Water management will consider appropriate action and make course changes as necessary.

Pension

Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension costs are impacted by fluctuations in the market affecting actual and projected investment income and related deferred outflows or inflows. Investment activities are reported as non-operating revenues, therefore pension costs are allocated amongst operating and non-operating costs and/or revenues.

WSSC Water's net pension liability as of December 2020 is \$121,613,000 and the net pension liability is 11.9% of the total pension liability. The actuarial assumptions for pension are: 2.5% inflation factor, 2.75% - 7.5% salary increase, and 7% investment rate of return.

Other Post-Employment Benefits (OPEB)

WSSC Water employees are eligible to continue group insurance coverage after retirement provided that retiring employees have had coverage in effect for two years prior to retirement.

WSSC Water's net OPEB liability as of December 2020 is \$85,245,000 and net OPEB liability is 32.1% of the total OPEB liability. The actuarial assumptions for OPEB are: 2.5% inflation factor, a salary increase, and 7% investment rate of return.

More information can be found within WSSC Water's Annual Financial Report or on our website at the following <https://wsscwater.com/financereports>.

LONG-RANGE FINANCIAL PLAN FOR WATER AND SEWER OPERATING FUNDS

(\$ in thousands)	FY 2022 Approved	FY 2023 Proposed	FY 2024 Projected	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected
New Water and Sewer Debt Issues	\$ 409,704	\$ 358,839	\$ 380,883	\$ 382,820	\$ 390,726	\$ 362,710	\$ 307,844
Water and Sewer Combined Rate Increase (Average)	5.9 %	7.0 %	8.5 %	6.0 %	4.0 %	4.0 %	4.0 %
Operating Revenues							
Consumption Charges	\$ 717,803	\$ 756,991	\$ 821,335	\$ 871,712	\$ 907,776	\$ 945,358	\$ 984,497
Account Maintenance Fees (AMF)	31,866	34,063	36,958	39,176	40,743	42,373	44,068
Infrastructure Investment Fees (IIF)	38,808	41,505	45,033	47,735	49,644	51,630	53,695
Plumbing and Inspection Fees	14,350	16,780	17,283	17,802	18,336	18,886	19,453
Rockville Sewer Use	3,100	3,100	3,100	3,100	3,100	3,100	3,100
Miscellaneous	21,600	19,000	19,190	19,382	19,576	19,771	19,969
Interest Income	1,000	2,800	2,800	2,800	2,800	2,800	2,800
Uncollectable	-	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)
Cost Sharing Reimbursement	-	635	485	75	5,525	5,525	145
Total Operating Revenues	\$ 828,527	\$ 868,874	\$ 940,184	\$ 995,782	\$ 1,041,500	\$ 1,083,443	\$ 1,121,727
Other Credits and Transfers							
Reconstruction Debt Service Offset	6,000	4,000	2,000	-	-	-	-
SDC Debt Service Offset	5,772	5,772	5,772	5,772	5,772	5,748	5,748
Premium Transfer	-	2,500	-	-	-	-	-
Underwriters Discount Transfer	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Total Funds Available	\$ 842,299	\$ 883,146	\$ 949,956	\$ 1,003,554	\$ 1,049,272	\$ 1,091,191	\$ 1,129,475
Operating Expenses							
Salaries & Wages	133,039	136,410	142,548	148,963	155,666	162,671	169,991
Heat, Light & Power	18,493	18,817	19,569	18,776	18,014	18,861	19,521
Regional Sewage Disposal	59,160	60,343	61,550	62,781	64,037	65,317	66,624
All Other	294,977	294,099	299,681	304,861	321,880	328,122	323,729
Total Operating Expenses	\$ 505,669	\$ 509,669	\$ 523,348	\$ 535,381	\$ 559,597	\$ 574,971	\$ 579,865
Debt Service							
Bonds and Notes Principal and Interest	309,045	324,144	345,360	375,671	398,462	419,424	439,234
Other Transfers and Adjustments							
Additional and Reinstated	-	-	-	-	(5,000)	(7,500)	(7,500)
PAYGO	27,585	31,016	44,000	65,000	80,000	80,000	100,000
Total Expenses	\$ 842,299	\$ 864,829	\$ 912,708	\$ 976,052	\$ 1,033,059	\$ 1,066,895	\$ 1,111,599
Net Revenue (Loss)	\$ -	\$ 18,317	\$ 37,248	\$ 27,502	\$ 16,213	\$ 24,296	\$ 17,876
Beginning Fund Balance - July 1	\$ 168,897	\$ 169,317	\$ 187,634	\$ 224,882	\$ 252,384	\$ 268,597	\$ 292,893
Net Increase (Decrease) in Fund Balance	-	18,317	37,248	27,502	16,213	24,296	17,876
Adjustments	420	-	-	-	-	-	-
Ending Fund Balance - June 30	\$ 169,317	\$ 187,634	\$ 224,882	\$ 252,384	\$ 268,597	\$ 292,893	\$ 310,769
Debt Service Coverage (1.10 - 1.25 is Target)	1.04	1.11	1.21	1.23	1.22	1.23	1.25
Leverage Ratio - Credit Rating Preservation (<10.0)	n/a	9.8	9.0	8.5	8.5	8.2	7.8
Debt Service as a % of Total Expenses (< 40% is Target)	36.7 %	37.5 %	37.8 %	38.5 %	38.6 %	39.3 %	39.5 %
End Fund Balance as a % of Operating Revenue (min. 15%)	20.4 %	21.6 %	23.9 %	25.3 %	25.8 %	27.0 %	27.7 %
Days Operating Reserve-on-Hand (120-150 Days is Target)	73.4	126.7	144.7	153.4	154.5	165.1	168.7
Total Workyears (All Funds)	1,786	1,796	1,796	1,799	1,799	1,799	1,799

Assumptions:

- The FYs 2024-2028 projections reflect WSSC Water's multi-year forecast and assumptions. The projected expenditures, revenues and fund balances for these years may be based on changes to rates, fees, usage, inflation, future labor agreements and other factors not assumed in the FY 2023 Proposed Budget. Data excludes General Construction Debt Service and General Construction Bonds.
- Leverage ratio is calculated as net adjusted debt (debt outstanding less cash and cash equivalent) to adjusted funds available for debt service (operating revenues less operating expenses excluding depreciation plus adjustments for miscellaneous revenues and expenses).
- Debt service for bonds and notes includes Maryland Water Quality Bonds and interfund debt service transfers.
- Adjustments to Consumption Charges, AMF and IIF for Water and Sewer Combined Rate Increase assumes rate increase is in effect for 12 months.
- Debt Service Coverage is Operating Revenues less Operating Expenses (excluding Debt Service and PAYGO) divided by the debt service on bonds and notes.
- Beginning FY 2023, Days Operating Reserve-on-Hand target was revised to provide a more robust reserve and to align with the rating agency calculations which do not include debt service as an operating expense.
- The FY 2022 adjustments reflect FY 2022 estimated Net Revenue.

ORGANIZATIONAL BUDGETS AND MEASURES

This section discusses expenses by organizational unit, assumptions related to WSSC Water’s workforce and compensation, including retiree benefits. In addition, this section highlights the role, mission and core activities of each organization within the agency. It also provides goals, outcomes and measures for key performance metrics measured by the agency.

COMPARATIVE EXPENSES BY ORGANIZATIONAL UNIT ALL OPERATING AND CAPITAL FUNDS

Organization	FY 2021 Actual		FY 2022 Approved		FY 2023 Proposed		Change in Work Years	Change in Amount
	Work Years	Amount	Work Years	Amount	Work Years	Amount		
Governance & General								
Manager's Office								
Commissioners'/Corporate Secretary's Office*	1.3	\$ 336,736	2.0	\$ 410,432	2.0	\$ 482,667	-	\$ 72,235
Office of the Inspector General*	9.1	1,583,404	10.0	1,628,871	10.0	1,637,327	-	8,456
General Manager's Office	8.0	1,468,198	8.0	1,480,154	8.0	1,523,287	-	43,133
General Counsel's Office	26.0	11,629,036	28.0	10,481,323	28.0	10,471,543	-	(9,780)
Strategy & Partnerships								
Intergovernmental Relations Office	4.0	618,550	4.0	778,837	4.0	763,053	-	(15,784)
Strategy & Innovation Office	16.4	3,132,386	19.0	5,830,574	14.0	4,975,033	(5.0)	(855,541)
Communications & Community Relations	15.7	2,209,678	19.0	2,957,801	19.0	2,864,137	-	(93,664)
Human Resources Office	33.6	6,261,856	36.0	8,049,422	37.0	7,883,501	1.0	(165,921)
Equal Employment Opportunity Office	0.3	91,728	1.0	237,823	-	-	(1.0)	(237,823)
Customer Service Department	110.3	13,707,446	94.0	14,197,482	94.0	16,896,230	-	2,698,748
Operations								
Asset Management Division	5.2	1,716,700	6.0	1,794,247	7.0	2,655,229	1.0	860,982
Police & Homeland Security Office	34.3	4,723,371	40.0	5,951,878	40.0	5,395,339	-	(556,539)
Engineering & Construction Department	350.1	418,369,911	376.0	685,173,258	375.0	598,974,980	(1.0)	(86,198,278)
Production Department	315.1	142,937,207	332.0	152,791,839	339.0	160,494,607	7.0	7,702,768
Utility Services Department	478.8	89,645,813	512.0	122,030,861	512.0	104,771,652	-	(17,259,209)
Administration								
Office of Supplier Diversity & Inclusion	9.0	1,156,168	9.0	1,292,695	10.0	1,241,714	1.0	(50,981)
Procurement Office	21.6	2,176,338	27.0	2,717,721	32.0	3,396,690	5.0	678,969
General Services Department	85.6	34,832,371	96.0	41,149,538	98.0	38,997,054	2.0	(2,152,484)
Finance Department	62.4	7,881,473	64.0	8,271,660	64.0	8,356,577	-	84,917
Information Technology Department	91.7	56,111,013	103.0	61,389,484	103.0	59,439,406	-	(1,950,078)
Other								
Human Resources Non-Departmental	-	29,393,327	-	31,665,326	-	33,781,806	-	2,116,480
Finance Non-Departmental								
Debt Service	-	291,979,579	-	316,827,000	-	330,823,374	-	13,996,374
PAYGO	-	-	-	27,585,000	-	31,016,000	-	3,431,000
Other (Social Security, Retirement, etc.)	-	53,560,633	-	51,914,428	-	54,603,458	-	2,689,030
Retirement Trust Chargeback	-	-	-	(769,300)	-	(1,673,547)	-	(904,247)
Total	1,678.5	\$1,175,522,922	1,786.0	\$1,555,838,354	1,796.0	\$1,479,771,117	10.0	\$ (76,067,237)

(*) Commissioners (6) and Inspector General (1) not included in totals for workyears. However, funds shown in table do provide for associated workyear expenses.

Note: Explanation of workyear and budget variances are included in the department details of Section II.

WORKFORCE AND COMPENSATION

The workforce and compensation assumptions proposed for Fiscal Year (FY) 2023 incorporate the policy and guideline recommendations discussed in the Sections 4 and 6.

Salaries & Wages Summary

	<u>FY 2023 Proposed</u>	
	Work Years	Amount
Base Positions Funded Full Year	1,796	\$ 159,099,220
Overtime		7,600,400
Subtotal		166,699,620
Lapse on Base Positions*		(8,376,281)
Subtotal		158,323,339
Salary Enhancements		6,889,869
Salary - 6 Commissioners		78,500
Total	1,796	\$ 165,291,708

*Lapse is the reduction of gross salary costs due to vacancies and normal delays in filling positions.

Employee Benefits

The following employee benefits are funded in WSSC Water's FY 2023 Proposed Budget through a combination of lump sum or payroll-based contributions.

FICA (Social Security & Medicare) – Contributions are collected each payday based on actual payroll. Since contribution rates and salary maximums change at the start of the calendar year, figures used in the budget represent an average of the projected changes for FY 2023. The employer rates are 6.2% for Social Security and 1.45% for Medicare.

Workers' Compensation – This is handled by the Human Resources Office. Contributions are set each year based on an actuarial valuation of exposures, past and projected claims experience and administrative expenses.

Group Insurance – The contributions for health insurance are actuarially determined, and the contribution for life insurance is based on fixed rates per coverage amounts based on an employee's salary. Contribution rates are set based on various factors, including the fund balance in the Retiree Other Post-Employment Benefits (OPEB) Trust and claims cost experience.

Retirement System – WSSC Water maintains a retirement system for its employees which is intended to provide income during their retirement years. Annual employer contributions to the Employees' Retirement Plan are actuarially-determined and set at a level percentage of pay. This ratio is currently 16.9% of pay and has remained consistent over a number of years. The Employees' Retirement Plan is administered by an Executive Director who is appointed by the General Manager.

FY 2023 OPERATING BUDGET REDUCTIONS TOTALING \$23.1 MILLION AND IMPACT STATEMENTS

Utility Services Department

- a. **\$1,865,000 - Emergency Responses** - The depots respond to emergencies in communities, in environmentally sensitive areas, at WSSC WFPs, WRRFs, pumping stations and elevated water tanks. Certain responses often require by-pass pumping and repairs for sanitary sewer overflows (SSO) to mitigate untreated wastewater discharges from the sanitary sewer system into the environment. Longer response times may result in increased fines due to the additional flow volume being discharged. Supporting contractors provide specialized equipment necessary to build access roads, pumps large enough to handle our sewer trunk line flow volume and machines large enough to move large pipe through our rights-of-way to make the repairs. The contractors can also address multiple emergencies simultaneously, mitigating the emergencies' impacts. In addition, some planned urgent repairs can include large valve repairs or replacements, pipe repairs and other ancillary tasks. Emergency repair contractors provide support for both buried/linear and vertical assets. This reduction impacts three of the four depots.
- b. **\$600,000 - Work Order Backlog Contract** - The contract supports reducing the backlog of work orders of miscellaneous water and wastewater main repairs. The proposed reduction will likely lead to an increased workload with longer repair times for leaks in mains. This directly impacts water loss and gives the appearance of wasting water. Additionally, we would see an increase in breaks, SSOs, longer water outages, longer repair times, higher fines from regulatory agencies and greater environmental impacts to nearby streams.
- c. **\$500,000 - Acoustic Fiber Optic (AFO) Monitoring System** - These data acquisition systems continually monitor the integrity of large pre-stressed concrete cylinder pipe (PCCP) water mains while the pipelines are in service. The systems collect and record PCCP wire breaks and alert WSSC Water when pipes are in danger of failure so immediate action can be taken to avert failures. One less AFO data acquisition monitoring system will be commissioned.
- d. **\$384,600 - "Miss U" Locating Contractor** - The contract provides locating and marking services for WSSC Water's underground water and sewer assets prior to any excavation work (i.e. valves, water and sewer pipelines, etc.). In accordance with Maryland's Annotated Code, Public Utilities Article, Title 12 "Underground Facilities"; Subtitle 1: "Excavation or Demolition Near Underground Facilities" WSSC Water's contractor must respond to all Miss-Utility tickets received from the Miss Utility One-Call Center. Failure of WSSC Water to comply with Maryland's Annotated Code, Public Utilities Article, Title 12 may result in violations and fines from Maryland Underground Facilities Damage Prevention Authority. A reduction in funding can lead to an increased number of contractor damages to our buried assets, can cause customer outages, and in extreme cases may result in injuries and/or property damage. Decreasing funding for locating and marking buried assets will likely increase the time to restore water or sewer service.
- e. **\$300,000 - Pipe Armoring** - This program addresses water and wastewater assets that have become exposed across and along streams, providing construction services for armoring/protecting the exposed assets and restoring portions of the impacted stream to avoid future failures of critical water and sewer assets in environmentally sensitive areas. A 23% program reduction will increase the frequency with which linear assets may become compromised and possibly fail along streams, causing environmental damages as well as disruptions in service. Regulatory agencies may fine WSSC Water due to these exposed assets.

FY 2023 OPERATING BUDGET REDUCTIONS TOTALING \$23.1 MILLION AND IMPACT STATEMENTS (Continued)

- f. **\$200,000 - W-1.00 Pressure Monitoring** - Transient pressures occur in water mains because of sudden changes in flow due to daily operations and can be very damaging and often result in water main failures. A budget reduction will result in a 48% decrease in the mileage of WSSC Water's transmission system that can be monitored for dangerous transient pressures each year. The resulting impact may be an increase in breaks in large and small diameter water mains.
- g. **\$150,000 - W-161.01 Valve Repairs** - The existing valve inspection and exercising program includes provisions for repairing broken or malfunctioning valves. The proposed budget cut will reduce the number of valves that can be addressed from 85 to approximately 65 per year, which limits WSSC Water's ability to make sure all critical valves are in proper working condition during emergencies and/or routine maintenance.
- h. **\$150,000 - W-161.01 Right-of-Way Clearing/Temporary Access Roads** - This program provides services to construct temporary access roads to critical valves for inspection and repair. Repairs on valves located in areas difficult to access may take a longer time. Service disruptions, mitigation efforts and overall impact will worsen if access to these critical assets is impeded.
- i. **\$150,000 - Emergency Response Plan Consultants** - This program is to generate emergency response plans related to critical buried water and wastewater assets with the objective of preventing injuries and fatalities, reducing damage to property, protecting the environment and the community and accelerating the resumption of normal operations. Emergencies related to critical buried water and wastewater assets can take longer to resolve resulting in longer disruptions of service.
- j. **\$125,000 - W-161.01 PCCP Inspection & Condition Assessment** - The current PCCP condition assessment program targets approximately 18 miles of pipe each year and should be expanded to ensure the proper operation and maintenance of these critical assets. The program has been instrumental in avoiding water main failures of large PCCP, such as River Road several years ago and more recently in Capital Heights. A reduction in budget will result in a reduction of the large diameter PCCP mileage assessments performed yearly which may result in an increase of large diameter breaks.
- k. **\$100,000 - Large Diameter Inspection Program** - This program provides engineering consultant resources for the inspection and condition assessment of at least 5 miles of large diameter sewer mains and a minimum of one sewer force main per year. The proposed 9% reduction reduces the resources available for the targeted assessment and may result in increased large volume sanitary sewer overflows, resulting in additional mitigation costs and negative environmental impacts.
- l. **\$100,000 - Small Valve Inspection/Exercising** - The small valve inspection and exercising program targets approximately 14,000 valves each year. The proposed budget reduction will reduce the number of valves that can be inspected each year by approximately 1,100 and limits WSSC Water's ability to make sure all critical valves are in proper working condition during emergencies and routine maintenance.
- m. **\$50,000 - Inspection Services** - This program provides contractor resources for responding to sewer emergencies and for performing routine maintenance of sewer mains. A reduction in funding can result in

FY 2023 OPERATING BUDGET REDUCTIONS TOTALING \$23.1 MILLION AND IMPACT STATEMENTS (Continued)

additional odor complaints, SSOs, basement backups, line blockages, additional cleaning costs and an increase in claims associated with damages caused by the sewers.

- n. **\$50,000 - Chemical Root Control** - The chemical root control program is part of WSSC Water's preventive maintenance program for the wastewater collection system and is part of the SSO consent decree. The program targets tree roots that have intruded into the sewer pipes, causing SSOs and basement backups. Each year, selected sewer pipes are treated with an herbicide to kill tree roots and prevent regrowth. The chemical root control program has been a significant contributor to WSSC Water's success in reducing SSOs annually from approximately 225 in 2006 to 98 in 2020. Reducing the program will eventually result in a gradual increase in the number of SSOs and basement backups that occur each year.
- o. **\$25,000 - Sewer System Evaluation Survey (SSES) for Flow Reduction** - An SSES is a comprehensive approach to quantifying infiltration and inflow (I&I), locating sources of I&I and making recommendations for the reduction of I&I in selected portions of the collection system. I&I is excess water that flows into the sewer collection system from groundwater and stormwater. I&I can overwhelm WSSC Water's collection system, resulting in SSOs and basement backups. The current budget includes evaluation of approximately 30 miles of sewer pipe per year, which is 10 miles less than the program goal per the SSO Consent Decree. Therefore, any further reduction in the budget will reduce the miles evaluated and continue to limit I&I source detection and reduction efforts in parts of the system such as the Piscataway Broad Creek basins.

Production

- a. **\$1,395,000 - Chemicals** - Increased risk that proper/complete treatment of water or wastewater will not be accomplished.
- b. **\$1,200,000 - Materials** - There is an increased risk that critical maintenance and repair work at water or wastewater treatment facilities will not be completed when needed, potentially causing temporary service interruptions. In addition, potential cost increases for supplies due to inflation, supply chain issues, and/or the need for more emergency purchases will impact the available budget.
- c. **\$1,000,000 - Operating Support Program Projects** - There is an increased risk of facility performance problems due to equipment-related issues. The risk of poor or unsafe working conditions in WSSC Water work locations also increases. We also will not be able to complete roof replacement projects. In addition, there will be increased cost for rehabilitation projects as delays result in further deterioration in the condition of the assets.
- d. **\$807,000 - Various Services Including Hauling** - There is an increased risk that funding dedicated to other areas will have to be diverted to pay for these critical services, which cannot be delayed.
- e. **\$797,000 - Maintenance/Repair Services** - There is an increased risk that critical maintenance and repair work at water or wastewater treatment facilities will not be completed when needed, potentially causing temporary service interruptions. Short term risk: Delay in getting repairs to facility equipment and systems such as pumping systems and electrical distribution systems. Long term risk: Delay in rehabilitation work such as the replacement of major heating, ventilation and air conditioning systems.

FY 2023 OPERATING BUDGET REDUCTIONS TOTALING \$23.1 MILLION AND IMPACT STATEMENTS (Continued)

Production

- f. **\$300,000 - Consultant Support for Renovation Projects** - Renovation projects will be delayed
- g. **\$300,000 - Tools, Machinery, Lab and Radio Equipment** - Some maintenance, repair, or replacement of equipment will have to be deferred.
- h. **\$270,000 - Project Management for Little Seneca Dredging Project** - There will be a delay in getting this project underway, affecting the quantity and quality of stored water in the Little Seneca Dam. There will be an inability to manage this multi-million dollar project due to lack of staff.
- i. **\$178,000 - Rental** - There is an increased risk that some maintenance, repair, or replacement of equipment will have to be deferred.
- j. **\$56,000 - Laboratory Supplies** - The reduction will impact WSSC Water's customer complaint analysis. Delay in the analysis means a delay responding to customers. Note that some samples have holding time limitations (expiration times), and samples might expire before they are analyzed, resulting in no report to customers. The reduction will impact all WRRF and WFP daily process control samples. In addition, all WRRF and WFP regulatory and compliance analyses will be affected. Risk of U.S. Environmental Protection Agency stabilized sludge analysis and reporting violation. Risk of losing the Maryland state certification for Laboratory Division.
- j. **\$40,000 - Consultant Services for New Water Quality Regulations** – This reduction will delay completion of lead service line inventory, which will impact WSSC Water's ability to identify customer lead service and reduce lead risks from customer taps.
- k. **\$20,000 - Overtime** - There is an increased risk of potential staffing shortages at WRRFs.

General Services

- a. **\$482,500 - Fleet Machinery & Equipment** - There is an increased risk that the replacement of certain pieces of equipment will be delayed by one year. Delaying replacement will cause more frequent breakdowns and higher maintenance costs.
- b. **\$311,000 - Truck & Automobiles** - There is an increased risk that the replacement of vehicles and trucks will be delayed for one year. Delaying vehicle replacement will cause more frequent breakdowns and higher maintenance costs.

FY 2023 OPERATING BUDGET REDUCTIONS TOTALING \$23.1 MILLION AND IMPACT STATEMENTS (Continued)

Engineering & Construction

- a. **\$2,617,000 - Piscataway Rehabilitation Program** - The Piscataway Rehabilitation Program is designed to rehabilitate sewer assets in the Piscataway sewer basin that WSSC Water has identified as contributing to I&I issues. Over the last several years, I&I issues in the Piscataway basin have contributed to high sewage flows to the Piscataway WRRF. The Piscataway Rehabilitation Program seeks to address these issues through a multi-pronged approach of capital and operating rehabilitation activities. The operating rehabilitation activities include manhole rehabilitation and an enhanced grouting initiative. By postponing this work on some assets, the I&I issues will persist for a longer period of time, which will result in higher costs at the Piscataway WRRF to treat water that should not be in the sewer pipes.

- b. **\$942,600 - System-wide Manhole Rehabilitation and Grouting Programs** - Like with the Piscataway basin as described above, there are I&I issues throughout WSSC Water's service area. These issues lead to higher probabilities of paying to treat cleaner water at all our WRRFs (and the Blue Plains Advanced Wastewater Treatment Plant owned and operated by DC Water). I&I also increases the probability of SSOs. Therefore, the negative impacts of these reductions include higher future costs for our ratepayers, the potential for more, and likely worse, SSOs, and a curtailment to WSSC Water's goal of being a good steward of the environment for current and future generations.

- c. **\$255,000 - Pipeline Design-Build Study** - This reduction will eliminate funding for the Pipeline Design-Build Study. This study would have benchmarked industry best practices for pipe replacement, resulting in potential solutions for streamlining projects and reducing costs. Therefore, the negative impacts of this reduction include higher future costs for our ratepayers, the potential for more service interruptions, and a weakening of WSSC Water's strategic priorities to optimize our infrastructure and spend customer dollars wisely.

- d. **\$120,000 – Water & Sewer Planning and Modeling** - WSSC Water utilizes computerized hydraulic models that simulate the flow of water and wastewater throughout the water and sewer systems. The models should be updated on a regular basis to account for newly constructed or abandoned pipes, to account for changes in demographic projections in future growth, and to be re-calibrated to match current I&I. Neither model has been updated for 11 years due to previous budgeting limits and existing resource issues although many utilities update their models approximately every 2 to 5 years.
 The proposed reduction will slow the progress on this work effort and may impact our ability to make accurate and timely decisions with respect to current and long-term capacity needs within our water distribution and wastewater collection, pumping and treatment systems. Utilizing outdated information can lead to under-sizing system expansions, potential SSOs and lower levels of service provided to WSSC Water customers.

- e. **\$100,000 - Staff Augmentation for Plan Review and Permits** - Cycle times may increase for plan review and permit issuance because the Engineering & Construction Department uses these funds for staff augmentation when needed.

FY 2023 OPERATING BUDGET REDUCTIONS TOTALING \$23.1 MILLION AND IMPACT STATEMENTS (Continued)

- f. **\$80,000 - Consultant for On-site Inspection** - Elimination of a consultant inspector for on-site pipeline construction inspection will reduce the inspection capacity and will take longer to complete inspections on time.
- g. **\$47,200 - Process Control Upgrades to WSSC Water Facilities** - Reductions will impact process control upgrades for WSSC Water facilities including the new Biosolids Management Division.
- h. **\$66,500 - Miscellaneous Other** - Reduced support for e-Builder software upgrades and development. Reduced travel that will reduce the employees' ability to meet continuing education credits as required by certifications, learn new technologies and share WSSC Water's projects with the industry and peers. Additional reductions are for office supplies, furniture and small machinery and equipment.

Customer Service

- a. **\$500,000 - Overtime** - Due to the COVID-19 pandemic, WSSC Water has experienced over 91,400 past due accounts with a value exceeding \$67 million in lost revenue. This severe delinquency challenge results in a 42% increase in past due accounts and a 154% growth in past due amounts. The magnitude of the challenge has put additional pressure on existing limited customer service resources, resulting in severe backlogs. Overtime is critical for enabling the Customer Service Department to address high volumes, surges in customer requests and work backlogs. The Customer Service Department often works nights and weekends to reduce backlogs and process billing system transactions, including requests for payment plans, start/stop services, resolution for estimated bills, and high bill adjustments. Reduced funding for overtime will result in longer customer phone wait times, more customer call abandonments, delayed deposit refunds and bill adjustments, increased customer complaints, increased non-call work backlogs, and increased staff stress related unscheduled leave.
- b. **\$432,900 - Vendors and Temporary Staff** - Reduced funding for vendors and temporary customer support staff will result in frustrated customers due to WSSC Water's inability to provide customers with timely call-answering, and quick responses to customer requests and bill adjustments. Work backlogs will increase as will customer complaints. Intensified staff stress will also result in increased unscheduled leave.
- c. **\$75,000 - Professional Services** - This reduction could impact the free plumbing inspection program available to financially challenged customers and would also limit consulting services.

FY 2023 OPERATING BUDGET REDUCTIONS TOTALING \$23.1 MILLION AND IMPACT STATEMENTS (Continued)

Information Technology

- a. **\$2,448,600 - Support C2M and Related Applications** - Potentially longer wait time for solutions to be delivered to the end users and fewer incident resolutions per year. 10% reduction in incident resolution because functional architects' capability will decrease by 40% and there will be 15% fewer fixes resolved each week.

Reduces the capability for training WSSC Water staff which will impact the Customer Service staff's effective use of the new release functions.
- b. **\$812,800 - Voice and Contract Center Enhancements** - Reduce the number of enhancements done for the Voice and Contact Center. IT will work on implementing additional features in ServiceNow during FY 2022 to address some of the enhancements previously planned for FY 2023.
- c. **\$722,000 - Application Purchases** - Limits the ability to purchase applications to support and enhance business functions.
- d. **\$192,900 - Upgrade Firewall** - Although the budget to upgrade the firewall when the equipment is end of life will be reduced, there will be minimal impact to services. The functionality can be replicated by other tools that WSSC Water already owns.
- e. **\$164,200 - Consultant for Financial Analysis and Contract Administration** - Reduces resources available to support financial analysis and contract administration functions in IT. However, IT is working on reorganizing the team and plans to utilize existing positions to help to meet the workload requirements for the IT Finance & Contract Administration Section.
- f. **\$139,600 - Research and Advisory Services** - Research and advisory services for IT will be discontinued with the existing vendor; IT will pursue more cost-effective subscriptions for research and advisory services.
- g. **\$82,100 - Computer Equipment Purchases** - Reduces the purchases of computer equipment and other related items.

Finance

- a. **\$170,000 - Professional Services** - Professional services provide financial advisory services, risk management evaluations, financial studies, rate and cost-of-service studies, and development of processes and procedures based on evaluations and audits. The reduction will postpone or eliminate planned studies and services.

FY 2023 OPERATING BUDGET REDUCTIONS TOTALING \$23.1 MILLION AND IMPACT STATEMENTS (Continued)

Strategy & Innovation Office

- a. **\$300,000 - Organizational Development Consulting Services** - The Organizational Development contract is used to provide operational support to process the start/stop requests. Start/stop requests are initiated when customers start and/or stop water services when moving into a new home or moving out. Reducing the resources will significantly increase the start/stop backlog. This also results in an increased call volume as customers call to check on their requests.

Additional impacts resulting from this reduction are delays in critical work that can affect Customer Service, Finance and Utility Services Departments, significant increases in pending bill volume, decreases in troubleshooting customer account issues, loss of critical expertise, reductions in staff training and documentation, and reductions in consultant hours which may contribute to the loss of consultants on the project.

- b. **\$44,500 - Leaders on the Same Page Conference** - Eliminating budget for Leaders on the Same Page where 200+ directors, division managers, section managers, chiefs and other WSSC Water leaders come together to share industry knowledge. The conference will potentially take place virtually going forward.

Commissioner's Office/Corporate Secretary's Office

- a. **\$16,500 - Miscellaneous Reductions** - Reduces various expenditures such as student scholarships, consultant hours, temporary staff hours, travel, office supplies and subscriptions.

Office of the Inspector General

- a. **\$11,200 - Auditing Services and Mileage** - Reductions to auditing services will limit the office's ability to solicit external specialized professional services for auditing and investigations. Mileage reductions will reduce the area and time traveled for audits and investigations.

General Manager's Office

- a. **\$13,000 - Consulting Services and Travel to Conferences** - Reductions in consulting services may result in limited funds for hiring consultants for special projects. The travel budget reductions will reduce the General Manager and the Deputy General Managers participation in various meetings and conferences.

FY 2023 OPERATING BUDGET REDUCTIONS TOTALING \$23.1 MILLION AND IMPACT STATEMENTS (Continued)

Asset Management Division

- a. **\$222,300 - Business Cases** - The project planning process is the method through which WSSC Water identifies and validates needs and evaluates solutions to address those needs. It incorporates engineering data, environmental requirements, economic factors, and public interaction to establish a sound basis for making decisions, for efficiently conducting and documenting specific work tasks, and for successfully implementing needed solutions. The project planning process utilizes business case evaluations to determine the most effective solution to a validated need based on lifecycle cost, business risk exposure, and/or level of service. An important goal in the planning process is to produce a result that is acceptable to citizens, elected officials, regulatory agencies, and WSSC Water at a reasonable cost.

The reduction will result in delayed project execution on several infrastructure projects within WSSC Water facilities. This may result in higher risk of failure, including the realized level of service failures for WSSC Water customers. Additionally, the reduction will increase operation risk due to delayed project development and execution. This will result in higher operational costs due to emergency interventions and increase maintenance costs.

Police & Homeland Security

- a. **\$127,200 - Maintenance, Electronic Security and IT Projects** - There will be major impacts to maintenance, improvements, and other necessary work on the electronic security system, especially in light of the impacts of IT projects and cybersecurity. In addition, there will not be funding available for planned cybersecurity assessments of the electronic security system network, no funding for additional emergency management initiatives, including training exercises, planning, and response.
- b. **\$44,900 - Overtime** - Limited overtime support for overnight security for water main break crews and other WSSC Water employees operating in potentially dangerous areas.
- c. **\$58,700 - Miscellaneous Reductions** - Includes reduction to the contracted security staff. Reduction to travel will reduce participation in key law enforcement, security, resilience, and emergency management conferences, impacting WSSC Water's ability to remain up to date on all aspects of Police and Homeland Security.

General Counsel's Office

- a. **\$102,200 - Outside Legal Counsel** - Reduction of funding required to pay for outside legal counsel.
- b. **\$11,100 - Temporary Employees** - Reduction will impact hiring a law clerk and temporary employees, or additional services needed for litigation defense.
- c. **\$14,300 - Recording & Court Fees, Subscriptions, Office Supplies and Travel** - Limit office's resources to hire the required court reporters needed for administrative hearings and depositions. The office is also required to pay for attorney dues, library subscriptions, and legal research. Additional reductions are made to travel for conferences and seminars and reductions to office supplies purchases.

FY 2023 OPERATING BUDGET REDUCTIONS TOTALING \$23.1 MILLION AND IMPACT STATEMENTS (Continued)

Communications & Community Relations Office

- a. **\$51,700 - WSSC Water Annual Report** - Reduction will result in the annual report being performed by in-house staff versus an outside vendor.
- b. **\$30,100 - Promotional Items, Rental Services, Photography, Subscriptions, Laboratory Supplies** - WSSC Water will distribute fewer promotional opportunities during various events and drives, eliminate a stand-by photographer to cover multiple events, and additional reductions will be made to subscriptions and laboratory supplies.

Human Resources Office

- a. **\$74,000 - Training and Development** - Reduce training and development of WSSC Water employees.
- b. **\$31,000 - Consulting Services** - Limit professional and temporary support when there is a need for support from staffing agencies during busy seasons.
- c. **\$15,900 - Consulting Services** - Reduce consulting services for the Human Resources Office initiatives and activities. Funding reduction impacts requirements for support to benefits, health and welfare activities and Request-for-Proposal for employee benefits.
- d. **\$15,900 - Recruiting Expenses** - Impact to funding for pre-employment services and activities for new employees who are promoted.
- e. **\$11,100 - Educational Assistance** - Reduce funding for the educational assistance for employees seeking advanced degrees.
- f. **\$10,100 - Advertising** - Reduce advertising job postings for open positions throughout WSSC Water. Reduction to the number of professional subscriptions.
- g. **\$5,500 - Administration Staff** – Reduce Equity, Engagement and Inclusion administrative staff assistance within the office.
- h. **\$4,400 - Office Supplies and Travel** - Reduce Occupational Safety and Health Division office supplies and travel for courses, classes and conferences.

Office of Supplier Diversity & Inclusion

- a. **\$22,600 - Business Conference** - Scale back business conference for vendor community including potential limitations to size and scope of the event.

Intergovernmental Relations Office

- a. **\$29,900 - Professional Services** - Reduce WSSC Water's efforts to develop a federal legislation strategy and its advancement before the U.S. Congress, the Executive Branch, and federal agencies.



COMMISSIONERS

Keith E. Bell, Chair
 Howard A. Denis, Vice Chair
 Fausto R. Bayonet
 T. Eloise Foster
 Chris Lawson
 Regina Y. Speed-Bost

GENERAL MANAGER

Carla A. Reid

April 21, 2022

The Honorable Angela D. Alsobrooks, Prince George's County Executive
 The Honorable Marc Elrich, Montgomery County Executive
 The Honorable Calvin S. Hawkins II, Chair, Prince George's County Council
 The Honorable Gabe Albornoz, President, Montgomery County Council

Dear Ms. Alsobrooks, Mr. Elrich, Mr. Hawkins, and Mr. Albornoz:

I am hereby transmitting the following amendments to the WSSC Water FY 2023 Proposed Operating Budget to offset a projected decline in water and sewer revenue of \$7.04 million based on declining usage by higher volume non-residential customers.

Proposed FY 2023 Operating Budget Amendments				
	Total Budget		Water & Sewer Budget	
	Expenditures	Revenues	Expenditures	Revenues
1 Decrease Revenue: Change in Consumption by Tier		\$(7,040,654)		\$(7,040,654)
2 Increase Lapse (from 4% to 6%)	\$ 3,283,865		\$ 2,644,415	
3 Reduced Debt Service from Mid Cycle CIP Changes	\$ 2,300,000		\$ 2,300,000	
4 Increased Interest Income		\$ 2,300,000		\$ 2,300,000
5 Cornerstone Information Technology Dept Reductions	\$ 2,891,990		\$ 2,328,050	
6 Cornerstone Strategy & Innovation Office Reductions	\$ 1,907,500		\$ 1,535,540	
7 Total Amendments	\$ 10,383,355	\$(4,740,654)	\$ 8,808,005	\$(4,740,654)
8 Increase in Reserves After Amendments	\$ 5,642,701		\$ 4,067,351	

We recommend maintaining the 7.0% rate increase since in combination with the above net savings would improve our fiscal position and support our efforts to retain our AAA bond rating and remove the negative outlook placed on our outstanding bonds by Fitch.

Description of Proposed Amendments:

Decrease Revenue due to Change in Consumption by Tiers: Based on an analysis of actual water and sewer consumption by customers by the four inclining block rate tiers, we recommend reducing projected water and sewer revenues in FY 2023 by \$7.04 million. Usage within tier four, which is billed at the highest rate of \$24.34/1,000 gallons, has decreased from 44% to 23% while tier one usage, billed at the lowest combined rate of

Ms. Alsobrooks, Mr. Elrich , Mr. Hawkins II, Mr. Albornoz

April 21, 2022

Page 2 of 2

\$14.27/1,000 gallons, has increased from 28% to 42%. This shift in consumption patterns has negatively impacted revenue and will result in lost revenue of \$7.04 million in FY 2023.

Increase Lapse: We recommend increasing the position lapse assumption in the FY 2023 Operating Budget from 4% of Salary and Wages to 6%. This will produce savings of approximately \$3.3 million in the total Operating Budget and \$2.6 million in the Water & Sewer Budget. This change is consistent with our experience over the past year based on the average time to fill vacant positions.

Reduced Debt Service from Mid Cycle Changes: Debt Service is estimated to decrease by \$2.3 million resulting from the reduction in the FY 2023 Capital Budget as approved by the Commission at the March 16, 2022 meeting.

Increased Interest Income: We are projecting interest income to increase by \$2.3 million in FY 2023 due to estimated higher yields in our invested working capital.

Cornerstone Information Technology (IT) Department Reductions: Based on the Commission's approved motion at the March 16, 2022 meeting to eliminate further enhancements to the C2M Billing System, the IT Budget can be reduced by \$2,891,990 and the water and sewer portion of their budget by \$2,328,050. IT will still retain the capacity to operate and maintain the C2M system and respond to any critical defects that may occur over the next year.

Cornerstone Strategy & Innovation Office (SIO) Reductions: Based on the Commission's approved motion at the March 16, 2022 meeting to eliminate money spent by the Office of Strategy and Innovation on training and organizational development for Cornerstone Post Production, the SIO budget can be reduced by \$1,907,500 and the water and sewer portion of the budget by \$1,535,540.

Sincerely

DocuSigned by:

Keith Bell

Keith Bell B1486...

Commission Chair



WSSC Water

MISSION STATEMENT

The Washington Suburban Sanitary Commission (WSSC Water) 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, only the Town of Poolesville and portions of the City of Rockville are outside of the District.

WSSC WATER'S PROPOSED BUDGET

WSSC Water's proposed budget is not detailed in this document. The Commission's full budget can be obtained from WSSC Water's Budget Group at the WSSC Water Headquarters Building, 14501 Sweitzer Lane, Laurel, Maryland 20707 (301.206.8000) or from their website at <https://www.wsscwater.com/budget>.

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 Water 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 Water to their respective County Councils.

Each County Council may hold public hearings on WSSC Water'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 Water. Should the Councils fail to approve the budgets on or before June 1 of any given year, WSSC Water'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 water resource recovery facilities, 6,000 miles of water mains, and over 5,700 miles of sewer mains, 24 hours a day, seven days a week.
- Treating or delivering 163 Million Gallons per Day (MGD) of water to over 475,000 customer accounts in a manner that meets or exceeds the Safe Drinking Water Act standards.
- Restoring normal service within 24 hours from when the agency is notified of an emergency, and to limit time a customer is without water service to less than 6 hours.
- Increasing the Customer Assistance Program (CAP) to \$2.2 million in FY23 from \$2.1 million in FY22 to help those that continue to be economically impacted by the COVID pandemic. To date, CAP has assisted more than 15,500 customers.

Spending Control Limits

The spending control limits process requires that the two counties set annual ceilings on WSSC Water's water and sewer rate increases 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 FY23 spending control limits adopted by the Montgomery and Prince George's County Councils, compared to the spending control results projected under WSSC Water's Proposed FY23 Budget and under the County Executive's Recommended Budget for WSSC Water. The Commission's Proposed Budget complies with all of the spending control limits approved by the two County Councils except for the Total Water and Sewer Operating Expenses which are slightly higher than the approved ceiling. These additional operating costs will be recouped with additional miscellaneous fee income.

FY23 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	6.5%	6.5%	7.0%	6.5%
New Debt (\$millions)	\$430.1	\$430.1	\$358.8	\$430.1
Water and Sewer Debt Service (\$millions)	\$328.4	\$328.4	\$324.1	\$328.4
Total Water and Sewer Operating Expenses (\$millions)*	\$859.4	\$859.4	\$864.8	\$860.9

* Amount reflects updated revenue projections in WSSC Water's FY23 Proposed Budget from their FY23 SAG submission.
 Source: WSSC Water FY23 Proposed Budget

County Executive Recommendations

Operating Budget

The County Executive recommends that WSSC Water's proposed FY23 budget be approved with a water and sewer rate increase of 6.5 percent in FY23 consistent with the County Council's FY23 Spending Affordability Guidelines.

Capital Budget

The County Executive recommended the WSSC Water FY23-28 Capital Improvements Program (CIP) budget be approved as submitted by the Commission.

Expenditures by Category - FY23 WSSC Water Proposed and Executive Recommended						
(\$000s)						
	WSSC Water Total	WSSC Water Total	CE Capital	CE Operating	CE Total	% Change
	Approved	Proposed	Recommended	Recommended	Recommended	(CE Rec. vs. WSSC Water Proposed)
Expenditure Categories	FY22	FY23	FY23	FY23	FY23	
Salaries and Wages	160,488	164,582	28,172	136,410	164,582	0.0%
Heat, Light, & Power	18,715	19,047	230	18,817	19,047	0.0%
Regional Sewage Disposal	59,160	60,343	--	60,343	60,343	0.0%
Contract Work	444,405	351,478	351,478	--	351,478	0.0%
Consulting Engineers	79,614	72,122	72,122	--	72,122	0.0%
All Other	447,032	448,340	154,241	290,199	444,440	-0.9%
PAYGO	27,585	31,016	--	31,016	31,016	0.0%
Reserve Contribution	--	18,317	--	18,317	18,317	--
Debt Service	309,045	324,144	--	324,144	324,144	0.0%
Total Budget	1,546,044	1,489,389	606,243	879,246	1,485,489	-0.3%

Note: Total expenditures include the water and sewer operating funds and the three capital funds.

Source: WSSC Water FY23 Proposed Operating Budget

FY23 fiscal projections for all funds and budgets are shown below.

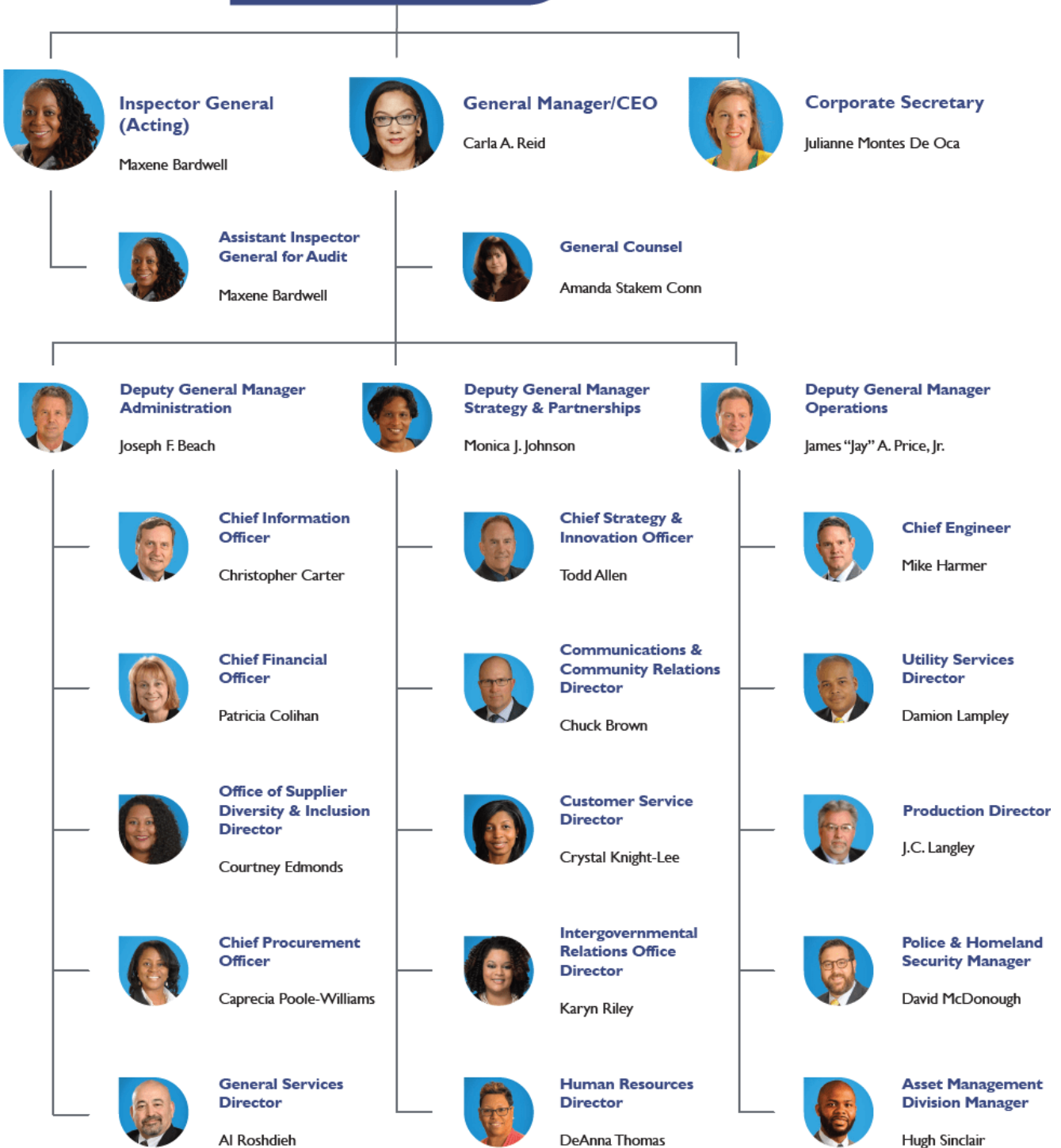
PROGRAM CONTACTS

Contact Letitia Carolina-Powell of the WSSC Water at 301.206.8379 or Rafael Pumarejo Murphy of the Office of Management and Budget at 240.777.2775 for more information regarding this agency's operating budget.

WSSC Water PROPOSED BUDGET: SIX-YEAR FORECAST FOR WATER AND SEWER OPERATING FUNDS

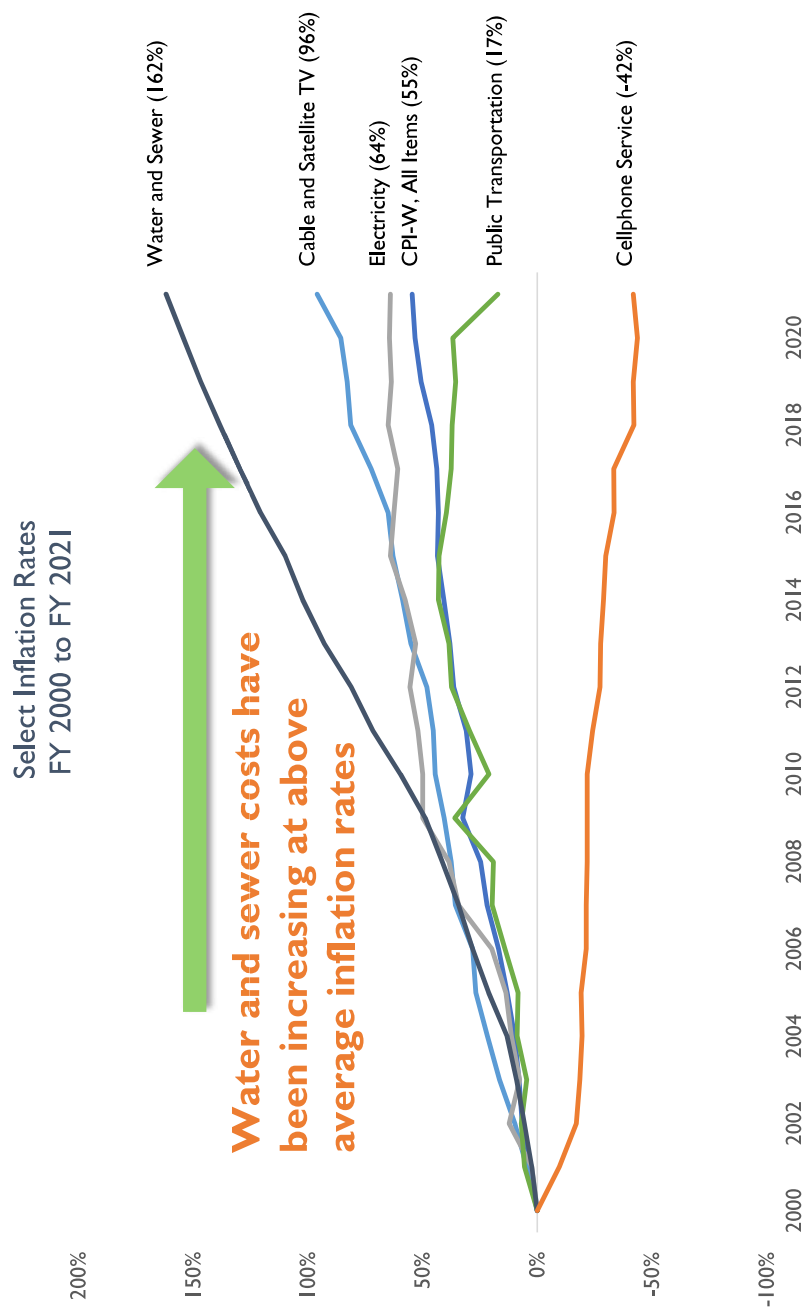
FISCAL PROJECTIONS	FY22 APPROVED	FY23 CE REC	FY24 PROJECTION	FY25 PROJECTION	FY26 PROJECTION	FY27 PROJECTION	FY28 PROJECTION
SPENDING AFFORDABILITY RESULTS							
New Water and Sewer Debt (\$millions)	\$409.7	\$358.8	\$380.9	\$382.9	\$390.7	\$362.7	\$307.8
Total Water and Sewer Operating Expenses (\$millions)	\$842.3	\$860.9	\$912.7	\$976.1	\$1,033.1	\$1,066.9	\$1,111.6
Debt Service (\$millions)	\$309.0	\$324.1	\$345.4	\$375.7	\$398.5	\$419.4	\$439.2
Average Water and Sewer Rate Increase	5.9%	6.5%	8.5%	6.0%	4.0%	4.0%	4.0%
BEGINNING FUND BALANCE (\$000)	168,897	169,317	187,634	224,882	252,384	268,597	292,893
REVENUES (\$000)							
Water and Sewer Rate Revenue	717,803	753,445	821,335	871,712	907,776	945,358	984,437
Interest Income	1,000	2,800	2,800	2,800	2,800	2,800	2,800
Account Maintenance Fee	31,866	33,903	36,958	39,176	40,743	42,373	44,068
Infrastructure Investment Fee	38,808	41,311	45,033	47,735	49,644	51,630	53,695
Miscellaneous	39,050	33,515	34,058	34,359	40,537	41,282	36,667
Total Revenues	828,527	864,974	940,184	995,782	1,041,500	1,083,443	1,121,727
SDC Debt Service Offset	5,772	5,772	5,772	5,772	5,772	5,748	5,748
Reconstruction Debt Service Offset (REDD)	6,000	4,000	2,000				
Use of Fund Balance							
Premium Transfer		2,500					
Underwriters Discount Transfer	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Miscellaneous Offset							
TOTAL FUNDS AVAILABLE	842,299	879,246	949,956	1,003,554	1,049,272	1,091,191	1,129,475
EXPENDITURES (\$000)							
Salaries and Wages	133,039	136,410	142,548	148,963	155,666	162,671	169,991
Heat, Light, and Power	18,493	18,817	19,569	18,776	18,014	18,861	19,521
Regional Sewage Disposal	59,160	60,343	61,550	62,781	64,037	65,317	66,624
Debt Service	309,045	324,144	345,360	375,671	398,462	419,424	439,234
PAYGO	27,585	31,016	44,000	65,000	80,000	80,000	100,000
All Other	294,977	294,099	299,681	304,861	316,880	320,622	316,229
Unspecified Expenditure Reductions		(3,900)					
TOTAL USE OF RESOURCES	842,299	860,929	912,708	976,051	1,033,059	1,066,895	1,111,599
REVENUE/EXPENDITURE SURPLUS/(GAP)	0	18,317	37,248	27,503	16,213	24,296	17,876
YEAR END FUND BALANCE w/o additional reserve contribution	168,897	169,317	187,634	224,882	252,384	268,597	292,893
Adjustments	420						
Additional Reserve Contribution		18,317	37,248	27,502	16,213	24,296	17,876
TOTAL YEAR END FUND BALANCE	169,317	187,634	224,882	252,384	268,597	292,893	310,769
Debt Service as a Percentage of Water and Sewer Operating Budget	36.7%	37.7%	37.8%	38.5%	38.6%	39.3%	39.5%
Total End of Fiscal Year Operating Reserve	169,317	187,634	224,882	252,384	268,597	292,893	310,769
Total Operating Reserve as a Percentage of Water and Sewer Rate Revenue	20.4%	21.7%	23.9%	25.3%	25.8%	27.0%	27.7%
Total Workyears (all funds)	1,786	1,796	1,796	1,799	1,799	1,799	1,799
Assumptions:							
1. The County Executive's operating budget recommendation is for FY23 only and incorporates the Executive's revenue and expenditure assumptions for that budget.							
2. The FY24-28 projections reflect WSSC Water's multi-year forecast and assumptions, which are not adjusted to conform to the County Executive's Recommended budget for WSSC Water. The projected expenditures, revenues, and fund balances for these years may be based on changes to rates, fees, usage, inflation, future labor agreements, and other factors not assumed in the County Executive's Recommended FY22 water and sewer operating budget for WSSC Water.							
3. The FY23 estimated spending affordability results are the values for the four spending affordability parameters implied by the FY22 budget jointly approved by Montgomery and Prince George's counties. The FY23 Proposed spending affordability results are the values of the spending affordability parameters associated with WSSC Water's proposed FY22 budget. The FY23 recommended spending affordability results are the spending affordability parameters associated with the County Executive's recommended WSSC Water budget for FY23. The FY24-28 spending affordability figures correspond to the values of the various spending affordability parameters based on the revenue and expenditure forecasts shown for the given year and are provided by WSSC Water.							
4. The total FY22 estimated workyears shown correspond to the actual workyears as of December, 2021.							
5. Estimates of revenue in FY24-28 assume the rate increases projected by WSSC Water in the Average Water and Sewer Rate Increase line.							
6. In the projection for FY24-28 additional unspecified expenditure reductions are included to close WSSC Water's projected revenue shortfall in these years.							
7. Totals in this chart and WSSC Water's FY23 Proposed Long-Range Fiscal Plan for Water and Sewer Operating Funds may not match due to rounding.							

Commissioners



Inflationary Rates of Various Sectors

Rising Costs Continue to Pressure **Affordability**



Source: U.S. Bureau of Labor & Statistics: CPI-W Index

