

Worksession

M E M O R A N D U M

October 19, 2022

TO: County Council

FROM: Keith Levchenko, Senior Legislative Analyst

SUBJECT: **Worksession:** FY24 Washington Suburban Sanitary Commission (WSSC Water)
Spending Control Limits

PURPOSE: To discuss and make recommendations regarding spending control limits for WSSC Water's FY24 Budget

WSSC Water Staff Base Case

WSSC Water FY24 Spending Control Limits		FY24 Base Case	Change from FY23 Budget
Rate Increase		8.0%	
New Debt		379,960,000	5.9%
Debt Service		328,467,000	2.1%
Total W/S Oper. Expenses*		915,245,000	6.9%
Quarterly Bill Increase			
Residential Customer Quarterly Impact**		\$\$\$	Percent
Impact at 165 gpd usage		\$20.56	8.0%

*Assumes \$13 million increase in PAYGO

**Assumes fixed fees also increase by 8.0%

Expected Attendees

WSSC Water

- Commission Chair Fausto Bayonet
- Commissioner Howard Denis
- Commissioner T. Eloise Foster
- Joe Beach, Deputy General Manager for Administration
- James Price, Deputy General Manager for Operations

- Monica Johnson, Deputy General Manager for Strategy and Partnerships
- John Curry, Acting Director of Customer Service
- Letitia Carolina-Powell, Budget Division Manager
- Fariha Babar, Budget Section Manager
- Brian Halloran, Capital Budget Section Manager

County Government

- Steve Shofar, Division Chief, Intergovernmental Affairs, Department of Environmental Protection
- Rich Harris, Office of Management and Budget
- Kia Word, Office of Management and Budget

Background

WSSC Water's spending control limits process was established in April 1994 via resolution by both Montgomery and Prince George's County Councils. The goal of the spending control limits process is to reconcile both Councils' actions by November 1 of each year so that WSSC Water can build the approved limits into its Operating Budget Public Hearing Draft, which is released for public comment by January 15 each year. WSSC Water's Operating Budget request is formally transmitted to both counties by March 1. WSSC Water's FY24-29 Proposed CIP was transmitted to both Councils in late September.

The limits are based on a long-range financial plan which is intended to balance projected revenues and expenditures over time while keeping key financial metrics within WSSC Water's policy ranges.

The limits provide direction to WSSC Water, but do not create a ceiling (or a floor) as to what the Councils may jointly approve later.¹

The Councils have agreed on these limits in most years. Even in years when there has not been agreement, the process has provided a rate increase range which WSSC Water has worked within to build its budget.

WSSC Water Budget Schedule

- Bi-County Staff Working Group Meetings on Spending Control Limits: September 14 and September 28, 2022
- Transmittal of WSSC Water's FY24-29 Capital Improvements Program: September 30, 2022
- Montgomery County Council Public Hearing on Spending Control Limits: October 18, 2022
- **T&E Committee Discussion on Spending Control Limits: October 24, 2022**
- Spending Control Limits Action: By November 1, 2022 (per Council resolution)
- WSSC Water Operating Budget Public Hearing Draft: January 15, 2022
- WSSC Water Operating Budget Transmittal to both Counties: March 1, 2022.

Public Hearing

The Council held a public hearing on WSSC Water's FY24 spending control limits on October 18. Gordie Brenne of the Montgomery County Taxpayers League provided oral and [written testimony](#) asking the Council to work to lower WSSC Water spending and its projected rate increases and get an independent review of WSSC Water's long-term financial plan. Council Staff and WSSC Water staff will be available at the T&E Committee worksession to discuss the Taxpayer League's concerns

¹ State law defines the annual WSSC Proposed Budget as the "default" budget, should the Montgomery and Prince George's County Councils not agree on changes. Therefore, the limits are an important first step to define proposed budget parameters that are acceptable to both Councils.

County Executive Recommendation

The Executive is expected to transmit his spending control limits recommendations prior to the T&E Committee meeting on October 24.

Prince George's County Council Status

The Prince George's County Council's TIEE Committee discussed WSSC Water's spending control limits on October 13. The Council will be meeting as the "Committee of the Whole" on October 25 to discuss and take action on WSSC Water's spending control limits.

Spending Control Limits History

The following chart presents the rate increase limits agreed upon by both Councils (unless otherwise noted) since FY96 and the actual rate increase later approved for each fiscal year.

**Table 1:
Spending Control Limits & Actual Rates**

Fiscal Year	Rate Increase		Fiscal Year	Rate Increase	
	Approved*	Limit Actual		Approved*	Limit Actual
FY96	3.0%	3.0%	FY10*	9.5%	9.0%
FY97	3.0%	3.0%	FY11*	9.9%	8.5%
FY98	3.0%	2.9%	FY12*	9.9%	8.5%
FY99	2.0%	0.0%	FY13	8.5%	7.5%
FY00	1.5%	0.0%	FY14*	8.0%	7.3%
FY01	0.0%	0.0%	FY15	6.0%	5.5%
FY02*	2.0%	0.0%	FY16**	2.1% (7.0%)	1% (6.0%)
FY03	0.0%	0.0%	FY17**	3.5% (7.0%)	3% (6.5%)
FY04	0.0%	0.0%	FY18	3.5%	3.5%
FY05	3.0%	3.0%	FY19*	5.0%	4.5%
FY06*	2.5%	2.5%	FY20	5.0%	5.0%
FY07	3.0%	3.0%	FY21	7.0%	6.0%
FY08	5.3%	6.5%	FY22	5.9%	5.9%
FY09*	9.7%	8.0%	FY23	6.5%	6.5%

*No agreement was reached in FYs 02,06,09,10,11,12, 14, and 19. Limits shown for those years reflect Montgomery County Council recommendations.

**Increases in fixed fees in FYs16-17 resulted in lower rate increases. The % shown in parenthesis present the equivalent customer impact in those years.

- **FY99 through FY04:** Although rate increases were assumed in the approved spending control limits for FY99 and FY00, the WSSC Water budget was approved in those years without rate increases. In fact, there were six straight years without rate increases (FY99-FY04). During this time, WSSC Water was implementing its Competitive Action Plan (CAP) effort, which resulted in a reduction of approximately 1/3 of its workforce.
- **FY05 through FY07:** Modest rate increases in the range of 2.5% and 3.0% were approved.
- **FY08 through FY15:** The Councils debated, and ultimately approved, substantial rate increases. These increases were the result of a combination of factors, including:
 - Flat revenues: WSSC Water's water production remained flat, even as the number of customer accounts has increased.

- Expenditure Pressures: Increases in excess of inflationary levels in areas such as Debt Service (to cover many capital needs, including WSSC Water’s need to ramp up its water and sewer main reconstruction efforts and its large diameter water main inspections, repairs, and monitoring program) as well as in many operating cost areas, including: Chemicals; Heat, Light, and Power; Regional Sewage Disposal; and Benefits and Compensation.
- **FY16-FY17:** The Councils supported a recalibration of the Account Maintenance Fee in FY16 and creation of a new infrastructure investment fee (phased in over two years), which resulted in increased revenue equivalent to about a 5 percent rate increase in FY16 and a 3.5 percent rate increase in FY17. Therefore, lower rate increase ceilings were approved in FY16 and FY17. Ultimately, the two Councils approved rate increases for FY16 and FY17 of 1.0 percent and 3.0 percent, respectively.
- **FY18:** A 3.5% rate limit was approved by both Councils for FY18, and the FY18 budget was approved with this rate increase assumption.
- **FY19:** The two Councils did not agree on a rate increase limit. The Prince George’s Council approved a 4.0% rate increase while the Montgomery Council supported a 5.0% rate increase. The WSSC Water budget was transmitted with a 4.5% rate increase, which was ultimately supported by both Councils.
- **FY20-FY23:** In each of the last four years, the Councils agreed on rate increase limits. The Councils agreed on rate increase limits in FY20 (5.0 percent), FY22 (5.9 percent) and FY23 (6.5 percent) which were later affirmed during the budget processes for those years. For FY21 the agreed-upon rate increase limit was 7.0 percent. Ultimately, the Councils agreed to an FY21 rate increase of 6.0 percent based on the removal of salary enhancements from WSSC Water’s Proposed budget.

Multi-Year Context/Financial Forecast

While the spending control limits process is an annual process, the Bi-County Staff Working Group takes a multi-year look at trends. The outyear estimates help staff identify issues that could arise in future years. For instance, rate increases in year one help improve WSSC Water’s fiscal situation in future years by increasing WSSC Water’s base revenues. Conversely, deferring rate increases to future years, or using one-time revenue to reduce a rate increase in the first year, increases future fiscal challenges, since the revenue base is lower in future years.

WSSC Water was recently rated AAA by the three rating agencies (see ©1). However, Fitch maintained its “Negative” outlook from last year and noted that a downgrade could occur under certain conditions including “Sustained leverage² above 10.0x through fiscal 2023...Failure to secure rate increases that satisfactorily support operations while ensuring the ability to continue capital investment and maintain satisfactory liquidity and declining leverage.” Moody’s and S&P’s reports did not include a “Negative” outlook but included similar comments.

Complicating matters, WSSC Water has experienced substantial revenue impacts from the pandemic with substantially more past due accounts and amounts than is typical (see ©18). To date WSSC Water has

² “Leverage” is roughly calculated as outstanding debt compared to net revenues. WSSC Water has adopted Fitch’s policy goal of keeping this leverage ratio below 10x.

not received any direct pandemic-related assistance nor indirect assistance (such as County, State, or Federal assistance to WSSC Water ratepayers to assist with their past due bills).

WSSC Water's base case scenario (see ©2-7) assumes 8.0 percent rate increases in both FY24 and FY25. The base case accommodates WSSC Water's debt needs for its Proposed FY24-29 CIP, keeps WSSC Water within its debt service coverage target (between of 1.1 and 1.25) in FY23 and beyond, a leverage ratio under 10x, keeps debt service as a percentage of the operating budget below 40 percent (with substantial increases in PAYGO assumed), and provides for higher than typical inflationary increases, based on current market conditions, in most operating expense categories for FY24 (with inflation assumed to return to more normal levels in the outyears).

Council Staff is supportive of WSSC Water's efforts to calibrate projected revenues and expenditures to stay within the financial metrics identified in the Long-Range Financial Plan. Adhering to these metrics will not only help avoid a potential credit rating downgrade (per Fitch), but it will also keep WSSC Water in a good cash position going forward in light of current economic uncertainties such as ongoing supply chain issues and higher than typical inflationary rates.

Council Staff suggests that the next Councils' T&E and TIEE Committees meet with WSSC Water to discuss its Long-Range Financial Plan either during next spring's FY24 budget review process or after budget prior to the FY25 Spending Control Limits process next year.

FY24 Spending Control Limits Base Case

The spending control limits under WSSC Water Staff's latest base case are summarized in Table #2 below:

WSSC Water Staff Base Case		
WSSC Water FY24 Spending Control Limits	FY24 Base Case	Change from FY23 Budget
Rate Increase	8.0%	
New Debt	379,960,000	5.9%
Debt Service	328,467,000	2.1%
Total W/S Oper. Expenses*	915,245,000	6.9%
Quarterly Bill Increase		
Residential Customer Quarterly Impact**	\$\$\$	Percent
Impact at 165 gpd usage	\$20.56	8.0%

*Assumes \$13 million increase in PAYGO

**Assumes fixed fees also increase by 8.0%

This base case scenario includes the following major assumptions:

- Assumes WSSC Water's fixed fees (i.e., the Infrastructure Renewal Fee and the Account Maintenance Fee) are increased at the same percentage (8.0 percent) as volumetric rates.
- Full funding of WSSC Water's Proposed FY24-29 Capital Improvements Program
- Large increase in PAYGO (+\$13 million or 41.9%)

- Salary and Wage increases (+5.0% in FY24 and FY25 and 4.5% annually in FY26-29)³
- Inflationary increases in maintenance and operating programs (+7.4% in FY24, +3.9% in FY25, and 3.0% annually in FY26-29)
- Substantial increases in Heat, Light, and Power (+\$7.6 million or 40.6 percent).⁴
- Increases in Regional Sewage Disposal costs of \$3.9 million (6.4%) from the FY23 approved amount, based on the latest information from DCWater
- Significant decreases are again assumed in “funds available” (about \$8.2 million decline from FY23). This continuing trend is caused by continued reduced sewer use revenue (-\$8 million), and expected ongoing uncollectable revenue related to the current pandemic.
- About \$14.2 million in additional cash balance reserves is assumed to get WSSC Water’s cash on hand and debt service coverage metrics to meet WSSC Water’s policy goals in FY24.
- Additional and reinstated programs are not specifically allocated in the Base Case and if funded would need to be accommodated within the numbers shown.

Under the Base Case, the Water and Sewer operating costs limit would provide for a 6.9 percent increase. However, when setting aside the large PAYGO increase (which is intended to stabilize debt service levels over time), remaining day-to-day operating costs would increase about 5.6 percent. This increase should also be seen in the context that cost increases in the water and sewer industry have substantially outpaced other utility cost increases since FY2000 and especially over the past decade (see ©28).

The overall gap is about \$65.1 million (before any fixed fee increases). At the Base Case assumption of an 8.0 percent rate increase, the fixed fee increase reduces the volumetric rate gap to \$59.1 million.⁵ The major elements included in the Base Case and the corresponding rate impact for each item are shown in Table 3 below.

Table #3
Contributors to the FY23 Base Case Rate Increase (8.0%)

Contributors to the FY22 Revised Base Case Rate Increase	Change from FY23 (in \$Millions)	Budget Impact	Impact on Rate	Cumulative Rate Incr.
Revenue Shortfalls/Reduced Funds Available*	(1.889)	1.889	0.3%	0.3%
Operating Reserve Contribution	(2.103)	(2.103)	-0.3%	0.0%
Debt Service	6.623	6.623	0.9%	0.9%
PAYGO	12.984	12.984	1.8%	2.6%
Regional Sewage Disposal	3.858	3.858	0.5%	3.1%
Heat, Light, and Power	7.637	7.637	1.0%	4.2%
Maintenance and Operating	21.508	21.508	2.9%	7.1%
Salaries and Wage Increases (4.3% increase)	6.688	6.688	0.9%	8.0%
Additional and Reinstated Programs	-	-	0.0%	8.0%
Total		59.084	8.0%	

*Assumes Fixed Fees are increased 8.0% (reducing the revenue shortfall by \$6.014 million)

³ Both Councils have agreed in past years to keep WSSC Water’s compensation increases in-line with County employee (non-public safety) increases. Modifications to WSSC Water’s Proposed Budget for salary and wages, if needed, are made later in the budget process when County employee compensation decisions are known.

⁴ Per WSSCWater: These increases are mostly due to higher electricity and natural gas costs. Currently, one-third of US natural gas is exported (via Liquefied Natural Gas) to European countries because of a significant reduction in the import of Russian gas. This has driven up not only the price of natural gas but also the price of electricity since natural gas is the peaking fuel of generators in the PJM grid.

⁵ A one percent increase in volumetric and fixed fee rates generates approximately \$8.1 million in revenue (\$7.4 million in volumetric revenue and \$752,000 in fixed fee (account maintenance fee and infrastructure investment fee) revenue).

Impacts At Different Levels of Rate Increase – Expenditures and Customer Bills

WSSC Water estimates that each 1 percent change in the rate increase (affecting both volumetric rates and fixed fees) results in a change of \$7.4 million in volumetric rate revenue and a change of \$752,000 in fixed fee revenue for a total change of \$8.136 million. Table #4 below shows the FY24 funding gap (unspecified reductions) at different rate increase levels under the Base Case Scenario assumptions.

Table #4
Summary of Impacts At Different Rate Increase Levels

A	B	C	D	E
Scenario	FY24 Rate Increase	Revenue Generated	Unspecified Reductions	OE Change from FY23
Revenue Gap (at current rates and fixed fees) >>>			65,098,000	-0.9%
Impact of each 1% rate increase*>>>	1.0%	8,136,000		
Revenue Adjustments & Oper. Reserve Contribution	0.7%	5,800,000	59,298,000	-0.2%
+Debt Service	1.5%	12,423,000	52,675,000	0.5%
+PAYGO	3.1%	25,407,000	39,691,000	2.0%
+Regional Sewage Disposal	3.6%	29,265,000	35,833,000	2.4%
+Heat, Light, and Power	4.5%	36,902,000	28,196,000	3.3%
6.0 Percent Scenario	6.0%	48,816,000	16,282,000	4.7%
7.0 Percent Scenario	7.0%	56,952,000	8,146,000	5.6%
+Maintenance and Operating	7.2%	58,410,000	6,688,000	5.8%
+Salary Enhancements	8.0%	65,098,000	-	6.6%

The chart shows the unspecified reductions that would be needed at different rate increase levels and what the resulting operating expense increases would be from the Approved FY23 Budget. For example, if a 7.0 percent rate increase were assumed and operating expenses in the Base Case were reduced accordingly, WSSC Water's operating expenses would increase 5.6 percent from FY23 and unspecified reductions of \$8.146 million would need to be addressed.

The customer impact from each 1% rate increase is approximately \$2.57 in quarterly impact on an average residential customer bill. The following chart shows the customer impact at different rate increase levels.

Table #5
Average Residential Customer* Impact

Rate Increase**	Impact	
	Quarterly	Monthly
1.0% Rate Increase	2.57	0.86
5.0% Rate Increase	12.85	4.28
6.0% Rate Increase	15.42	5.14
6.5% Rate Increase	16.71	5.57
7.0% Rate Increase	17.99	6.00
7.5% Rate Increase	19.27	6.42
8.0% Rate Increase	20.56	6.85

*Assumes 165 gallons per day usage

**Assumes the same rate % increase in fixed fees

As it has done in past years, WSSC Water has provided bill comparisons with other utilities in the region (See ©12). WSSC Water's FY23 average residential bills are in the middle among these regional

peer agencies. WSSC Water's bills are about 11 percent higher than Fairfax Water⁶ but substantially lower than the residential quarterly bills for DC Water and the City of Baltimore.

Discussion

The Bi-County Workgroup reviewed and found the assumptions used in the Base Case reasonable assumptions and consistent with both WSSC Water fiscal policy and past spending control limit actions by both Councils. WSSC Water's approach (which was first implemented in FY23) of assuming to increase fixed fees by the same percentage as the volumetric rate increase provides a larger revenue bump for each percentage increase while also protecting Customer Assistance Program (CAP) participants since those customers do not pay the fixed fees (and therefore are not affected by the fixed fee increases).

As with last year's discussion, a key concern raised by the Bi-County Workgroup (and by the Prince George's Council Staff and the Prince George's County Council at its October 13 meeting) is the resulting high rate increases shown in the Long-Range Financial Plan for FY24 and FY25 (8.0 percent increase); especially in light of the pandemic and current economic uncertainty and general affordability concerns.

The fiscal pressures WSSC Water is experiencing continue to be the result of ongoing flat water consumption, declining volumetric rate revenues, an increase in uncollectable bill amounts (resulting from the pandemic), ongoing debt service needs, inflationary pressures, and WSSC Water's goals to bring its financial metrics within its policy targets. As noted earlier, the Fitch Rating Agency changed WSSC Water's outlook from stable to negative last year (and kept the negative outlook in this year's report) because of WSSC Water's continued high amount of debt compared to funds available for debt service (the Fitch target is <10x). The Long-Range Financial Plan (with the rate increases noted earlier) shows the Fitch measure below the 10x level (and declining) throughout the six-year period of the forecast. The other metrics also remain within WSSC Water's policy levels.

Also, any unexpected cost increases or additional and reinstated programs that WSSC Water seeks to pursue would have to be offset by additional budget savings. WSSC Water has identified about \$8.9 million (7.0 million rate impact) in new efforts (see ©15) it plans to include in its FY24 budget, plus an additional \$8.2 million (\$7.7 million rate impact) which it may seek to include (see ©16).

Regarding the CIP, the discretionary portions of the CIP (and Information-Only projects) were previously ratcheted back several years ago, and Council Staff does not believe assuming additional substantial cutbacks in capital work (such as small diameter water and sewer reconstruction) should be assumed at this time. The FY24-29 CIP will be reviewed by the Council in February and March and the debt service impacts of any changes recommended can be taken into account in the approval of the WSSC Water Operating Budget in Mid-May.

⁶NOTE: The public hearing testimony from the Montgomery County Taxpayers League references a bill comparison chart on the Fairfax Water website which shows WSSC Water residential bills are more than double those of Fairfax Water customers. This chart incorrectly calculates WSSC Water's bill at \$162. The correct number is \$128.51. Also, this chart only reflects water charges (not sewer). The chart provided by WSSC Water on ©12 reflects the total customer bill (water and sewer charges plus fixed fees).

Alternative Scenarios

Council Staff asked WSSCWater for several alternative scenarios with lower rate increases in FY24 and FY25 and rates dropping to 5 percent by the end of the six-year period as shown on Table #6 below.

Table #6:
Rate Increase Scenarios

Scenario	FY24	FY25	FY26	FY27	FY28	FY29
Base Case	8.0%	8.0%	5.3%	5.3%	5.3%	5.0%
Scenario 1	7.0%	7.0%	6.0%	6.0%	5.0%	5.0%
Scenario 2	7.0%	6.5%	6.0%	6.0%	5.0%	5.0%
Scenario 3	6.0%	6.0%	6.0%	6.0%	5.0%	5.0%

It should be kept in mind that WSSCWater's budget process is in its early stages and that the Base Case and the alternative rate increase scenarios provided by WSSCWater staff reflect how the budget could be balanced based on the Long-Range Financial Plan's current assumptions. Different assumptions and priorities may come into play as WSSCWater develops its Proposed Operating Budget in the coming months.

The scenarios provided by WSSCWater are attached on ©29-31. To offset the lower rate increase in FY24, Scenarios 1 and 2 both reduce the contribution to the cash reserve by \$8.1 million in FY24. Scenario 1 then assumes permanent expenditure reductions of \$9.6 million and one-time reductions of \$5.4 million in FY25. Scenario 2 assumes \$14.1 million in permanent expenditure reductions and \$5.2 million in one-time reductions in FY25.

Scenario 3 assumes to zero out the contribution to cash reserves in FY24 (-\$16.1 million) and also assumes \$2.0 million in one-time reductions. In FY25, permanent reductions of \$27.8 million and \$4.3 million in one-time reductions would be needed.

Council Staff believes both Scenarios 2 and 3 would cut too deep in FY25, especially given current economic uncertainties regarding inflationary costs being experienced by WSSCWater. Also, while the financial metrics still meet WSSCWater's policy goals, both scenarios push the leverage ratio much closer to 10x in FY24.

Council Staff believes Scenario 1 (7.0 percent rate increase in FY24) provides a reasonable alternative to the Base Case; providing slightly lower rate increases in FY24 and FY25 but a more gradual lowering of rates over the six-year period. The reductions needed and the impact on the financial metrics is less severe than Scenarios 2 and 3. Under Scenario 1, the only change in the spending control limits from the Base Case is the rate increase (from 8.0 to 7.0 percent). New Debt, Debt Service, and Water and Sewer Operating Expenses would remain unchanged.

Next Steps

As with past spending control limits discussions, the Council will need to consider the issues noted in WSSC Water's long-range financial plan in the context of what level of fiscal constraint is appropriate at this early stage of WSSC Water's budget process. This will need to be balanced with what the Council feels is a reasonable rate increase ceiling for WSSC Water's customers.

Council Staff will continue to work with the Prince George's Council Staff to help both Councils come to agreement on a single set of spending control limits by November 1.

Attachments

Spending Affordability Bi-County Workgroup Meeting Materials (Excerpts)

- Bond Rating Agency Reports (©1)
- Base Case (8.0% rate increase Scenario)
 - Assumption Summary (©2)
 - Components of the Rate Increase (©3)
 - Long-Range Financial Plan – Revenues (©4)
 - Long Range Financial Plan – Expenditures (©5)
 - Long-Range Financial Plan – Rate Increases and Other Summary Information (©6)
 - Long-Range Financial Plan – Metrics (©7)
- Impact of the Rate Increase on Revenue (©8)
- WSSC Water Funding Compared to Counties' Funding (©9)
- WSSC Water Compared to Counties' Growth Trends (©10)
- Message to Stakeholders (©11)
- WSSC Water Compared to Peers – Avg Residential Bill (©12)
- FY24 Operating Budget Challenges (©13)
- FY24 Department Requests (©14)
- Additional and Reinstated Program (©15-16)
- Budget Impacts of Reducing the Rate Increase (©17)
- Past Due Accounts/Amounts (©18)
- Operating Affordability Actions (©19)
- Capital Affordability Actions (©20)
- Leveraging Loan and Grant Programs (©21)
- Customer Impact Charts (©22-23)
- Growth Funding Projections (©24)
- Aging Infrastructure Challenges (©25-26)
- FY24 SAG Calendar (©27)
- Inflationary Rates of Various Sectors (2000 to 2022) (©28) (from FY23 Spending Control Limits Bi-County Workgroup Meeting Materials)
- Alternative Rate Increase Scenarios (©29-31)

Bond Rating Agency Reports

- Rated AAA by the three rating agencies
- Fitch maintained the Outlook as a Negative
- Factors that could lead to downgrade
 - “Sustained leverage above 10.0x through fiscal 2023 year will result in a downgrade
Failure to secure rate increases that satisfactorily support operations while ensuring the ability to continue capital investment and maintain satisfactory liquidity and declining leverage” (Fitch)
 - “Failure to raise rates to support operations and debt needs, leading to declines in reserves and liquidity” (Moody’s)
 - “If management is unable to effectuate necessary rate increases or contain costs which results in a reduction in reserves or a failure to meet sum sufficient coverage, we will lower the rating one or more notches” (S&P)

Assumption Summary – 8% Scenario

PLANNING DATA		PROJECTED					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	
REVENUE RATE INCREASE							
	8.0%	8.0%	5.3%	5.3%	5.3%	5.0%	
1 REVENUE							
2 <u>Water Consumption and Sewer Treatment</u>							
3 Water consumption (Average MGD)	126.0	126.0	126.0	126.0	126.0	126.0	
4 <u>Credits and Transfers (\$000's)</u>							
5 Use of Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
6 SDC Debt Service Offset	\$ 5,772	\$ 5,772	\$ 5,772	\$ 5,748	\$ 5,748	\$ 5,748	
7 EXPENDITURE							
8 <u>Operating (\$000's)</u>							
9 Workyears	1,836.0	1,836.0	1,836.0	1,836.0	1,836.0	1,836.0	
10 Salary and Wages Increase	5.0%	5.0%	4.5%	4.5%	4.5%	4.5%	
11 All Other	7.4%	3.9%	3.0%	3.0%	3.0%	3.0%	
12 Debt Service	\$ 328,467	\$ 366,169	\$ 391,029	\$ 414,536	\$ 436,628	\$ 451,693	
13 Yearly Growth %	8.4%	11.5%	6.8%	6.0%	5.3%	3.5%	
14 PAYGO	\$44,000	\$65,000	\$80,000	\$80,000	\$ 100,000	\$ 110,000	
15 <u>Capital Expenditure Parameters</u>							
16 Water and Sewer Completion Factor	72.1%	69.7%	71.5%	73.0%	70.2%	69.5%	
17 Information Only Completion Factor	65.6%	69.7%	72.9%	73.3%	72.6%	69.4%	
18 BOND ISSUANCE							
19 Interest Rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	



Components of the Rate Increase – 8% Scenario

(In Thousands \$000s)	FY 2023 Approved	FY 2024 Base Case	Dollar Change	Rate Impact
Funding Sources				
Water & Sewer Revenue	\$ 746,450	\$ 738,450	\$ (8,000)	1.1%
Ready-to-Serve Charges	75,177	81,191	6,014	-0.8%
Other Sources/Fees	38,880	39,573	693	-0.1%
Interest Income	2,800	8,000	5,200	-0.7%
Cost Sharing	635	514	(121)	0.0%
Premium Transfer	2,500	-	(2,500)	0.3%
Underwriter's Discount Transfer	2,000	2,000	-	0.0%
Uncollectible	(6,000)	(7,975)	(1,975)	0.3%
Reconstruction Debt Service Offset	4,000	-	(4,000)	0.5%
SDC Debt Service Offset	5,772	5,772	-	0.0%
Miscellaneous Offset	-	2,800	2,800	-0.4%
Funding Sources Subtotal	\$ 872,214	\$ 870,325	\$ (1,889)	0.3%
Debt Service				
Debt Service	321,844	328,467	6,623	0.9%
Debt Service Subtotal	\$ 321,844	\$ 328,467	\$ 6,623	0.9%
Expenses				
Salaries & Wages	\$ 133,765	\$ 140,453	\$ 6,688	0.9%
Heat, Light, Power	18,817	26,454	7,637	1.0%
Regional Sewage Disposal	60,343	64,201	3,858	0.5%
All Other	290,161	311,669	21,508	2.9%
PAYGO	31,016	44,000	12,984	1.8%
Increase in Fund Balance	16,268	14,165	(2,103)	-0.3%
Expenses Subtotal	\$ 550,370	\$ 600,942	\$ 50,572	6.8%
WATER AND SEWER REVENUE IMPACT		\$ 59,084		8.0%



Long-Range Financial Plan – 8%

	(In Thousands \$000s)	FY 2023 Approved	FY 2023 Estimated	FY 2024 Prelimin	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
1	New Water and Sewer Debt Issues	\$ 358,840	\$ 358,840	\$ 379,960	\$ 388,352	\$ 393,030	\$ 426,305	\$ 374,416	\$ 354,053
2	Total Water and Sewer Debt Service	321,844	302,982	328,467	366,169	391,029	414,536	436,628	451,693
3	Total Water and Sewer Expenditures	855,946	843,430	915,245	993,263	1,049,753	1,092,679	1,154,577	1,200,142
4	Water and Sewer Combined Rate Increase (Ave)	6.5%	6.5%	8.0%	8.0%	5.3%	5.3%	5.3%	5.0%
5	Water and Sewer User Charges	\$ 746,450	\$ 738,450	\$ 797,533	\$ 861,336	\$ 906,987	\$ 955,057	\$ 1,005,675	\$ 1,055,959
6	Other Sources/Fees	114,057	114,057	120,765	127,971	133,346	138,986	144,903	150,806
	Account Maintenance Fees	33,887	33,887	36,598	39,526	41,621	43,827	46,150	48,457
	Rockville Sewer Use	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100
	Plumbing and Inspection Fees	16,780	16,780	17,283	17,802	18,336	18,886	19,453	20,036
	Infrastructure Investment Fee	41,290	41,290	44,594	48,161	50,714	53,401	56,232	59,043
	Miscellaneous	19,000	19,000	19,190	19,382	19,576	19,771	19,969	20,169
	Interest Income	2,800	10,000	8,000	5,500	5,500	5,500	5,500	5,500
	Cost Sharing Reimbursement	635	635	514	80	5,857	5,857	154	-
	Uncollectible @ 1% of User Charges	(6,000)	(7,385)	(7,975)	(8,613)	(9,070)	(9,551)	(10,057)	(10,560)
7	Operating Revenues	857,942	855,758	918,837	986,273	1,042,620	1,095,849	1,146,176	1,201,705
	Growth (% change)			7.4%	7.3%	13.5%	5.1%	4.6%	4.8%
8	OTHER TRANSFERS AND CREDITS	14,272	10,272	10,572	9,372	9,372	9,348	9,348	9,348
	Use of Fund Balance	-	-	-	-	-	-	-	-
	Reconstruction Debt Service Offset (REDO)	4,000	-	-	-	-	-	-	-
	SDC Debt Service Offset	5,772	5,772	5,772	5,772	5,772	5,748	5,748	5,748
	Premium Transfer	2,500	2,500	-	-	-	-	-	-
	Underwriter's Discount Transfer	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
	Miscellaneous Offset	-	-	2,800	1,600	1,600	1,600	1,600	1,600
9	Total Funds Available	872,214	866,030	929,409	995,645	1,051,992	1,105,197	1,155,523	1,211,053

Long-Range Financial Plan – 8%

	(In Thousands \$000s)	FY 2023 Approved	FY 2023 Estimated	FY 2024 Prelimin	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
10	Salaries and Wages	\$ 133,765	\$ 133,765	\$ 140,453	\$ 147,476	\$ 154,112	\$ 161,047	\$ 168,295	\$ 175,868
11	Heat, Light, and Power	18,817	23,054	26,454	25,381	24,352	25,496	26,389	27,313
12	Regional Sewage Disposal	60,343	62,452	64,201	65,485	66,794	68,130	69,493	70,883
13	All Other	290,161	290,161	311,669	323,753	333,465	343,469	353,773	364,386
14	Operating Expenses	\$ 503,086	\$ 509,432	\$ 542,777	\$ 562,094	\$ 578,724	\$ 598,143	\$ 617,949	\$ 638,449
	Net Operating Revenue	354,856	346,326	376,060	424,179	463,896	497,706	528,226	563,256
16	Bonds and Notes Principal and Interest	\$321,844	\$302,982	328,467	\$366,169	\$391,029	\$414,536	\$436,628	\$451,693
	Operating Expenses with Debt Service	824,930	812,414	871,244	928,263	969,753	1,012,679	1,054,577	1,090,142
	<i>Growth (% change)</i>			7.2%	6.5%	4.5%	4.4%	4.1%	3.4%
18	OTHER TRANSFERS AND ADJUSTMENTS								
20	PAYGO (Contribution to bond fund)	31,016	31,016	44,000	65,000	80,000	\$80,000	100,000	110,000
21	Total Expenditures	855,946	843,430	915,245	993,263	1,049,753	1,092,679	1,154,577	1,200,142
22	Net Revenue (Loss)	16,268	22,599	14,165	2,382	2,239	12,518	946	10,911
23	BEGINNING FUND BALANCE - JULY 1	\$ 172,729	\$ 242,554	\$ 265,153	\$ 279,318	\$ 281,701	\$ 283,940	\$ 296,458	\$ 297,404
24	Net Increase (Decrease) in Fund Balance	16,268	22,599	14,165	2,382	2,239	12,518	946	10,911
25	Use of Fund Balance/Other Adjustments	-	-	-	-	-	-	-	-
26	ENDING FUND BALANCE - JUNE 30	\$ 188,997	\$ 265,153	\$ 279,318	\$ 281,701	\$ 283,940	\$ 296,458	\$ 297,404	\$ 308,315

Long-Range Financial Plan

- Customer affordability pressure with preliminary rate increase of 8.0% in FY 2024
 - Increases Ready-to-Serve (RTS) charges at same rate as volumetric
 - Use of Reconstruction Debt Service Offset has been phased-out

A Financial Plan		FY 2023 Estimate	FY 2024 Preliminary	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
I Affordability:								
	Rate Increase	6.5%	8.0%	8.0%	5.3%	5.3%	5.3%	5.0%
II Capital Demands:								
	New Debt Issues	\$ 358,840	\$ 379,960	\$ 388,352	\$ 393,030	\$ 426,305	\$ 374,416	\$ 354,053
	PAYGO	31,016	44,000	65,000	80,000	80,000	100,000	110,000
	Total Funding for Bonded Projects	389,856	423,960	453,352	473,030	506,305	474,416	464,053
III Debt Service Coverage:								
	Net Operating Revenue	\$ 346,326	\$ 376,060	\$ 424,179	\$ 463,896	\$ 497,706	\$ 528,226	\$ 563,256
	Debt Service	302,982	328,467	366,169	391,029	414,536	436,628	451,693
	Net Revenue Strength	43,343	47,593	58,010	72,867	83,170	91,598	111,563
IV Liquidity and Reserves:								
	Ending Fund Balance	\$ 265,153	\$ 279,318	\$ 281,701	\$ 283,940	\$ 296,458	\$ 297,404	\$ 308,315
	Net Increase/(Shortfall)	22,599	14,165	2,382	2,239	12,518	946	10,911

Long-Range Financial Plan – 8%

- Maintain CFO Guidelines
 - Restrain new debt issuance and related debt service expense
 - Maintain adequate liquidity and fund balance reserves

B Metrics		CFO Guideline	FY 2023 Estimate	FY 2024 Preliminary	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
I Debt Service Coverage:									
a	Debt Service Coverage	1.10 - 1.25	1.14	1.14	1.16	1.19	1.20	1.21	1.25
b	Debt Service (P+I) as a Percentage Total Expenditures	< 40.0%	35.9%	35.9%	36.9%	37.2%	37.9%	37.8%	37.6%
II Liquidity and Reserves:									
a	Days Operating Reserves-on-Hand	120 - 150	179.1	173.7	164.0	157.3	159.6	151.2	150.4
b	Ending Fund Balance as a Percentage of Operating Revenue	20.0%	31.0%	30.4%	28.6%	27.2%	27.1%	25.9%	25.7%
c	Leverage Ratio	< 10.0	9.86	9.47	8.82	8.37	8.09	7.79	7.41
III Workforce									
	Workyears	N/A	1,836	1,836	1,836	1,836	1,836	1,836	1,836

Impact of the Rate Increase on Revenue

Impact of a 1.0% rate increase results in:

- \$7.4 million increase in the water consumption and sewer use charges (volumetric revenue)
- \$752k in increase in the AMF and IIF (fixed fees)

WSSC Water Funding Compared to Counties' Funding



WSSC Water Compared to Counties' Growth Trends

Comparative Analysis Montgomery County and Prince George's County Growth v. WSSC Growth Trends (FY 1999 to FY 2021)

<u>FY 1999 to FY 2021 % Change:</u>	<u>Montgomery</u>	<u>Prince George's</u>
County Assessed Value	156.5%	143.6%
WSSC Water Production	-5.7%	-5.7%
Estimated Property Tax Revenues	139.3%	177.2%
Estimated WSSC W&S Revenue	121.5%	121.5%
Actual Property Tax Revenues	113.1%	143.1%
Actual WSSC W&S Revenue	90.8%	90.8%
Change in County Property Tax Rate	-4.6%	-0.3%
Increased Tax Rate with no change in AV	219.8%	248.9%

Message to Stakeholders

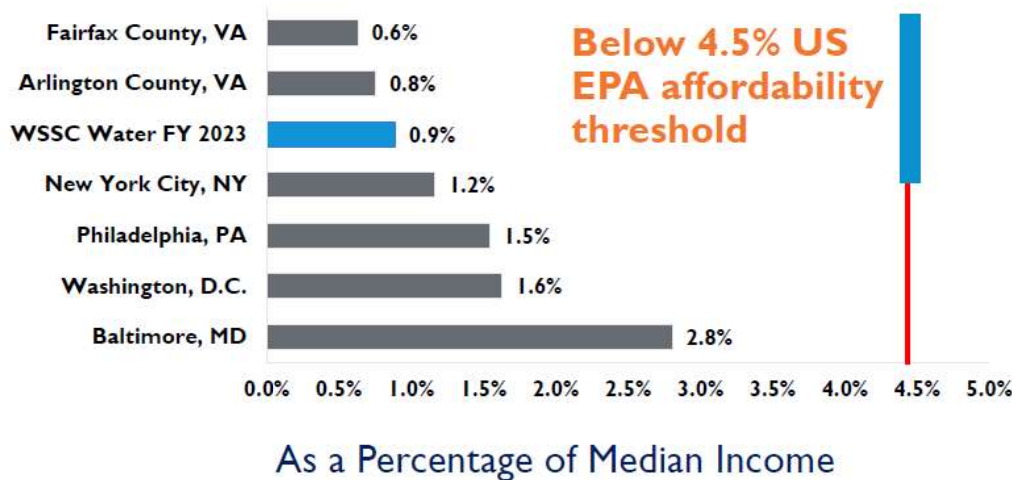
- Enhance Customer Experience
 - Investments in customer service and operational improvements
 - Enhancing our affordability programs
 - Increasing fixed fees that CAP customers do not pay relieves pressure on volumetric rates
- Optimize Infrastructure
 - CIP addresses mandatory projects, regulatory requirements, and system reinvestment
 - Long-term rate stability needed for multi-year CIP implementation
- Spend Customer Dollars Wisely
 - Significant cost savings achieved and on-going
 - Innovation programs underway to improve service, lower costs, and identify non-rate revenue sources



WSSC Water Compared to Peers

Average Residential Bill @ 165 Gallons per Day

- Per FY 2023 comparative peer data:



FY 2024 Operating Budget

- The financial plan for FY 2024 at 8.0% includes the following challenges:
 - Inflationary pressures in essential goods and services, as well as capital construction
 - Infrastructure investment concerns on aging meters
 - A very competitive labor market in the Baltimore Washington area create challenges to recruit and retain employees especially in IT and engineering
 - Continued revenue volatility due to declining per capita consumption and above normal account delinquency in lower income communities
 - Credit rating risk on post pandemic concern in ability to absorb financial “shock” based on revenue challenges and rising utility operational and capital costs



FY 2024 Department Requests

- The Budget Division received requests for \$32.9 million in funding as part of the FY 2024 additional and reinstated process.
- Some of the requests received are as follows:
 - Expand program to support activities related to lead service line inventory and replacement to comply with changed regulatory requirements to the Lead and Copper Rule
 - Procure contractors to provide trained temporary personnel in the areas of field service representatives, meter readings and field meter mechanic personnel as to address field activity backlog and increase meter testing and replacement
 - Engage consulting services for “Arc Flash Study” and related electrical safety projects
 - Increase funding to address deferred maintenance for water storage tanks



Additional & Reinstated Program

	Department	Initiative Name	Wrkyrs	Total Amount	W&S Impact
1	Production	Lead & Copper Rule Compliance Program Management	-	\$ 3,400,000	\$ 2,200,000
2	IT	Laptop Refresh	-	1,500,000	1,231,500
3	Utility Services	Fire Flow Testing	-	555,400	555,400
4	Utility Services	Temporary Field Services for Meters	-	550,000	550,000
5	Utility Services	Metallic Pipe Condition Assessment Expansion	-	500,000	500,000
6	Customer Service	Contract for Turnoffs Resources	-	400,000	400,000
7	Engineering	Plumbing Inspection Program Additional Inspectors	2	354,669	344,214
8	Customer Service	Customer Relationship Management System	-	250,000	250,000
9	Production	Biosolids Division - Additional Staff	1	199,524	194,915
10	Production	Principal Electrical Engineer - Program Management	1	174,521	168,119
11	Production	LCR - Water Quality Specialist	1	177,539	165,835
12	General Services	Enterprise Document Management	-	200,000	159,000
13	Production	Data Validator - Laboratory Operations	1	132,539	127,315
14	Engineering	Sewer Infrastructure Project Manager	1	155,579	24,163
15	Engineering	Water Infrastructure Project Manager (for PCCP)	1	155,059	23,736
16	Engineering	Water Infrastructure Project Manager (for transmission Water Main and Redundancy Program)	1	155,058	23,736
17	Customer Service	Customer Service Optimization - New Permanent Positions	31	-	-
Total Requests with a YES			40	\$ 8,859,887	\$ 6,917,934



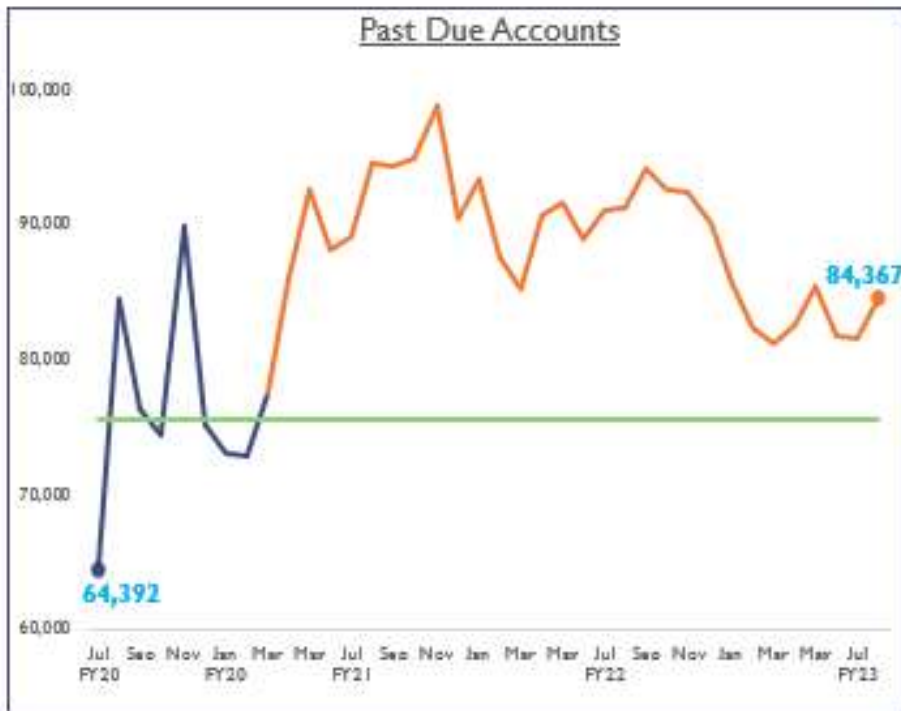
Additional & Reinstated Program (continued)

	Department	Initiative Name	Wrkyrs	Total Amount	W&S Impact
1	Production	Electrical Safety and Reliability Program	-	\$ 3,050,000	\$ 3,050,000
2	Utility Services	Large Valve Replacement	-	1,500,000	1,500,000
3	Production	Water Storage Facility Re-Coating Program	-	1,050,000	1,050,000
4	Finance	Assessments Information System Replacement	-	607,522	498,776
5	Engineering	Cross Connection Program Inspectors	2	371,200	353,831
6	Production	Wastewater Pumping Stations Management Support	1	212,650	210,428
7	IT	Z-Scaler - cloud-based firewall system	-	200,000	164,200
8	Production	Surveillance and Response System Operator	1	163,150	154,448
9	Procurement	Procurement Compliance Manager Position	1	190,170	151,242
10	Production	Additional Staff: Water Quality Analyses	1	140,550	138,328
11	IT	Administrative Contract Manager	1	147,870	121,180
12	General Services	Real Estate Portfolio Analysis	0	150,000	119,250
13	Office of the Supplier Diversity	MBE/SLBE Certification/Approval Review	1	139,670	111,095
14	Procurement	Procurement Specialist (Buyer) II	1	127,970	101,793
15	Engineering	Water Infrastructure Project Manager (Distribution Water Main)	1	167,475	9,016
Total Requests with a MAYBE			10	\$ 8,218,227	\$ 7,733,587

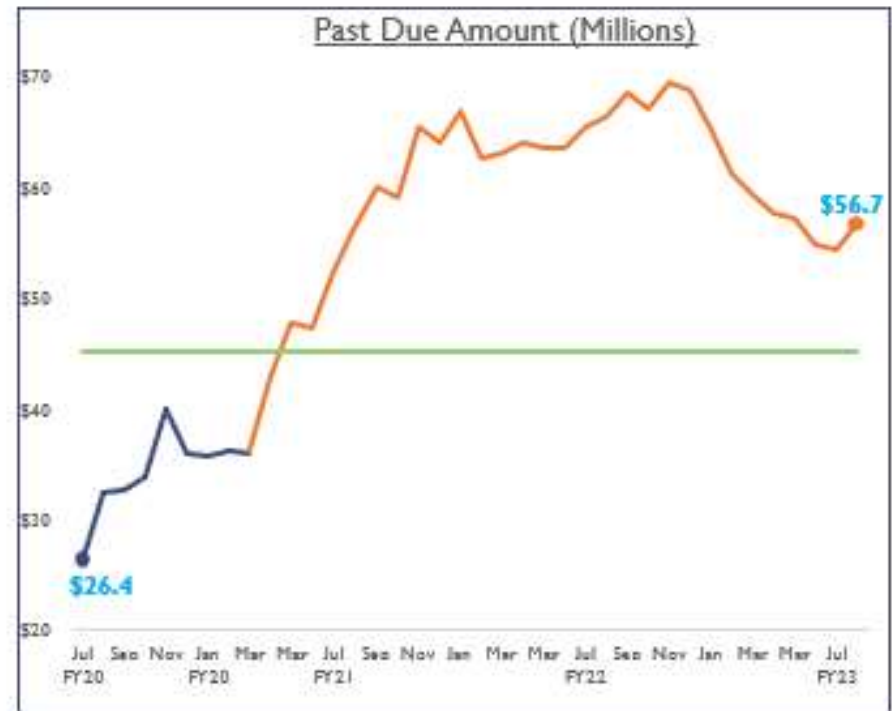
Budget Impacts of Reducing the Rate Increase

- **1.0%** decrease to the proposed rate increase would require:
 - \$7.4 million reduction to the Operating Budget **OR**
 - \$190.2 million reductions or deferrals to the Capital Budget
- **Alternatives on how to achieve potential rate reductions:**
 - **1.0%** = \$6.0 million in operating reductions and \$35.9 million in capital deferrals
 - **2.0%** = \$10.0 million in operating reductions and \$123.5 million in capital deferrals

Past Due Accounts/Amounts (as of 08/23)



FY23 Target: 75,460 accounts



FY23 Target: \$45.2 Million

Operating Affordability Actions

- FY 2022 actual operating savings \$83.8 million
- FY 2023 approved budget reductions:
 - \$27.0 million operating and continue to freeze 37 positions
- Past cost savings plans totaling \$151.7 million to offset COVID-19 impacts
 - FY 2020: \$61.1 million or 8.3% rate impact
 - FY 2021: \$72.7 million or 9.8% rate impact
 - FY 2022: \$17.9 million or 2.4% rate impact
- Bond refunding reduced \$62.7 million in total debt service payable
- Group insurance plan revision savings of \$6.8 million since FY 2017
- On-going savings efforts:
 - Reduced overtime expenses of \$8.4 million since FY 2017
 - Water “Innovations” projects in water resource recovery facilities, piping networks, product development and business development



**Proactive
cost saving
efforts
protects rate
affordability**

Capital Affordability Actions

- Maintaining our AAA credit rating
 - Adhering to financial metrics and CFO policy guidelines
- Increased importance on prioritization of projects for inclusion, elimination, scale-down, or deferral
 - \$110.5 million in capital was reduced in FY 2023 approved budget
- An affordable Capital Improvements Program (CIP)
 - Fits within rate increases as proposed
 - Aligns anticipated bond issuance limits over the six-year program
 - Keeps project funding in line with what is affordable
- Increased use of PAYGO to lower debt service expense and improve metric results - especially with rate risk
 - \$31 million in FY 2023 to \$110 million in FY 2029
- Implement level principal payments beginning FY 2025 to lower interest expense

Leveraging Loan and Grant Programs

- Using low-interest loans and grants through the State revolving fund (SRF) and Bay Restoration Fund (BRF)
 - Since FY 2018 awarded \$386.4 million from SRF in loans and loan forgiveness (24% of all awards) and \$56.3 million in BRF grants (13% of all awards)
 - Submitted 18 applications in January 2022 requesting over \$350 million in assistance from the SRF and flood management programs, and anticipate \$60 million from SRF as proposed
- SRF loans at a 1% lower rate than a competitive sale can save WSSC Water \$2.1 million over 30 years for every \$10 million awarded
- A \$10 million grant award can save WSSC Water \$19.3 million in debt service over 30 years
- Retained a professional engineering firm to identify grant opportunities including those within the 2021 Bipartisan Infrastructure law



Customer Impacts Non-CAP

- The SAG includes an increase in both volumetric and RTS charges by **8.0%**

Quarterly Bill	Non-CAP Customers	
	FY 23 (6.5% Volumetric & RTS)	FY 24 (8.0% Volumetric & RTS)
Volumetric Charges	\$ 226.90	\$ 245.07
Ready-to-Serve Charges	29.82	32.21
Total Quarterly Bill	\$ 256.72	\$ 277.28
FY 24 Quarterly Bill Increase		\$ 20.56

The average bill would increase by about \$21 per quarter

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

Customer Impacts CAP

- Customers enrolled in the Customer Assistance Program (CAP) would not be impacted by increases to the RTS since participants receive a bill credit

Quarterly Bill	CAP Customers	
	FY 23 (6.5% Volumetric & RTS)	FY 24 (8.0% Volumetric & RTS)
Volumetric Charges	\$ 226.90	\$ 245.07
Ready-to-Serve Charges	-	-
Total Quarterly Bill	\$ 226.90	\$ 245.07
FY 24 Quarterly Bill Increase		\$ 18.17
Non-CAP v CAP Total Quarterly Bill		\$ (32.21)
Percentage Difference		-13.1%

The average bill would increase by about \$18 per quarter

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



Growth Funding Projections

- \$38.0 million estimated SDC fund balance as of June 30, 2022
- \$74.3 million funding shortfall over the six-year period
 - May need to issue SDC-supported debt
 - Increase in SDC fees is under consideration

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total 6 Years
CIP GROWTH EXPENDITURES	\$ 52.6	\$ 55.0	\$ 40.1	\$ 36.7	\$ 28.6	\$ 19.2	\$ 232.2
Expenditures Adjusted for Completion	33.1	54.0	45.8	38.3	31.4	22.4	225.0
FUNDING SOURCES							
Privately Funded Projects	10.4	15.6	10.3	3.9	1.1	0.8	42.1
Estimated SDC Revenue	22.6	22.6	22.6	22.6	22.6	22.6	135.6
Less SDC Developer Credits	(4.5)	(4.5)	(3.5)	(3.5)	(2.5)	(2.5)	(21.0)
Less SDC Exemptions ¹	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(6.0)
Total Funding Sources	\$ 27.5	\$ 32.7	\$ 28.4	\$ 22.0	\$ 20.2	\$ 19.9	\$ 150.7
FUNDING SURPLUS/(SHORTFALL) ADJUSTED FOR COMPLETION	\$ (5.6)	\$ (21.3)	\$ (17.4)	\$ (16.3)	\$ (11.2)	\$ (2.5)	\$ (74.3)

Aging Infrastructure Challenges



Capitol Heights Water Main
Break July 2022



Parkway WRRF



Potomac WFP
Pump Station 2

Aging Infrastructure Challenges



Anacostia Depot
(deferred in FY 2023)

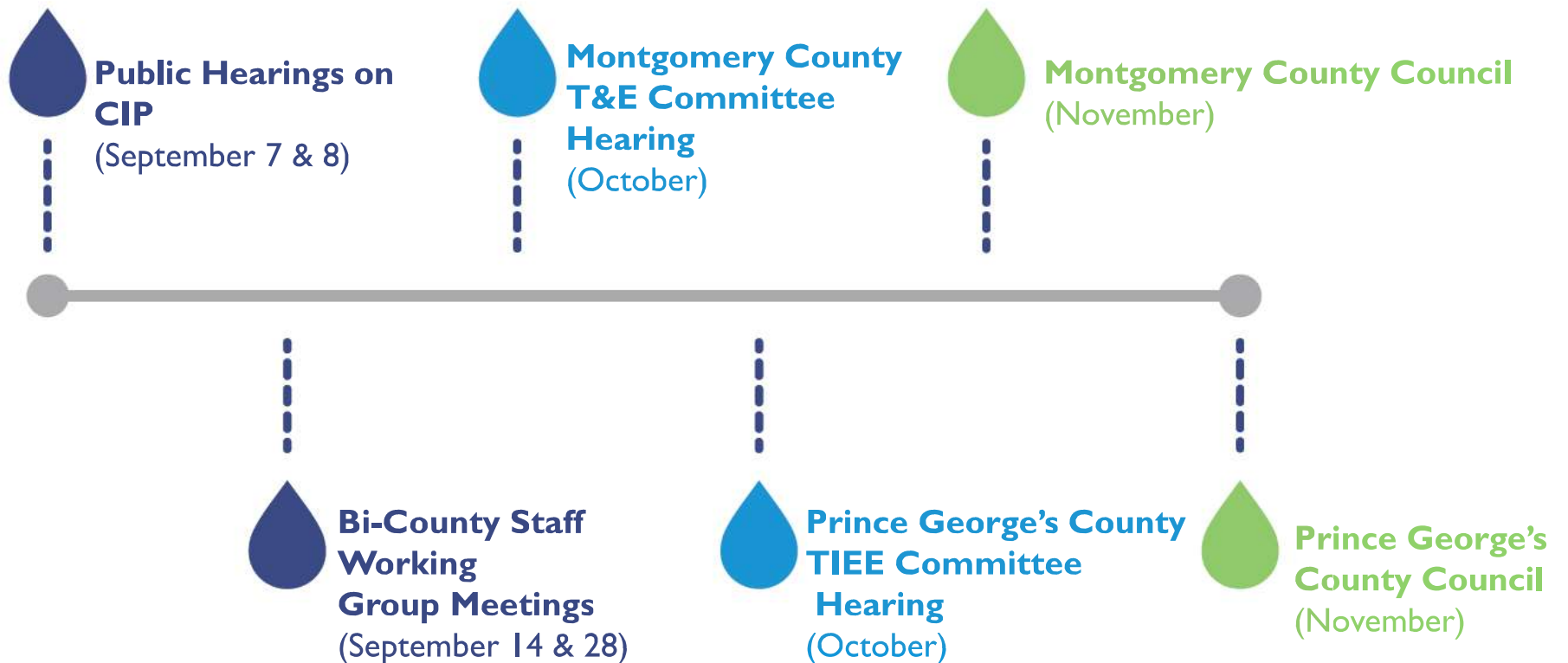


Gaithersburg Depot
(deferred in FY 2023)



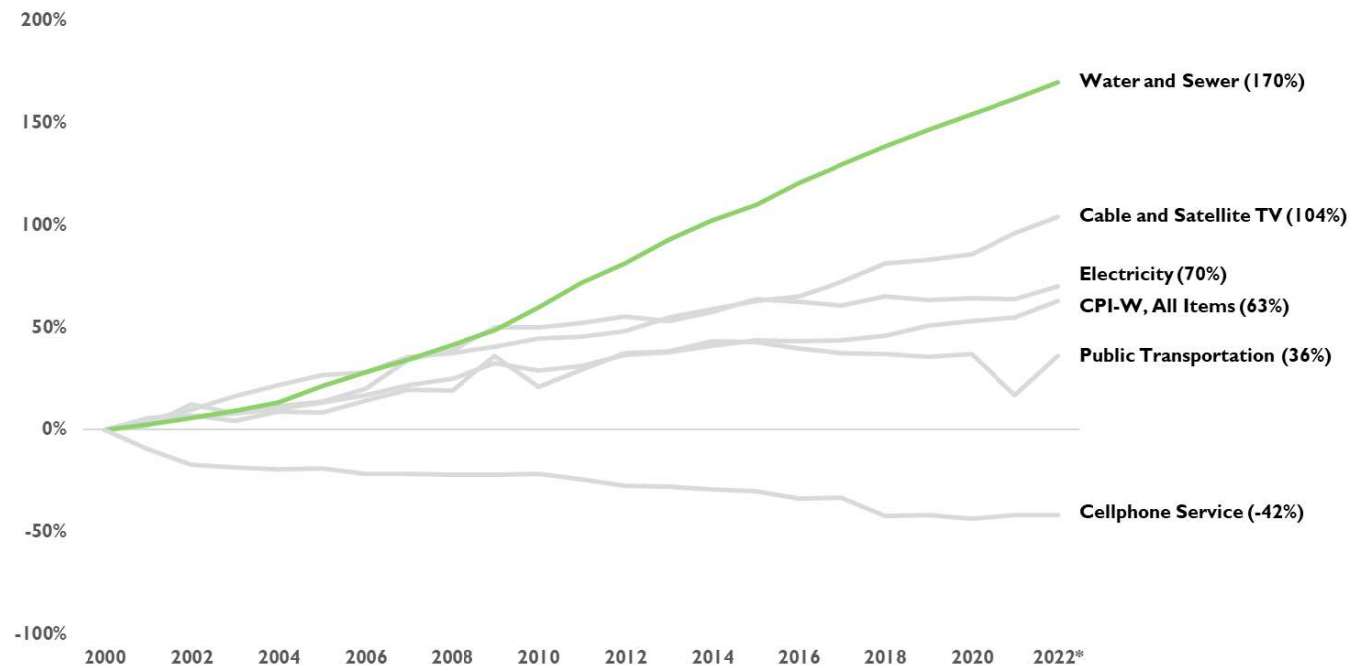
Lyttonsville Depot

FY 2024 SAG Calendar



WSSC Water Compared to Peers

Inflationary Rates of Various Sectors



Water and sewer costs have been increasing at above average inflation rates nationally

*FY 2022 data is preliminary.
Source: Bureau of Labor Statistics



Scenario I: 7.0, 7.0, 6.0, 6.0, 5.0, 5.0

In FY 2025, we would make permanent reductions of \$9.6 million and the remaining \$5.4 million would be one-time reductions. The model below accounts for the permanent reductions in the out years by adjusting "All Other"

(In Thousands \$000s)	FY 2023 Approved	FY 2023 Estimated	FY 2024 Prelimin	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
New Water and Sewer Debt Issues	\$ 358,840	\$ 358,840	\$ 379,960	\$ 388,352	\$ 393,030	\$ 426,305	\$ 374,416	\$ 354,053
Total Water and Sewer Debt Service	321,844	302,982	328,467	366,169	391,029	414,536	436,628	451,693
Total Water and Sewer Expenditures	855,946	843,430	915,245	978,311	1,040,201	1,082,840	1,144,443	1,189,705
Water and Sewer Combined Rate Increase (Ave)	6.5%	6.5%	7.0%	7.0%	6.0%	6.0%	5.0%	5.0%
Water and Sewer User Charges	\$ 746,450	\$ 738,450	\$ 790,149	\$ 845,459	\$ 896,187	\$ 949,958	\$ 997,456	\$ 1,047,329
Other Sources/Fees	114,057	114,057	120,014	126,355	132,247	138,467	144,067	149,927
Account Maintenance Fees	33,887	33,887	36,259	38,798	41,125	43,593	45,773	48,061
Rockville Sewer Use	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100
Plumbing and Inspection Fees	16,780	16,780	17,283	17,802	18,336	18,886	19,453	20,036
Infrastructure Investment Fee	41,290	41,290	44,181	47,273	50,110	53,116	55,772	58,561
Miscellaneous	19,000	19,000	19,190	19,382	19,576	19,771	19,969	20,169
Interest Income	2,800	10,000	8,000	5,500	5,500	5,500	5,500	5,500
Cost Sharing Reimbursement	635	635	514	80	5,857	5,857	154	-
Uncollectible @ 1% of User Charges	(6,000)	(7,385)	(7,901)	(8,455)	(8,962)	(9,500)	(9,975)	(10,473)
Operating Revenues	857,942	855,758	910,775	968,939	1,030,828	1,090,282	1,137,202	1,192,283
Growth (% change)			\$0.06	6.4%	13.2%	5.8%	4.3%	4.8%
OTHER TRANSFERS AND CREDITS	14,272	10,272	10,572	9,372	9,372	9,348	9,348	9,348
Use of Fund Balance	-	-	-	-	-	-	-	-
Reconstruction Debt Service Offset (REDO)	4,000	-	-	-	-	-	-	-
SDC Debt Service Offset	5,772	5,772	5,772	5,772	5,772	5,748	5,748	5,748
Premium Transfer	2,500	2,500	-	-	-	-	-	-
Underwriter's Discount Transfer	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Miscellaneous Offset	-	-	2,800	1,600	1,600	1,600	1,600	1,600
Total Funds Available	872,214	866,030	921,347	978,311	1,040,200	1,099,630	1,146,550	1,201,630
Salaries and Wages	\$ 133,765	\$ 133,765	\$ 140,453	\$ 147,476	\$ 154,112	\$ 161,047	\$ 168,295	\$ 175,868
Heat, Light, and Power	18,817	23,054	26,454	25,381	24,352	25,496	26,389	27,313
Regional Sewage Disposal	60,343	62,452	64,201	65,485	66,794	68,130	69,493	70,883
All Other	290,161	290,161	311,669	323,753	323,913	333,630	343,639	353,949
Operating Expenses	\$ 503,086	\$ 509,432	\$ 542,777	\$ 562,094	\$ 569,172	\$ 588,305	\$ 607,816	\$ 628,012
Net Operating Revenue	354,856	346,326	367,998	406,845	461,657	501,977	529,386	564,271
Bonds and Notes Principal and Interest	\$321,844	\$302,982	328,467	\$366,169	\$391,029	\$414,536	\$436,628	\$451,693
Operating Expenses with Debt Service	824,930	812,414	871,244	928,263	960,201	1,002,840	1,044,443	1,079,705
Growth (% change)			7.2%	6.5%	3.4%	4.4%	4.1%	3.4%
OTHER TRANSFERS AND ADJUSTMENTS								
Unspecified Reductions/Additional & Reinstated	-	-	-	(14,952)	-	-	-	-
PAYGO (Contribution to bond fund)	31,016	31,016	44,000	65,000	80,000	\$80,000	100,000	110,000
Total Expenditures	855,946	843,430	915,245	978,311	1,040,201	1,082,840	1,144,443	1,189,705
Net Revenue (Loss)	16,268	22,599	6,102	0	(0)	16,789	2,106	11,926
BEGINNING FUND BALANCE - JULY 1	\$ 172,729	\$ 242,554	\$ 265,153	\$ 271,256	\$ 271,256	\$ 271,255	\$ 288,045	\$ 290,151
Net Increase (Decrease) in Fund Balance	16,268	22,599	6,102	0	(0)	16,789	2,106	11,926
Use of Fund Balance/Other Adjustments	-	-	-	-	-	-	-	-
ENDING FUND BALANCE - JUNE 30	\$ 188,997	\$ 265,153	\$ 271,256	\$ 271,256	\$ 271,255	\$ 288,045	\$ 290,151	\$ 302,077
Debt Service Coverage (1.1 to 1.25 is target)	1.10	1.14	1.12	1.15	1.18	1.21	1.21	1.25
Leverage Ratio - Credit Rating Preservation (< 10.0)	9.90	9.86	9.66	8.88	8.43	8.05	7.79	7.40
Debt Service as a Percentage of Total Expenditures (Below 40% is target)	37.6%	35.9%	35.9%	37.4%	37.6%	38.3%	38.2%	38.0%
Days Operating Reserve-on-Hand (120 - 150 days target)	80.6	179.1	168.7	161.7	152.5	157.3	149.6	149.4
Ending Fund Balance as a Percentage of Operating Revenue (20% min)	22.0%	31.0%	29.8%	28.0%	26.3%	26.4%	25.5%	25.3%
Total Workyears (All Funds)	1,786	1,796	1,836	1,836	1,836	1,836	1,836	1,836

Scenario 2: 7.0, 6.5, 6.0, 6.0, 5.0, 5.0

In FY 2025, we would make permanent reductions of \$14.1 million and the remaining \$5.2 million would be one-time reductions. The model below accounts for the permanent reductions in the out years by adjusting "All Other"

	(In Thousands \$000s)	FY 2023 Approved	FY 2023 Estimated	FY 2024 Prelimin	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
1	New Water and Sewer Debt Issues	\$ 358,840	\$ 358,840	\$ 379,960	\$ 388,352	\$ 393,030	\$ 426,305	\$ 374,416	\$ 354,053
2	Total Water and Sewer Debt Service	321,844	302,982	328,467	366,169	391,029	414,536	436,628	451,693
3	Total Water and Sewer Expenditures	855,946	843,430	915,245	973,998	1,035,628	1,078,130	1,139,592	1,184,708
4	Water and Sewer Combined Rate Increase (Ave)	6.5%	6.5%	7.0%	6.5%	6.0%	6.0%	5.0%	5.0%
5	Water and Sewer User Charges	\$ 746,450	\$ 738,450	\$ 790,149	\$ 841,509	\$ 891,999	\$ 945,519	\$ 992,795	\$ 1,042,435
6	Other Sources/Fees	114,057	114,057	120,014	125,953	131,821	138,015	143,592	149,429
	Account Maintenance Fees	33,887	33,887	36,259	38,616	40,933	43,389	45,559	47,837
	Rockville Sewer Use	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100
	Plumbing and Inspection Fees	16,780	16,780	17,283	17,802	18,336	18,886	19,453	20,036
	Infrastructure Investment Fee	41,290	41,290	44,181	47,052	49,876	52,868	55,512	58,287
	Miscellaneous	19,000	19,000	19,190	19,382	19,576	19,771	19,969	20,169
	Interest Income	2,800	10,000	8,000	5,500	5,500	5,500	5,500	5,500
	Cost Sharing Reimbursement	635	635	514	80	5,857	5,857	154	-
	Uncollectible @ 1% of User Charges	(6,000)	(7,385)	(7,901)	(8,415)	(8,920)	(9,455)	(9,928)	(10,424)
7	Operating Revenues	857,942	855,758	910,775	964,626	1,026,256	1,085,435	1,132,113	1,186,939
	Growth (% change)			\$0.06	5.9%	12.7%	5.8%	4.3%	4.8%
8	OTHER TRANSFERS AND CREDITS	14,272	10,272	10,572	9,372	9,372	9,348	9,348	9,348
	Use of Fund Balance	-	-	-	-	-	-	-	-
	Reconstruction Debt Service Offset (REDO)	4,000	-	-	-	-	-	-	-
	SDC Debt Service Offset	5,772	5,772	5,772	5,772	5,772	5,748	5,748	5,748
	Premium Transfer	2,500	2,500	-	-	-	-	-	-
	Underwriter's Discount Transfer	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
	Miscellaneous Offset	-	-	2,800	1,600	1,600	1,600	1,600	1,600
9	Total Funds Available	872,214	866,030	921,347	973,998	1,035,628	1,094,783	1,141,461	1,196,287
10	Salaries and Wages	\$ 133,765	\$ 133,765	\$ 140,453	\$ 147,476	\$ 154,112	\$ 161,047	\$ 168,295	\$ 175,868
11	Heat, Light, and Power	18,817	23,054	26,454	25,381	24,352	25,496	26,389	27,313
12	Regional Sewage Disposal	60,343	62,452	64,201	65,485	66,794	68,130	69,493	70,883
13	All Other	290,161	290,161	311,669	323,753	319,340	328,920	338,788	348,952
14	Operating Expenses	\$ 503,086	\$ 509,432	\$ 542,777	\$ 562,094	\$ 564,599	\$ 583,594	\$ 602,964	\$ 623,015
	Net Operating Revenue	354,856	346,326	367,998	402,531	461,657	501,841	529,149	563,925
16	Bonds and Notes Principal and Interest	\$321,844	\$302,982	328,467	\$366,169	\$391,029	\$414,536	\$436,628	\$451,693
	Operating Expenses with Debt Service	824,930	812,414	871,244	928,263	955,628	998,130	1,039,592	1,074,708
	Growth (% change)			7.2%	6.5%	2.9%	4.4%	4.2%	3.4%
18	OTHER TRANSFERS AND ADJUSTMENTS								
19	Unspecified Reductions/Additional & Reinstated	-	-	-	(19,265)	-	-	-	-
20	PAYGO (Contribution to bond fund)	31,016	31,016	44,000	65,000	80,000	\$80,000	100,000	110,000
21	Total Expenditures	855,946	843,430	915,245	973,998	1,035,628	1,078,130	1,139,592	1,184,708
22	Net Revenue (Loss)	16,268	22,599	6,102	(0)	0	16,653	1,869	11,580
23	BEGINNING FUND BALANCE - JULY 1	\$ 172,729	\$ 242,554	\$ 265,153	\$ 271,256	\$ 271,255	\$ 271,256	\$ 287,909	\$ 289,778
24	Net Increase (Decrease) in Fund Balance	16,268	22,599	6,102	(0)	0	16,653	1,869	11,580
25	Use of Fund Balance/Other Adjustments	-	-	-	-	-	-	-	-
26	ENDING FUND BALANCE - JUNE 30	\$ 188,997	\$ 265,153	\$ 271,256	\$ 271,255	\$ 271,256	\$ 287,909	\$ 289,778	\$ 301,357
27	Debt Service Coverage (1.1 to 1.25 is target)	1.10	1.14	1.12	1.15	1.18	1.21	1.21	1.25
	Leverage Ratio - Credit Rating Preservation (< 10.0)	9.90	9.86	9.66	8.88	8.43	8.05	7.79	7.41
28	Debt Service as a Percentage of Total Expenditures (Below 40% is target)	37.6%	35.9%	35.9%	37.6%	37.8%	38.4%	38.3%	38.1%
29	Days Operating Reserve-on-Hand (120 - 150 days target)	80.6	179.1	168.7	162.9	153.6	158.4	150.5	150.1
30	Ending Fund Balance as a Percentage of Operating Revenue (20% min)	22.0%	31.0%	29.8%	28.1%	26.4%	26.5%	25.6%	25.4%
32	Total Workyears (All Funds)	1,786	1,796	1,836	1,836	1,836	1,836	1,836	1,836

Scenario 3: 6.0, 6.0, 6.0, 6.0, 5.0, 5.0


In FY 2024, there will be one-time reductions of \$2.0 million. Then, in FY 2025, we would make permanent reductions of \$27.8 million and the remaining \$4.3 million would be one-time reductions. The model below accounts for the permanent reductions in the out years by adjusting "All Other"

	(In Thousands \$000s)	FY 2023 Approved	FY 2023 Estimated	FY 2024 Prelimin	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
1	New Water and Sewer Debt Issues	\$ 358,840	\$ 358,840	\$ 379,960	\$ 388,352	\$ 393,030	\$ 426,305	\$ 374,416	\$ 354,053
2	Total Water and Sewer Debt Service	321,844	302,982	328,467	366,169	391,029	414,536	436,628	451,693
3	Total Water and Sewer Expenditures	855,946	843,430	913,285	961,138	1,021,997	1,064,090	1,125,131	1,169,813
4	Water and Sewer Combined Rate Increase (Ave)	6.5%	6.5%	6.0%	6.0%	6.0%	6.0%	5.0%	5.0%
5	Water and Sewer User Charges	\$ 746,450	\$ 738,450	\$ 782,764	\$ 829,730	\$ 879,514	\$ 932,285	\$ 978,899	\$ 1,027,844
6	Other Sources/Fees	114,057	114,057	119,262	124,753	130,549	136,668	142,177	147,943
	Account Maintenance Fees	33,887	33,887	35,921	38,076	40,360	42,782	44,921	47,167
	Rockville Sewer Use	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100
	Plumbing and Inspection Fees	16,780	16,780	17,283	17,802	18,336	18,886	19,453	20,036
	Infrastructure Investment Fee	41,290	41,290	43,768	46,394	49,177	52,128	54,735	57,471
	Miscellaneous	19,000	19,000	19,190	19,382	19,576	19,771	19,969	20,169
	Interest Income	2,800	10,000	8,000	5,500	5,500	5,500	5,500	5,500
	Cost Sharing Reimbursement	635	635	514	80	5,857	5,857	154	-
	Uncollectible @ 1% of User Charges	(6,000)	(7,385)	(7,828)	(8,297)	(8,795)	(9,323)	(9,789)	(10,278)
7	Operating Revenues	857,942	855,758	902,713	951,766	1,012,625	1,070,986	1,116,941	1,171,009
	Growth (% change)			\$0.05	5.4%	12.2%	5.8%	4.3%	4.8%
8	OTHER TRANSFERS AND CREDITS	14,272	10,272	10,572	9,372	9,372	9,348	9,348	9,348
	Use of Fund Balance	-	-	-	-	-	-	-	-
	Reconstruction Debt Service Offset (REDO)	4,000	-	-	-	-	-	-	-
	SDC Debt Service Offset	5,772	5,772	5,772	5,772	5,772	5,748	5,748	5,748
	Premium Transfer	2,500	2,500	-	-	-	-	-	-
	Underwriter's Discount Transfer	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
	Miscellaneous Offset	-	-	2,800	1,600	1,600	1,600	1,600	1,600
9	Total Funds Available	872,214	866,030	913,285	961,138	1,021,997	1,080,334	1,126,289	1,180,357
10	Salaries and Wages	\$ 133,765	\$ 133,765	\$ 140,453	\$ 147,476	\$ 154,112	\$ 161,047	\$ 168,295	\$ 175,868
11	Heat, Light, and Power	18,817	23,054	26,454	25,381	24,352	25,496	26,389	27,313
12	Regional Sewage Disposal	60,343	62,452	64,201	65,485	66,794	68,130	69,493	70,883
13	All Other	290,161	290,161	311,669	323,753	305,709	314,880	324,327	334,057
14	Operating Expenses	\$ 503,086	\$ 509,432	\$ 542,777	\$ 562,094	\$ 550,968	\$ 569,554	\$ 588,503	\$ 608,120
	Net Operating Revenue	354,856	346,326	359,936	389,672	461,657	501,432	528,438	562,890
16	Bonds and Notes Principal and Interest	\$321,844	\$302,982	\$328,467	\$366,169	\$391,029	\$414,536	\$436,628	\$451,693
	Operating Expenses with Debt Service	824,930	812,414	871,244	928,263	941,997	984,090	1,025,131	1,059,813
	Growth (% change)			7.2%	6.5%	1.5%	4.5%	4.2%	3.4%
18	OTHER TRANSFERS AND ADJUSTMENTS								
19	Unspecified Reductions/Additional & Reinstated	-	-	(1,960)	(32,125)	-	-	-	-
20	PAYGO (Contribution to bond fund)	31,016	31,016	44,000	65,000	80,000	\$80,000	100,000	110,000
21	Total Expenditures	855,946	843,430	913,285	961,138	1,021,997	1,064,090	1,125,131	1,169,813
22	Net Revenue (Loss)	16,268	22,599	(0)	(0)	0	16,244	1,158	10,544
23	BEGINNING FUND BALANCE - JULY 1	\$ 172,729	\$ 242,554	\$ 265,153	\$ 265,153	\$ 265,153	\$ 265,154	\$ 281,397	\$ 282,556
24	Net Increase (Decrease) in Fund Balance	16,268	22,599	(0)	(0)	0	16,244	1,158	10,544
25	Use of Fund Balance/Other Adjustments	-	-	-	-	-	-	-	-
26	ENDING FUND BALANCE - JUNE 30	\$ 188,997	\$ 265,153	\$ 265,153	\$ 265,153	\$ 265,154	\$ 281,397	\$ 282,556	\$ 293,100
27	Debt Service Coverage (1.1 to 1.25 is target)	1.10	1.14	1.10	1.15	1.18	1.21	1.21	1.25
	Leverage Ratio - Credit Rating Preservation (< 10.0)	9.90	9.86	9.80	8.89	8.44	8.07	7.81	7.43
28	Debt Service as a Percentage of Total Expenditures (Below 40% is target)	37.6%	35.9%	36.0%	38.1%	38.3%	39.0%	38.8%	38.6%
29	Days Operating Reserve-on-Hand (120 - 150 days target)	80.6	179.1	165.5	162.7	153.4	158.1	149.8	149.0
30	Ending Fund Balance as a Percentage of Operating Revenue (20% min)	22.0%	31.0%	29.4%	27.9%	26.2%	26.3%	25.3%	25.0%
32	Total Workyears (All Funds)	1,786	1,796	1,836	1,836	1,836	1,836	1,836	1,836

MEMORANDUM

October 21, 2022

TO: Gabe Albornoz, President
Montgomery County Council

FROM: Marc Elrich, County Executive 

SUBJECT: WSSC Water Spending Affordability Limits for the FY24 Operating and Capital Budgets

In April 1994, the Council adopted Resolution No. 12-1558, which established a spending affordability process for the WSSC Water budget. Under this process, representatives of Montgomery and Prince George's counties meet to develop spending limits for WSSC Water's upcoming capital and operating budgets. The spending affordability controls include limitations on the maximum average rate increase, debt service, new debt, and total water and sewer operating expenses. In practice, the greatest amount of attention is focused on the maximum average rate increase, which has the greatest direct effect on WSSC Water's customers.

WSSC Water has completed an analysis of the resource needs necessary to continue operations, repair aging infrastructure, mitigate reduced revenue impacts, and maintain their AAA bond status, especially when trying to avoid potential credit negatives. They concluded that an 8% water and sewer maximum rate increase is required to provide for the operating and capital budgets in FY24. This is below the FY23 request from WSSC Water of 9%, but above the 6.5% approved increase in FY23. While I support the Commission's efforts to both continue to rehabilitate our aging water and sewer infrastructure and bring about needed customer service enhancements, I also want to stress the importance of finding balance between meeting the growing needs of the Commission, recognizing the changing landscape of water billing, and limiting the compounded fiscal impact on ratepayers during these economic times.

I am in continued discussions with Prince George's County officials on a Maximum Average Rate Increase for WSSC Water for the FY24 operating and capital budgets. We must carefully

balance the long-term interests of WSSC Water's fiscal and operational stability with the impact of increased costs for their customers.

Therefore, I would be open to an 8% rate increase should the Council recommend it, but I would urge the Council not to go below 6.5%. Keeping within these boundaries will allow you to consider the public's comments, while still looking out for the health of this critical public utility.

As always, the Executive Branch staff stands ready to assist you in your deliberations. I look forward to discussing these issues with you as you develop WSSC Water's FY24 spending affordability limits.

cc: Commissioner Fausto R. Bayonet, Chair, WSSC Water
Commissioner T. Eloise Foster, WSSC Water
Commissioner Howard A. Denis, WSSC Water
Carla A. Reid, General Manager/CEO, WSSC Water
Letitia Carolina-Powell, Acting Chief Financial Officer, WSSC Water
Joy Nurmi, Chief of Staff to Council President
Marlene Michaelson, Executive Director, Montgomery County Council
Keith Levchenko, Senior Legislative Analyst, Montgomery County Council
Richard S. Madaleno, Chief Administrative Officer, Office of the County Executive
Yaakov "Jake" Weissmann, Assistant Chief Administrative Officer, Office of the County Executive
Jennifer R. Bryant, Director, Office of Management and Budget
Michael Coveyou, Director, Department of Finance
Adriana Hochberg, Acting Director, Department of Environmental Protection
Steve Shofar, Intergovernmental Affairs Division Chief, Department of Environmental Protection
Rachel Silberman, Acting Manager, Office of Management and Budget