



Committee: T&E
Staff: Keith Levchenko, Senior Legislative Analyst
Purpose: To receive testimony – no vote expected
Keywords: #WSSCWater and Spending Control Limits

AGENDA ITEM #7
 October 18, 2022
Public Hearing

SUBJECT

Public Hearing: FY24 Washington Suburban Sanitary Commission (WSSCWater) Spending Control Limits

EXPECTED ATTENDEES

None

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

T&E Committee review is scheduled for October 24, 2022 at 1:30 p.m.

DESCRIPTION/ISSUE

Each year by November 1, both the Montgomery and Prince George’s County Councils approve spending control limits for the upcoming WSSC Water budget. WSSCWater staff develops a “base case” six-year forecast, which is then reviewed by a Bi-County workgroup in September. The FY24 spending control limits assumed in WSSC Water Staff’s Base Case are presented 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 report contains:

Staff Report

Pages 1-6

WSSC Water Staff Slides from the Bi-County Working Group Meetings

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Public Hearing

MEMORANDUM

October 13, 2022

TO: County Council

FROM: Keith Levchenko, Senior Legislative Analyst

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

PURPOSE: To receive testimony regarding spending control limits for WSSC Water’s FY24 Budget

WSSC Water Staff Base Case

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**Assumes fixed fees also increase by 8.0%

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.

NOTE: The County Executive is expected to transmit his recommendations on WSSC Water’s spending control limits prior to the T&E Committee worksession.

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.

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.

- **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 leverage 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 not received any direct pandemic-related assistance nor indirect assistance (such as direct assistance to customers with 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, 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).

WSSC Water’s multi-year forecast and its major assumptions will be discussed in more detail at the T&E Committee worksession on October 24, 2022.

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)²
- 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)
- 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.

The major elements of the Base Case funding gap are shown in Table 3 below. The overall gap is \$59.4 million, resulting in an 8.0% rate increase requirement (assuming fixed fees are also increased at the same rate; bringing in about \$6.0 million in revenue).³

**Table #3
Contributors to the FY23 Revised Base Case Rate Increase**

Contributors to the FY23 Revised Base Case Rate Increase	Change from FY23 (in \$Millions)	Use of Fund Bal	Budget Impact	Impact on Rate	Cumulative Rate Incr.
Changes in Funds Available*	(2.188)		2.188	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%	2.7%
Regional Sewage Disposal	3.858		3.858	0.5%	3.2%
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		-	59.383	8.0%	

*Assumes Fixed Fees are increased 8.0%

Next Steps

Transportation and Environment (T&E) Committee review is scheduled for October 24, 2022 with Council action tentatively scheduled for November 1, 2022. A County Executive recommendation is expected to be received prior to the Committee worksession. The Prince George’s County Council’s review is on a similar schedule.

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.

² 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.

³ A one percent increase in volumetric and fixed fee rates generates approximately \$7.5 million in revenue.

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)

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
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
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
10	Salary and Wages Increase	5.0%	5.0%	4.5%	4.5%	4.5%
11	All Other	7.4%	3.9%	3.0%	3.0%	3.0%
12	Debt Service	\$ 328,467	\$ 366,169	\$ 391,029	\$ 414,536	\$ 436,628
13	Yearly Growth %	8.4%	11.5%	6.8%	6.0%	5.3%
14	PAYGO	\$44,000	\$65,000	\$80,000	\$80,000	\$ 100,000
15 <u>Capital Expenditure Parameters</u>						
16	Water and Sewer Completion Factor	72.1%	69.7%	71.5%	73.0%	70.2%
17	Information Only Completion Factor	65.6%	69.7%	72.9%	73.3%	72.6%
18 BOND ISSUANCE						
19	Interest Rate	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
	<i>Growth (% change)</i>			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%

	FY 2023	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
(In Thousands \$000s)	Approved	Estimated	Prelimin	Projected	Projected	Projected	Projected	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



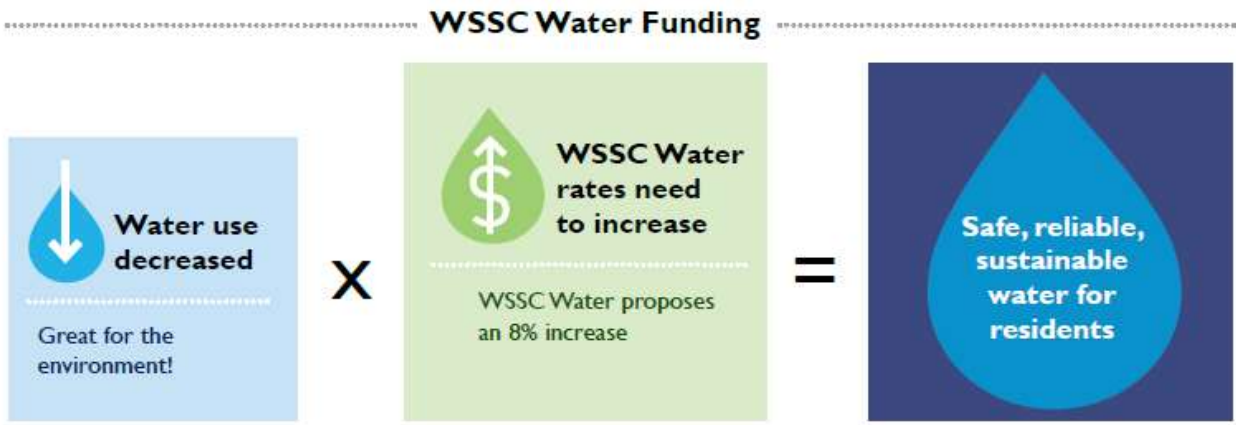
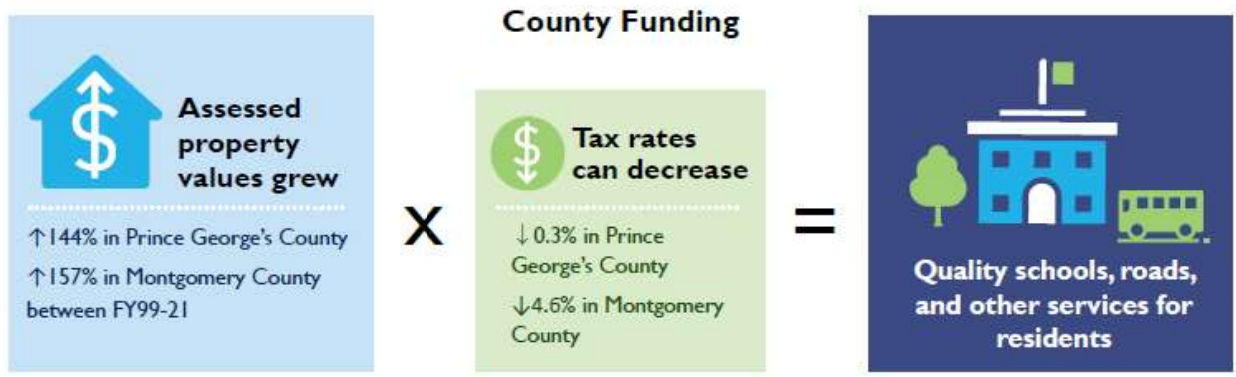
Impact of the Rate Increase on Revenue

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



The average household spends per month...

 <p>\$114 on electricity from BGE and PEPCO</p>	 <p>\$106 for cellular phone services</p>	 <p>\$73 for water and sewer services from WSSC Water</p>
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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

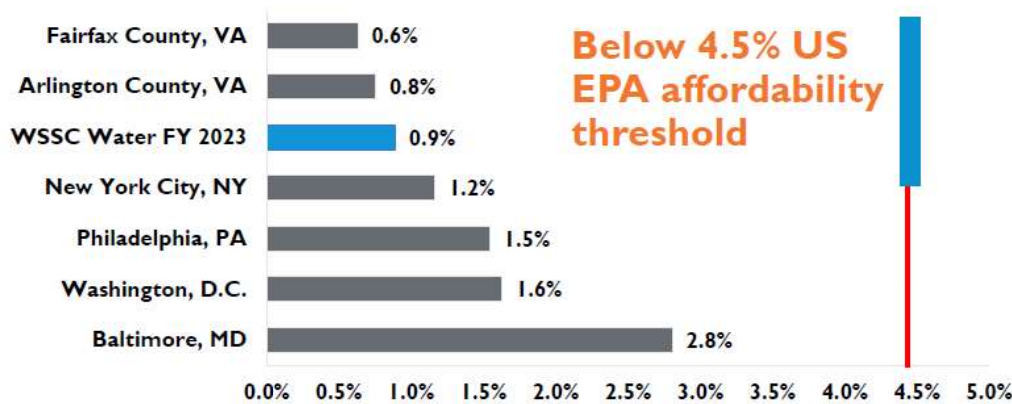
- Enhance Customer Experience
 - Investments in customer service and operational improvements
 - Enhancing our affordability programs
 - Increasing fixed fees that CAP customers do not pay relieves pressure on volumetric rates
- Optimize Infrastructure
 - CIP addresses mandatory projects, regulatory 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



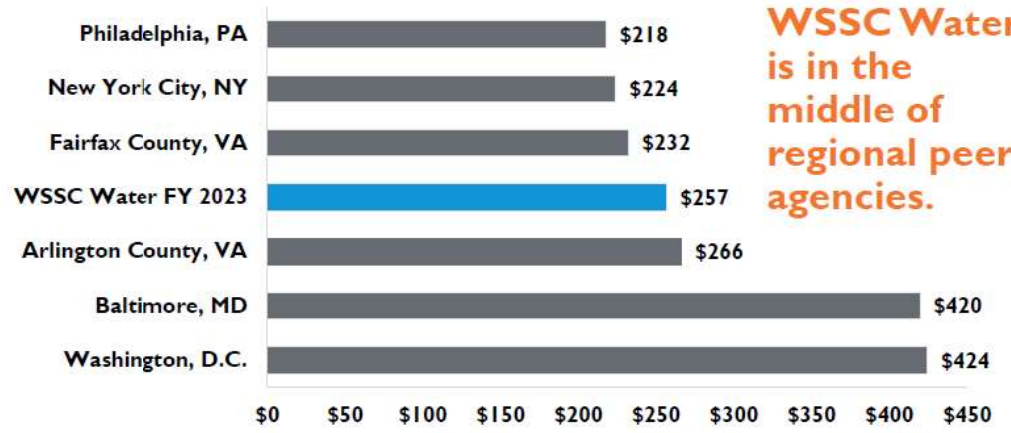
WSSC Water Compared to Peers

Average Residential Bill @ 165 Gallons per Day

- Per FY 2023 comparative peer data:



As a Percentage of Median Income



Residential Quarterly Water/Sewer Bill Comparison

WSSC Water is in the middle of regional peer agencies.



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)

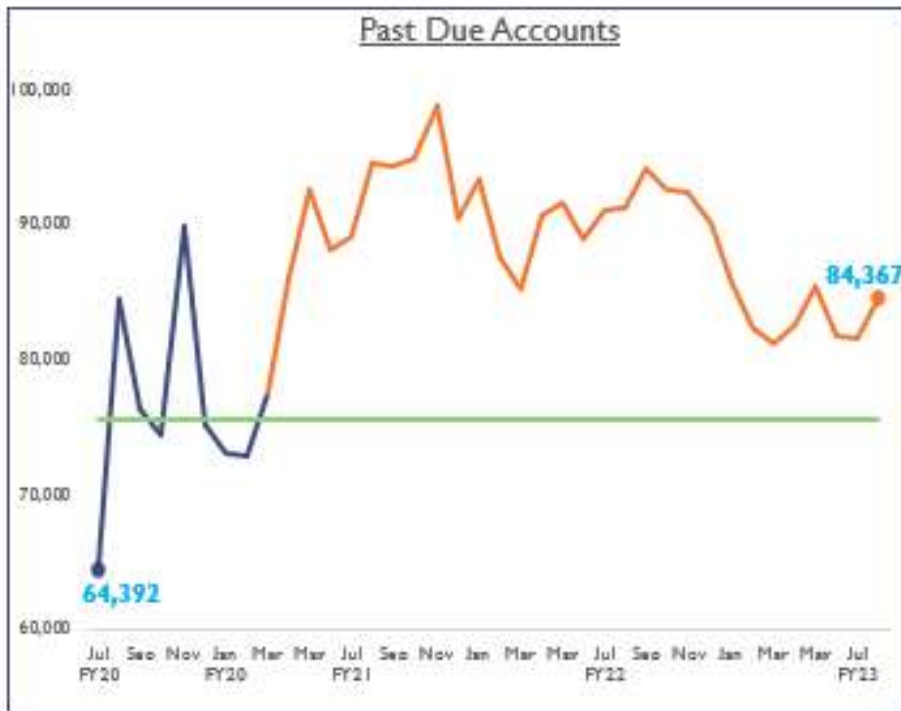
	Department	Initiative Name	Wrkysrs	Total Amount	W&S Impact
1	Production	Electrical Safety and Reliability Program	-	\$ 3,050,000	\$ 3,050,000
2	Utility Services	Large Valve Replacement	-	1,500,000	1,500,000
3	Production	Water Storage Facility Re-Coating Program	-	1,050,000	1,050,000
4	Finance	Assessments 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



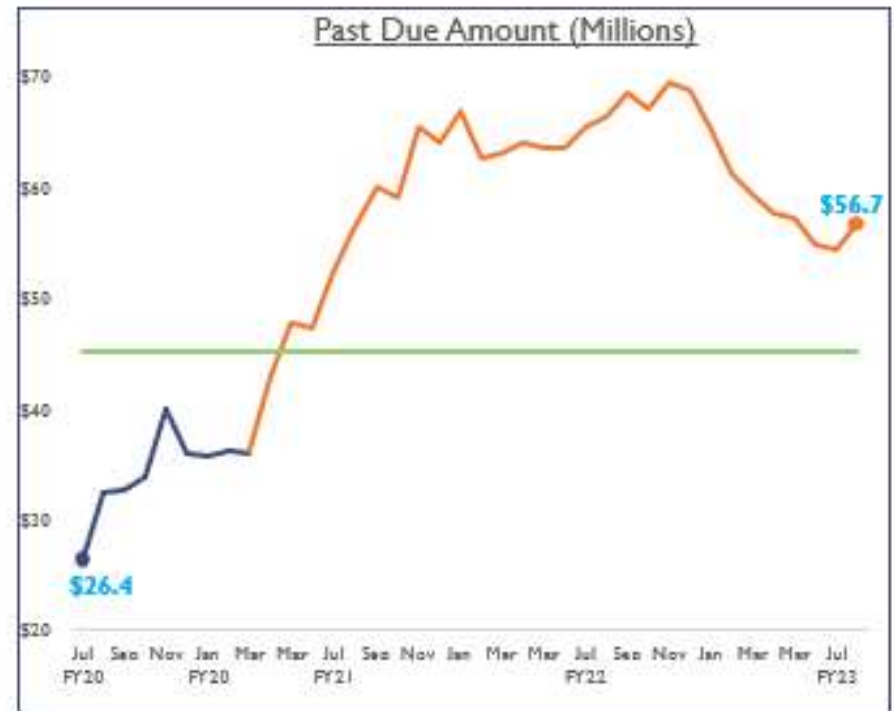
Budget Impacts of Reducing the Rate Increase

- **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



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

