



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
 September 28, 2021
Public Hearing

SUBJECT

Public Hearing: FY23 Washington Suburban Sanitary Commission (WSSC Water) Spending Control Limits

EXPECTED ATTENDEES

None

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

T&E Committee review scheduled for October 14, 2021 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. WSSC Water staff develops a “base case” six-year forecast, which is then reviewed by a Bi-County workgroup in September. The FY23 spending control limits assumed in WSSC Water Staff’s latest scenario (Revised Base Case) are presented below.

WSSC Water Staff Revised Base Case

WSSC Water FY23 Spending Control Limits	FY23 Revised Base Case	Change from FY22 Budget
Rate Increase	9.0%	
New Debt	430,093,000	5.0%
Debt Service	328,423,000	6.3%
Total W/S Oper. Expenses	878,912,000	4.3%
Quarterly Bill Increase		
Residential Customer Quarterly Impact*	\$\$\$	Percent
Impact at 165 gpd usage	\$21.66	9.0%

*Assumes fixed fees also increase by 9.0%

This report contains:

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

Pages 1-6
 ©1-24

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Public Hearing

MEMORANDUM

September 23, 2021

TO: County Council

FROM: Keith Levchenko, Senior Legislative Analyst

SUBJECT: **Public Hearing:** FY23 Washington Suburban Sanitary Commission (WSSC Water) Spending Control Limits

PURPOSE: To receive testimony regarding spending control limits for WSSC Water’s FY23 Budget

WSSC Water Staff Revised Base Case

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Background

WSSC Water’s spending control limits process was established in April 1994 via resolution by both Montgomery and Prince George’s County Councils, with the goal of both Councils agreeing on certain budgetary limits by November 1 of each year. Some summary information regarding the process is noted below:

- Based on a long-range financial plan which is intended to cover projected expenditures while balancing annual rate increases over time and keeping key financial metrics within WSSC Water’s policy ranges.

- Limits provide direction to WSSC Water as to what to request, 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 provided a rate increase range for WSSC Water to work within to build its budget.

Schedule

- Bi-County Working Group Meetings: September 8 and September 21, 2021
- Montgomery County Council Public Hearing: September 28, 2021
- T&E Committee Discussion: October 14, 2021
- Goal for Both Councils' Action: By November 1, 2021

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

The goal of the spending control limits process is for the Montgomery and Prince George's County Councils to come to agreement by November 1 of each year so that WSSC Water can work within the approved limits for its Operating Budget Public Hearing Draft, which is released by January 15 each year. WSSC Water must transmit an Operating Budget to both counties by March 1 of each year.

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.

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.

**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	TBD	TBD

*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 FYs 16-17 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-FY22:** In each of the last three years, the Councils agreed on rate increase limits. The FY20 limit was 5.0 percent, and the WSSC Water budget was ultimately approved with that rate increase. For FY21 the rate increase limit was 7.0 percent. Ultimately, the Councils agreed to a n FY21 rate increase of 6.0 percent based on the removal of salary enhancements from WSSC Water’s Proposed budget. For FY22 the Councils agreed on a rate increase limit of 5.9%; which was later approved as part of the WSSC Water Budget.

Multi-Year Context/Financial Forecast

While the spending control limits process is an annual process, the Bi-County 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 the first year 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 ©9). However, Fitch revised its outlook from “Stable” to “Negative.” While recognizing WSSC Water’s “strong utility fundamentals” it sited revenue pressures and WSSC Water’s high debt leverage. WSSC Water has experienced substantial revenue impacts from the pandemic (see ©16) from substantially more past due accounts and amounts than is typical. 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).

In response to the rating agency reports, WSSC Water’s revised base case scenario (see ©2-6) assumes relatively high rate increases in FY23 and FY24 (9.0 percent and 8.5 percent respectively) and further cost containment to improve the debt coverage and cash on hand metrics. The revised base case accommodates WSSC Water’s debt needs for its FY23-28 CIP (to be transmitted shortly), get WSSC Water within its debt service coverage target (between of 1.1 and 1.25 in FY23), keep debt service as a percentage of the operating budget below 40 percent (with substantial increases in PAYGO assumed), and provide for inflationary increases in most operating expense categories.

WSSC Water’s multi-year forecast and its major assumptions will be discussed in more detail at the T&E Committee worksession on October 14, 2021.

FY23 Spending Control Limits Base Case

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

**Table #2:
WSSC Water Staff Revised Base Case**

WSSC Water FY23 Spending Control Limits	FY23 Revised Base Case	Change from FY22 Budget
Rate Increase	9.0%	
New Debt	430,093,000	5.0%
Debt Service	328,423,000	6.3%
Total W/S Oper. Expenses	878,912,000	4.3%
Quarterly Bill Increase		
Residential Customer Quarterly Impact*	\$\$\$	Percent
Impact at 165 gpd usage	\$21.66	9.0%

*Assumes fixed fees also increase by 9.0%

This revised 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 as volumetric rates. *NOTE: The current fixed fee levels date back to FY17. This would be the first increase in those fees since then.*
- Full funding of WSSC Water’s Proposed FY23-28 Capital Improvements Program
- Salary and Wage increases (+4.3% in FY23 and 4.5% in each of the outyears; similar to past years forecasts)²
- Inflationary increases in current programs (+2.0% in FY23 and the outyears; same as assumed in last year’s forecast)
- Increases in Regional Sewage Disposal costs in FY23, based on the latest information from DCWater
- Significant decreases are assumed in “funds available” resulting from reduced sewer use revenue, and expected ongoing uncollectable revenue related to the current pandemic.
- An increase in cash balance reserves is assumed to get WSSC Water’s cash on hand and debt service coverage metrics close to or within WSSC Water’s policy goals in FY23.
- No additional resources are assumed for additional and reinstated programs at this time.

The major elements of the revised base case funding gap are shown in Table 3 below. The overall gap is \$70.2 million, resulting in a 9.0% rate increase requirement (assuming fixed fees are also increased at the same rate).³

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 \$7.8 million in revenue.

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

Contributors to the FY22 Revised Base Case Rate Increase	Change from FY22 (in \$Millions)	Budget Impact	Impact on Rate	Cumulative Rate Incr.
Changes in Funds Available	(17.343)	17.343	2.2%	2.2%
Operating Reserve Contribution	16.292	16.292	2.1%	4.3%
Debt Service	19.378	19.378	2.5%	6.8%
PAYGO	3.431	3.431	0.4%	7.2%
Regional Sewage Disposal	1.183	1.183	0.2%	7.4%
Heat, Light, and Power	0.740	0.740	0.1%	7.5%
Maintenance and Operating (2.0% inflationary increase)	6.107	6.107	0.8%	8.3%
Salaries and Wage Increases (4.3% increase)	5.774	5.774	0.7%	9.0%
Additional and Reinstated Programs	-	-	0.0%	9.0%
Total		70.248	9.0%	

Next Steps

Transportation and Environment (T&E) Committee review is scheduled for October 14, 2021. 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. WSSC Water’s FY23-28 Proposed CIP will be transmitted by October 1.

Attachments

Spending Affordability Bi-County Workgroup Meeting Materials (Excerpts)

- Revised Base Case (9.0% rate increase Scenario) (©1-6)
- Customer Impact Charts (©7-8)
- Bond Rating Agency Report Summary (©9)
- Additional and Reinstated Programs (©10-11)
- Growth Funding Projections (©12)
- Ready to Serve Charges and Fixed Charges Comparison to Other Water Utilities (©13-14)
- FY23 Impact of One Percent Rate Increase or Decrease (©15)
- Past Due Accounts/Amounts Information (©16)
- Fiscal Planning Actions and Innovations (©17-20)
- Inflationary Rates by Sector (©21)
- Bill Increase Comparisons with Other Water Utilities (©22)
- Other Utilities Approved and Planned Revenue Increases (©23)
- Message to Stakeholders (©24)



WSSC WATER
DELIVERING THE ESSENTIAL

FY 2023 Spending Affordability – Meeting II

September 21, 2021

Assumption Summary – 9% Scenario

	PLANNING DATA	PROJECTED				
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
REVENUE RATE INCREASE						
	9.0%	8.5%	6.0%	4.0%	4.0%	4.0%
1	REVENUE					
2	Water Consumption and Sewer Treatment					
3	Water consumption (Average MGD)	126.0	126.0	126.0	126.0	126.0
4	Credits and Transfers (\$000's)					
5	Use of Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -
6	SDC Debt Service Offset	\$ 5,772	\$ 5,772	\$ 5,772	\$ 5,748	\$ 5,748
7	EXPENDITURE					
8	Operating (\$000's)					
9	Workyears	1,786.0	1,786.0	1,789.0	1,789.0	1,789.0
10	Salary and Wages Increase	4.3%	4.5%	4.5%	4.5%	4.5%
11	All Other	2.1%	2.0%	2.0%	2.0%	2.0%
12	Debt Service	\$ 328,423	\$ 349,645	\$ 379,953	\$ 402,747	\$ 423,708
13	Yearly Growth %	6.4%	6.5%	8.7%	6.0%	5.2%
14	PAYGO	\$31,016	\$44,000	\$65,000	\$80,000	\$ 100,000
15	Capital Expenditure Parameters					
16	Water and Sewer Completion Factor	74.4%	71.7%	73.8%	75.3%	74.1%
17	Information Only Completion Factor	66.5%	66.0%	66.8%	67.0%	67.3%
18	BOND ISSUANCE					
19	Interest Rate	4.0%	5.0%	5.0%	5.0%	5.0%



Components of the Rate Increase – 9%

	(In Thousands \$000s)	FY 2022 Approved	FY 2023 Proposed	Dollar Change	W&S Rev Impact*
1	OPERATING REVENUES (BASE)				
2	Water and Sewer Charges	\$ 717,803	\$ 707,672		
	Ready-to-Serve Charges	\$ 70,674	\$ 70,815		
3	ADJUSTMENTS TO REVENUES				
4	Other Sources and Fees	39,050	39,697	647	-0.1%
5	Interest Income	1,000	1,000	-	0.0%
6	Uncollectable	-	(6,000)	(6,000)	0.8%
7	OTHER TRANSFERS AND CREDITS	13,772	11,772	(2,000)	0.3%
8		\$ 53,822	\$ 46,469	\$ (7,354)	0.9%
9	OPERATING EXPENSES				
10	Salaries and Wages	\$ 133,039	\$ 138,813	\$ 5,774	0.7%
11	Heat, Light, and Power	18,493	19,233	740	0.1%
12	Regional Sewage Disposal	59,160	60,343	1,183	0.2%
13	All Other	294,977	301,084	6,107	0.8%
14	Unspecified Reductions/Additional & Reinstated	-	-	-	0.0%
15	DEBT SERVICE	309,045	328,423	19,378	2.5%
16	PAYGO (Contribution to bond fund)	27,585	31,016	3,431	0.4%
17		\$ 842,299	\$ 878,912	\$ 36,613	4.7%
18	YEAR-END ADJUSTMENTS				
19	Water User Growth Adjustment	638	-	638	-0.1%
20	Sewer User Rebaseline Adjustment	(10,769)	-	(10,769)	1.4%
	Ready-to-Serve Growth Adjustment	141	-	141	0.0%
	Additional Cash Balance Reserve	-	16,292	16,292	2.1%
21	Total - Base Case Revenue Need	\$ 778,487	\$ 848,735	\$ 70,248	9.0%

Long-Range Financial Plan – 9%

	(In Thousands \$000s)	FY 2022 Approved	FY 2022 Estimated	FY 2023 Proposed	FY 2024 Projected	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected
1	New Water and Sewer Debt Issues	\$ 409,704	\$ 350,000	\$ 430,093	\$ 397,210	\$ 374,496	\$ 371,511	\$ 358,063	\$ 330,000
2	Total Water and Sewer Debt Service	309,045	308,769	328,423	349,645	379,953	402,747	423,708	443,517
3	Total Water and Sewer Expenditures	842,299	842,023	878,912	927,362	992,035	1,043,393	1,080,019	1,135,776
4	Water and Sewer Combined Rate Increase (Ave)	5.9%	5.9%	9.0%	8.5%	6.0%	4.0%	4.0%	4.0%
5	Water and Sewer User Charges	\$ 717,803	\$ 717,803	\$ 771,700	\$ 838,322	\$ 889,746	\$ 926,561	\$ 964,926	\$ 1,004,881
	Water Consumption Charges	318,941	318,941	319,579	352,232	385,734	411,655	430,273	449,665
	Sewer Use Charges	398,862	398,862	388,093	420,495	453,713	479,316	497,590	516,619
	Revenue Increase Adjustments	0	0	64,028	65,595	50,299	35,590	37,062	38,597
6	Other Sources/Fees	109,724	109,724	116,731	123,941	129,633	133,870	138,265	142,824
	Account Maintenance Fees	31,866	31,866	34,734	37,686	39,948	41,545	43,207	44,936
	Rockville Sewer Use	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100
	Plumbing and Inspection Fees	14,350	14,350	14,781	15,224	15,681	16,151	16,636	17,135
	Infrastructure Investment Fee	38,808	38,808	42,301	45,896	48,650	50,596	52,620	54,725
	Miscellaneous	21,600	21,600	21,816	22,034	22,255	22,477	22,702	22,929
	Interest Income	1,000	1,000	1,000	1,500	2,000	2,500	3,000	3,000
	Uncollectable	-	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)
7	Operating Revenues	828,527	822,527	883,431	957,763	1,015,379	1,056,931	1,100,191	1,144,705
8	OTHER TRANSFERS AND CREDITS	13,772	13,772	11,772	9,772	7,772	7,772	7,748	7,748
	Use of Fund Balance	-	-	-	-	-	-	-	-
	Reconstruction Debt Service Offset (REDO)	6,000	6,000	4,000	2,000	-	-	-	-
	SDC Debt Service Offset	5,772	5,772	5,772	5,772	5,772	5,772	5,748	5,748
	Premium Transfer	-	-	-	-	-	-	-	-
	Underwriter's Discount Transfer	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
9	Total Funds Available	842,299	836,299	895,203	967,535	1,023,151	1,064,703	1,107,939	1,152,453

Long-Range Financial Plan – 9%

	(In Thousands \$000s)	FY 2022 Approved	FY 2022 Estimated	FY 2023 Proposed	FY 2024 Projected	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected
10	Salaries and Wages	\$ 133,039	\$ 133,039	\$ 138,813	\$ 145,060	\$ 151,587	\$ 158,409	\$ 165,537	\$ 172,986
11	Heat, Light, and Power	18,493	18,493	19,233	20,002	19,191	18,413	19,278	19,953
12	Regional Sewage Disposal	59,160	59,160	60,343	61,550	62,781	64,037	65,317	66,624
13	All Other	294,977	294,977	301,084	307,105	313,247	319,512	325,902	332,420
14	Operating Expenses	\$ 505,669	\$ 505,669	\$ 519,473	\$ 533,717	\$ 546,806	\$ 560,370	\$ 576,035	\$ 591,983
16	Bonds and Notes Principal and Interest	309,045	308,769	328,423	349,645	379,953	402,747	423,708	443,517
17		309,045	308,769	328,423	349,645	379,953	402,747	423,708	443,517
	Operating Expenses with Debt Service	814,714	814,438	847,895	883,362	926,759	963,117	999,743	1,035,500
18	OTHER TRANSFERS AND ADJUSTMENTS								
19	Unspecified Reductions/Additional & Reinstated	-	-	-	-	276	276	276	276
20	PAYGO (Contribution to bond fund)	27,585	27,585	31,016	44,000	65,000	\$80,000	80,000	100,000
21	Total Expenditures	842,299	842,023	878,912	927,362	992,035	1,043,393	1,080,019	1,135,776
22	Net Revenue (Loss)	0	(5,724)	16,292	40,172	31,116	21,310	27,919	16,677
23	BEGINNING FUND BALANCE - JULY 1	\$ 162,292	\$ 168,897	\$ 163,173	\$ 179,465	\$ 219,638	\$ 250,753	\$ 272,063	\$ 299,982
24	Net Increase (Decrease) in Fund Balance	0	(5,724)	16,292	40,172	31,116	21,310	27,919	16,677
25	Use of Fund Balance/Other Adjustments	-	-	-	-	-	-	-	-
26	ENDING FUND BALANCE - JUNE 30	\$ 162,292	\$ 163,173	\$ 179,465	\$ 219,638	\$ 250,753	\$ 272,063	\$ 299,982	\$ 316,660

Long-Range Financial Plan – 9%

- Capital Policy Guidelines

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

B Metrics	CFO Guideline	FY 2022 Estimated	FY 2023 Proposed	FY 2024 Projected	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected
I Debt Service Coverage:								
a Debt Service Coverage	1.1 - 1.25	1.03	1.11	1.21	1.23	1.23	1.24	1.25
b Debt Service (P+I) as a Percentage Total Expenditures	<40.0%	36.7%	37.4%	37.7%	38.3%	38.6%	39.2%	39.0%
II Liquidity and Reserves:								
a Days Operating Reserves-on-Hand	120 - 150	111.7	119.0	138.8	149.5	155.0	166.8	167.0
b Ending Fund Balance as a Percentage of Operating Revenue	15.0%	19.8%	20.3%	22.9%	24.7%	25.7%	27.3%	27.7%
III Workforce								
Workforce	n/a	1,786	1,786	1,786	1,789	1,789	1,789	1,789

Customer Impacts – 9%

- The long-range financial plan increases both volumetric and RTS charges by 9.0%
 - RTS charges have not increased since FY 2017
 - A 9.0% increase to volumetric and RTS charges will generate approximately the same revenue as an 9.9% rate increase to volumetric only

The average bill would increase by about \$22 per quarter

Quarterly Bill	FY 22 Approved	FY 23 (9.0% Volumetric & RTS)
Volumetric Charges	\$ 213.04	\$ 232.18
Ready-to-Serve Charges	28.00	30.52
Total Quarterly Bill	241.04	262.70
FY 23 Quarterly Bill Increase		21.66

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



Customer Impacts

- Customers enrolled in the Customer Assistance Program (CAP) would not be impacted by the increase to the RTS charges since they receive a bill credit to cover them
- For CAP customers, the average bill increase would be about \$19 per quarter, compared to \$21 per quarter if only the volumetric rates were increased

Applying the rate increase to the ready-to-serve charges helps protect our most vulnerable customers

Quarterly Bill	CAP Customers		
	FY 22 Approved	FY 23 (9.0% Volumetric & RTS)	FY 23 (9.9% Volumetric)
Volumetric Charges	\$ 213.04	\$ 232.18	\$ 234.14
Ready-to-Serve Charges	-	-	-
Total Quarterly Bill	213.04	232.18	234.14
FY 23 Quarterly Bill Increase		19.14	21.10

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



Bond Rating Agency Reports

- Rated AAA by the three rating agencies
- Fitch revised the Outlook from Stable to Negative
- Factors that could lead to downgrade
 - “...should revenue pressures persist longer-term, leverage sustained at or above 10.0x will likely result in negative rating action” (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 of more notches” (S&P)

Additional & Reinstated Programs

Initiative Name	Workyears	W&S Impact	Total Amount
Water Quality - Lead and Copper Rule Compliance	1	425,020	425,000
Engineering & Environmental Services Division - Dam Inspection and Monitoring Program	-	500,000	500,000
Engineering & Environmental Services Division - GIS Laterals for Lead and Copper Rule	1	264,652	312,275
Pipeline Infrastructure Strategic Planning Division - Procure No-DES Truck for System Wide Flushing	-	428,000	500,000
Biosolids Management Division - New Division Budget Request	6	2,735,522	2,798,040
Regulatory Services - Plumbing Inspection Program - Additional Inspectors and Supervisor	1	168,050	175,520
Revenue Division - Assessments Information System (AIS) Replacement	-	498,776	607,522
Systems Control - Water Storage Facility Re-Coating Program	-	1,500,000	1,500,000
IT Infrastructure & Operations Division - Laptop Refresh	-	821,000	1,000,000
IT Infrastructure & Operations Division - HCI Cluster Expansion	-	1,231,500	1,500,000
Organization (TDB) - Little Seneca Forebays	-	365,000	1,000,000
Meter Services Division - Large Meter Inspections, Repair and Replacement	-	500,000	500,000
Total Requests with a YES	9	9,437,519	10,818,357
Billing & Revenue - Contract for Turnoffs Resources	-	400,000	400,000
Sustainability & Support Services - Enterprise Document Management	-	158,400	200,000
Sustainability and Support Services - Electric Vehicle Charging Stations	-	158,400	200,000
Meter Services Division - Temporary Field Services for Meters	-	1,100,000	1,100,000
Predominately capital workyears to support the Purple Line, Beltway Widening and PCCP ramp up	5	163,000	815,000
Total Requests with a MAYBE	5	1,979,800	2,715,000

\$5.0M



FY 2023 Budget

- The Budget Division received requests for \$37.2 million in funding as part of the FY 2023 additional and reinstated process
- The long-range financial plan for FY 23 currently has no funding allotted for additional and reinstated requests. Reductions elsewhere in the budget would be required to fund critical needs.
- Critical additional and reinstated requests include:
 - Positions and funding for training, initial start-up, and testing of the new Piscataway Bioenergy facility
 - Positions and funding to comply with new regulatory requirements as a result of a change to the Lead and Copper Rule
 - Funding to comply with new regulatory requirements for dam inspection/monitoring
 - Funding to address deferred maintenance for water storage tanks

Growth Funding Projections

- \$65.1 million funding shortfall of the six-year period
- May need to issue SDC-supported debt
- Increase in SDC fees is under consideration

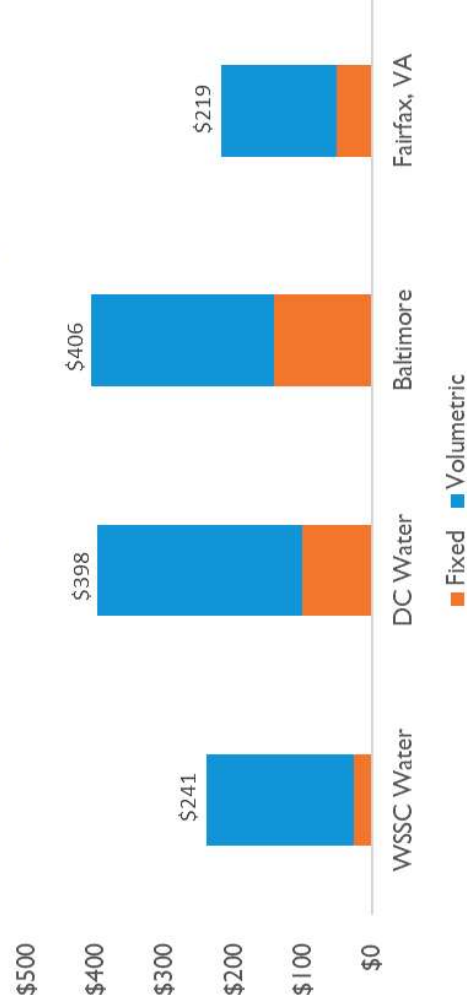
	FY'23	FY'24	FY'25	FY'26	FY'27	FY'28	Total 6 Years
CIP GROWTH EXPENDITURES							
Expenditures Adjusted for Completion	\$ 52.4	\$ 47.2	\$ 29.5	\$ 38.1	\$ 32.3	\$ 14.9	\$ 214.4
	33.6	48.4	36.4	36.0	34.4	20.3	209.1
FUNDING SOURCES							
Privately Funded Projects	8.9	13.0	8.3	3.2	1.2	0.8	35.4
Estimated 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	\$ 26.0	\$ 30.1	\$ 26.4	\$ 21.3	\$ 20.3	\$ 19.9	\$ 144.0
FUNDING SURPLUS/(SHORTFALL) ADJUSTED FOR COMPLETION	\$ (7.6)	\$ (18.3)	\$ (10.0)	\$ (14.7)	\$ (14.1)	\$ (0.4)	\$ (65.1)



FY 2022 Ready to Serve Charges

- The RTS charges are the Account Maintenance Fee (AMF) and the Infrastructure Investment Fee (IIF)
 - AMF is meant to cover fixed costs for account maintenance
 - IIF helps pay debt service expenses related to pipe replacement
- WSSC Water has not increased the RTS charges since FY 2017

Quarterly Residential Water/Sewer Bill Comparison
(165 Gallons per Day; 3/4" Meter)



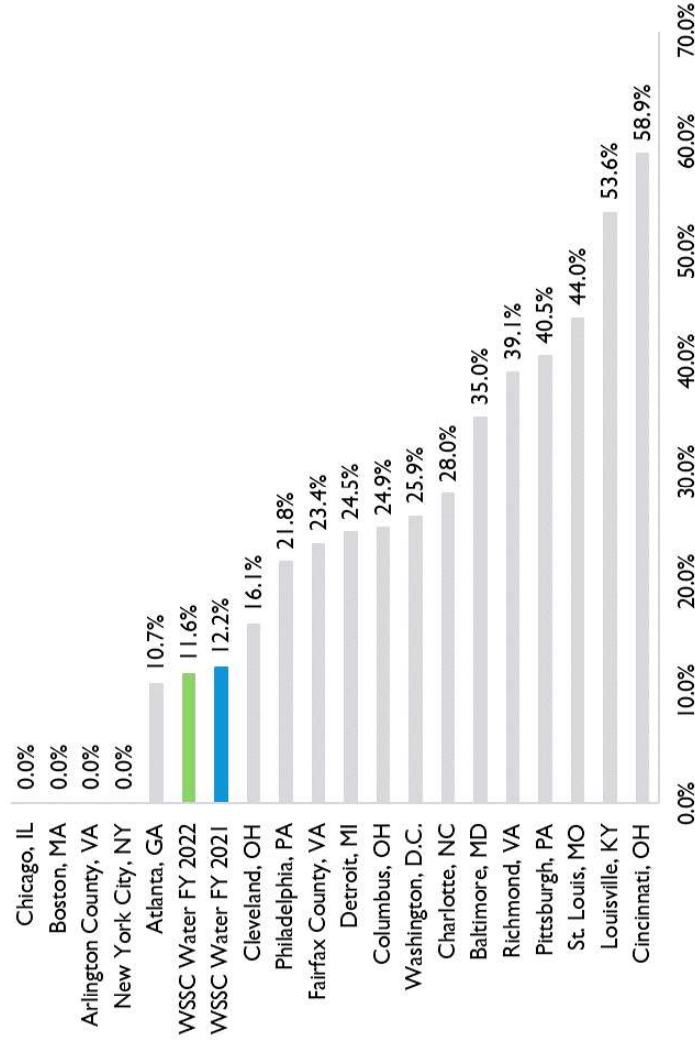
WSSC Water's fixed charges per quarter are significantly lower than other regional providers

	FY 2022	WSSC Water	DC Water	Baltimore	Fairfax, VA
Fixed	\$	28	102	142	52
Volumetric	\$	213	296	264	166
Total	\$	241	398	406	219



Fixed Charges Comparison

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



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

- Revenue from RTS charges as a share of total revenues decreases each year that the RTS charges are not increased
- Fixed charges are a key source of revenue stability for capital intensive water and sewer utilities



FY 2023 Budget

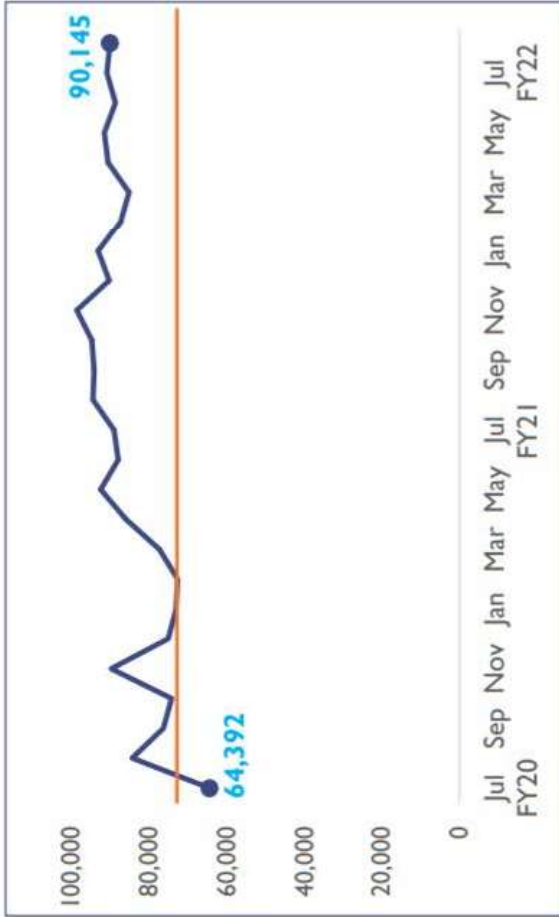
- A 1.0% decrease to the proposed rate increase would require a \$7.8 million reduction to the operating budget
- Alternatively, a 1.0% rate reduction would require \$283.1 million in reductions or deferrals to the capital budget
- Other examples of how to achieve potential rate reductions:
 - 1.0%: \$6.4 million in operating reductions and \$50.0 million in capital deferrals
 - 2.0%: \$10.1 million in operating reductions and \$200.0 million in capital deferrals

Past Due Accounts/Amounts (as of 8/23/21)

High-Level

Past Due Accounts*

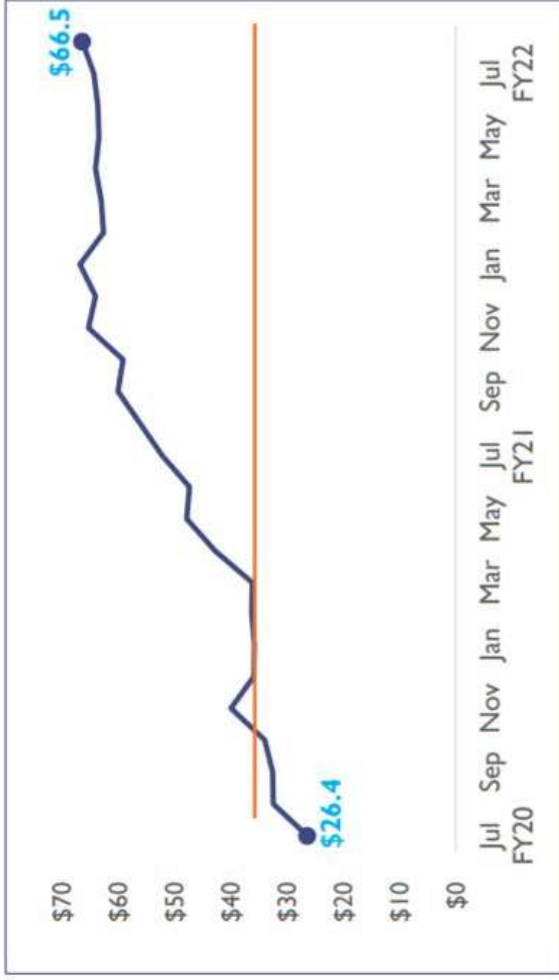
of accounts 30 days past the bill date



FY22 Target: 77,000 past due accounts

Past Due Amount*

\$ of accounts (millions) 30 days past the bill date



FY22 Target: \$37.7 Million past due

Fiscal Planning Actions

- Supply Chain Management Transformation reductions and avoidance savings since FY 2013
 - Operating savings of \$26.1 million
 - Capital savings of \$54.0 million
- Group insurance plan revision savings of \$5.7 million since FY 2017
- 45 frozen positions
- Reduced overtime expenses of \$7.9 million since FY 2017
- \$26.1 million in energy conservation savings since FY 2004
- Cost savings plans to offset COVID-19 impacts
 - FY 2020: \$61.1 million
 - FY 2021: \$72.7 million
 - FY 2022: \$30.0 million - goal

Rates would have been higher without proactive cost saving efforts

Fiscal Planning Actions

- **Prestressed Concrete Cylinder Pipe Condition Assessment Program**
 - \$24.0 million invested to date in acoustic fiber optic monitoring (AFO)
 - \$90.0 million in savings from 45 averted failures
- **Capital Savings**
 - Water main reconstruction program goal of replacing 37 miles in FY 2023 remains below target level of 55 miles
 - Potomac submerged channel intake will remain deferred beyond FY 2028
- **Maintain AAA Bond Rating**
 - Increase PAYGO from \$31 million in FY 2021 to \$100 million in FY 2028 to manage debt service ratios
 - Implement level principal payments beginning FY 2025

WSSC Water Innovation Update

- **Networks**

- Optimize sewer preventive maintenance
- Adopt a fire hydrant – smart phone app for customers
- Transient pressure monitoring pilot – help reduce breaks and extend pipe life
- New high pressure pull-through liners pilot – low impact and lower cost for hard to repair water mains
- Advanced technologies for water/sewer inspections – robots, floating platforms, 3D scanning

- **Plants**

- Parkway enhanced biological phosphorus removal – average 40% alum reduction
- Technologies to reduce chemical use and improve nitrogen and phosphorus removal at various WRRFs



WSSC Water Innovation Update

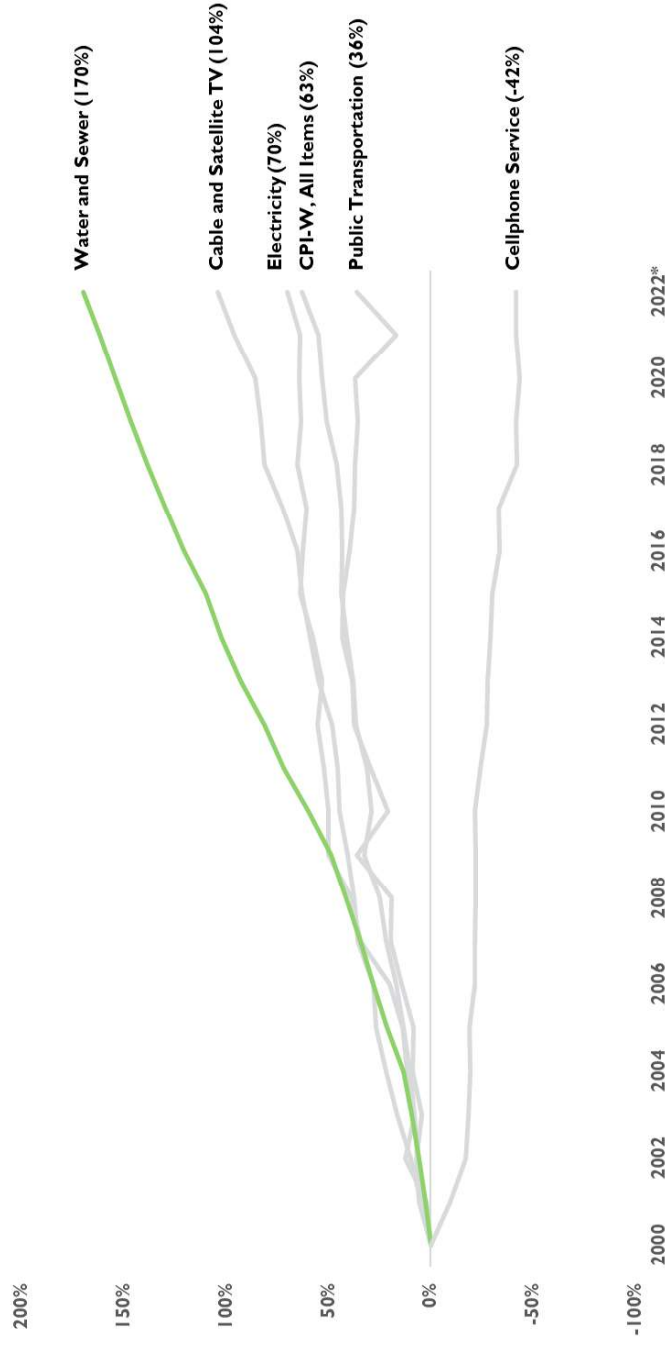
- **Product Development**
 - Valve monitoring device – remote monitoring of critical valves in the water network
- **Business Development**
 - Contacting manufacturing and distribution companies to license fire hydrant tool
 - Water main replacement optimization tool – received 2021 Smart 50 Award and a source of non-rate revenue
- **Program Management**
 - Developing internal training classes for innovation and change management

Fostering an innovative culture



WSSC Water Compared to Peers

Inflationary Rates of Various Sectors



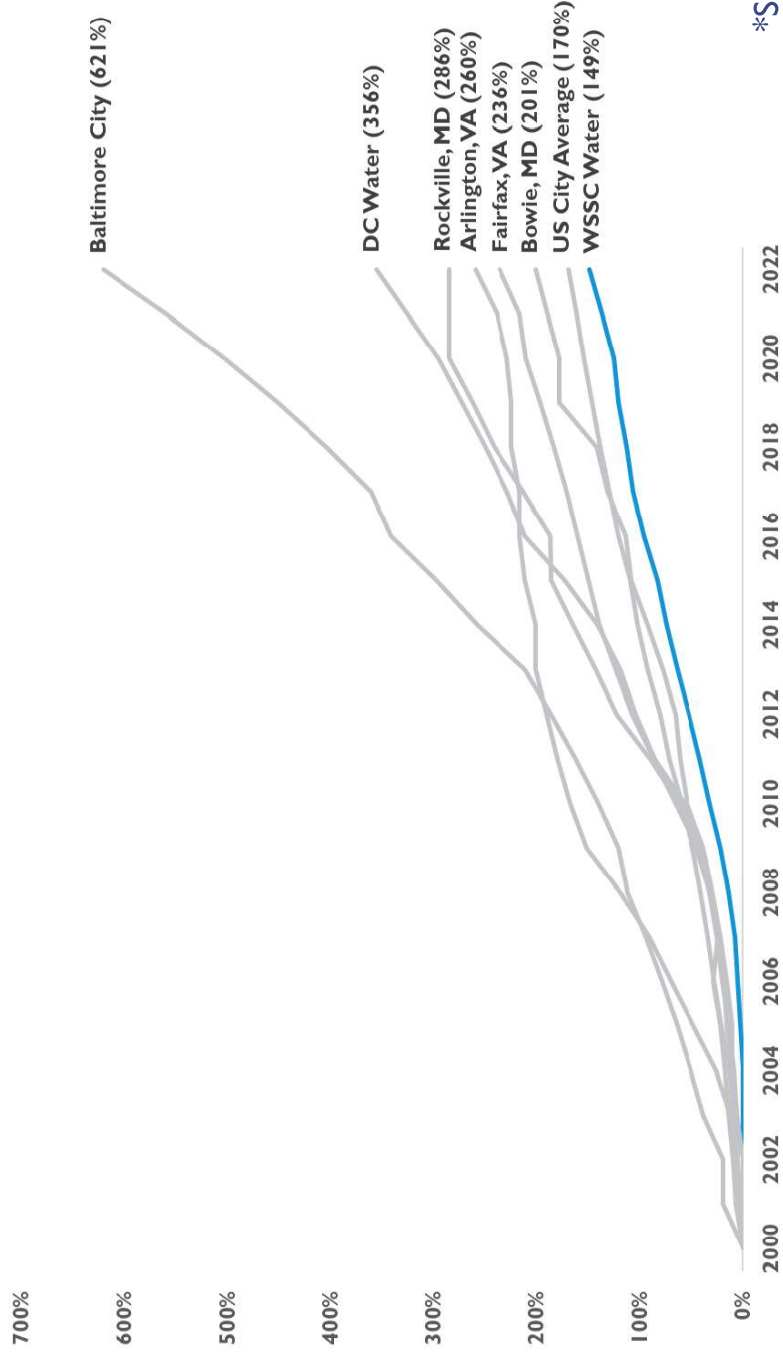
Water and sewer costs have been increasing at above average inflation rates nationally

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



WSSC Water Compared to Peers

FY 2000 to FY 2022 Bill Increase @ 165 Gallons per Day



WSSC Water's cumulative bill increase since FY 2000 is well below the US City Average and those of its regional peers

*Some FY 2022 data is preliminary.



WSSC Water Compared to Peers

Approved and Planned Rate Increases

Agency	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
WSSC Water								
Water + Wastewater (volumetric)	6.0%	5.9%	9.0%	8.5%	6.0%	4.0%	4.0%	4.0%
Water + Wastewater (fixed fee for 5/8" meter)	0.0%	0.0%	9.0%	8.5%	6.0%	4.0%	4.0%	4.0%
DC Water								
Residential Water + Sewer (volumetric)	9.9%	7.8%	8.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Customer Metering Fee (5/8" meter)	28.5%	56.3%						
Clean Rivers Impervious Area Charge (per Equivalent Residential Unit)	-6.8%	-5.7%	6.4%	22.9%	-4.2%	3.3%	3.1%	4.4%
Water System Replacement Fee (5/8" meter)	0.0%	0.0%						
City of Baltimore								
Water (volumetric and fixed charges)	9.9%	9.9%	9.9%	9.9%	9.9%	6.0%	3.3%	3.3%
Wastewater (volumetric and fixed charges)	9.0%	9.0%	6.0%	6.0%	5.0%	3.3%	3.3%	3.3%
Fairfax, VA								
Fairfax Water + Sewer (volumetric)	1.3%	5.4%						
Fairfax Water + Sewer (fixed fee for 5/8" meter)	4.9%	8.6%						

WSSC Water's recent and forecasted rate increases compare favorably to those of its regional peers



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

