



Committee: T&E
Committee Review: Completed
Staff: Keith Levchenko, Senior Legislative Analyst
Purpose: Final action – vote expected
Keywords: #WSSCWater and Spending Control Limits

AGENDA ITEM #10
October 26, 2021
Action

SUBJECT

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

EXPECTED PARTICIPANTS

WSSC Water

- Carla Reid, General Manager/CEO
- Joe Beach, Deputy General Manager for Administration
- James Price, Deputy General Manager for Operations
- Monica Johnson, Deputy General Manager for Strategy and Partnerships
- Patti Colihan, Chief Financial Officer
- Letitia Carolina-Powell, Budget Division Manager
- Julie Pohutsky, Budget Section Manager
- Fariha Babar, Incoming Budget Section Manager
- Brian Halloran, Capital Budget Section Manager

County Government

- Steve Shofar, Division Chief, Intergovernmental Affairs, Department of Environmental Protection
- Rafael Murphy, Fiscal & Policy Analyst, Office of Management and Budget

BACKGROUND

- WSSC Water's spending control limits process was established in April 1994 via resolution by both the Montgomery and Prince George's County Councils.
- There are four limits:
 - New Debt
 - Debt Service
 - Water and Sewer Operating Expenses
 - Maximum Rate Increase
- The limits provide direction to WSSC Water as it builds its FY23 Operating Budget request, but do not constrain what the two Councils jointly may approve as part of final action on the budget in May.
- Each September, WSSC Water staff develop a "base case" set of limits 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 revised base case assumptions and long-range financial plan are reviewed by a Bi-County workgroup in September and by both Councils in October.
- The goal is for both Councils to approve spending control limits by November 1 of each year. so that WSSC Water can incorporate 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.

THE FY23 SPENDING CONTROL LIMITS PROCESS

WSSC Water FY22 Spending Control Limits	Revised Base Case (RBC)	Change from FY22 Budget	T&E Committee Recommendation	Change from FY22 Budget
Rate Increase	9.0%		6.0%	
New Debt	430,093,000	5.0%	430,093,000	5.0%
Debt Service	328,423,000	6.3%	328,423,000	6.3%
Total W/S Oper. Expenses*	878,912,000	4.3%	855,464,000	1.6%
Avg Residential Customer Quarterly Impact	Bill Increase - RBC		Bill Increase - T&E	
	Quarterly Bill	Monthly	Quarterly Bill	Monthly
Impact at 165 gpd usage	\$21.66	7.22	\$14.49	4.83

*T&E Committee recommendaton assumes \$23.5 million in unspecified reductions

- For FY23, WSSC Water Staff developed a “revised base case” which assumes a 9.0 percent rate increase (both on volumetric rates and on fixed fees) and an overall 4.3 percent increase in operating expenses. The revised base case assumes new debt and debt service limits consistent with WSSC Water’s FY23-28 Proposed CIP (transmitted in September). The impact on an average residential customer is estimated at \$21.66 per quarter (\$7.22 per month).
- A public hearing was held on September 28, 2021 and a T&E Committee worksession was held on October 21, 2021.
- On October 20, 2021, the County Executive transmitted his recommended spending control limits (memo attached) which assumes a 7.0 percent maximum rate increase and \$15.7 million in unspecified reductions.
- The Prince George’s Council had a briefing/discussion on October 14, 2021 and is expected to make its recommendations on October 21, 2021. Prince George’s County Council Staff have recommended a 7.0 percent maximum rate increase.

T&E COMMITTEE RECOMMENDATION

- At its October 21 meeting, the T&E Committee recommended a 6.0 percent rate increase limit. This limit results in \$23.5 million less in revenue (compared to the Revised Base Case rate limit of 9.0 percent) and the limit for Total Water/Sewer Operating Expenses is reduced by the same amount. The New Debt and Debt Service limits remain unchanged from the Revised Base Case. The impact on an average residential customer is estimated at \$14.49 per quarter (\$4.83 per month).
- The Committee also asked WSSC Water to:
 - inform the Council later as the WSSC Water Budget is developed with more details as to how the \$23.5 million in unspecified reductions will be accommodated.
 - continue to press the State for additional funding to alleviate revenue shortfalls from historically high numbers of unpaid bills due to the pandemic.
 - review water/sewer bill collecting practices in other nearby jurisdictions (such as DC Water, and Fairfax County).

This report contains:

10/21/2021 T&E Committee Council Staff Report
10/20/2021 Memorandum from the County Executive

Pages

1-©29
©30-31

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Worksession

MEMORANDUM

October 19, 2021

TO: Transportation and Environment Committee

FROM: Keith Levchenko, Senior Legislative Analyst

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

PURPOSE: To discuss and make recommendations regarding WSSC Water's FY23 Spending Control Limits

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%

Expected Attendees

WSSC Water

- Carla Reid, General Manager/CEO
- Joe Beach, Deputy General Manager for Administration
- James Price, Deputy General Manager for Operations
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- Patti Colihan, Chief Financial Officer
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County Government

- Steve Shofar, Division Chief, Intergovernmental Affairs, Department of Environmental Protection
- Rafael Murphy, Fiscal & Policy Analyst, 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 FY23-28 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 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 has 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
- Transmittal of WSSC Water's FY23-28 Capital Improvements Program: September 23, 2021
- Montgomery County Council Public Hearing: September 28, 2021
- **T&E Committee Discussion: October 21, 2021**
- Goal for Both Councils' Action: By November 1, 2021 (per Council resolution)
- WSSC Water Operating Budget Public Hearing Draft: January 15, 2022
- WSSC Water Operating Budget Transmittal to both Counties: March 1, 2021.

County Executive Recommendation

On October 14, the County Executive transmitted a memorandum to the Council (see ©25-26) noting that he is in discussions with Prince George's County officials regarding a WSSC Water rate increase ceiling for FY23. He noted that he had proposed a 7.0 percent ceiling, but discussions continue, and he does not have a formal recommendation at this time.

Prince George's County Council Status

The Prince George's County Council was briefed by its staff on October 14. Prince George's Council staff recommended a 7.0% rate increase limit (and a corresponding reduction in the Water and Sewer operating expenses limit from the Revised Base Case). The Prince George's Council is expected to vote on the limits on October 26.

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.

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**

Rate Increase			Rate Increase		
Fiscal Year	Approved* Limit	Actual	Fiscal Year	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 an 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 scenarios developed are looked at in the context of WSSC Water's Long Range Financial Plan. 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, one rating agency (Fitch) revised its outlook for WSSC Water from "Stable" to "Negative." While recognizing WSSC Water's "strong utility fundamentals" Fitch cited revenue pressures and WSSC Water's high debt leverage.

WSSC Water has experienced substantial revenue impacts from the pandemic as a result of a substantial increase in past due accounts and unpaid bills (see ©16). 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). As a result, WSSC had to implement savings plans in FY20 and FY21 and is planning to implement another savings plan in FY22 (with a \$20 million reduction goal).

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 its debt coverage and cash on hand metrics. The Revised Base Case accommodates WSSC Water's debt needs for its FY23-28 CIP, gets WSSC Water within its debt service coverage target (between of 1.1 and 1.25 in FY23), keeps debt service as a percentage of the operating budget below 40 percent (with substantial increases in PAYGO assumed), and provides for modest inflationary increases in most operating expense categories.

WSSC Water staff will be available at the October 14 Committee meeting to discuss the Long-Range Financial Plan and the financial metrics of concern going forward.

FY23 Spending Control Limits Revised Base Case

The spending control limits under WSSC Water Staff’s Revised Base Case are summarized in Table #2 below. This scenario was developed by WSSC Water staff and discussed with the Bi-County workgroup:

**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.

Under the Revised Base Case, the Water and Sewer operating costs limit would provide for a 4.3 percent increase. However, when taking debt service and PAYGO increases out, remaining operating costs would only be increasing about 2.7 percent. This modest 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 (see ©21).

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.

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

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%	

Scenarios

WSSC Water estimates that each 1 percent change in the rate increase (affecting both volumetric rates and fixed fees) results in a change of \$7.8 million in revenue. Table #4 below shows the funding gap at different rate increase levels under the Revised Base Case Scenario assumptions.

Table #4
Summary of Impacts At Different Rate Increase Levels

A Scenario	B FY23 Rate Increase	C Revenue Generated	D Unspecified Reductions	E OE Change from FY22 with Debt Serv	F w/o Debt Serv
Revenue Gap (assuming no rate increase) >>>			70,248,000	-4.0%	-9.9%
Impact of each 1% rate increase>>>	1.0%	7,800,000			
Revenue Adjustments	2.2%	17,343,000	52,905,000	-1.9%	-6.7%
+Operating Reserve Contribution	4.3%	33,635,000	36,613,000	0.0%	-3.6%
	5.0%	39,000,000	31,248,000	0.6%	-2.6%
	6.0%	46,800,000	23,448,000	1.6%	-1.2%
+Debt Service	6.8%	53,013,000	17,235,000	2.3%	0.0%
	7.0%	54,600,000	15,648,000	2.5%	0.3%
+PAYGO	7.2%	56,444,000	13,804,000	2.7%	0.6%
+Regional Sewage Disposal	7.4%	57,627,000	12,621,000	2.8%	0.9%
+Heat, Light, and Power	7.5%	58,367,000	11,881,000	2.9%	1.0%
	8.0%	62,400,000	7,848,000	3.4%	1.8%
+Maintenance and Operating	8.3%	64,474,000	5,774,000	3.7%	2.1%
+Salary Enhancements (Revised Base Case)	9.0%	70,248,000	-	4.3%	3.2%

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 FY22 Budget (both with and without debt service assumed). For example, if a 7.0 percent rate increase were assumed (as recommended by Prince George’s Council Staff) and operating expenses in the Revised Base Case were reduced accordingly, WSSC Water’s operating expenses would increase 2.5 percent from FY22. Non-debt service-related operating expenses would increase 0.3 percent from FY22.

³ A one percent increase in volumetric and fixed fee rates generates approximately \$7.8 million in revenue.

The customer impact from each 1% rate increase is approximately \$2.39 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	2.39	0.80
5.0% Rate Increase	12.10	4.03
6.0% Rate Increase	14.49	4.83
7.0% Rate Increase	16.88	5.63
8.0% Rate Increase	19.27	6.42
9.0% Rate Increase	21.66	7.22

*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 increase comparisons with other utilities in the region and the country (See ©22). WSSC Water’s bill increases since FY2000 are the lowest among its regional peers and below the US City average. A chart on ©23 compares WSSC Water’s FY21 through FY28 approved and planned increases (per the Revised Base Case) with bill increases at the City of Baltimore, DCWater, and Fairfax County.

Also, in response to public hearing testimony stating that WSSC Water’s residential customer bills were double those of Fairfax County, Council Staff asked WSSC Water to do a residential quarterly bill comparison covering both water and sewer charges and fixed fees at current rates. Assuming 165 gallons usage per day and a ¾ inch meter, the Fairfax County bill is \$219 and the WSSC Water bill is \$241 (a 10% difference). Both Fairfax and WSSC Water’s residential quarterly bills are substantially lower than the residential quarterly bills for DCWater and the City of Baltimore (which are \$398 and \$406 respectively).

Discussion

The Bi-County Workgroup reviewed and found the assumptions used in the Revised Base Case reasonable assumptions and consistent with both WSSC Water fiscal policy and past spending control limit actions by both Councils. WSSC Water’s new approach 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).

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 14 meeting) is the resulting 9.0 percent rate increase limit; especially in light of the pandemic and current economic uncertainty.

The 9.0 percent rate increase requirement in the Revised Base Case is primarily the result of continued flat water consumption, declining volumetric rate revenues, an increase in uncollectable bill amounts (resulting from the pandemic), ongoing debt service needs, and WSSC Water’s goals to bring its financial metrics up to its policy targets. As noted earlier, the Fitch Rating Agency changed WSSC Water’s outlook from stable to negative because of WSSC Water’s continued high amount of debt compared to funds available for debt service (the Fitch target is >10x). The 9.0 percent rate increase would bring the Fitch measure within the 10x target and would also bring WSSC Water’s debt service coverage metric up

within the policy range goal and get the days operating cash on hand very close to the policy range goal in FY23.

As noted earlier, under the Revised Base Case, the Water and Sewer operating costs limit would provide for a 4.3 percent increase in operating expenses from FY22 Approved operating expenses. However, when taking the increases in debt service out, the non-debt service increase is about 3.2 percent from FY22 Approved operating expenses.

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 \$5.0 million in new costs it will incur during FY23 that will need to be accommodated (such as additional positions needed for the operation of the new Piscataway Biosolids facility), plus an additional \$8.0 million which it feels is also strongly justified for inclusion (see ©10-11).

Regarding the CIP, as discussed during last year's budget process, 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 FY23-28 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.

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.

After the T&E Committee makes its recommendations, Council Staff will continue to work with the Prince George's Council Staff to see if both Councils can come to agreement on a single set of spending control limits.

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)
- Memorandum of October 14, 2021 from County Executive Elrich (©25-26)
- WSSC Water Response to Montgomery County Council Staff Questions Regarding Bill Comparisons to Fairfax County (©27-29)



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	\$ 5,772	\$ 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	REVENUE	\$ 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	EXPENDITURES	\$ 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%

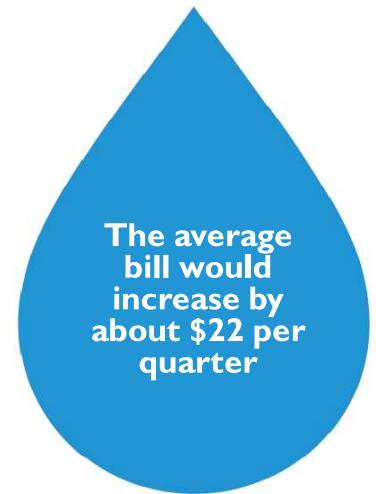
- Capital Policy Guidelines

- 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



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



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 or 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

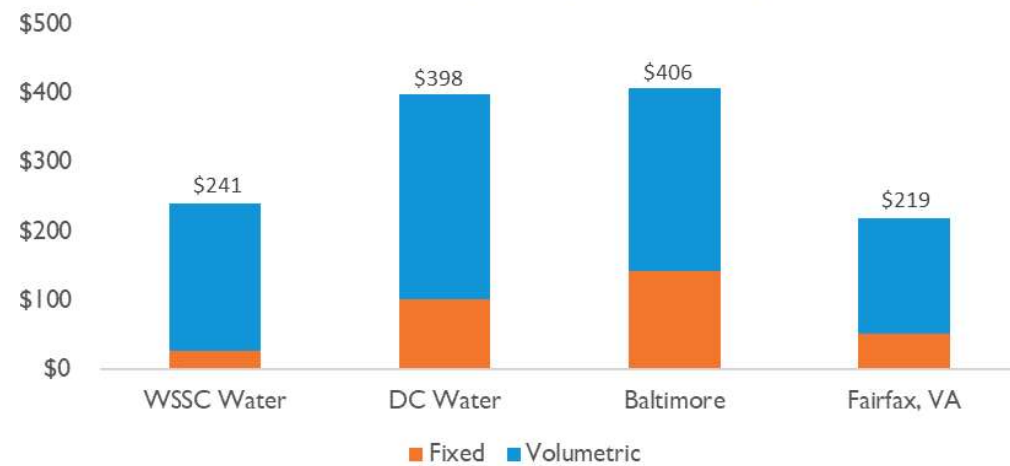
	FY'23	FY'24	FY'25	FY'26	FY'27	FY'28	Total 6 Years
CIP GROWTH EXPENDITURES	\$ 52.4	\$ 47.2	\$ 29.5	\$ 38.1	\$ 32.3	\$ 14.9	\$ 214.4
Expenditures Adjusted for Completion	33.6	48.4	36.4	36.0	34.4	20.3	209.1
FUNDING SOURCES							
Privately Funded Projects	8.9	13.0	8.3	3.2	1.2	0.8	35.4
Estimated SDC Revenue	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)



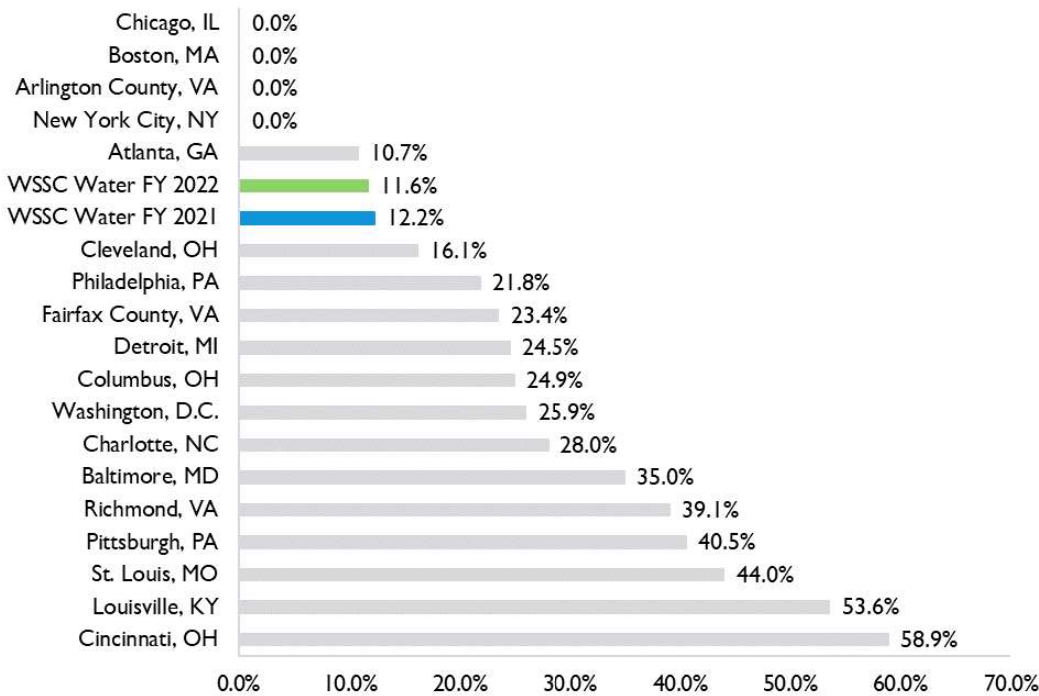
WSSC Water's fixed charges per quarter are significantly lower than other regional providers

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)



- 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

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



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

Fostering an
innovative
culture



- 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

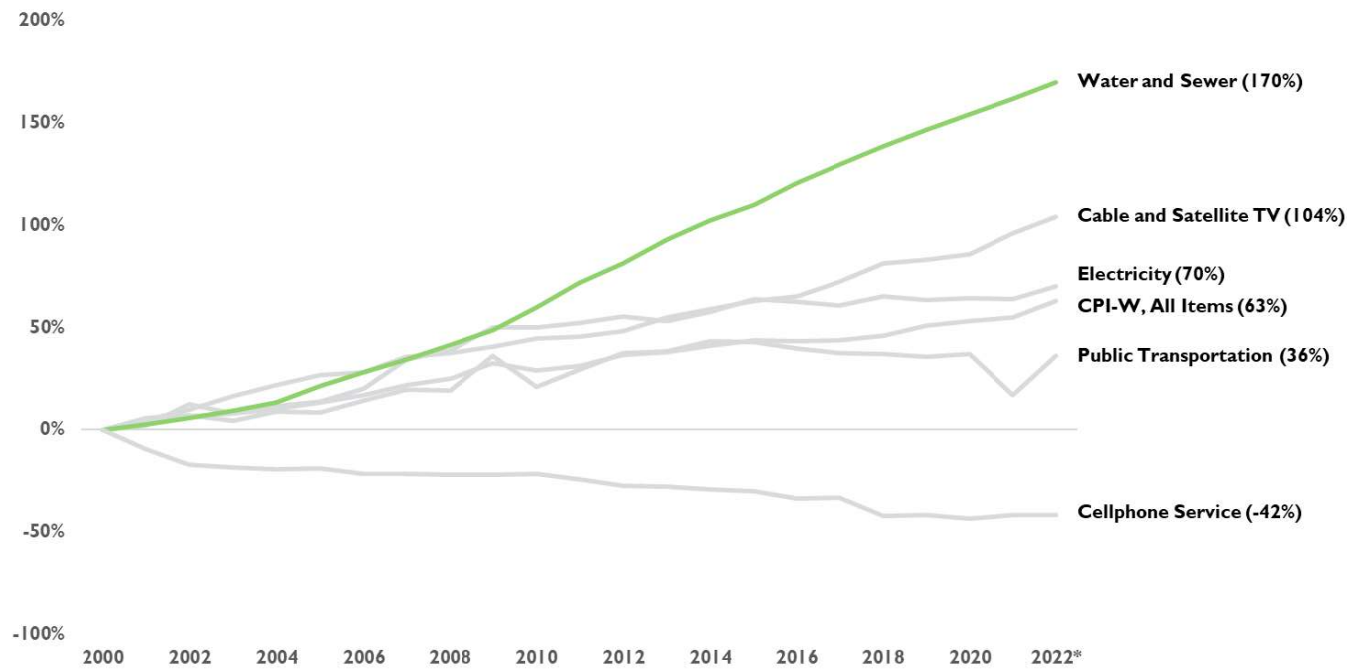
- Developing internal training classes for innovation and change management

Fostering an
innovative
culture



WSSC Water Compared to Peers

Inflationary Rates of Various Sectors



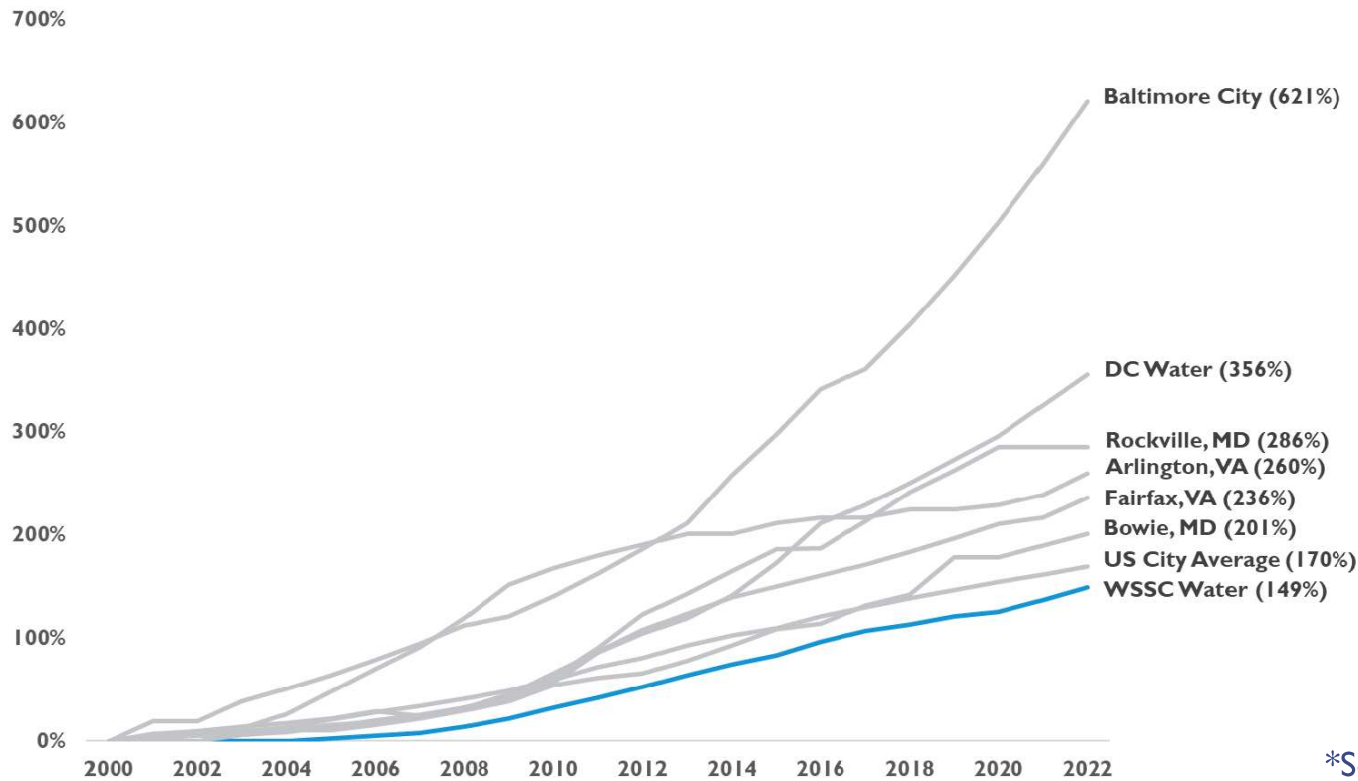
Water and sewer costs have been increasing at above average inflation rates nationally

*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






OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

MEMORANDUM

October 14, 2021

TO: Tom Hucker, President
Montgomery County Council

FROM: Marc Elrich, County Executive 

SUBJECT: Washington Suburban Sanitary Commission (WSSC Water) Spending Affordability Limits for the FY23 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 consist of limits 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 and concluded that a 9.0 percent water and sewer maximum rate increase is required to provide for the operating and capital budgets in FY23. This is above the Commission's initial base case rate increase of 8.0 percent. While I support the Commissions' 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 and limiting the compounded fiscal impact to ratepayers as we continue to recover from the COVID-19 pandemic.

I am in discussions with Prince George's County officials on a Maximum Average Rate Increase for WSSC Water for the FY23 operating and capital budgets. I have proposed a rate increase that is 20% lower than the commission at 7% and will continue to discuss options with our colleagues in Prince George's. Therefore, at this time I am not yet ready to provide a recommendation to Council.

As always, Executive Branch staff stand ready to assist you in your deliberations. I look forward to discussing these issues with you as you develop WSSC Water's FY23 spending affordability limits.

ME:rpm

Tom Hucker, President, County Council

October 14, 2020

Page 2

c: Commissioner Fausto R. Bayonet, Washington Suburban Sanitary Commission
Commissioner T. Eloise Foster, Washington Suburban Sanitary Commission
Commissioner Howard A. Denis, Washington Suburban Sanitary Commission
Carla A. Reid, General Manager/CEO, Washington Suburban Sanitary Commission
Patricia Colihan, Chief Financial Officer, Washington Suburban Sanitary Commission
Richard S. Madaleno, Chief Administrative Officer
Yaakov (Jake) Weissman, Assistant Chief Administrative Officer
Jennifer R. Bryant, Director, Office of Management and Budget
Michael Coveyou, Director, Department of Finance
Adam Ortiz, Director, Department of Environmental Protection
David Kunes, Chief of Staff to Council President
Marlene Michaelson, Executive Director, Montgomery County Council
Keith Levchenko, Montgomery County Council Staff
Steve Shofar, Department of Environmental Protection
Rafael Pumarejo Murphy, Office of Management and Budget

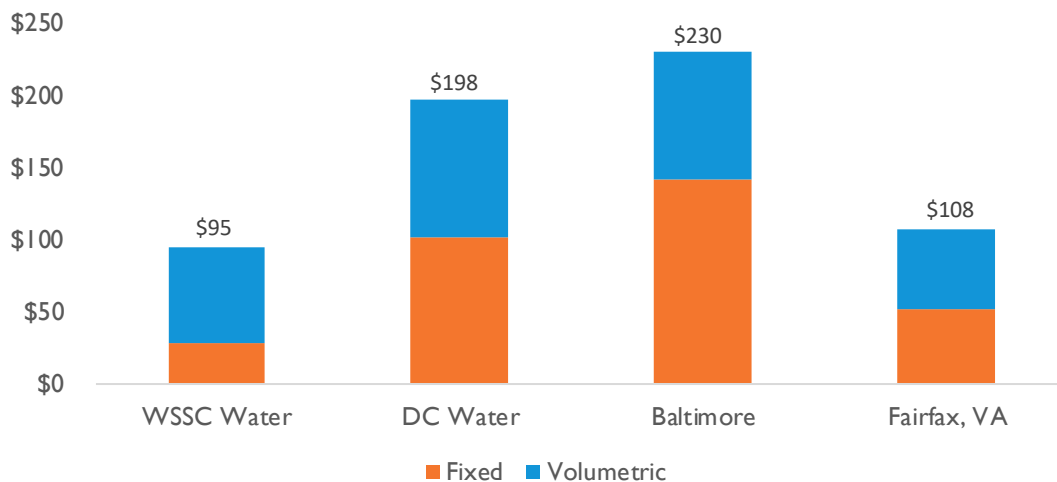
- I. Please provide a comparison of an average WSSC Water residential customer bill versus Fairfax (assuming both water and sewer) at different usage levels.

Response: Please see the charts below for quarterly bill comparisons between WSSC Water, DC Water, Baltimore, and Fairfax at 55 gallons per day, 165 gallons per day, and 275 gallons per day. Given average consumption of 55 gallons per day per person, these three comparisons generally represent 1-person, 3-person, and 5-person households, respectively.

The figures for Fairfax assume no peak water use charges from Fairfax Water.

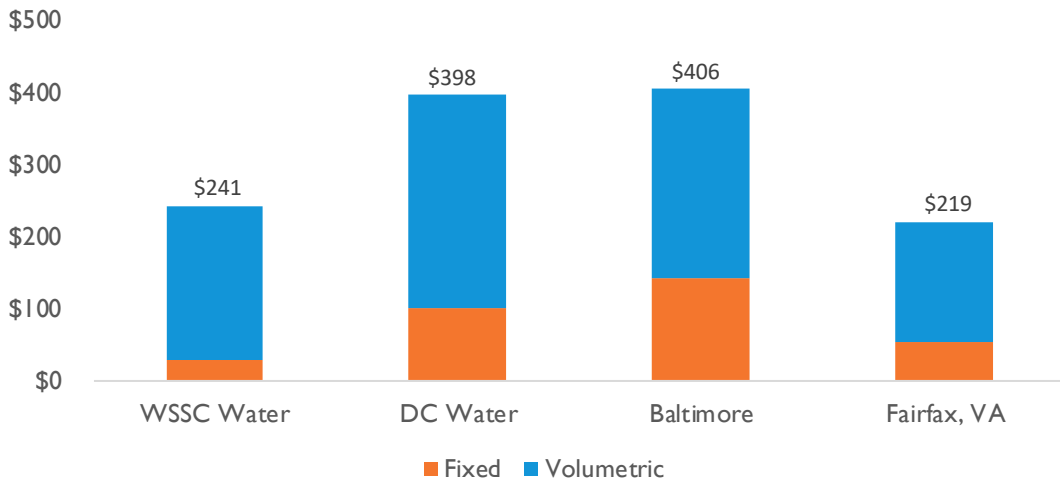
With regard to the chart published by Fairfax Water that compares water rates, the calculations for WSSC Water in that chart are incorrect. The calculation is done based on the old rate structure, where volumetric charges were billed at the highest tier of usage, as opposed to the new rate structure that bills through the tiers. It also incorrectly allocates the entirety of both the AMF and IIF fixed fees to water, instead of splitting them between water and sewer services. Based on a 5/8" meter, a 90-day quarter, water consumption of 18,000 gallons, and allocating the AMF and IIF equally to water and sewer, the correct quarterly comparison for WSSC Water would be \$128.24.

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



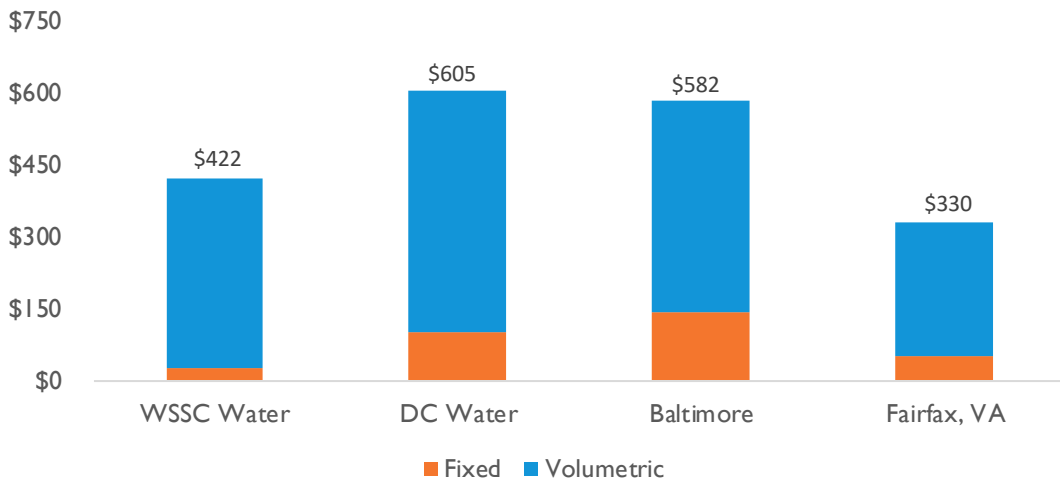
	WSSC Water	DC Water	Baltimore	Fairfax, VA
Fixed	\$ 28	\$ 102	\$ 142	\$ 52
Volumetric	\$ 67	\$ 96	\$ 88	\$ 56
Total	\$ 95	\$ 198	\$ 230	\$ 108

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



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

Quarterly Residential Water/Sewer Bill Comparison (275 Gallons per Day; 3/4" Meter)



	WSSC Water	DC Water	Baltimore	Fairfax, VA
Fixed	\$ 28	\$ 102	\$ 142	\$ 52
Volumetric	\$ 394	\$ 503	\$ 440	\$ 277
Total	\$ 422	\$ 605	\$ 582	\$ 330

2. Please provide a description of how Fairfax is similar to and/or different from WSSC Water.

Response:

- Fairfax Water provides only water services, with sewer services provided by Fairfax County.
- Fairfax Water has a very different rate structure than WSSC Water’s 4-tier inclining structure and includes seasonal peak usage rates.
- Fairfax Water derives a much larger amount of its water revenues (+/- 25%) from sales to wholesale customers, which reduces its account servicing costs. WSSC Water by contrast derives only +/- 1.4% of our water revenues from wholesale customers.
- WSSC Water is a much older and larger system than Fairfax (as shown in the table below), which significantly affects our capital and operations and maintenance costs.
 - Fairfax Water states the following on its website: “Fairfax Water’s distribution system is relatively young. Over half of our mains (56%) have been in the ground for 30 years or less. Only 23% of our distribution system was installed in the 1950’s and 1960’s.”
(<https://www.fairfaxwater.org/news/projects/water-infrastructure>)
 - For comparison, about 40% of WSSC Water’s water and sewer pipes are more than 50 years old.

Agency	Water Mains (Miles)	Sewer Mains (Miles)	Size of Service Area (Square Miles)	Age
WSSC Water	6,000	5,728	1,000	1918
Fairfax Water	4,018	N/A	407*	1957
Fairfax County	N/A	3,250	234	N/A

*Based on the size of Fairfax County.

Sources:

WSSC Water: <https://www.wsscwater.com/sites/default/files/2021-03/WSSC%20Water%202022%20Proposed%20Budget.pdf>

Fairfax Water: <https://www.fairfaxwater.org/about-us>

Fairfax County: <https://www.fairfaxcounty.gov/budget/sites/budget/files/assets/documents/fy2022/adopted/volume2.pdf>




OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

M E M O R A N D U M

October 20, 2021

TO: Tom Hucker, Council President

FROM: Marc Elrich, County Executive 

SUBJECT: Washington Suburban Sanitary Commission (WSSC Water) Spending
Affordability Limits for the FY23 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 consist of limits 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 and concluded that a 9.0 percent water and sewer maximum rate increase is required to provide for the operating and capital budgets in FY23. This is above the Commission's initial base case rate increase of 8.0 percent. 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 and limiting the compounded fiscal impact to ratepayers as we continue to recover from the COVID-19 pandemic.

After discussions with the Prince George's County Executive's Office on a Maximum Average Rate Increase for WSSC Water for the FY23 operating and capital budgets, we reached consensus on recommending to our respective County Councils a Maximum Average Rate Increase of 7.0 percent to both volumetric and Ready-to-Serve charges for the FY23 WSSC Water operating and capital budgets.

This rate increase limit for FY23 translates to the following budgetary limits for WSSC Water:

Maximum Average Rate Increase:	7.0%
Debt Service:	\$ 430,093,000
New Debt:	\$ 328,423,000
Total Water and Sewer Operating Expenses:	\$ 863,282,000

As is true for County Government departments, I am asking the Commission to examine opportunities for increased efficiency and process improvement within its operations. The reduced Maximum Average Rate Increase of 7.0% will require \$15.6 million in currently unspecified reductions to the proposed WSSC Water budget based on a 9.0% rate increase. The Commission should work to bring the final rate increase below the 7.0 percent maximum through these actions to limit the fiscal impact on WSSC Water ratepayers.

In addition, while making these difficult budget decisions, the Commission should preserve the following critical targets and functions to the extent possible in an overall resource plan:

- Increase the Cash Balance Reserve to meet rating agency targets;
- The reconstruction and rehabilitation of WSSC Water's aging small diameter water and sewer mains;
- The continuation of the large valve replacement program; and
- Other critical infrastructure repairs associated with our aging water and sewer system.

As always, Executive Branch staff stand ready to assist you in your deliberations. I look forward to discussing these issues with you as you develop WSSC Water's FY23 spending affordability limits.

ME:rpm

cc: Commissioner Fausto R. Bayonet, Washington Suburban Sanitary Commission
Commissioner T. Eloise Foster, Washington Suburban Sanitary Commission
Commissioner Howard A. Denis, Washington Suburban Sanitary Commission
Carla A. Reid, General Manager/CEO, Washington Suburban Sanitary Commission
Patricia Colihan, Chief Financial Officer, Washington Suburban Sanitary Commission
Richard S. Madaleno, Chief Administrative Officer
Yaakov (Jake) Weissman, Assistant Chief Administrative Officer
Jennifer R. Bryant, Director, Office of Management and Budget
Michael Coveyou, Director, Department of Finance
Adam Ortiz, Director, Department of Environmental Protection
David Kunes, Chief of Staff to Council President
Marlene Michaelson, Executive Director, Montgomery County Council
Keith Levchenko, Montgomery County Council Staff
Steve Shofar, Department of Environmental Protection
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