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March 1, 2021

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

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

We are hereby transmitting WSSC Water's Proposed Fiscal Year 2022 (FY 2022) Capital and Operating Budget document. This document is released and distributed on this date for review by interested customers, citizens and elected officials.

This Proposed Budget reflects our continued mission to our customers to provide safe and reliable water, life's most precious resource, and return clean water to the environment, all in an ethical, sustainable, and financially responsible manner. The programs, goals, and objectives included in this budget seek to achieve WSSC Water's mission through the following strategic priorities:

- Enhance Customer Experience
- Optimize Infrastructure
- Spend Customer Dollars Wisely
- Transform Employee Engagement
- Protect Our Resources

FY 2022 PROPOSED CAPITAL AND OPERATING BUDGETS

The FY 2022 Proposed Budget for all operating and capital funds totals \$1.556 billion or \$100.8 million (6.9%) more than the Approved FY 2021 Budget. The Proposed Operating Budget of \$852.1 million represents an increase of \$2.4 million (0.3%) over the FY 2021 Approved Operating Budget of \$849.7 million. This is basically a same service level budget with modest increases to fund essential improvements, including much needed repairs at our facilities, Triadelphia Reservoir dredging to remove accumulated sediment, and cybersecurity enhancements to protect customer information. Funding is also included for organizational development to enable successful transitions to new and

upgraded systems and a Drinking Water Treatment Master Plan Study. The costs of these improvements are partially offset by reduced debt service expenses.

The Proposed Capital Budget of \$703.7 million represents an increase of \$98.3 million (16.2%) from the FY 2021 Approved Capital Budget of \$605.4 million. This increase is due to the ramping up of construction on the Piscataway Bioenergy Project and the addition of five new wastewater pumping stations and force main replacement projects to address aging assets that are at or beyond their useful life. All costs and related increased revenues associated with the Advanced Metering Infrastructure Project have been removed from the Proposed FY 2022 operating and capital budgets.

The Proposed Budget calls for a combined 5.9% average increase in water and sewer consumption revenue. This proposed increase meets the Spending Affordability Guidelines as recommended by both Prince George's and Montgomery counties. Of the increase, 5.1% is driven by an expected decrease in sewer revenue based on historic trends, lower projected interest income and a reduced reliance on fund balance. Even with this change, WSSC Water rates continue to be favorable when compared to many similar sized water and sewer utilities. The average WSSC Water customer's residential bill is approximately 1.0% of the median household income (see Section 3). As the account maintenance and infrastructure investment fees remain flat for the sixth year, the rate increase will add approximately \$11.83 (5.2% bill increase) per quarter to the bill of a customer using 165 gallons per day, based upon an average per person consumption of 55 gallons per day for a three-person household.

It is important to point out that WSSC Water's budget is capital intensive and driven by changes in the construction market, commodity prices and tariffs, rather than the more commonplace consumer price index. Other investments drive our budget, including: compliance with the Sanitary Sewer Overflow (SSO) and the Potomac Plant Consent Decrees; environmental regulation directives; maintaining the security of our water infrastructure and for our employees working in the field; and, Information Technology improvements to streamline our business processes and safeguard our networks. Many of these costs are legally mandated and not easily deferred or reduced.

FINANCIAL ASSISTANCE PROGRAMS

Like many utilities across the country, WSSC Water continues to face the challenge of balancing increasing costs for infrastructure and operations with affordability considerations for our customers. While the average costs to ensure access to safe, clean drinking water and efficient wastewater treatment compares favorably to other household utilities and expenses, more residents are struggling to meet their monthly expenses during these unprecedented and uncertain times. The Customer Assistance Program (CAP), created in FY 2016 to help financially struggling customers by providing assistance with water and sewer bills, has provided relief to thousands of our customers this year. The CAP will continue in FY 2022 and is proposed to increase by \$1.2 million from the FY 2021 budgeted revenue offset of \$888,000 to \$2.1 million.

In addition, in accordance with House Bill 408, enacted in the FY 2018 legislative session, the Proposed Budget includes \$100,000 to fund the third year of the Pipe Emergency Replacement Loan Program (PipeER), which provides loans of up to \$5,000 per eligible residential customer to finance the replacement of leaking on-property water service lines. The remaining balance in the loan fund is

returned to WSSC Water. Beginning in FY 2021, WSSC Water will transfer those available funds to the Water Fund.

SPENDING AFFORDABILITY GUIDELINE LIMITATIONS

To reconcile our departments' initial FY 2022 requests with the counties' Spending Affordability Guidelines, a funding gap of \$14 million was closed. Actions included limiting growth for certain programs and the very difficult decision not to reinstate important programs and functions that were removed in previous fiscal years.

Although we are not able to reinstate several programs, this budget funds essential maintenance that supports our strategic priorities. It should be noted that we must continue to defer implementing some important improvements that would support and advance our strategic priorities including:

- Implementing a system-wide flushing program of our water distribution pipe network to reduce discolored water complaints;
- Testing all 43,000 fire hydrants in our service area on a 10-year cycle, a best practice recommended by the American Water Works Association;
- Increasing the number of regulatory inspectors allowing more time per inspection to perform gas-fitting and plumbing inspection. This ensures installations are not rushed due to staffing shortages that are a result of a steady increase in the number of inspections requested from applicants; and
- Increasing workyears and funding to adequately support the pipe relocations required for projects such as the I-495/I-270 widening and the MAGLEV High Speed Rail from Baltimore to DC.

COST-SAVING MEASURES

This budget reflects WSSC Water's continuing commitment to maintaining affordability through the active pursuit and implementation of cost-saving measures. In addition to the reductions in the operating and capital budgets noted above, we have several ongoing strategies to identify more cost-effective ways of providing clean water to our customers including the following:

- Our efforts in the Supply Chain Management Transformation Project, which has been supported by the Commission and both counties since FY 2013, have produced cost reductions in excess of \$41 million in the operating and capital budgets since the inception of this program and cost avoidance savings of nearly \$37 million during the same period. If not for these intensive efforts in contract negotiation and cost management, additional rate increases, or service reductions, would have been necessary;
- For the first time since FY 2017, this budget includes funding for additional positions. After a thorough analysis of departmental work backlogs, WSSC Water is proposing two positions in Production, two positions in Customer Service and unfreezing six CIP funded positions in Engineering and Construction to meet mission-critical needs. Twenty-four positions remained frozen.

- Our Innovation Program has identified promising methods for locating and remediating water system leakages and extending pipe life, as well as developing new approaches to wastewater treatment that have the potential to significantly reduce processing costs while also improving our environmental stewardship efforts; and
- Changes made in monitoring and supervision of overtime costs have reduced these expenses by \$4.7 million since FY 2017.

OPTIMIZE INFRASTRUCTURE

The proposed budget includes the rehabilitation of 31 miles of smaller water mains (<16-inches in diameter), as we begin to ramp back up toward our asset management plan goal of 55 miles per year, continued development of our enhanced pipe condition assessment program, and evaluation of new water main rehabilitation technologies to help control costs while also minimizing disruption for our customers.

For large diameter water mains, the Pre-stressed Concrete Cylinder Pipe (PCCP) Program provides for the ongoing acoustic fiber optic (AFO) monitoring of more than 118 miles of pipe, ongoing inspection, and rehabilitation and replacement of large diameter pipes. The program will replace one-half mile of pipe in FY 2022, eventually building up to two miles per year. Inspection, rehabilitation, and replacement of large valves continues at a pace of two per year. Replacement of ferrous pipes is projected at six miles. Funding is also included for the continued compliance with all requirements of the SSO and Potomac Water Filtration Plant (WFP) Consent Decrees.

INFORMATION TECHNOLOGY MODERNIZATION

In addition to our ongoing investments in WSSC Water's physical infrastructure, the FY 2022 budget invests in our organizational infrastructure. Funding is included to enhance our cybersecurity program to efficiently and effectively mitigate risks by ensuring our electronic data and computer systems and networks are protected from theft, attack or unauthorized access. Cybersecurity program initiatives include artificial intelligence threat detection, new end-user security awareness training and risk reduction of identity theft through two-step authentication.

The budget also provides for an Enterprise Asset Management/Work Management system. This comprehensive solution provides applications, modules, tools and supporting data for managing and monitoring all activities required for operations, maintenance, repair and capital planning for water/wastewater underground infrastructure.

SPENDING AFFORDABILITY

WSSC Water, in cooperation with the Montgomery and Prince George's County governments, continues to participate in the spending affordability process. This process focuses debate, analysis and evaluation on balancing affordability considerations against the provision of resources necessary to serve existing customers (including infrastructure replacement/rehabilitation), meet environmental mandates, maintain affordable rates, and maintain operating and capital budgets and debt service at prudent and sustainable levels. Last fall, the Montgomery and Prince George's county councils approved resolutions establishing four limits on WSSC Water's FY 2022 budget. As indicated in the following table, the proposed budget meets the spending affordability limits for New Water and Sewer

Debt, Debt Service and Average Water/Sewer Rate Increase. The Water/Sewer Operating Expenses meet the intent of the limit as the excess is covered by non-rate-related revenues.

WSSC WATER FY 2022 PROPOSED BUDGET VS. SPENDING AFFORDABILITY LIMITS
 (\$ in Millions)

	<u>FY 2022 Proposed Budget</u>	<u>Prince George's County Limit</u>	<u>Montgomery County Limit</u>
New Water and Sewer Debt	\$409.7	\$427.9	\$427.9
Total Water and Sewer Debt Service	\$309.0	\$309.7	\$309.7
Total Water/Sewer Operating Expenses	\$842.3*	\$841.4	\$841.4
Water/Sewer Rate Revenue Increase	5.9%	5.9%	5.9%

*Exceedance covered by offsetting funding sources

The Proposed Budget provides for:

- Implementing the first year of the FYs 2022-2027 Capital Improvement Program (CIP);
- Paying WSSC Water's share of operating (\$59 million in FY 2022) and capital costs (\$55 million in FY 2022; \$392 million in FYs 2022-2027) for the District of Columbia Water and Sewer Authority's (DC Water) Blue Plains Wastewater Treatment Plant;
- Paying debt service of \$316.8 million - of which \$309.0 million is in the Water and Sewer Operating Funds;
- Holistically rehabilitating the Piscataway basin to reduce infiltration and inflow;
- Funding additional operating costs at the Piscataway Water Resource Recovery Facility (WRRF) due to increased flows;
- Funding maintenance and repairs at critical facilities;
- Replacing 31 miles of small diameter and 6.5 miles of large diameter water mains
- Rehabilitating 31 miles of small diameter sewer mains and lateral lines and 14.4 miles of large diameter sewer mains;
- Funding \$5.3 million for water meter replacements;
- Funding \$71.1 million for large diameter pipe rehabilitation. This includes \$35.3 million for PCCP inspection, repair, and acoustic fiber optic monitoring of the pipes' condition; \$32.4 million for large diameter repairs and cathodic protection; \$3.4 million for large valve inspections, replacement, and repairs;
- Complying with the SSO and the Potomac WFP Consent Orders;

- Operating and maintaining a system of three reservoirs impounding 14 billion gallons of water, two water filtration plants, six WRRF's, 6,000 miles of water main, and over 5,700 miles of sewer main 24 hours a day, seven days a week; and
- Proposing limited compensation enhancements considering the very challenging fiscal environment.

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


SYSTEM DEVELOPMENT CHARGE

State law provides that the System Development Charge (SDC), a charge to new applicants for WSSC Water service, which is intended to recover growth costs, may be adjusted annually by the change in the Consumer Price Index for the Urban Wage Earners and Clerical Workers (CPI-W) in the Washington, D.C. metropolitan area. Historically, we have adjusted the maximum allowable charge based on the change in the November CPI-W. We plan to do the same this year. An increase to the SDC for FY 2022 is currently being evaluated by the Bi-County SDC Policy and Rates Workgroup.

BUDGET REVIEW PROCESS

The Proposed Budget is subject to the Counties' hearings, procedures and decisions, as provided under Section 17-202 of the Public Utilities Article, of the Annotated Code of Maryland, before the final budget is adopted for the fiscal year beginning July 1, 2021.

Sincerely,

DocuSigned by:

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Howard A. Denis
Commission, Chair

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