October 24, 2022

TO: Calvin S. Hawkins, II, Chair
Prince George's County Council

THRU: Robert J. Williams, Jr.
Council Administrator

FROM: Lavinia A. Baxter, Senior Legislative and Budget Policy Analyst,
Office of Audits and Investigations

J. Kenneth Battle, Jr., Committee Director,
Transportation, Infrastructure, Energy, and Environment (TIEE) Committee

RE: Work session Overview: FY 2024 WSSC Water Spending Control Limits

PURPOSE: To provide relevant data necessary for County Councilmembers to discuss and support recommendations on the FY 2024 spending control limits for WSSC Water.

Each year, the spending affordability 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, and maintain operating and capital budgets and debt service at prudent and sustainable.

Table 1: WSSC Water Base Case Spending Control Limits – FY 2024

Spending Control Limits	Base FY 2024 Proposed	FY 2023 Approved	Change From FY 2023 Approved	FY 2024 Staff Recommendation
Rate Increase	8.0%	6.5%	1.5%	7.0%
New Debt	$379,960,000	$358,840,000	$21,120,000	$379,960,000
Debt Service	$328,467,000	$321,844,000	$ 6,623,000	$328,467,000
Total W/S Operating Expense	$915,245,000	$855,946,000	$59,299,000	$915,245,000

Table 2: Customer Bill Impact Initial Base Case

*Volumetric charge is the amount of water used
Ready to serve (RTS) are the fixed fees

Residential Customer Impact (Quarterly Bill)	FY 23 (6.5% Volumetric & RTS)	FY 24 (8.0% Volumetric & RTS)	% Change
Volumetric Charges	$226.90	$245.07	
Ready-to-Serve	29.82	32.21	
Total Quarterly Bill	**256.72**	**277.28**	
FY Quarterly Bill Increase		20.56	

Notable Assumptions 8% Base Case:

- Meet financial metrics to maintain AAA Bond rating. These measures are critical to demonstrate a strong financial position to assure financial sustainability during periods of economic stress. This long-term plan has been revised to address rating agency concerns.
- Full funding of WSSC Water's FY 2024 – FY 2029 Capital Improvement Program;
- Cost-of-living adjustment funding equal to 2.5% in FY 2024 and FY 2025. Note that due to the impact of pandemic on revenues and NO FEDERAL AID, WSSC Water employees received no COLAs or Merit increases in FY 2021 or FY 2022. (As in the past, salary enhancements may be reduced or eliminated from the Proposed FY 2024 budget to reflect County plans);
- All Other Category increase of 7.4%; 3.9% in 2025 and 3.0% in outer years
- No use of fund balance in FY 2024 or in the outer years to build up reserves in response to rating agency concerns. The rating agencies place a lot of importance on maintaining strong reserves.
- The 8% base case accommodates approximately $8.9 million in Additional and Reinstated Programs with water and sewer impact of $6.9 million. This amount covers 40 work years. Thirty-one positions are identified as conversion of temporary customer services employees to permanent positions at the end of the current contract term in order to retain institutional knowledge. This conversion will have no fiscal impact.
- Also included in this year's proposed budget is an increase of 8% to the Ready to Serve Charge (RTS) which includes the Account Maintenance Fee and the Infrastructure Investment Fee.
- Unspecified reductions may be necessary if the rate increase is lowered.

WSSC Water team shared Recent Bond Rating Review Comments:

- Three rating agencies maintained the AAA ratings.
- Fitch maintained the Outlook as Negative
- Rating Agency comments on Factors that could lead to a downgrade:
    - Sustained leverage above the 10.0x through fiscal 2023 year will result in a downgrade.
    - "Failure to secure rate increases that satisfactorily support operations while ensuring the ability to continue capital investment and maintain satisfactory liquidity and declining leverage" (Fitch)

- "Failure to raise rates to support operations and debt needs, leading to declines in reserves and liquidity" (Moody's)
- "If management is unable to effectuate necessary rate increases or contain costs which results in a reduction in reserves or failure to meet sum sufficient coverage, we will lower the rating one of more notches (S&P)

<u>Bi-County Meeting Participants Representing WSSC Water and Prince George's County Included:</u>
WSSC Water:
Joseph Beach, Deputy General Manager
Letitia Carolina-Powell, Acting CFO
Brian Halloran, Capital Budget Section Manager
Fariha Babar, Operating Budget Section Manager

Prince George's County:
Kenneth Battle, TIEE Committee Director
Lavinia Baxter, Senior Legislative Budget and Policy Analyst
Stanley Earley, Director, OMB
Jared McCarthy, DCAO
Linda Turner, Senior Advisor to the DCAO
Shanai Jordan, OMB Budget Analyst

<u>Background</u>

WSSC Water's spending control limits process was established in April 1994 via a resolution by both Prince George's and Montgomery County Councils, with the goal of both Councils agreeing on certain budgetary limits by November 1 of each year. Noted below are key objectives regarding the spending affordability guidelines (SAG) process.

1. The process is based on a multi-year planning model. A strategy to stabilize annual rate increases over time and holding customer fee supported debt service below 40% of the operating budget,
2. The process consists of four (4) spending limits:
    - Maximum Average Rate Increase (The maximum average rate increase limit covers volumetric water/sewage charges only. WSSC Water's Ready to Serve (fixed fees) include the Infrastructure Investment Fee and the Account Maintenance Fee).
    - Debt Service
    - New Debt
    - Total Water and Sewer Operating Expenses
3. The process provides direction to WSSC Water as to what to request, but does not create a ceiling (or floor) as to what the Councils may jointly approve at a later date. State law defines the annual WSSC Water Proposed Budget as the "default" budget, should the Montgomery and Prince George's County Councils cannot agree on changes. Therefore, the limits are an important first step to define proposed budget parameters that are acceptable to both Councils.
4. The Bi-County process allows for debates to focus on the impacts of the average rate increase for the coming year as well as implications for the out years. The other limits are then adjusted to take into account the impact of the rate decision.

<u>Schedule</u>

- Bi County Working Group Sessions (virtual): September 14th and September 28st, 2022
- Committee of the Whole Review: October 24th, 2022

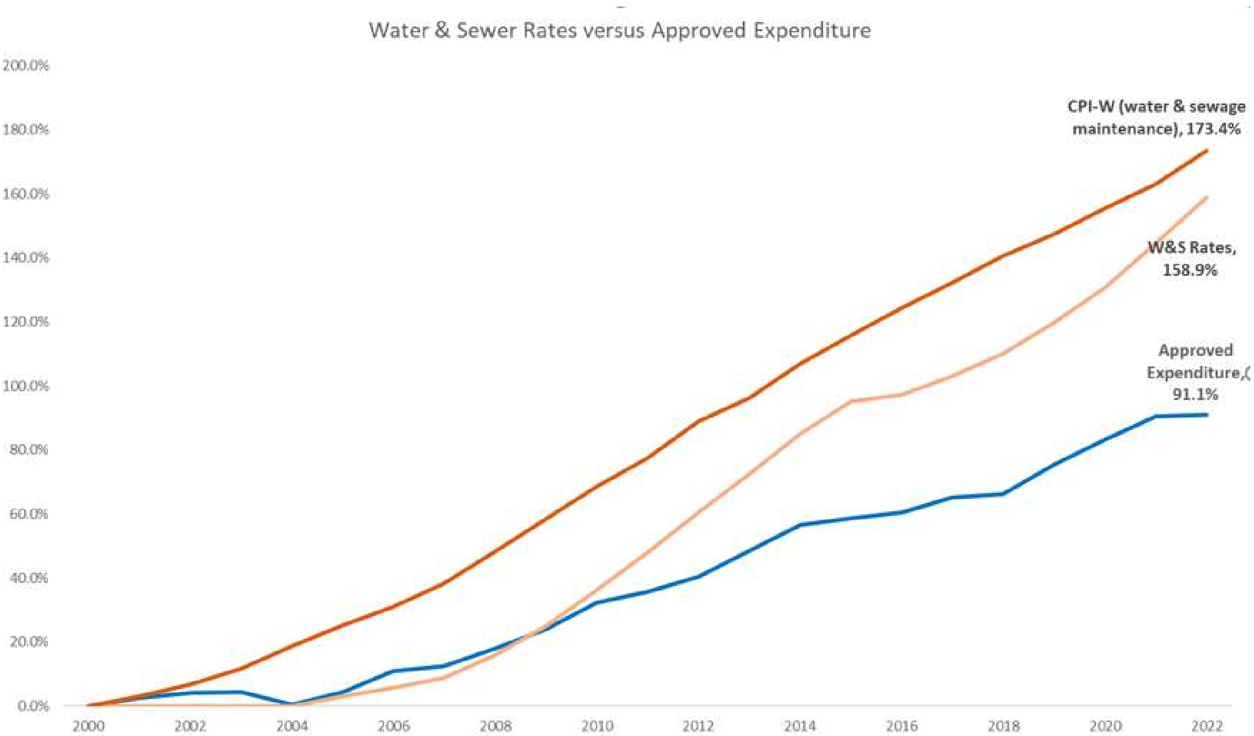
- Council Action: October 25th, 2022

The goal of the spending control limits process is for the Montgomery and Prince George's County Councils to come to an agreement by **November 1** of each year so that the WSSC Water can build the approved limits into its Operating Budget 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.

History of Rate Increases vs. Production

WSSC Water rate increases have varied from 0% to as high as 9% over the past two decades. Over the past ten years the average rate increase was 4.8% %. The cumulative rate increase from FY 2000 to FY 2022 is approximately 158.9%, which has allowed revenues to keep pace with expenditure growth despite declining water production.

Figure 1: Water and Sewer Rates Verses Approved Expenditure

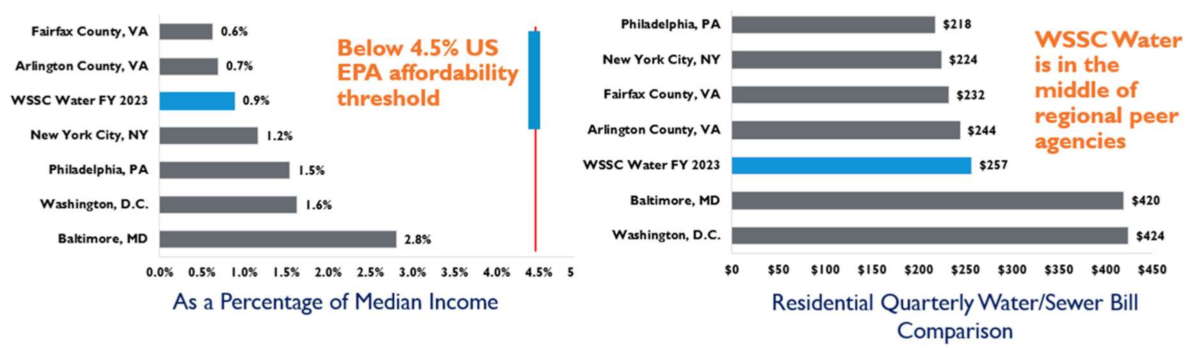


Conversely, between FY 2000 and FY 2021, county tax rates have been relatively stable, while assessed value has grown 149.5% and 138.7% in Montgomery and Prince George's Counties respectively, allowing revenues to keep pace with expenditure growth. WSSC Water stressed that consumption has been flat and recently declining production is causing pressure on rates which differs from the county property tax revenues that increase with increases to the assessable base as well as the tax rate increases.

Below, the chart on the left, as described on page 9 of the FY 2024 Spending Affordability Meeting 1 (dated Sept. 14, 2022) shows the average residential bill as a percentage of median income compared among regional peer utilities. The chart on the right shows WSSC's average residential quarterly bill compared to regional peers – being right in the middle in terms of quarterly costs. Note that Baltimore and Washington DC bills are almost one -third more than WSSC Water. WSSC Water's typical residential customer bill (165 gallons/day based on a 3-person household and a 5/8" meter) from FY 2000 to FY 2023 have increased by 166%; lower than the US City average (181%), Bowie, MD (213%), Fairfax, VA (254%), Arlington, VA (287%), Rockville, MD (345%), DC Water (386%), and Baltimore City (608%). Bill increases since 2000 equates to about a 4.3% annual increase over that 23-year period.

<u>Figure 2: How Does WSSC Compare with its Peers?</u>

Average Bill @165 gpd



<u>Continued COVID 19 Impact on Water Revenues and Usage</u>

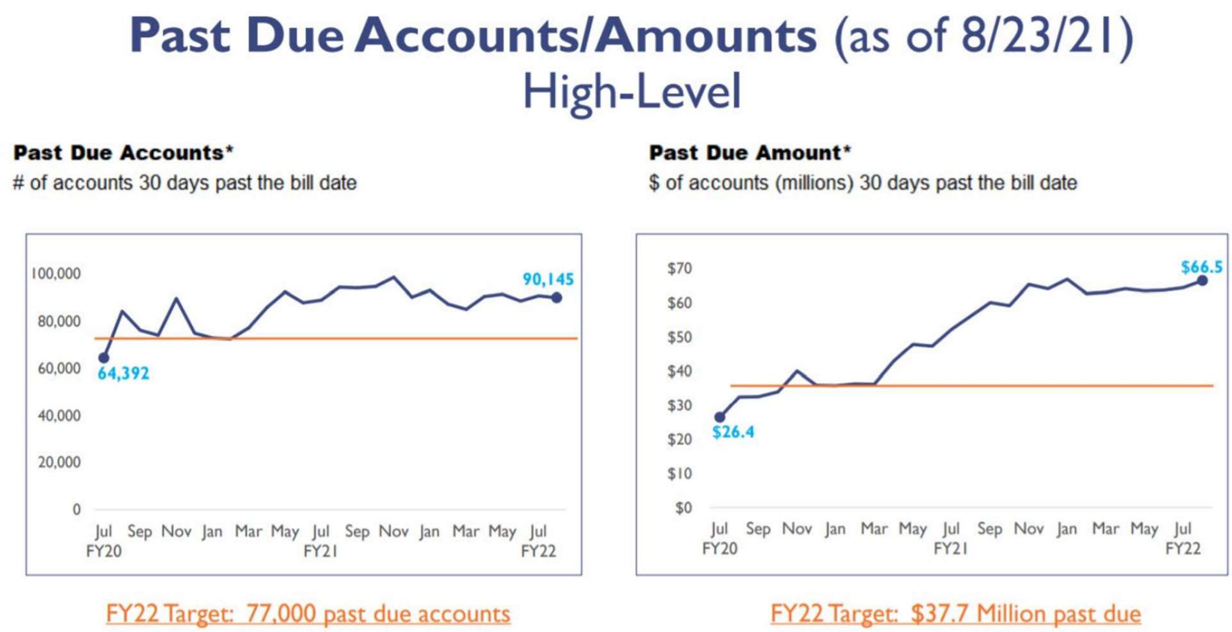
Two years after the Covid crisis began, delinquencies persist and revenues are down. Per capita water usage in the WSSC Water service region is and overall water production is expected to remain flat over the financial forecast period. While water conservation is good from an environmental standpoint, it means that WSSC Water's dominant revenue source (over 80% of its revenues) has been stagnant, putting more emphasis on rates to address increases in debt service in recent years for ongoing infrastructure needs. Therefore, WSSC Water continues to face significant fiscal challenges with rate increase needs being potentially higher than inflation.

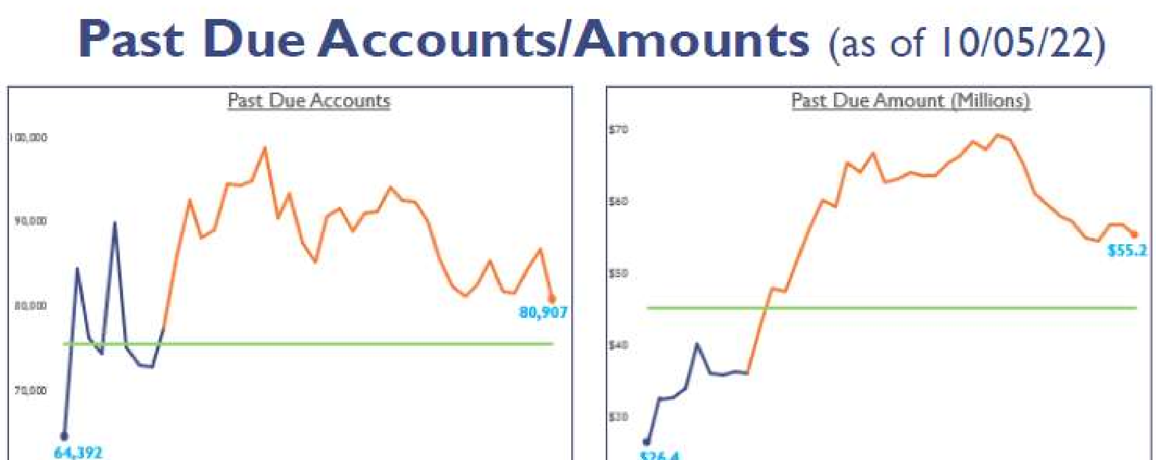
The graph below, as presented in meeting 1, shows the rate of delinquencies over the two years.

Revenue:

- Pre-pandemic delinquent accounts of $26.4 million was approximately $55.2 million as of October 05, 2022 as compared to $66.5 million in August 23, 2021, a drop of $11.3 million.
- Reserve for delinquent accounts decreased by $512,000 in FY 2022 and totaled $41.2 million as of June 30, 2022.
- As of October 05, 2022, out of approximately 475,000 customer accounts, nearly 81,000 accounts are past due. The total number of customer accounts in Prince George's County is approximately 230,000 active customer accounts.

<u>Figure 3: FY 22 and FY 23 Past Due Accounts</u>

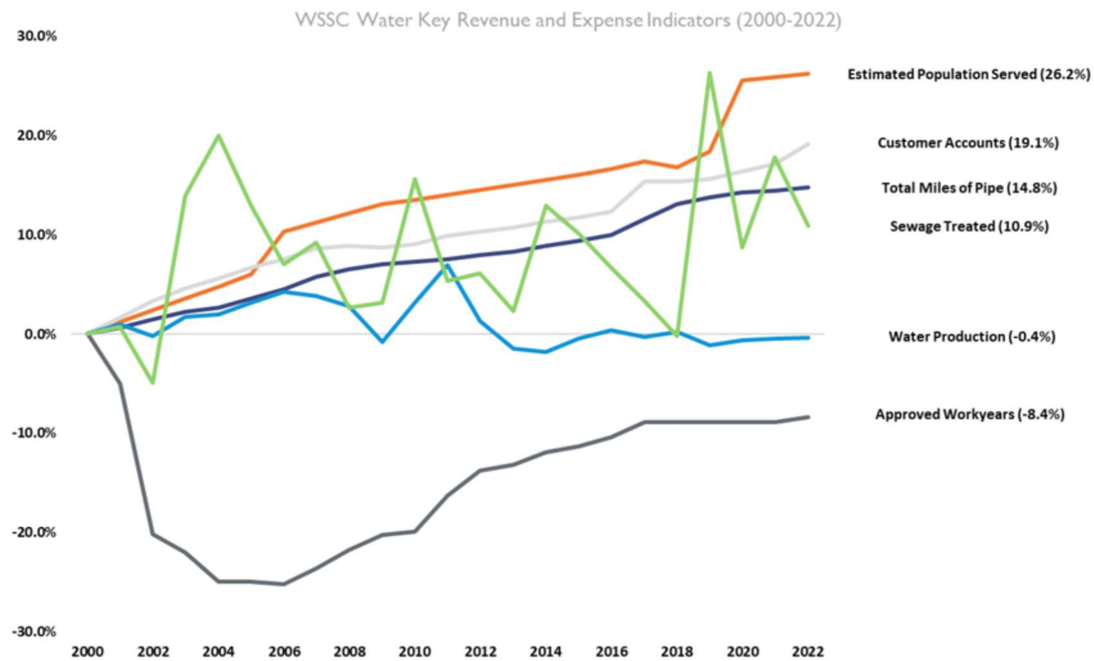




<u>Key Growth Trends</u>

In follow-up responses after Spending Affordability meeting 2, WSCC Water provided growth data that helps us understand the rate at which increases have grown versus their impact on water production and consumption. The chart below provides another description of the impact of declining consumption and revenue. While the customer accounts have grown approximately 19.1% and the population served at 26.2% since the year 2000, water production has decreased 0.4%. The trend of declining water production, despite growing populations and an aging infrastructure requires a higher rate increase, significant investment and strategic CIP planning to keep pace with the demands of the system. WSSC Water is also maintaining 14.8% more miles of pipe with a workforce that has declined by 8.4%.

Figure 4: WSSC Water Key Revenue and Expense Indicators



Customer Assistance Program (CAP)

Over the course of the pandemic, WSSC Water has enhanced its customer assistance program to help those who are facing tough financial times. While turnoffs resumed in the fall of 2021, the Commission continues offering various payment plans and waiving late fees.

In FY 2022 the Commission:

- Reduced Turn-on costs to CAP customers by 50%
- Permanently waived late fees for water and sewer bills for CAP customers

According to the Commission, in FY 2022, the CAP program will undergo a recertification process, whereby those who were initially certified for this program will be recertified. WSSC Water did not require recertification every year as stated in the WSSC Code of Regulations due to technical limitations in the billing system. Currently, WSSC Water is implementing operational changes to the Customer to Meter (C2M) system whereby customers will be unenrolled and will need to be recertified with the Office of Home Energy Programs (OHEP) on an annual basis.

CAP Budget Impacts on WSSC Water accounts

FY 2022 CAP Actuals

- CAP participants = 17,343 participants compared to 15,553 participants in FY 2021
- Actual cost impact = $1,975,660
- Funded at $2,100,000

FY 2023 CAP Projection

- CAP participants = 17,500 participants through the 3rd quarter of FY 2023 and 5,000 participants in the 4th quarter of FY 2023.
- Anticipated cost impact = $1,700,000
- Current approved funding = $2,200,000

FY 2024 CAP Projection

- CAP participants = 7,000 participants. Reduction in CAP participants is due to implementation of the recertification process, WSSC Water anticipates around 7,000 participants recertifying in FY 2024
- Anticipated cost impact = $900,000

Long Range Planning Ready to Serve Charge (RTS) at 8%

As part of their long-range financial plan, the Commission is proposing that the 8% rate increase apply to the volumetric and ready to serve charges. The Ready to Serve Charges (RTS) are fixed fees comprised of the account maintenance fees (standard fee for a customer account) and the Infrastructure Investment Fee. These fees provide a stable revenue source unrelated to consumption. The below table show the impacts for those in the Customer Affordability Program. CAP participants will not be impacted by the 8.0% increase to RTS.

Table 3: Customer Impact – Ready to Serve Charges – 8% for CAP Customers

Quarterly Bill	FY 2023 (6.5% Volumetric & RTS Approved	FY 2024 (8.0% Volumetric & RTS)
Volumetric Charges	$226.90	$245.07
Ready-to-Serve Charges	-	-
Total Quarterly Bill	$226.90	$245.07
FY 24 Quarterly Bill Increase		18.17
Non-CAP Quarterly v CAP Quarterly Bill		$(32.21)
	Percentage Difference	-13.1%

Table 4: Customer Impacts – Non- CAP

Quarterly Bill	FY 2023 (6.5% Volumetric & RTS) Approved	FY 2024 (8.0% Volumetric & RTS)
Volumetric Charges	$226.90	$245.07
Ready-to-Serve Charges	29.82	32.21
Total Quarterly Bill	256.72	277.28
FY Quarterly Bill Increase		20.56

Cost Savings Implemented

Throughout FY 2022 and continuing into FY 2023, the Commission has continued to employ new and ongoing cost savings in order to meet affordability requirements for both operating and capital budgets. These include the following:

Operating Budget Cost Savings

- FY 2022 savings of $83.8 million
- Bond refunding reduced $62.7 million in total debt service payable
- Group insurance – saved $6.8 million
- Overtime – reduced by $8.4 million since FY 2017
- Reductions - FY 2023- approved reductions totaled $27.0 million
- Positions- froze 37 positions.

Capital Budget Cost Savings

- Reductions and Deferrals- $110.5 million in capital expenses was reduced in FY 2023
- Increased importance on prioritization of projects for inclusion, elimination, scale-down or deferral
- Maintain AAA Bond Rating based on an 8% rate increase
    - PAYGO – increase use of PAYGO to lower debt service expense and improve metrics
    - $31 million in FY 2023 to $110 million in FY 2029
- Implementing level principal payments beginning FY 2025 to lower interest expense

Leveraging

The utility continues to pursue all available grants and loans. WSSC Water has:

- Been awarded $386.4 million in loans and loan forgiveness from the state revolving fund (SRF) and $56.3 million in Bay Restoration Fund (BRF) grants;
- Submitted 18 applications in January 2022 requesting over $350 million in assistance from the SRF. Anticipate receiving $60 million.
- Retained consultant to assist with procuring more State and Federal grants

In the Proposed FYs 2024 – 2029 CIP, the Water Main Reconstruction Program goal is 27 miles in FY 2024 with a ramp up to 52 miles in FY 2029, which remains below the 55 miles per year asset management program target. The Sewer Reconstruction program is planned for approximately 20 miles per year. This year fewer new projects have been proposed, three developer-built sewer mains. Additional cost saving opportunities may be challenging given the prior years' reductions and considering that the majority of the deferrable capital projects are located in Prince George's County. To achieve a 1.0% reduction approximately $260 million in capital spending and deferrals would be required. These reductions in capital projects have a relatively small impact on the operating budget. The expenditures in FY 2024 from the Proposed CIP are $704.7 million. This is comprised of the following:

CIP Projects	$441.7 million
Information Only	$263.0 million

Multi-Year Context/Financial Forecast

While the spending control limits review is an annual process, the Bi-County Working Group takes a multi-year look at trends. The outer year estimates help the staff to identify issues that could arise in future years.

For instance, rate increases in the first-year help to improve WSSC Water's fiscal position in future years by increasing WSSC Water's base revenues. Conversely, deferring rate increases to future years, or using one-time revenue to reduce the amount of the rate increase in the first year, results in increased challenges since the revenue base is lower in future years.

The FY 2024, ***base case forecast***, developed by WSSC Water staff, assumed an 8.0% rate increase with additional increases as follows: 8.0% in FY 2025; 5.1% in FY 2026; 5.1% in FY 2027; 5.1% in FY 2028; and 5.1% increase in FY 2029.

At the second Spending Affordability meeting, staff requested three scenarios at rate increase of 7.0% and 6.0.% with all aforementioned assumptions including key indicators remaining the same. For each scenario, unspecified reductions would be made and adjustments to the *All Other* expense category in the out years or a combination of operating and CIP reductions would be made to achieve the needed reductions. Some of the expenses that the *All Other* category pays for are services by others, contract work and employee benefits among other items. The chart below shows FY 2023 Approved All other Expenses.

Table 5: All Other Expenses

FY 2023 Approved Water & Sewer
All Other Expenses

($ In Thousands)	FY 2023 Approved	
Services by Others	$ 98,850	33.6%
Employee Benefits	64,036	21.8%
Other Professional Services	22,867	7.8%
Outside Engineering	17,926	6.1%
Contract Work	16,190	5.5%
Contract Restoration	13,900	4.7%
Materials	13,476	4.6%
Chemicals	13,474	4.6%
Insurance Premium	3,318	1.1%
Tele & Com	1,886	0.6%
Gasoline & Diesel Oil	1,551	0.5%
Miscellaneous	26,687	9.1%
Total All Other Expenses	**$ 294,160**	**100.0%**

In order to maintain adequate liquidity, fund balance reserves and maintain the AAA bond rating, the below scenarios require *All Other* permanent and one-time operating or a combination of operating and CIP reductions in FY 2025. As of this meeting, those cuts are unspecified.
Key Metrics:

Metrics	CFO Guideline
Debt Service Coverage:	
Debt Service Coverage	1.10 - 1.25
Debt Service (P+I) as a Percentage Total Expenditures	< 40.0%
Liquidity and Reserves:	
Days Operating Reserves-on-Hand	120 - 150
Ending Fund Balance as a Percentage of Operating Revenue	20.0%
Leverage Ratio	< 10.0

- Accommodate existing debt and debt service projections for its FYs 2024 – 2029 Proposed CIP
- Maintain debt service coverage at Target: 1.1 to 1.25
- Maintain debt service as a percentage of Expenditures at Target: <40%
- Attain Days Operating Reserves on Hand at Target: 120-150
- Ending Fund Balance as a percentage of Operating Revenue at Target: 20%

These scenarios portray the following impacts in the outyears.

Alternative Scenarios to the Base Case

Scenario 1 - 7.0% Rate Increase

Additional increases as follows: 7.0% in FY 2025; 6.0% in FY 2026; 6.0% in FY 2027; 5.0% in FY 2028; and 5.0.% increase in FY 2029.

Impacts/Reductions	FY 2025 Permanent	FY 2025 One Time Reductions
All Other Category	$9.6 million	$5.4 million

Scenarios 2 - 7.0% Rate Increase

Additional increases as follows: 6.5% in FY 2025; 6.0% in FY 2026; 6.0% in FY 2027; 5.0% in FY 2028; and 5.0.% increase in FY 2029.

Impacts/Reductions	FY 2025 Permanent Reductions	FY 2025 One Time Reduction
All Other Category	$14.1 million	$5.2 million

Scenario 3 – 6.0% Rate Increase

Additional increases as follows: 6.0% in FY 2025; 6.0% in FY 2026; 6.0% in FY 2027; 5.0% in FY 2028; and 5.0.% increase in FY 2029.

Impacts/Reductions	FY 2024 One Time Reductions	FY 2025 Reductions
All Other Category	$2.0 million	$27.8 million (Permanent) and $4.3 million (one-time)

FY 2024 Spending Control Limits Staff Recommended Scenario at 7.0% Rate Increase

Based on the model, a 1% rate reduction budget impact is approximately \$7.4 million to charges and \$752,000 reduction in fixed fees. For the upcoming budget, WSSC Water staff prepared a staff requested spending control limit scenario for review and comment by County staff, as summarized in Table 6 below:

Table 6: Staff Requested Scenario Spending Control Limits at 7.0% – FY 2024

Spending Control Limits	FY 2023 Approved Budget	Staff Recommended Scenario FY 2024 Proposed	Change From FY 2023 Approved
Rate Increase	6.5%	7.0%	0.5%
New Debt	\$358,840,000	\$379,960,000	\$21,120,000
Debt Service	\$321,844,000	\$328,467,000	\$6,623,000
Total W/S Operating Expense	\$855,946,000	\$915,245,000	\$59,299,000

The staff proposes Scenario 1 at 7.0% assuming the following:

- Debt Service and PAYGO as required to fully fund the Capital Improvements Program
- The debt service at 7.0% is \$328.5 million
- Compensation marker equal to an increase of 5.0% in FY 2024 and FY 2025 and 4.5% in each of the out years
- Inflationary increase of current programs of 7.4% in FY 2024 and 6.5% in 2025, 2.9% in 2026
- An increase of \$3.9 million in Regional Sewage Disposal costs in FY 2024
- An increase to the general inflation rate assumption in the CIP, from 4.0% to 6.0%
- Reconstruction Debt Service Offset (REDO) was approved at \$4.0 million in FY 2023 and is assumed at zero in FY 2024 and beyond

Table 7: Comparative Customer Bill Impacts at 165 gpd (3-person household)

Quarterly Bill	FY 2023 (6.5%) Approved	FY 2024 Base Case (8.0%)	FY 2024 Staff Requested Scenario 1 @7%
Volumetric Charges	\$226.90	\$245.07	\$242.78
Ready-to-Serve Charges	29.82	32.21	31.91
Total Quarterly Bill	256.72	277.28	274.69
FY 24 Quarterly Bill Increase		\$20.56	\$17.97

The elements of the staff requested scenario base case funding gap are shown in Table 7 below.

Table 8: Contribution to the FY 2024 Staff Requested Scenario Rate Increase

Factors Contributing to the FY 2024 Staff Requested Rate Increase	Change from FY 2023 ($, millions)	% Impact on Rate
Change in Revenues		
Water & Sewer Revenue	(8,000)	1.1
Ready-to-Serve Charges	5,263	-0.7
Miscellaneous Fees	(3,007)	0.4
Interest Income	5,200	-0.7
Uncollectable	(2,022)	0.3
Change in Expenses		
Debt Service	6,623	0.9
Regional Sewage Disposal	3,858	0.5
Heat, Light and Power	7,637	1.0
Salaries and Wages Increases	6,688	0.9
All Other	21,508	2.9
PAYGO	12,984	1.8
Increase in Fund Balance	(10,166)	-1.4
Total Base Case Rate Increase Assumption		**7.0%**

Changes in Revenue

Overall changes in the revenue is assumed to be down by approximately $2.6 million (equivalent to 0.3% rate increase). This result is mostly from resetting of expected revenue in FY 2024 (-$8.0 million), an increase in uncollectable bills to approximately -($2.0 million) and elimination of Reconstruction Debt Service Offset (-$4.0 million) offset by increase in RTS and interest income.

Debt Service and PAYGO

Debt service cost is up $6.6 million (equivalent to a 0.9% rate increase).

The staff requested scenario assumes an increase in PAYGO to $44.0 million, up $13.0 million from FY 2023. (equivalent to a 1.8% rate increase).

Regional Sewage Disposal

Regional Sewage Disposal expenses (based on actual WSSC Water sewage flows to the Blue Plains Wastewater Treatment Plant) are up $3.8 million (0.5% rate increase).

All Other expenses, particularly Services by Other and Professional Services is up by $21.5 million or 2.9%

Heat, Light and Power

Heat, Light and Power costs are expected to increase by $7.7 million (1.0% rate increase).

Salaries and wages increase by $6.7 million and cover cost-of-living adjustments. WSSC Water is expecting a COLA of 2.5%. Historically, the Councils have supported WSSC Water compensation levels comparable to County Government compensation adjustments.

Fund Balance and "Days Operating Reserve on Hand"

WSSC Water has a fund balance in excess of its target (beyond its 20% policy reserve level). Its fund balance projection at the end of FY 2023 is $265.2 million, while its 20% working reserve is about $182.2 million, leaving $83.0 million in excess reserves.

WSSC Water staff continues to support a 120 to 150 Days Operating Reserves-on-Hand as an appropriate target to allow WSSC Water to handle a major event causing a temporary loss in revenue generation. The staff requested scenario puts WSSC Water Days of Operating Reserves-on-Hand at 168.7 which exceeds the target.

Residential Bill Impact under the Revised Base Case Scenario

The monthly impact of the staff requested scenario rate increase on the average residential account using 165-gallons per day is $20.56 per quarter or $6.85 a month (a 8.0% increase from the current average bill). The quarterly bill for a customer using 165 gallons per day would go from $256.72 to $277.28, a $20.56 increase.

Leverage Ratio

In the staff requested Scenario 1, the leverage ratio increases from 9.5 in WSSC Water's base case to 9.7. Fitch has stated that "failure to secure rate increases that maintain satisfactory liquidity and declining leverage" could lead to negative rating action and that "sustained improvement in the system's financial performance supporting leverage comfortably below 10.0x" would be required to stabilize the outlook. The WSSC Water 8.0% base case leverage ratio of 9.5 is below the 10.0 upper bound target but may not meet Fitch's "comfortably below 10.0" criterion and the staff requested Scenario 1 leverage ratio of 9.7 is less likely to assuage the concerns raised by Fitch. To avoid a negative rating action, WSSC Water may determine that reductions to the CIP are required under the lower Scenario 1 rate increase to address the financial metric concerns of the rating agencies. As previously mentioned, the majority of the deferrable capital projects are located in Prince George's County.

Table 9: Customer Bill Impact Staff Requested Scenario Case

Residential Customer Impact	Quarterly Bill Base Case	% Base Case	Quarterly Bill Staff Request	% Bill Council Rec.
Proposed Rate Increase	8.0%		7.0%	
Impact at 100 Gallons per day	$175.41	8.0%	$173.79	7.0%
Impact at 165 Gallons per day	$277.26	8.0%	$274.69	7.0%
Impact at 500 Gallons per day	$1,022.29	8.0%	$1,012.82	7.0%

Staff Recommendation

The impacts from COVID-19 are still having a prolonged effect on revenues. The utility is about $55 million in past dues and with interest rates rising as well as the cost of delivering service, the spending control limits process requires balancing WSSC Water revenue estimates and expenditures with what are reasonable rate increases to assume in the coming year. It should be kept in mind that the spending control limits approved by both Councils create a ceiling for the WSSC Proposed Budget, not a final budget.

Council Staff recommends the following:

- 7.0% rate increase in FY 2024
- The same level of new debt and debt service as provided in the Base Case.
- Assume $915,245,000 or $59,299,000 over the FY 2023 in Total Water and Sewer Operating Expenses.
- Fixed fees increase at the same rate as volumetric fees.

Spending Control Limits	**Council Staff Recommendation FY 2024**
Rate Increase	7.0%
New Debt	$379,960,000
Debt Service	$328,467,000
Total Water and Sewer Operating Expenses	$915,245,000

Attachments:

- Spending Affordability Bi-County Workgroup Meeting 9-28-2020
- Base Case and Rate Scenarios 1,2,3
- Public Hearing Testimony