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March 1, 2024

The Honorable Angela D. Alsobrooks
Prince George's County Executive
1301 McCormick Drive
Suite 4000
Largo, MD 20774

The Honorable Marc Elrich
Montgomery County Executive
Executive Office Building
101 Monroe Street - 2nd Floor
Rockville, MD 20850

Dear County Executive Alsobrooks and County Executive Elrich:

Pursuant to the provisions of Section 17-202, of the Public Utilities Article, WSSD Laws, Annotated Code of Maryland, transmitted herewith are the proposed capital and operating budgets for WSSC Water for the fiscal year commencing July 1, 2024. Public hearings were held in person on Tuesday, January 31 and Thursday, February 1. The hearings were also livestreamed.

On behalf of WSSC Water, I hereby transmit the Proposed Fiscal Year 2025 (FY 2025) Capital and Operating Budget. State law requires that before January 15, the WSSC Water publish a proposed operating and capital budget for the upcoming fiscal year. The law also requires a public hearing on the budget before February 15, and for a proposed budget to be submitted to the Counties by March 1. Accordingly, we have prepared a proposed budget for publication and public hearing purposes. This budget is released and distributed for review by interested customers, citizens and elected officials.

Budget Overview

The Proposed Budget for FY 2025 for all operating and capital funds totals \$1.8 billion or \$196.8 million (12.2%) more than the FY 2024 Approved Budget. The Proposed Operating Budget of \$1.0 billion represents an increase of \$88.6 million (9.5%) over the FY 2024 Approved Operating Budget of \$931.2 million. Additionally, the Proposed Capital Budget of \$791.3 million represents an increase of \$108.2 million (15.8%) over the FY 2024 Approved Capital Budget of \$683.1 million. In the Proposed Operating Budget, the fixed costs for debt service of \$365.4 million and payments to the District of Columbia Water and Sewer Authority Blue Plains Advanced Wastewater Treatment Plant for regional sewage disposal expenses of \$76.9 million, represent 43.3% of the total operating budget. Furthermore, these line items account for \$45 million or 51.5% of the of the overall increase in the operating budget compared to the previous year.

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Outcome Based Budgeting Approach

This year, we adopted a transparent outcome-focused approach to budgeting, ensuring meticulous alignment with our key priorities and required services for our customers. Risks are mitigated through our strategic allocation of resources across operating and capital expenditures. Work programs and funding are aligned to achieve the desired outcomes and optimal service delivery levels. The budget incorporates strategies to meet required financial metrics while balancing affordability and investment in our resources.

Revenue Enhancement: Lower than Requested

The Proposed FY 2025 Budget also includes an 8.5% average water and sewer volumetric and fixed fees revenue enhancement. WSSC Water engaged a consultant to perform a cost-of-service study and the allocation of the 8.5% revenue enhancement between fixed and variable rates has changed based on the results of the study. While WSSC Water understands the difficulties associated with a revenue enhancement in the current economic climate, we are experiencing historic inflation throughout the supply chain, as well as substantial unforeseen spikes in Blue Plains Regional Sewage Disposal costs that are much higher than inflation. **It should be noted that the Proposed Budget does not include an additional increase of \$4 million in regional sewage disposal costs recently provided by DC Water.** These challenges make the revenue enhancement vital to fulfilling our mission to provide safe, clean, and reliable water, life's most precious resource, to our customers. We initially requested an 11.6% revenue enhancement to keep pace with rising costs of service, address deferred improvements that were a result of pandemic revenue downturn, keep wages competitive to retain and recruit talent to serve, and improve financial metrics to protect the AAA rating. However, both County Councils recommended a spending affordability guideline revenue enhancement limit of 8.5%. The recommendation of a lower than needed revenue enhancement is a recurring trend that results in continued budget reductions that could significantly impact services, needed investments in treatment facilities and investments in Team H2O including anticipated requests from the Labor Unions for compensation improvements relative to contract negotiations. The impact is a revenue strain that is compounded each year.

Budget Reduction Impacts: FY 2025 Proposed Budget

As part of our due diligence process, we reduced submitted budget requests by \$31.4 million to help us adjust our requested revenue enhancement to an 11.6% average revenue enhancement. Reductions would have been higher were it not for increases in non-rate revenue totaling \$17.5 million (miscellaneous fees, multi-jurisdictional cost sharing, interest income), as well as \$5.9 million in proactive reductions (expiring contracts and changes in anticipated spending). Additionally, \$26.4 million in cuts were required to get from an 11.6% average revenue enhancement to the recommended 8.5%. Reductions to original

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department requests total \$81.2 million and are summarized in the budget document. Also summarized are funded initiatives.

Customer Impacts and Enhancements to Assistance Programs

The 8.5% revenue enhancement reflects the recommendations from the cost of service and will add approximately \$25.49 per quarter to the bill of a customer using 145 gallons per day, the average per person consumption of 145 gallons per day for a 3-person household. Despite this increase, WSSC Water rates remain competitive and continue to compare favorably to many other comparable, regional water and sewer utilities. The average residential bill is approximately 1.0% of the median household income.

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 clean, safe drinking water and efficient wastewater treatment compares favorably to other household utilities and expenses, more residents are challenged with meeting their monthly expenses during these unprecedented and uncertain times. However, it is essential to price water at the cost of safely producing and delivering this essential resource and to offer assistance programs for our most vulnerable customers. The Customer Assistance Program (CAP) was created in FY 2016 to help economically challenged customers by providing financial assistance with water and sewer bills. The CAP has already reached thousands of our customers in the current fiscal year. The CAP will continue in FY 2025 and the proposed budget estimates the revenue offset at \$2.2 million.

Effective January 1, 2024, CAP, non-CAP and single-unit commercial customers impacted by certain eligible high bills may qualify for an adjustment for up to two consecutive billing periods. CAP customers will now qualify for a high bill adjustment if the high usage is at least 2.5 times greater than their historical usage. The program adds a sewer-only adjustment for water lost to a leak that does not enter the sewer system.

Effective July 1, 2024, enrollment for CAP customers will be extended from one year to two years. CAP customers typically must reenroll beginning every July 1 through the Maryland Department of Human Services Office of Home Energy Programs. Note that CAP customers are automatically enrolled in the Bay Restoration Fund exemption, which waives the state-mandated Bay Restoration Fund fee of up to \$60 per year.

The Water Fund is another program that aids eligible customers in need of assistance. Customers can make multiple requests for assistance with water and sewer bills up to \$500 per year. For FY 2025, \$500,000 is included for the Water Fund. In the past, the Water Fund was funded via donations. Also, in anticipation of approval of a modification to House Bill 408 enacted in the FY 2018 legislative session, the budget funds \$200,000 to continue the Connection Pipe Emergency Replacement Loan Program, which will provide affordable financing of up to \$10,000 per eligible customer. This is an increase of \$100,000. The new legislation proposes coverage for sewer pipes.

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Under the new CAP Leak Repair Program, CAP-enrolled customers impacted by an on-property leak will be eligible to participate in this new program, which is expected to be rolled out in fall 2024. The budget for this new program is \$350,000 and it will be administered by a third-party nonprofit selected by WSSC Water and repairs must be made by a WSSC Water-registered plumber. The total cost of services provided to any CAP customer cannot exceed \$9,000.

The budget also includes \$3.3 million for PromisePay. This financial assistance program allows residential and commercial customers with past-due bills to establish affordable, flexible and interest-free payment plans. The total of all customer assistance programs in the FY 2025 budget is \$7.7 million. This is a \$4.2 million or 118% increase over the FY 2024 budget for customer assistance.

	FY 2024	FY 2025
Customer Assistance Program	\$ 2,200,000	\$ 2,200,000
Bill Adjustments	1,212,000	1,212,000
PipeER Program	100,000	200,000
CAP Leak Repair Program		350,000
Water Fund Donation		500,000
PromisePay		3,300,000
Total Budget for Assistance Programs	\$ 3,512,000	\$ 7,762,000


Conclusion

The Proposed Budget will allow WSSC Water to continue to protect public health and safety by providing safe, clean, and reliable water. Fulfilling this critical mission remains a challenge given financial constraints coupled with the limited external funding available to support capital investments, and virtually no subsidies available to support rising operational costs. We are balancing the needed investments to maintain the infrastructure and staff required with the need to maintain solid financial metrics to preserve our AAA bond rating. This Proposed Budget based on an 8.5% average revenue enhancement does support some of WSSC Water's strategic priorities, but the impact on services to our customers through continued spending constraints remains a concern.

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Montgomery County Executive

Sincerely,

DocuSigned by:

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Regina Y. Speed-Bost
Commission, Chair

cc:

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