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March 01, 2025

The Honorable Tara H. Jackson, Prince George's Acting County Executive
The Honorable Marc Elrich, Montgomery County Executive
The Honorable Jolene Ivey, Chair, Prince George's County Council
The Honorable Kate Stewart, President, Montgomery County Council

Dear Ms. Jackson, Mr. Elrich, Ms. Ivey, and Ms. Stewart:

On behalf of WSSC Water, I hereby transmit the Proposed Fiscal Year 2026 (FY 2026) Capital and Operating Budget. This budget is released and distributed for review by interested customers, citizens, and elected officials.

Budget Overview

The Proposed Budget for FY 2026 for all operating and capital funds totals \$1.8 billion or \$21.7 million (1.2%) more than the FY 2025 Approved Budget. The Proposed Operating Budget of \$1.1 billion represents an increase of \$116.2 million (11.4%) over the FY 2025 Approved Operating Budget of \$1.0 billion. Additionally, the Proposed Capital Budget of \$696.8 million represents a decrease of \$94.5 million (-11.9%) from the FY 2025 Approved Capital Budget of \$791.3 million. The non-discretionary items such as debt service, PAYGO financing of capital projects, payments to the District of Columbia Water and Sewer Authority's Blue Plains Advanced Wastewater Treatment Plant for regional sewage expenses along with rising chemical, biosolids hauling and energy costs represent 55% of the FY 2026 Operating Budget. The non-discretionary items make up 56% of the increase in FY 2026 Operating Budget.

Outcome Based Budgeting Approach

This year, we continued our 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.

Commitment to Affordability and Customer Assistance Programs

The 9.8% average revenue enhancement will add approximately \$8.80 per month or \$26.41 per quarter to the bill of a customer using 145 gallons per day, the average per person consumption of 48 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 struggling to meet 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 total of all customer assistance program support in the FY 2026 Proposed Budget is \$8.9 million, an increase of \$1.1 million or 14% from FY 2025. The Program includes:

- 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 2026 and the proposed budget estimates the revenue offset at \$2.2 million.
- 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 2026, \$750,000 is included for the Water Fund. This is a \$250,000 (50%) increase over FY 2025. Prior to FY 2025, the Water Fund was funded via donations.
- The Connection Pipe Emergency Replacement Loan Program provides affordable financing of up to \$10,000 per eligible customer. The budget for this program is \$200,000.
- Under the new CAP Leak Repair Program, CAP-enrolled customers impacted by an on-property leak will be eligible to participate in this program. CAP Leak Repair was rolled out in fall 2024 and is administered by The Habitat for +XPDQLW. 7KH budget for this new program is \$350,000 and repairs must be made by a WSSC Water-UHJLVWHUHG SOXPEHU. 7KH WRWDO FRVW RI VHUYLGHV SURYLGHG WR DQI &\$3 FXVWRPHU cannot exceed \$9,000.
- Promise Pay is a financial assistance program allows residential and commercial customers with past-due bills to establish affordable, flexible, and interest-free

payment plans. The budget includes \$3.6 million for Promise Pay which is a \$330,000 increase over FY 2025.

- Additional \$525,000 is set aside that may be allocated to the Water Fund, based on current year trends, or for an establishment of a new program.

Funded Essential Programs, Initiatives, and Improvements

In addition to supporting enhancements to customer assistance programs, the budget funds the following essential programs, initiatives, and improvements:

- Safe Drinking Water Act and Clean Water Act compliance
- Private Side (customer) lead water service line replacement - \$33.6 million in FY 2026
- EPA Lead and Copper Rule regulatory compliance
- Comprehensive Per- and Polyfluoralkyl Substances (PFAS) management strategy
- Operations and maintenance of our \$9 billion in critical infrastructure assets to support our core mission
- Debt service to support the capital improvements program
- Reduced reliance on bonds via increases to the PAYGO allocation
- Adherence to financial metrics to retain our AAA bond rating
- Inspection of large diameter pipes and valve exercising
- Investments to ensure operational reliability and resilience
 - Upgrading Water Filtration and Water Resource Recovery Facilities to drive operational cost savings and maintain compliance
 - Upgrading aging pumping stations and force mains
 - Modernizing our meter infrastructure
- Carry forward compensation improvements made in FY 2025 for Team H2O to address stagnant wages below market, establish a living minimum wage, and improve recruitment and retention of workforce

Our Most Valuable Resource – Team H2O

As a water and wastewater utility, WSSC Water is competing for necessary resources with at least eight other water and wastewater utilities in the region as well as PEPCO, BGE, WMATA and other private companies that have had the ability to offer higher wages. To address this challenge, WSSC Water recently completed an assessment of our Total Rewards Program to build on the phased compensation improvement efforts started in FY 2024, to improve recruitment and retention efforts. This budget includes a marker for COLAs and merits for Team H2O as well as the addition of 77 new workyears.

- 29 support regulatory requirements
- 20 support and enhance operations

- 28 are budget neutral - conversion of contract positions to permanent

Facilities Reliability

The budget anticipates the implementation of comprehensive water and wastewater facilities condition assessment and improvement planning. The goals of Water and Wastewater Facilities Plans are to provide a long term infrastructure roadmap based on analyses of future capital investment needs necessary to meet service and regulatory mandates; protect the health and safety of customers, employees, and the environment; reduce business risk exposures; provide an exceptional level of service while sustaining operational efficiency, reliability, and resilience; maintain a state of good repair of WSSC Water's assets and systems; implement WSSC Water's initiatives, plans and policies; and advance Prince George's and Montgomery counties' priorities. Justice, Equity, Diversity and Inclusion are core elements of WSSC Water's infrastructure planning to ensure underprivileged communities benefit from equitable infrastructure access and economic opportunities.

The budget proposes numerous capital and facility investments such as:

- Invest \$35.0 million in Master Planning and Facilities Planning and Investments.
- Invest \$33.6 million in Lead and Copper Reduction regulatory compliance.
- Invest \$23.8 million in the Anacostia Depot Reconfiguration for mechanical upgrades at the warehouse and the heavy equipment shop and the replacement of the warehouse' roof.
- Invest \$9.5 million to replace and upgrade assets at the Support Center that have reached the end of their useful lives such as:
 - Replacement of the primary 13.2 KV switchgear and associated equipment that supply power to the building and replacement of the emergency generators and fuel tanks.
 - Restacking - Renovation Lobby level, 2nd- 8th-10th and 12th floor levels.
 - Blazer Unit Replacement on the 2nd, Lobby and Lower levels.
 - Facade and Screen Wall Rehabilitations and replacement of existing Green Roof.
- Invest \$79.5 million to replace 27 miles of water pipe in the Water Reconstruction Program.
- Invest \$51.6 million to replace 25 miles of sewer pipe in the Sewer Reconstruction Program.
- Invest \$54.6 million to replace 6 miles of large diameter water pipe in the Large Diameter Water Pipe & Large Valve Rehabilitation Program.
- Invest \$41.9 million to replace 10 miles of trunk sewer line in the Trunk Sewer Reconstruction Program.

Infrastructure Reliability

The budget proposes the rehabilitation of 27 miles of smaller water mains (<16 inches in diameter), as WSSC Water begins to ramp back up towards our asset management plan goal of 45 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 Prestressed Concrete Cylinder Pipe (PCCP) Program provides for the ongoing Acoustic Fiber Optic monitoring of over 110 miles of pipe, ongoing inspection, and rehabilitation and replacement of large diameter pipes. Inspection, rehabilitation, and replacement of large valves continues at two per year. The PCCP program will continue building toward a goal of replacing up to two miles per year, with several projects in the planning and design phases. Replacement of ferrous pipes is projected at four miles. Funding is also included for the continued compliance with all requirements of the WSSC Water Sanitary Sewer Overflow and Potomac Water Filtration Plant Consent Decrees.

Information Technology Strategic Plan

Information Technology is committed to providing a safe and reliable computing infrastructure that effectively meets the current and future needs of the Commission. The FY 2026 budget invests in system upgrades and replacements, as well as our people. Funding is included to continue enhancing our Cyber Resilience program to mitigate cybersecurity risks efficiently and effectively by ensuring our electronic data and computer systems and networks remain protected from theft, attack, or unauthorized access. Cyber Resiliency program initiatives include artificial intelligence threat detection, new end-user security awareness training and risk reduction of identity theft through two-step authentication. Funding is also being made available to support modernization of some of our older solutions including work and asset management, customer service, financial and human resources applications and the deployment of AI and predictive analytics, digital twin technology and enhancing customer and employee engagement consistent with the objectives of WSSC Water's new strategic plan and its digital transformation priority.

Rate Increase

The FY 2026 Proposed Budget is supported by a 9.8% average water and sewer volumetric and fixed fees rate increase. While WSSC Water understands the difficulties associated with a revenue enhancement in the current economic climate, we continue to experience inflation throughout the supply chain, as well as substantial increases in Blue Plains Regional Sewage Disposal costs that are much higher than inflation. These challenges make the rate increase vital to fulfilling our mission to provide safe, clean, and reliable water, life's most precious resource, to our customers. During the spending affordability discussions our preliminary "same services" budget was presented with a 12.2% revenue enhancement to keep pace with rising costs and 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 WSSC Water's AAA bond rating. However, the Montgomery County Council recommended a spending affordability guideline rate increase limit of 10.2% while Prince George's County recommended 9.0%. WSSC Water's Finance Team has therefore assessed the requested programs and headcount requests to fund the most critical needs while making reductions in the proposed budget.

Budget Reductions: FY 2026 Proposed Budget

Department budget requests as submitted would have required a 16.2% revenue enhancement. The following reductions were made to reduce the rate increase requirement to 10.2% average revenue enhancement:

- PAYGO - \$23.5 million
- Unfunded new requests - \$9.3 million
- Departmental reductions - \$7.4 million
- Lapse (vacancy rate) increased from 3% to 4% - \$2.1 million
- Phase-in of 23 new positions - \$0.7 million

To further reduce the rate increase, the Finance Team was able to identify non-rate revenue to offset a portion of the enhancement request. A true up was made to interest income based on FY 2024 and YTD FY 2025 actuals, and the reduction of uncollectible allowance accelerated to begin in FY 2026 versus FY 2027 based on the revenue collection trends.

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 Washington, DC metropolitan area (CPI-W). Since 2000, WSSC Water has adjusted the maximum allowable charge based on the change in the November CPI-W with no changes to the actual fee. This year, WSSC Water plans to increase the maximum allowable charge as well as the SDC by the change in the CPI-W, 2.5%.

Conclusion

The budget continues to be a significant challenge due to the continued approval of lower than requested rates and the impact of inflation all while ensuring WSSC Water continues to protect public health and safety by providing safe, clean, and reliable water and maintaining our AAA bond rating. This Proposed Budget is based on a 9.8% average revenue enhancement and supports WSSC Water's strategic priorities, includes significant improvements and enhancements to existing programs and funds new regulatory programs.

Sincerely,

DocuSigned by:
T. Eloise Foster
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T. Eloise Foster
Commission, Chair

cc:

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