




THE PRINCE GEORGE'S COUNTY GOVERNMENT


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County Council

April 13, 2023

TO: Eric C. Olson, Chair
Transportation, Infrastructure, Energy and Environment (TIEE)
Committee

FROM: Lavinia A. Baxter, Senior Legislative Budget and Policy Analyst 
Budget and Policy Division

THRU: Jennifer A. Jenkins 
Council Administrator

RE: **WSSC Water FY 2024 Operating, Capital and Capital
Improvements Program (CIP) Budget Report**

This report contains a detailed summary of the Washington Suburban Sanitary Commission (WSSC Water) FY 2024 Proposed Operating, Capital and Capital Improvements Program (CIP) budgets, including an overview of revenues and expenditures, updates and highlights of major projects, discussion points of key performance indicators, and staff's recommendation. The purpose of this report is to provide the Prince George's County Councilmembers with relevant information to support a staff recommendation which allows for a WSSC Water rate increase to meet the County's system demands. This report is the result of collaboration with County staff represented by the Office of the County Executive, Office of Finance, and Audits and Investigations, along with the WSSC Water management team.

Committee Report Outline

- Section 1: WSSC Water Goals and Budget Overview
- Section 2: Proposed Rates, Fees and Charges
- Section 3: Spending Affordability Guidelines (SAG)
- Section 4: Revenues
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Section 1: WSSC Water Goals and Budget Overview

The Washington Suburban Sanitary Commission (WSSC Water/Commission) provides water and sewer services to approximately 1.9 million residents of Prince George's and Montgomery Counties. To fulfill its primary mission of providing safe and reliable water and returning clean water to the environment, WSSC Water operates and maintains an extensive array of highly automated facilities. WSSC Water's two water filtration plants (WFP), drawing raw water from the Potomac and Patuxent Rivers, are projected to produce an average of 162 million gallons of water per day in FY 2024, and deliver that water to homes and businesses in the region through a system of 6,000 miles of water mains. To ensure a reliable water supply, WSSC Water operates three reservoirs with a total capacity exceeding 14 billion gallons.

Sewage treatment is provided by six water resource recovery facilities (WRRF) and the Blue Plains Advanced Wastewater Treatment Plant (Blue Plains) operated by the DC Water and Sewer Authority (DC Water). In FY 2024, it is projected that an average of 194.4 million gallons of wastewater per day will move to these facilities through over 5,700 miles of sewer lines maintained by WSSC Water. The six WRRFs owned by the WSSC Water have a combined capacity of 95 million gallons per day (MGD). It should be noted that WSSC Water pays a proportionate share of the Blue Plains' operating and capital expenses. All but one of these facilities (Hyattstown plant) go beyond the conventional wastewater treatment to provide advanced treatment processes which ensures that the quality of the treated wastewater is better than the quality of the natural water to which it is returned.

FY 2024 Proposed Operating and Capital Budgets

The proposed total budget for FY 2024 for all operating and capital funds totals \$1.6 billion or \$144.9 million (9.9%) more than the FY 2023 Approved Budget, and is based on an assumed 7.0% average rate increase and a 7.0% increase to the Account Maintenance Fee (AMF) and the Infrastructure Investment Fee (IFF). To accommodate this budget \$13.4 million in reductions were made to the Production, Information Technology, Utility Services, Human Resources, General Services, and Asset Management departments/divisions.

The chart on the next page shows a summary of expenditures by the major operating and capital funds for Approved FY 2023 Budget and Proposed FY 2024 Budget.

Comparative Expenditure By Fund						
(\$ in Thousands)	FY 2021 Actual	FY 2022 Actual	FY 2023 Approved	FY 2024 Proposed	FY 2024 Over/(Under) FY 2023	% Change
Operating Fund						
Water	\$335,324	\$339,252	\$379,808	\$421,293	\$41,485	10.9%
Sewer	401,300	423,829	476,137	503,059	26,922	5.7%
General Bond Debt Servic	12,006	10,720	8,661	6,830	(1,831)	-21.1%
Total Operating	748,630	773,801	864,606	931,182	66,576	7.7%
Capital Fund						
Water Supply	\$142,441	\$138,613	\$239,027	\$315,582	\$76,555	32.0%
Sewage Disposal	265,865	238,063	343,081	333,298	(9,783)	-2.9%
General Construction	18,587	21,131	22,674	34,189	11,515	50.8%
Total Capital	426,893	397,807	604,782	683,069	78,287	12.9%
Grand Total	\$1,175,523	\$1,171,608	\$1,469,388	\$1,614,251	\$144,863	9.9%

Operating Funds

The Proposed Operating Budget of \$931.2 million represents an increase of \$66.6 million (7.7%) over the FY 2023 Approved Operating Budget of \$864.6 million. The proposed budget funds several essential priorities for compliance and infrastructure improvements, including:

- Compliance with the revised Lead & Copper Rule
- Water tank painting to prevent metal corrosion
- Maintaining Information Technology (IT) investments in cybersecurity and new and upgraded IT applications
- Inspecting large diameter pipes and valve exercising
- Acoustic fiber optic (AFO) monitoring of pre-stressed concrete cylinder pipes (PCCP)
- Maintenance and repairs at facilities
- Removal of sediment at the Little Seneca Forebays

Capital Funds

The Proposed Capital Budget of \$683.1 million represents an increase of \$78.3 million (12.9%) from the FY 2023 Approved Capital Budget of \$604.8 million. This increase is due to recent inflationary trends and the restoration of reductions totaling \$110.5 million that were made to the FY 2023 Approved Capital Budget.

- Increase of approximately \$15.6 million to the Water Reconstruction Program (reduced by \$27.7 million in FY 2023)
- Increase of \$33.7 million for Large Diameter Water Pipe & Large Valve Rehabilitation Program (reduced by \$18.6 million in FY 2023)
- Increase of \$12.5 million for Prince George's County water projects (2 water supply projects were deferred for one year in FY 2023, totaling \$37.0 in reductions)

- An increase of \$7.7 million for the Engineering Support Program (reduced by \$5.7 million in FY 2023)
- An increase of \$6.1 million for other Capital Programs (reduced by \$5.2 million in FY 2023)

Five Prince George's projects totaling \$37,653,000 that were deferred last year are fully funded to restart work in the Proposed FY 2024 Capital Budget. They include:

- Carsondale WWPS & FM (\$345K)
- Colmar Manor WWPS & FM (\$173K)
- Forest Heights WWPS & FM (\$173K)
- Prince George's County 450A Zone Water Main (\$14.4M)
- South Potomac Supply Improvement, Phase 2 (\$22.6M)

*A map of the capital projects located in Prince George's County is included in the Proposed Budget book on page 8-6. The map does not include projects with multiple jobsites, like the water and sewer reconstruction programs.

It is important to note that WSSC Water's budget is capital intensive and driven by changes in the construction market, commodity prices and tariffs. It is not driven by the Consumer Price Index (CPI). Many of these costs are legally mandated and not easily deferred or reduced. Other investments which drive the WSSC Water capital budget, include:

- Compliance with the Sanitary Sewer Overflow (SSO) Consent Decree
- Compliance with the Potomac Water Filtration Plant Consent Decree
- Environmental regulations directives
- Maintaining security of the water infrastructure
- Security of staff and field personnel

Information Technology improvements

Financial Assistance Programs

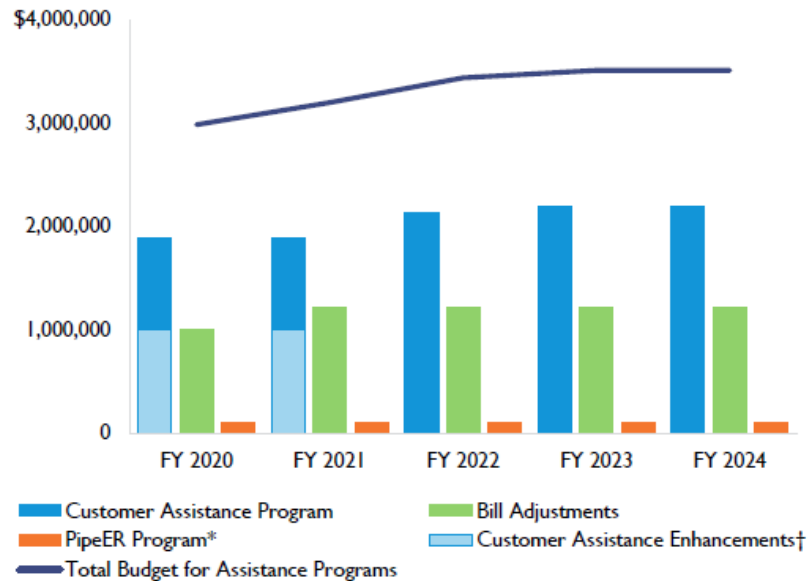
With residents struggling to meet their monthly expenses, WSSC Water has maintained its FY 2024 financial assistance at the FY 2023 level to continue providing relief to thousands of customers. Programs include the following:

- Customer Assistance Program (CAP)
- Water Fund
- PipeER Program (also known as the Connection Pipe Emergency Replacement Loan Program)
- Bay Restoration Fund Exemption Program
- Bill adjustments
- Flexible payment options

WSSC Water has increased funding levels for these various financial assistance

programs by approximately 18% over the last several years from \$3.0 million in FY2020 to over \$3.5 million in FY 2024. In FY 2024, the CAP, which is funded by WSSC Water revenues, is proposed to be maintained at \$2.2 million. Out of all the County’s CAP customers, 5,484 are delinquent. To date, approximately 16,000 customers have been assisted in both Montgomery and Prince George’s Counties with more than 10,000 in Prince George’s County.

WSSC Water Financial Assistance Programs Budget



*The PipeER Program was established in FY 2020.

CAP customers who qualify based on income eligibility are exempt from fixed fees and receive credits capped in FY 2024 at \$31.90 per quarterly bill or \$127.60 per year.

Section 2: Proposed Rates, Fees and Charges

The FY 2024 proposed budget calls for a combined 7.0% average rate increase for water consumption, sewer revenue, AMF and IIF. This proposed increase meets the 7.0% Spending Affordability Guidelines, recommended by Prince George’s and Montgomery Counties. The budget will be funded by the following proposed variable and fixed fees rates and charges.

I. Infrastructure Investment Fee

The Infrastructure Investment Fee (IIF) funds a portion of the debt service associated with the Commission’s water and sewer pipe reconstruction programs. The IIF is expected to generate approximately \$44.2 million,

which includes a 7% rate increase, in FY 2024 as compared to the \$41.3 million in FY 2023.

II. Account Maintenance Fee

The Account Maintenance Fee (AMF) recoups servicing costs associated with the maintenance of customers' accounts. The AMF is expected to generate \$36.3 million, which includes a 7% rate increase in FY 2024 as compared to \$33.9 million in FY 2023 (For more details, please see the FY 2024 Proposed Budget book page 2-4).

III. System Development Charge

No increase is proposed for the System Development Charge (SDC) for FY 2024 in any category. State law provides for SDC 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 (CPI) for the Washington, DC area. (For more details see, FY 2024 Proposed Budget, page 2-6).

IV. Miscellaneous Fees

WSSC Water provides a number of services for which separate fees or charges have been established. Each year WSSC Water reviews fees and charges to ensure that they are in line with costs based upon a derived costing methodology. Fees and charges may experience an increase or decrease as cost profiles change in relation to introduction of technology, addressing new regulations or requirements, service levels, benchmarking, and staff compensation changes. (For more details see, FY 2024 Proposed Budget pages 2-7 through 2-16).

V. Other Revenues

In past years, other revenues included the Reconstruction Debt Service Offset (REDO). This was established in FY 1983 and used surplus funds in the General Bond Debt Service account to offset a portion of the debt service costs of the Systems Reconstruction Program, thereby benefiting all ratepayers. The Offset, a transfer of funds from the General Bond Debt Service to the Water and Sewer Operating Funds, is zero in FY 2024, since the unallocated balance in the General Bond Debt Service Fund is exhausted. Associated expenses will be incorporated into the rate structure. The REDO for FY 2023 was approved at \$4.0 million.

**Combined Water/Sewer Operating Funds
FY 2024 Proposed Rate Impact**

7.0% Average Water and Sewer Rate Increase

Funding Sources	FY 2023 Approved (\$ in thousands)	FY 2024 Proposed (\$ in thousands)
Revenues		
Consumption Charges	\$ 707,460	\$ 738,450
Account Maintenance Fee	31,838	36,259
Infrastructure Investment Fee	38,794	44,180
Uncollectable	(6,000)	(7,901)
Revenue Shortfall	(7,041)	
Miscellaneous Revenues	42,315	60,945
Subtotal	807,366	871,933
Reconstruction Debt Service Offset	4,000	
Systems Development Charges Offset	5,772	5,772
Underwriter's Discount	2,000	2,000
Premium Transfer	2,500	
Miscellaneous Offset		1,200
Total Funding Sources	821,638	880,905
Expenditures		
Operating, Maintenance & Support Services E	503,085	551,885
Debt service	321,844	328,467
Debt Reduction (PAYGO)	31,016	44,000
Additional Cash Balance Reserve	16,269	8,245
Total Expenditures	872,214	932,597
Shortfall to be Covered by Rate Increase	\$ (50,576)	\$ (51,692)

Section 3: Spending Affordability

In May 1993, the Prince George’s and Montgomery County Councils created the Bi-County Working Group on WSSC Spending Controls to review WSSC Water’s finances and recommend spending control limits. The Working Group

recommended the Counties set annual ceilings on WSSC Water’s rates and debt (bonded indebtedness and debt service), and then place corresponding limits on the size of the capital and operating budgets.

Each year, the spending affordability process focuses on balancing these considerations against resources to serve existing customers, meet environmental mandates, and maintain budgets and debt service at prudent and sustainable levels.

The agency has submitted an annual budget which generally conforms to the Spending Affordability Guidelines (SAG) established by both County governments every year since 1994.

For the 2024 fiscal year, Montgomery and Prince George’s Counties recommend a 7.0% SAG limit. *WSSC Water’s proposed budget is based on a 7.0% rate increase.*

WSSC Water FY 2024 Proposed Budget vs. Spending Affordability Limits
(\$ In Millions)

	Prince George's County	Montgomery County	FY 2024 Proposed Budget
New Water and Sewer Debt	\$380.0	\$380.0	\$380.0
Total Water and Sewer Debt Service	\$328.5	\$328.5	\$328.5
Total Water and Sewer Operating Expenses	\$915.3	\$915.3	\$924.4*
Water & Sewer Rate Increase	7.0%	7.0%	7.0%

* The exceedance is covered by offsetting funding sources

The 7.0% Proposed Budget provides for:

- Implementing the first year of the FYs 2024-2029 Capital Improvement Program (CIP);
- \$64 million for the District of Columbia Water and Sewer Authority's (DC Water) Blue Plains Wastewater Treatment Plant. Based on the revised projections provided by DC Water, the cost is anticipated to increase by 11% to \$71 million;
- 7.0% Water & Sewer Average Rate increase (Volumetric and Fixed);
- 40 new positions added to support Production, Engineering & Construction, and Customer Service (31);
- Capital Budget increase of 12.9%;
- Operating Budget increase of 7.7%;
- Paying debt service of \$333.2 million; and
- Operating and capital funds totals of \$1.6 billion or 9.9% above FY 2023.

Additionally, the budget pays for essential improvements which include:

- Expanding repair work at our facilities; water tank painting (4) to prevent metal corrosion;
- Maintaining Information Technology (IT) investments in cybersecurity and new and upgraded IT applications;

- Supporting compliance with amendments to the Federal Lead and Copper Rule;
- Removing sediment from the Little Seneca Forebay;
- Funding \$3.5 million for the financial assistance program which includes \$2.2 million for Customer Assistance;
- Funding the first year of the six-year Capital Improvements Program; and
- Acoustic Fiber optic monitoring of pre-stressed concrete cylinder pipes (PCCP)

Major Assumptions and Workload Summary

Below is a summary of the budget outcomes from the FY 2024 SAG process:

- I. Fund Balance – At the end of FY 2023, accumulated net revenues for water and sewer operating funds may total \$266.6 million or \$100.4 million more than the previous fiscal year. In FY 2024, the total water and sewer operating revenues in are \$923.6 million; with at least \$184.7 million (\$90.1 million more) held in accumulated net revenues with a 20% reserve policy, an increase of 5% more than the previous year’s reserve policy. Budgeted accumulated net revenue of \$274.8 million exceeds the reserve target and is 30.0% of the total operating revenues. However, the days operating reserves on hand metric is projected to be just 250 which is on target for reporting agencies metrics.
- II. Revenues – The estimated FY 2024 revenues for water consumption and sewer use charges are \$355.1 million and \$435.0 million respectively. Water production is assumed to be 162.0 million gallons per day. Water consumption is projected to slightly increase from 124.5 MGD in FY 2023 to 124.7 MGD in FY 2024.
- III. Capital Budget – The Capital Budget includes expenditure estimates for all projects for which work is reasonably expected to be accomplished. This provides management with maximum flexibility to proceed on the many and diverse projects approved each year in the budget. The FY 2024 Capital Budget is \$683.1 million.
- IV. Debt Service – The debt service estimates for FY 2024 assumes that \$191.4 million in water bonds and \$188.6 million in sewer bonds will be issued in FY 2024, in addition to repayment of existing debt. The WSSC Water’s water and sewer issues will be 30-year bonds with an estimated 4.5% net interest rate (increase of .5% over last FY). Projected Debt Service Coverage ratio is only 1.3 which is just slightly below the 1.5 target. Beginning this year, the target increased from 1.10-1.25 range ≥ 1.5 .
- V. Reconstruction Debt Service Offset (REDO) –Is a transfer made to defray the debt service on funds borrowed to finance water and sewer systems

reconstruction activities. There will be no transfer in FY 2024 as the fund balance has been spent down as planned.

- VI. Workforce and Compensation – For FY 2024, 1,836 work years have been funded which includes 40 authorized work years from the prior year. A marker is included for salary enhancements. Total compensation is budgeted at \$175,495,914 with \$14,244,190 in salary lapse.

Section 4. Revenues

Water consumption and sewer usage rates are the primary sources of revenue for the Water and Sewer Operating Funds. Revenue for the General Bond Debt Service Fund is primarily derived from front foot benefit and house connection charges. Revenues from the Water and Sewer Operating Funds are estimated at \$923.6 million in FY 2024. This is a \$65.7 million increase, or about 7.7% over the Approved Budget of FY 2023.

The FY 2024 proposed total revenues for Water and Sewer Operating Funds are \$932.6 million, including transfers and credits that amount to \$8.9 million. WSSC Water proposes to spend \$348.9 (37.5%) in the category of operations and maintenance and \$333.2 (35.8%) for debt service in FY 2024. These are the two largest operating expense categories.

Water and Sewer Operating Funds

The Water Operating Fund pays for water treatment and distribution, and the Sewer Operating Fund pays for sewage collection and treatment. The General Bond Debt Service Fund receives front foot benefit payments to underwrite the debt service on smaller lateral water and sewer lines

Operating Fund	Major Purpose	Major Revenue Source
Water Operating	Operate and maintain water facilities and pay debt service on Water Supply Bonds.	Customer Water Bills
Sewer Operating	Operate and maintain sewerage facilities and pay debt service on Sewage Disposal Bonds.	Customer Sewer Bills
General Bond Debt Service	Pay debt service on General Construction Bonds.	Front Foot Benefit Charges and Deferred House Connections Charges

It is projected in the FY 2024 operating budget that \$790 million in revenues (excluding offsets and use of fund balance) will come from water and sewer consumption charges. Revenues are assumed based on a water production level of 162 MGD.

Fund Balance

As shown below, The Proposed FY 2024 ending fund balance is higher than the projected FY 2023 ending balance for the combined Water and Sewer Operating Funds by 3.1% or \$8.3 million. The increase is primarily due to an effort to build up cash reserves and improve the financial metrics.

Additionally, the General Bond Debt Service Fund as proposed by the FY 2024 ending fund balance is 75.7% lower than the projected FY 2023 ending. Revenues for this fund are derived from the front foot benefit charge and the house connection fees. Developers now build these types of mains and this is expected to continue in the future which will continue to decrease this fund. The revenues that are currently collected are from prior assessments that are paid over multi-year periods. Surplus funds that have accumulated in the General Bond Debt Service Fund are transferred to the Water and Sewer Operating Funds to benefit all rate payers.

Fund (\$ in thousands)	Fund Balance - July 1st	Operating Revenues	Operating Expenses	Other Credits and Transfers	Adjust.	Fund Balance - June 30th	Fund Balance	
							Increase/ (Decrease)	% Chg
Water Operating								
FY 2023	\$ 80,255	\$ 389,731	\$ (379,808)	\$ 6,346	\$ 3,967	\$ 100,491	\$ 20,236	25.2 %
FY 2024	100,491	420,177	(421,293)	4,819	-	104,194	3,703	3.7 %
Sewer Operating								
FY 2023	162,299	468,211	(476,137)	7,926	3,811	166,110	3,811	2.3 %
FY 2024	166,110	503,448	(503,059)	4,153	-	170,652	4,542	2.7 %
General Bond Debt Service								
FY 2023	3,409	6,994	(8,661)	-	-	1,742	(1,667)	(48.9) %
FY 2024	1,742	5,511	(6,830)	-	-	423	(1,319)	(75.7) %

Operating expenses include debt service.

Population Served and Customer Accounts

WSSC Water’s population projected to be served in FY 2024 is expected to increase by 0.4%. As of June FY 2023, WSSC Water is estimated to have 477,000 active customer accounts. The majority of accounts are residential at 94.4%, followed by commercial and industry at 4.7% and government and other at 0.9%.

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 November Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the Washington, DC metropolitan area. Historically, WSSC Water has adjusted the maximum allowable charge and intends again this year. The proposed SDC funding for capital projects for FY 2024 is \$36.9 million, or \$7.37 million higher than funds provided in FY 2023 at \$29.6 million. For the FY 2024 Proposed Budget, the SDC offset is programmed at \$5.8 million.

Section 5: Expenditures

Comparative Expenses by Major Expense Category

(\$ in thousands)	FY 2022 Actual			FY 2023 Approved			FY 2024 Proposed		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Expense Categories									
Salaries & Wages	\$ 27,647	\$ 126,682	\$ 154,329	\$ 27,547	\$ 134,461	\$ 162,008	\$ 28,193	\$ 141,927	\$ 170,120
Heat, Light & Power	-	21,014	21,014	230	18,829	19,059	247	27,384	27,631
Regional Sewage Disposal	-	60,751	60,751	-	60,343	60,343	-	64,201	64,201
Contract Work	251,913	-	251,913	351,478	-	351,478	384,209	-	384,209
Consulting Engineers	42,322	-	42,322	72,122	-	72,122	84,116	-	84,116
Debt Service	-	289,214	289,214	-	328,524	328,524	-	333,201	333,201
All Other	75,925	276,140	352,065	153,405	322,449	475,854	186,304	364,469	550,773
Grand Total	\$ 397,807	\$ 773,801	\$ 1,171,608	\$ 604,782	\$ 864,606	\$ 1,469,388	\$ 683,069	\$ 931,182	\$ 1,614,251

Salaries and Wages

Salary and wages represent 15.2% or \$141 million of gross operating costs and show an increase of 5.5% from the Adopted Budget of FY 2023. WSSC Water's compliment or work years will grow by a total of 40 new positions. This year 31 positions are proposed for the Customer Care department. These will be offset by a \$3 million reduction in temporary services. Five (5) new positions are proposed for the Engineering and Construction department and four (4) new positions are in the Productions department.

Section 6: Debt Service

The proposed debt service expense is based upon paying the FY 2024 principal and interest payments on current outstanding debt as of June 30, 2022, as well as budgeted new debt issues approved in FY 2023 and the proposed issuance of \$380.6 million in new debt for FY 2024. The new debt for FY 2024 includes the following:

- \$191.4 million for water;
- \$188.6 million for sewer; and
- \$0.6 million for general construction

The proposed water and sewer operating debt service expense for FY 2024 is \$328.5 an increase of \$6.6 million or 2.1% more than the Approved FY 2023 Budget of \$321.8 million. The increase is primarily due to deferral, and reductions to the FY 2023 Approved Capital Budget to lower debt issuance. Additionally, inflation and higher interest rates have been a contributing factor.

Capital projects are financed primarily with long-term debt through the sale of bonds. WSSC Water bonds are issued to finance major water treatment, storage

and transmission facilities. These bonds are repaid to bond holders over a 30-year period by annual principal and interest payments. The annual debt service on outstanding bonds is paid from the Commission’s operating funds. The primary funding source for the repayment of debt is the revenue generated by water consumption and sewer use charges. Thus, the initial high cost of capital improvements is spread over time and paid for by future customers who will benefit from the facilities, as well as current customers. It is through this capital project financing process that the size of the CIP impacts the size of the water and sewer bond issues, which in turn impacts customers’ water and sewer bills.

The WSSC Water’s debt is repaid from water consumption and sewer use charges and front foot benefit charges.

Obtaining funding from other sources and through the use of PAYGO lowers WSSC Water’s borrowing requirements, which in turn lowers the debt service requirements and ultimately the customer’s bills. Other funding sources include:

- Payments from New Service Applications;
- System Development Charges;
- Payments from Local Jurisdictions; and
- State and Federal Grants.

The amount of new debt is calculated by adjusting for other funding sources and incorporating an expected construction completion rate.

Per Fiscal guidelines, WSSC Water will allocate at least \$44.0 million in PAYGO in FY 2024 to reduce the amount of planned debt issued for capital projects.

Capital Budget Expenditure Summary						
(\$ in Thousands)		FY 2023 Approved		FY 2024 Proposed		\$ Change % Change
Capital Improvement Program						
	Montgomery County Water	\$2,621		\$3,133		\$512 19.53%
	Prince George's County Water	26,925		39,443		\$12,518 46.49%
	Bi-County Water	104,105		142,441		\$38,336 36.82%
	Montgomery County Sewer	\$4,242		\$10,106		\$5,864 138.24%
	Prince George's County Sewer	57,000		66,393		\$9,393 16.48%
	Bi-County Sewer	218,559		180,166		(\$38,393) -17.57%
Total Capital Improvement Program		\$413,452		\$441,682		\$28,230 6.83%
Total Information Only		\$212,043		\$262,927		\$50,884 24.00%
Total Capital Expenditures		625,495		704,609		\$79,114 12.65%

Section 7: Performance Metrics

- Treating and delivering 162 MGD of water to over 477,000 customer accounts in a manner that meets or exceeds the Safe Drinking Water Act standards;

- Treating nearly 194 MGD of wastewater and responsibly managing up to 1,000 tons of bio-solids per day in a manner that meets or exceeds federal and state permit requirements and regulations;
- Operating and maintaining a system of 3 water reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 6 water resource recovery facilities, 5,800 miles of water mains, and 5,600 miles of sewer mains, 24 hours a day, 7 days a week;
- Accounts Billed On-Time (FY 23) – 99.99%
- Past Due Accounts – Accounts more than 30 days (as of March 2023) – 80,263 active accounts and 5,926 inactive accounts
- Past Due Account more than 30 days – (as of March 2023) – \$43.6M from active accounts and \$4.3M from inactive accounts

Cost Saving Measures

The FY 2024 budget reflects the Commission’s commitment to maintaining affordability through the active pursuit and implementation of cost saving measures. In addition to reductions in the operating and capital budgets, the Commission has deployed several ongoing strategies to identify more cost-effective ways of providing clean water to customers. WSSC Water’s Innovation Program has identified multiple opportunities that will result in cost savings. Below are some initiatives that are in progress:

Network

- Developed a business and marketing plan for biosolids that WSSC Water will produce at the new Piscataway plant.
- Received a Patent on a Fire Hydrant Tool.
- Continue to support leak detection strategies
- Complete various plant production improvements by developing innovating products including a solids bin – declogging air cannon at Patuxent water filtration (WFP) plant and solids pump repair rigging system, a lime silo high flow chute adapter and sedimentation pump electric hoist crane at the Potomac Wastewater Resource Recovery

WSSC Water aggressively seeks external financing for its capital projects and operations. So far in FY 2023, WSSC has applied for \$898 million in external financing for renewal of its infrastructure assets, replacement of customer-owned lead service lines, research on a biosolids processing process that will produce negative carbon emissions, and other initiatives. These external financing opportunities are competitive, but WSSC has experienced significant success. For example, the Maryland Department of the Environment included \$60 million for WSSC Water in its Intended Use Plan for FY 2024. Included in this total was \$25 million for the Piscataway Bio-energy Plant that was approved by the Board of Public Works at its meeting on April 5, 2023. General Manager and CEO Kishia L. Powell has established an External Financing Taskforce to provide leadership and visibility for WSSC Water’s external financing initiatives.

Water and Sewer Infrastructure Reliability

The proposed budget includes the rehabilitation of (27) miles of smaller water mains (<16 inches in diameter). This is an increase of 2 miles. For large diameter water mains, the PCCP Program provides for the ongoing AFO monitoring of over 118 miles of pipe, ongoing inspection, and rehabilitation and replacement of 6.5 miles 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 will continue at five miles per year. 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.

WSSC Water Information Technology (IT) Strategic Plan

Unfortunately, cyber threats continue to be an issue nationwide. The utility remains committed to guarding against attacks threatening infrastructure, customers, and employees. In the proposed FY 2024 budget continues to invest in enhancing the cybersecurity program to efficiently and effectively mitigate cybersecurity risks by ensuring our electronic data, 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.

Regulatory Compliance

WSSC Water is heavily impacted by both current and emerging regulations. The agency is committed to protecting the natural environment of Prince George's and Montgomery Counties as it carries out its mandate to provide sanitary sewer and drinking water services. This commitment focuses on those unique natural and manmade features (waterways, woodlands and wetlands, as well as parklands, historical sites and residential areas) that have been indicated by federal, state and local environmental protection laws and regulations. Specific impact information is included in the evaluation of alternatives by the agency's Asset Management Program, if the environment features will be affected by the proposed construction of a project.

These protections have been funded by the approximately \$169.6 million included in the Proposed Budget FY 2024 which is attributable to meeting the environmental regulations. These projects are mandated by the US EPA under the Clean Water Act through the State of Maryland Department of the Environment in response to pollution control in the form of more stringent state discharge permit requirements and to meet WSSC Water's commitment to the environment. These capital projects are listed as follows

Project Number	Project Name	Phase	Proposed FY 2024 Budget (\$ in Thousands)
S-1.01	Sewer Reconstruction Program	Ongoing	\$65,439
S-22.11	Blue Plains WWTP: Pipeline & Appurtenances	Ongoing	16,452
S-170.9	Trunk Sewer Reconstruction Program	Ongoing	55,176
W-73.33	Potomac WFP Consent Decree	Construction	32,550
Total Water Quality Projects			\$169,617

Section 8: Capital Improvements Program (CIP)

CIP Overview

The Capital Budget incorporates spending for the first fiscal year of the six-year Capital Improvements Program, including those projects in the Information Only Section which are not required to be in the CIP; however, are included to provide a more comprehensive review on important programs or projects. Budget year expenditures in connection with relocations, house connections, new water meters, and similar items are now included in the Information Only section projects.

The WSSC Water Capital Budget is comprised of two main expenditure categories: Capital Improvements Program (CIP) and Information Only projects.

- The projects included in the CIP represent a multi-year plan to design and construct the capital facilities required to protect the health and safety of the residents of the County by protecting their water source, providing an adequate supply of safe drinking water, meeting fire-fighting requirements, and collecting and treating wastewater before it is returned to the waters of the State.
- The Information Only projects are not required to be in the CIP but may be included for comprehensive fiscal planning and to provide additional information to customers.

Capital needs, developed independently in planning for the six-year CIP, also shape the operating budget by helping to determine debt service requirements and the operating impacts of projects expected to be completed during the budget year. The annual debt service on outstanding bonds is paid from the Commission’s operating

funds, primarily through water consumption and sewer use charges paid by customers. Thus, the size of the CIP affects the size of the water and sewer bond issues needed in the budget year, which in turn affects water and sewer bills.

The CIP is driven in part by the development planning and authorization processes of the Counties, especially as manifested in the Counties’ ten-year water and sewer plans. In addition, since WSSC Water must contribute to the capital and operating expenses of the Blue Plains Advanced Wastewater Treatment Plant this can have important impacts on planning for WSSC Water’s Capital and Operating Budgets.

The Capital Budget is comprised of three separate funds:

- Water Supply Bond;
- Sewage Disposal Bond; and
- General Construction Bond

Capital Fund	Major Purpose	Major Revenue Source
Water Supply Bond	Construct major water supply treatment and transmission facilities; Reconstruct water distribution system; including: dams, reservoirs, water filtration plants, water pumping stations, water storage facilities and water supply lines	Water Supply Bonds, System Development Charges (SDC), and Grants
Sewage Disposal Bond	Construct major sewage treatment and transmission facilities; Reconstruct sewerage collection system	Sewage Disposal Bonds, SDC, and Grants
General Construction Bond	Construct minor water and sewer lines and support facilities	General Construction Bonds and House Connection Charges

The Proposed FYs 2024-2029 Combined Program includes 61 CIP and 11 Information Only projects for a grand total of \$5.9 billion. The grand total of \$5.9 billion represents an increase of \$10.9 million or 0.2% compared to the Adopted FYs 2023-2028 Combined Program. The six-year total of \$4.5 billion is an increase of \$334.2 million, or 8.0%, from the Adopted FYs 2023-2028 CIP. The increase is primarily due to inflationary trends. 79% of the FY 2024 Combined Program is funded through long-term debt. This program is mostly bond funded with \$555.4 million in

bonds and another \$44 million is funded by PAYGO. Of the FY 2024 amount, 86% is slated for system improvements while environmental projects are \$42.6 million or 6%. This budget also restores the non-permanent deferrals and reductions that were made to the FY 2023 funding level last year.¹

Capital Budget Funding Sources				
(\$ in Thousands)	FY 2023 Approved	FY 2024 Proposed	\$ Change	% Change
Capital Improvement Program				
Bonds	\$ 309,733	\$ 313,317	\$ 3,584	1.2%
PAYGO	31,016	44,000	12,984	41.9%
Federal Grants	4,285	4,542	257	6.0%
State Grants	351	-	(351)	-100.0%
Local Government Contribution	5,486	6,328	842	15.3%
System Development Charge	29,606	36,945	7,339	24.8%
Contribution/Other	32,975	36,550	3,575	10.8%
Total Capital Improvement Program	\$ 413,452	\$ 441,682	\$ 28,230	6.8%
Information Only				
Bonds	191,145	242,037	50,892	26.6%
State grants	20,608	20,600	(8)	0.0%
Contribution/Other	290	290	-	0.0%
Total Information Only	\$ 212,043	\$ 262,927	\$ 50,884	24.0%
Total Capital Funding	\$ 625,495	\$ 704,609	\$ 79,114	12.6%
Adjustment for Developer Contributions	(19,252)	(21,540)		
Capital Reductions to the Approved Budget	(1,461)	-		
Total Capital Budget Sources	\$ 604,782	\$ 683,069	\$ 78,287	12.9%

Summary of Key FY 2024 Changes - \$78.3 in Program Increases

- An increase of \$15.6 million for the Water Reconstruction Program (reduced by \$27.7 million in FY 2023)
- An increase of \$33.7 million for the Large Diameter Water Pipe & Large Valve Rehabilitation Program (reduced by \$18.6 million in FY 2023)
- An increase of \$12.5 million for Prince George's County water projects (2 water supply projects were deferred for one year in FY 2023, totaling \$37.0

¹ A mid-cycle update that reduced the FY 2023 capital spending by \$110.5 million was transmitted to the Counties on February 17th, 2022. Through FY 2023, projects were reduced or deferred totaling \$383 million.

million in reductions)

- An increase of \$7.7 million for the Engineering Support Program (reduced by \$5.7 million in FY 2023)
- An increase of \$6.1 million for the Other Capital Programs (reduced \$5.2 million in FY 2023)

Budget Provisions

The \$683.1 million in CIP projects for FY 2024 includes the rehabilitation of 27 miles of water distribution mains, replacement of 6 miles of ferrous transmission mains, and continued compliance with all requirements of the WSSC Water Sanitary Sewer Overflow and Potomac Water Filtration Plan Consent Decrees.

The two water reconstruction programs totaling \$166.5 million in FY 2024 provide:

- 27 miles of distribution mains less than 16" in diameter rehabilitated (an increase of 2 miles)
- 6 miles of ferrous transmission mains greater than or equal to 16" in diameter replaced
- 2 large valves rehabilitated/replaced

The two sewer reconstruction programs totaling \$120.6 million in FY 2024 funding provide:

- 25 miles of small diameter sewer rehabilitation in roadways, including replacement and lining
- 10 miles of small and large diameter sewer rehabilitation in environmentally sensitive areas
- Compliance with the Sanitary Sewer Overflow Consent Decree

Key Projects in FY 2024

- Potomac Water Filtration Consent Program, \$32.6 million
- Piscataway Bioenergy, \$29.3 million

Of the \$683 million for CIP and Information Only Projects, which includes an adjustment of \$21.5 million for developer contributions, WSSC Water plans:

- \$185.0 million for the Water Program
- \$256.7 million for the Sewerage Program
- \$263.0 million for Information Only projects

There are currently 31 CIP projects in the County, as well as various bi-county projects with work in and/or serving the County and the four projects that are associated with the Blue Plains Advanced Wastewater Treatment Plant (Blue Plains), which are owned and operated by DC Water. The total \$683.1 million Capital Budget is comprised of \$555.4

million in bonds, \$44.0 million in PAYGO, and \$83.7 million, in grants, contributions, and other funding sources.

Funding Growth

The portion of CIP needed to accommodate growth is approximately \$54.1 million, which equals 8% of the FY 2024 expenditures. The major funding sources for this part of the program are System Development Charge (SDC) revenues and payments by Applicants. In the event that growth costs are greater than the income generated by growth funding sources, either SDC supported or rate-supported water/sewer bonds may be used to close any gap. SDC rates could also be increased to address any gap.

It is estimated that there will be an overall growth funding shortfall of \$75 million over the six-year program period. The surplus or shortfall between growth funding sources (SDC, developer contributions, and Applicant payments under System Extension Permits) and the estimated growth-related expenditures vary over the six-year period. If growth related expenditures were to exceed the available SDC account balance in any given fiscal year, it is anticipated that new SDC-supported debt would be issued to cover this temporary gap. The debt will be repaid through future SDC collections, as allowed by State Law. Further, it is currently anticipated that no significant additional growth projects will evolve in the later years of the six-year period.

Bi-County Projects

I. Water

There are eight (8) Bi-County Water Projects with a six-year cost of about \$1.2 billion. The Regional Water Supply Resiliency will be funded by federal aid.

- a. Potomac Water Filtration Plant (WFP) Projects** (Work at the WFP consists of 43 separate CIP projects at the Potomac Water Filtration Plant in Montgomery County: a) Submerged Channel Intake, b) Main Zone Pipeline and c) Consent Decree). The Consent Decree project provides for the planning, design and construction of short- and long-term capital improvements at the Potomac WFP to allow WSSC Water to meet the new discharge limitations identified in the consent decree. The objective of the consent decree is to reduce the amount of solids discharged from the plant to the Potomac River on a daily basis. Preliminary planning work for the Potomac WFP Consent Decree began in 2016. Short-term operational and capital improvements are complete. The deadline for completion of the long-term capital improvements is January 1, 2026. A portion of this project is financed by Green bonds. Due to budgetary constraints the Submerged Channel Intake project has been deferred beyond six years. The FY 2024 - 2029 Potomac WFP combined projects estimated costs \$242.6 million.

Green bonds are any type of bond instrument where the proceeds will be exclusively applied to finance eligible green projects.

- b. I-495/I 270 Traffic Relief Plan Pipeline Relocations.** This project provides for planning, design and construction of water and sewer pipe relocations necessitated by the State of Maryland's plans to expand I-495 and I-270. Preliminary plans indicate that the proposed MDOT SHA project will impact water and sewer assets owned by WSSC Water. The Commission has an existing memorandum of understanding (MOU) agreement with MDOT SHA to review and coordinate potential impacts. The estimated scope has a cost of \$193.6 million with anticipated expenditures of \$19.6 million in fiscal year 2024. This project is funded by developer contributions.

- c. Regional Water Supply Resiliency.** This project is being undertaken on behalf of WSSC Water and the Interstate Commission for the Potomac River Basin (ICPRB) partners. The project includes the planning, preliminary engineering, community outreach and coordination with elected officials for a new regional raw water supply reservoir and raw water conveyance system to serve the long-range water supply needs of the Washington metropolitan region. A new regional reservoir is needed to mitigate against drought and contamination events in the Potomac River, which could curtail or halt withdrawal from the river for several days or even months. The justification for this project is based in part on 2 independent studies which both concluded that additional off-river raw water reservoir capacity was needed for resiliency purposes. The total costs for expenditures is about \$16.9 million, with planned expenditures of \$4.5 million planned in FY 2024.

Additionally, the following projects are system improvements and 100% funded with WSSC Water bonds:

- d. Large Diameter Water Pipe and Large Valve Rehabilitation Program.** This project will rehabilitate or replace large diameter water transmission mains and valves. The FY 2024 - 2029 total costs \$734.9 million with expenditures of \$79.3 million planned in FY 2024.

- e. Patuxent Water Filtration Plant Projects – Raw Water Pipeline.** This project provides for the construction of approximately 2.5 miles of 48-inch diameter raw water pipeline from the Rocky Gorge pumping station to the Patuxent Water Filtration Plant; cleaning of the existing water lines; and, the replacement of valves. These improvements will give the plant a firm capacity of 72 million gallons per day (MGD), with an emergency capacity of 110 MGD. The total project costs are \$33.4 million with expenditures of \$561,000 planned in FY 2024. Currently, the Rocky Gorge valve replacement and the cleaning of the existing raw water pipelines are 100%

complete. The new raw water pipeline is currently in construction. The project has been delayed due to a lengthy permit and right-of-way acquisition process. Restoration includes paving impacted roads in accordance with PGC Policy and Specifications for Utility Installation and Maintenance Manual (Section 4.7.2).

- f. **Land & Rights of Way Acquisition.** This project is a consolidated estimate of land and right of way purchases for previously approved capital projects. The total costs is \$8.8 million with expenditures of \$1.1 million planned in FY 2024.

II. Sewer

There are eight (8) Bi-County Sewer Projects (plus one (1) project pending close-out) with a six-year cost of \$1.0 billion. Key projects include:

- a. **Piscataway Bioenergy Project.** A comprehensive program for the engineering, design, construction, maintenance, monitoring and verification necessary to add sustainable energy equipment and systems to produce biogas and electricity at Piscataway WRRF. It will provide a reduction in costs associated with operations, maintenance, chemicals, biosolid transportation and biosolids disposal. It will also enhance existing operating conditions and reliability while continuing to meet all permit requirements and ensure a continued commitment to environmental stewardship. This project is funded by both WSSC Water Bonds at \$330.9 million and State & Federal Aid at \$3.9 million. A portion of this project will be financed by low-interest loans through the MDE's Water Infrastructure Financing Administration – Revolving Loan Fund Program. The total project costs is \$334.8 million with expenditures of \$29.3 million planned in FY 2024.
- b. **Blue Plains Wastewater Treatment Plant Projects.** This group of 4 projects represents one of the largest group of expenditures in the proposed CIP at 21% of the six-year CIP program. This project provides for WSSC Water's share of funding for the upgrade, expansion and enhancement of wastewater treatment and solids handling at the Regional Blue Plains WWTP located in Washington, DC. The FY 2024 – 2029 proposed six-year cost is approximately \$557.6 million with expenditure of \$71.0 million in the FY 2024 budget.
- c. **Septage Discharge Facility Planning and Implementation (pending closeout).** WSSC Water staff recommended that the project be closed.
- d. **Trunk Sewer Reconstruction Program.** This project is 100% WSSC Water bond funded. This project provides for the inspection, evaluation, planning, design, and construction required for the rehabilitation of sewer

mains and their associated manholes in environmentally sensitive areas. This includes both trunk sewers 15-inches in diameter and greater, along with associated smaller diameter pipes less than 15-inch. The total cost is \$386.1 million with expenditures of \$55.2 million planned in FY 2024.

Prince George's County Projects

I. Water

There are eleven (11) Prince George's County water projects, at a total cost of \$39.4 million in FY 2024. Key projects include:

- a. Old Branch Avenue Water Main.** This project is 50% WSSC Water bond funded and 50% SDC funded. It provides for the planning, design and construction of approximately 16,000 feet of 30-inch diameter water main and a new flow control valve along Old Branch Ave. from Allentown Road to Piscataway Road. This project will provide the needed redundancy to a large area of Prince George's County. The total cost is \$34.3 million with expenditures of \$11.1 million planned in FY 2024. Five properties have been acquired.
- b. Branch Avenue Water Transmission Improvements.** This project is 100% SDC funded. This project provides for the planning, design and construction of approximately 18,121 feet of 42-inch, 2,600 feet of 36-inch diameter and 5,590 feet of 30-inch diameter water transmission main along Branch Avenue, Brandywine Road and Surratt Road in the Clinton area. The new water main will serve as a primary feed for the new Brandywine tank. The total cost is \$50.8 million with expenditures of \$17.7 million planned in FY 2024.
- c. Smith Home Farms Water Main.** This project is funded through 100% developer contributions. This project provides for the planning, design and construction of 7,600 feet of 16-inch diameter main to serve the Smith Home Farms Subdivision. The total cost is \$4.1 million with expenditures of \$515,000 planned in FY 2024.
- d. Westphalia Town Center Water Main.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 4,700 feet of 16-inch diameter main to serve the Westphalia Town Center and vicinity. The total cost is \$2.2 million with expenditures of \$408,000 planned in FY 2024.
- e. Konterra Town Center East Water Main.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 9,200 feet of 16-inch diameter water main to serve the

Konterra Town Center East. No WSSC Water rate supported debt will be used for this project. The FY 2024 - 2029 total cost is \$2.7 million with expenditures of \$836 thousand planned in FY 2024.

- f. **Marlton Section 18 Water Main, Lake Marlton Avenue.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 5,400 feet of 16-inch diameter water main to serve East Marlton along Heathermore Blvd. and Lake Marlton Ave. The total cost is \$3.0 million with expenditures of \$476,000 thousand planned in FY 2024.
- g. **Prince George's County 450A Zone Water Main.** This project is 100% WSSC Water bond funded and provides for capacity and alignment study, design and construction of approximately 3.5 miles of new 48-inch redundant transmission main for Prince Georges High Pressure Zone HG450A. WSSC Water anticipates that portions of the transmission main that currently serves the HG450A and HG290B Pressure Zones will be out of service almost every year to meet the goals of the PCCP inspection program. A redundant transmission main is required to continue to provide service to customers while the existing transmission main is out of service and to provide service in case the existing main fails. The total cost is \$41.1 million with expenditures of \$5.6 million planned in FY 2024.
- h. **South Potomac Supply Improvement, Phase 2.** This project is 66% WSSC Water bond funded and 34% SDC funded. This project provides for the design and construction of 4.4 miles of 42-inch diameter ductile iron transmission water main and 6.0 miles of distribution mains, and a new flow control valve and vault. The project replaces the 3.5 mile of existing 42-inch diameter PCCP transmission main located within the Hanson Creek corridor and will replace parallel aged distribution infrastructure. The total cost is \$75.0 million with expenditures of \$620,000 in FY 2024.

II. Sewer

There are twenty (20) Prince George's County sewer projects, including one (1) new project (plus one (1) project pending close-out) at a cost of \$66.4 million in FY 2024. Key projects include:

- a. **Western Branch WRRF Process Train Improvements.** This project is 100% WSSC Water bond funded. This project provides for the planning, design and construction improvements at the Western Branch WRRF required to rehabilitate aging infrastructure. The total estimated cost is \$94.4 million, of which \$17.4 million is planned to be expensed in FY 2024.

- b. Konterra Town Center East Sewer.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 14,000 feet of 15- to 24-inch diameter sewer main; 240 feet of 24-inch diameter steel sleeve for a 16-inch water main; and, 240 feet of 48-inch diameter steel sleeve for a 24-inch diameter sewer. This project serves the Konterra Town Center East development. The total cost is \$7.7 million with no expenditures planned in FY 2024.
- c. Landover Mall Redevelopment.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 2,500 feet of 27-inch diameter sewer main; 300 feet of 24-inch sewer main; and 1,450 feet of 18-inch diameter sewer mains to provide service for the Landover Mall Redevelopment. The total cost is \$1.4 million with expenditures of \$668,000 planned in FY 2024.
- d. Mattawoman WWTP Upgrades.** This project is 100% WSSC Water bond funded. This project provides for WSSC Water's share of the evaluation, design and construction of capital projects to upgrade and repair Charles County's Mattawoman interceptor and WWTP. The six-year cost is \$17.7 million with expenditures of \$4.2 million planned in FY 2024.
- e. Piscataway WRRF Facility Upgrades.** This project is 100% WSSC Water bond funded. This project provides for the planning, design and construction of improvements at the Piscataway WRRF required to prevent plant overflows or permit violations which can occur during significant rainfall events. The work will remove bottlenecks within the plant process trains, address the physical capacity of the system and rehabilitate existing equipment that has reached its expected service life ensuring the ability of the plant to achieve its permit required level of service. The total cost is \$191.2 million with expenditures of \$25.1 million planned in FY 2024.
- f. Swan Creek WWPS & FM.** This project is 100% WSSC Water bond funded. The existing pumping station and 24-inch diameter PCCP force main were built in 1966 and reached the end of their useful life. Work performed will replace the existing 3.9 MGD wastewater pumping station and replacement of approximately 5,500 feet of existing force main. The total cost is \$14.6 million and expenditures of \$1.5 is planned in FY 2024.
- g. National Capital Business Park Sewer.** This project is 100% funded by Contributions. It will provide 2,200 feet of 15-inch sanitary sewer main to serve the National Capital Business Park near Leeland Road. The estimated project cost is \$1.8 million. The total planned spending in FY 2024 is \$897,000.

h. Southlake Subdivision Sewer (pending closeout). This project is funded through 100% Contributions. This project provides for the planning, design and construction of 970 feet of 15- and 20-inch diameter sewer main to serve the Southlake Subdivision. The total cost is \$775,000.

III. Projects Previously Deferred. The FY 2024 – 2029 Program includes five Prince George’s County projects that were previously deferred for one year in the FY 2023 budget due to budget constraints shown on the table below. There were also cuts/deferrals to Bi-County projects located in and/or serving Prince George’s County in FY 2023.

Agency #	Project Name	Project Cost*	Budget Year Cost*
S-68.02	Carsondale WWPS & FM	\$5,987	\$366
S-89.26	Colmar Manor WWPS & FM	\$7,030	\$305
S-113.13	Forest Height WWPS & FM	\$9,402	\$183
W-84.05	Prince George’s County 450A Zone Water Main	\$41,130	\$5,555
W-137.03	South Potomac Supply Improvement, Phase 2	\$75,044	\$620
	Totals	\$138,598	\$7,029

*All figures in thousands

Section 9: Customer Impacts and Budget Summary

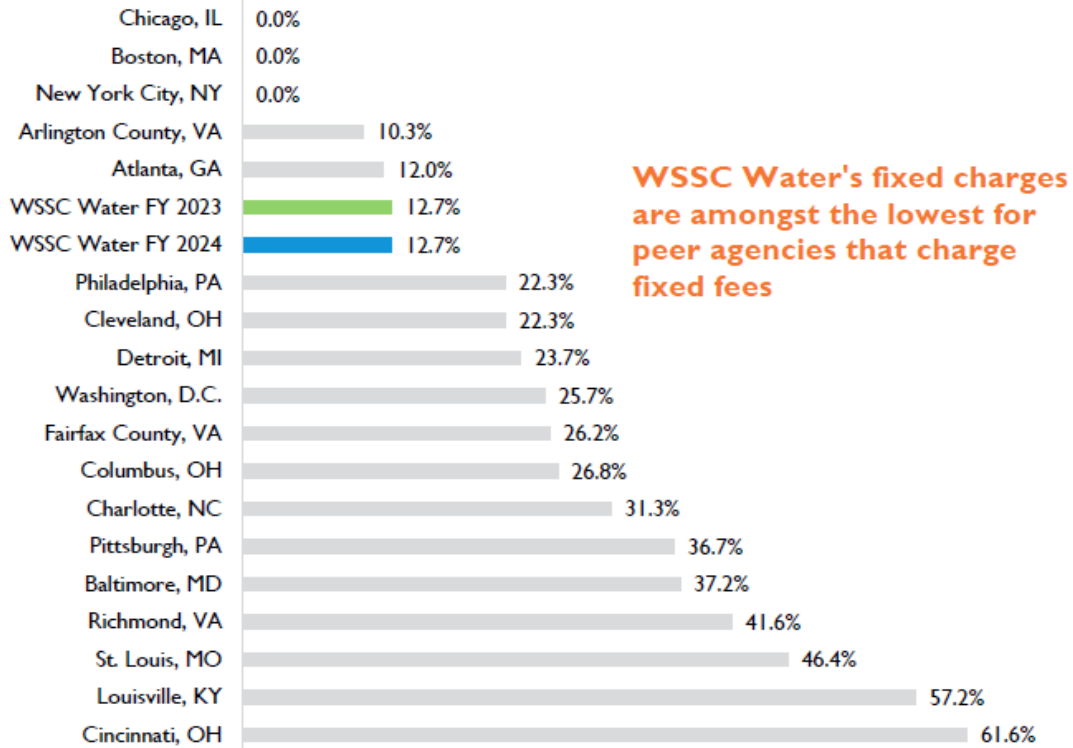
Commercial and residential customers will see an increase in their quarterly bills. This increase is inclusive of account maintenance fees and infrastructure investment fees. The average per person consumption has been reduced from 55 GPD to 50 GPD due to declining water consumption which has impacted revenues and production. WSSC Water estimates that since FY 2020 water consumption is down 3.0% and sewer use is down 3.2%.

Quarterly Bills at Various Consumption Levels

Meter Size	Average Daily Consumption (Gallons Per Quarter)	Approved FY 2020	Approved FY 2021	Approved FY 2022	Approved FY 2023	Proposed FY 2024
3/4" Residential Meter	100 (9,125 gal/qtr)	\$ 138.94	\$ 145.58	\$ 152.48	\$ 162.42	\$ 173.77
3/4" Residential Meter	150 (13,688 gal/qtr)	199.62	209.91	220.60	234.96	251.39
3/4" Residential Meter	500 (45,625 gal/qtr)	794.66	840.78	888.79	946.56	1,012.72
2" Meter	1,000 (91,250 gal/qtr)	1,903.02	2,004.81	2,110.76	2,248.01	2,405.15
3" Meter	5,000 (456,250 gal/qtr)	9,736.92	10,284.01	10,853.51	11,559.50	12,367.29
6" Meter	10,000 (912,500 gal/qtr)	19,748.55	20,852.26	22,001.19	23,432.35	25,069.80

At 150 gallons per day, WSSC Water customers are at the lower end of fixed charges for fixed charges amongst comparative utilities.

Percent of Average Residential Bill From Fixed Charges



In FY 2024, the fixed fees increased by 7.0% and is projected that rates will need by 8.0% for FY 2025 and FY 2026 and they will likely come down to 6.5% through FY 2029. WSSC Water increased its fixed fees for the first time in FY 2023 since FY 2017.

With the pressures of environmental regulations, inflation and aging infrastructure, WSSC Water is focused on maintaining the follow metrics to maintain the coveted and valuable triple A bond rating.

Maintaining Triple AAA Bond Rating

WSSC Water is striving to maintain a triple AAA bond rating, which is a key part of their strategy for preserving long-term affordability for customers. In the Fall of 2021, the utility received a negative outlook from the rating agency Fitch. This warning has necessitated the need to address key metrics within an 18–24-month timeframe which is by the Fall of 2023.

Recommendations include:

- Initiating a plan to reduce delinquencies to pre-Covid levels through application of external funding to eligible customer
- Use cash based rather than accrual model for financial projections and metrics
- Revise financial metrics to align with rating agency standards
 - Leverage Ratio = <10.0x (Total/Debt/Fund available for debt service)
 - Days Cash on Hand= 250 days (# of days to pay expenses without new revenue)
 - Debt Service Coverage Ratio = 1.50 (Net Revenue/Debt Service)

- Current metric is 1.10 to 1.25 on accrual model
- Continue focus on external funding opportunities and growing non-rate revenues including monetizing surplus real estate assets, marketing Class A biosolids, renewable natural gas, and intellectual property licensing.
- Rate increases to improve coverage ratio to 1.50

Proposed Budget Summary at a 7.0% rate Increase

FY 2024 WSSC Water’s proposed budget includes the following:

- 1.8% of the 7.0% rate increase addresses revenue declines
- Past due account decreased 4.6% since the beginning of FY 2023
- Affordability programs is budgeted at \$3.5 million
- Consent decree projects on time and on budget
- Capital Improvement Program provides for critical infrastructure investments

Section 10: Staff Recommendations

- Concur with the Spending Affordability Guidelines to increase combined water and sewer rates, not to exceed 7.0% for FY 2024.
- Concur with Spending Affordability Guidelines for:
 - New Water and Sewer Debt at \$380.0 million
 - Total Water and Sewer Debt Service at \$328.5 million
 - Total Water and Sewer Operating Expenses at \$924.4 million
 - Water & Sewer Rate Increase at 7.0%
- Concur with WSSC Water to maintain System Development Charge (SDC) fees at current levels but increase the maximum ceiling on this charge as is consistent with State Law.
- Concur with WSSC Water FY 2024 – FY 2029 CIP projects.

Section 11: Attachments

- FY 2024 Proposed Budget WSSC Water Chairman’s Transmittal Letter
- FY 2023 Long Range Financial Forecast – Attachment A
- WSSC Public Hearing Record - February 2, 2023
- County Staff Briefing on FY 2024 Proposed Budget
- CAP Customers by District – Attachment B



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GENERAL MANAGER
Kishia L. Powell

March 1, 2023

The Honorable Angela D. Alsobrooks, Prince George's County Executive
The Honorable Marc Elrich, Montgomery County Executive
The Honorable Thomas E. Dernoga, Chair, Prince George's County Council
The Honorable Evan Glass, President, Montgomery County Council

Dear Ms. Alsobrooks, Mr. Elrich, Mr. Dernoga, and Mr. Glass:

On behalf of WSSC Water, I hereby transmit the Proposed Fiscal Year 2024 (FY 2024) 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 2024 for all operating and capital funds totals \$1.614 billion or \$144.9 million (9.9%) more than the FY 2023 Approved Budget. The proposed operating budget of \$931.2 million represents an increase of \$66.6 million (7.7%) over the FY 2023 Approved Operating Budget of \$864.6 million. The proposed capital budget of \$683.1 million represents an increase of \$78.3 million (12.9%) from the FY 2023 Approved Capital Budget of \$604.8 million. This increase is primarily due to recent inflationary trends and the restoration of reductions totaling \$110.5 million that were made to the FY 2023 Approved Capital Budget.

The proposed budget funds several essential priorities for compliance and infrastructure improvements including:

- Compliance with the revised Lead & Copper Rule
- Water tank painting to prevent metal corrosion
- Maintaining Information Technology (IT) investments in cybersecurity and new and upgraded IT applications
- Inspecting large diameter pipes and valve exercising
- Acoustic fiber optic monitoring of pre-stressed concrete cylinder pipes (PCCP)
- Maintenance and repairs at facilities
- Removal of sediment at the Little Seneca Forebays

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TTY 301.206.8345

Rebounding from COVID-19 and Financial Challenges

The Proposed FY 2024 Budget also includes a 7.0% average water and sewer rate increase and a 7.0% increase to the Account Maintenance Fee (AMF) and the Infrastructure Investment Fee (IIF). While WSSC Water understands the difficulties associated with a rate increase in the current economic climate, we continue to experience COVID-19 pandemic-related challenges. We are experiencing lower revenue due to shifting consumption patterns and we are confronting historic inflation throughout the supply chain. 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 and to recover the full cost of these services.

Unfortunately, as of December 2022, WSSC Water also continues to have about 82,000 accounts that are past due, totaling about \$56 million, which continues to significantly impact revenue. To-date, no direct federal or state assistance has been received during the pandemic, despite our quick and unprecedented waiving of late fees and turn-offs from March 2020 through the late summer of 2021. WSSC Water has been fortunate to receive about \$634,000 of indirect assistance through housing/rental assistance programs and about \$2.5 million through the temporary Low Income Household Water Assistance Program.

Due to the recent and ongoing revenue challenges, Fitch Ratings placed WSSC Water on a Negative Outlook last year. On February 3, 2023, they again affirmed our AAA rating but maintained the Negative Outlook. WSSC Water undertook significant reductions to our FY 2023 operating and capital budgets to maintain our AAA bond rating and remains committed to taking all actions necessary to preserve our AAA rating to ensure we have the lowest interest costs to finance our capital investments.

Rate Increase: Lower than Requested

To keep pace with rising costs and service demands and to help offset revenue losses, our long-term plan showed that an 8.0% rate increase is required to fund the six-year Capital Improvement Program as proposed and fully fund operations; however, both County Councils approved a spending affordability rate increase limit of 7.0%. The approval of a lower than needed rate increase is a recurring trend that results in continued budget reductions that significantly impact our ability to improve service delivery. The impact is a revenue strain that is compounded each year.

Budget Reduction Impacts: FY 2024 Preliminary Proposed Budget

Limiting the rate increase to a 7.0% average rate increase required WSSC Water to make \$13.4 million in reductions. Some of the reductions and related impacts of these cuts are summarized by department below:

- \$4.4 million in Production: Delays in maintenance and repairs at facilities that support customers, evaluation of the safety of facility electrical systems, reservoir dredging, and innovation research projects
- \$4.3 million in IT: Delays in various projects including enhancements and development of applications; and a reduction in services to include business analysis, quality assurance support, quality resources and tool functionality
- \$1.6 million in Utility Services: Reduction in critical fire flow testing services to meet American Water Works Association (AWWA) industry standards and inspections in the mains condition assessment program
- \$1.0 million Human Resources: Reduction in benefits and wellness programs
- \$792,000 in Engineering & Construction: Shifting focus of manhole rehabilitation from operating to capital projects
- \$600,000 in General Services: Reduction in fleet vehicle replacement purchases and delays in energy management and special studies
- \$451,000 in Asset Management: Delays in data analytics, condition assessment and business cases

Spending Affordability Guidelines

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 County Council and Prince George’s County Council approved resolutions establishing four limits on WSSC Water’s FY 2024 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 and Sewer Rate Increase.

WSSC Water FY 2024 Proposed Budget vs. Spending Affordability Limits
(\$ In Millions)

	Prince George's County	Montgomery County	FY 2024 Proposed Budget
New Water and Sewer Debt	\$380.0	\$380.0	\$380.0
Total Water and Sewer Debt Service	\$328.5	\$328.5	\$328.5
Total Water and Sewer Operating Expenses	\$915.3	\$915.3	\$924.4*
Water & Sewer Rate Increase	7.0%	7.0%	7.0%

* The exceedance is covered by offsetting funding sources

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).

Customer Impacts and Affordability

The 7.0% rate increase will add approximately \$16.43 per quarter to the bill of a customer using 150 gallons per day (GPD), the average per person consumption of 50 GPD for a 3-person household. Per person consumption was reduced from 55 GPD due to a declining trend in water consumption based on the 2022 Cost of Service Study results that are consistent with recent historical consumption. Even with the rate increase, WSSC Water rates continue to compare favorably to many other comparable, regional water and sewer utilities. The average residential bill is 1.0% of the median household income, which is well below the 4.5% U.S. Environmental Protection Agency affordability benchmark.

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 especially with rising inflation which is severely pressuring household budgets. 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 disadvantaged 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 2024 and the proposed budget estimates the revenue offset at \$2.2 million. 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. In addition, CAP customers are also eligible for 100% waiver of late fee charges, free annual plumbing inspections for leaks, payment plan arrangements for up to 48 months, receive high bill adjustment removing 100% of excess water & sewer usage for one billing cycle in any three-year period, and fees to resume service after turn-off for nonpayment are reduced by 50 percent.

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. Also, in accordance with House Bill 408 enacted in the FY 2018 legislative session, the proposed budget includes \$100,000 to continue the Connection Pipe Emergency Replacement Loan Program, which will provide affordable financing of up to \$5,000 per eligible customer.

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 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 PCCP Program provides for the ongoing acoustic fiber optic monitoring of over 118 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 two miles per year on average, with several projects in the planning and design phases. Replacement of large transmission mains is projected at six 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 Investments

In addition to our ongoing investments in WSSC Water's physical infrastructure, the FY 2024 budget invests in our information technology and cybersecurity infrastructure. Funding is included to continue enhancing our cybersecurity program to mitigate cybersecurity risks efficiently and effectively 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.

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 2025 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, 2023.

Sincerely,



Fausto R. Bayonet
Commission, Chair

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

FY 2023 Revised Forecast



FY 2024 WITH 8% Rate Increases in FY 25 & FY 26/ INCREASE PAYGO/LEVEL PRINCIPAL

A Financial Plan	FY 2023 Estimate	FY 2024 Proposed	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
I Affordability:							
Rate Increase	6.5%	7.0%	8.0%	8.0%	6.5%	6.5%	6.5%
II Capital Demands:							
New Debt Issues	\$ 358,840	\$ 379,960	\$ 388,352	\$ 326,030	\$ 364,708	\$ 325,870	\$ 287,053
PAYGO	31,016	44,000	65,000	147,000	141,597	148,546	177,000
Total Funding for Bonded Projects	\$ 389,856	\$ 423,960	\$ 453,352	\$ 473,030	\$ 506,305	\$ 474,416	\$ 464,053
III Debt Service Coverage:							
Net Operating Revenue	\$ 347,773	\$ 371,740	\$ 423,397	\$ 486,581	\$ 533,154	\$ 577,911	\$ 632,064
Debt Service	302,982	328,467	366,169	387,288	405,949	424,137	434,635
Net Revenue Strength	\$ 44,791	\$ 43,273	\$ 57,228	\$ 99,293	\$ 127,205	\$ 153,774	\$ 197,429
IV Liquidity and Reserves:							
Ending Fund Balance	\$ 266,601	\$ 274,845	\$ 274,846	\$ 234,910	\$ 228,266	\$ 241,242	\$ 269,418
Net Increase/(Shortfall)	24,047	8,244	0	0	(0)	12,976	28,176

WASHINGTON SUBURBAN SANITATION COMMISSION

REGULAR PUBLIC MEETING

THURSDAY

FEBRUARY 2, 2023

Pursuant to notice, the Regular Public Meeting of the Washington Suburban Sanitation Commission (WSSC) convened on Thursday, February 2nd at 7:00 p.m. EDT, Regina Y. Speed-Bost, Vice Chair, presiding.

WSSC COMMISSION MEMBERS PRESENT:

Regina Y. Speed-Bost, Vice Chair
Lynnette D. Espy-Williams, Commissioner

WSSC EXECUTIVE STAFF PRESENT:

Kishia L. Powell, CEO
Jon T. Rymer, Inspector General
Crystal Knight-Lee, Chief of Staff

WSSC ADMINISTRATIVE STAFF PRESENT:

Jay Price, Deputy General Manager
Cristi Bickham, Chief Administrative Officer
Guy Andes, Acting Intergovernmental Relations
Director
Bob Maloney, Chief Emergency Op Manager
John Curry, Customer Service Director (Acting)
Letitia Carolina-Powell, Acting Chief Financial
Officer
Fariha Babar, Operating Budget Section Manager

The transcript constitutes the minutes from the Regular Public Meeting held on February 2nd, 2023

1 VICE CHAIR SPEED-BOST: Good evening,
2 everyone. We're going to go ahead and get started.
3 My name is Regina Speed-Bost and I'm Vice Chair of the
4 WSSC Water's Board of Commissioners and I represent
5 Prince George's County. On behalf of WSSC Water and
6 its staff, I welcome you to this hearing and, as we
7 discussed, our preliminary proposal for our budget for
8 Fiscal Year 2024.

9 And before we begin, I'd like to introduce
10 our leadership team and key staff members that are
11 here this evening.

12 First, we have with us our new GM and CEO,
13 Ms. Kishia Powell, our Acting Director of Customer
14 Service John Curry, our Acting Chief Financial Officer
15 Letitia Carolina-Powell, and our Operating Budget
16 Section Manager Fariha Babar. Also with us tonight
17 are -- as my colleague, Commissioner Lyn Espy-
18 Williams.

19 Tonight's hearing gives citizens an
20 opportunity to comment on the Agency's preliminary
21 proposed capital and operating budget and rate
22 requirements for Fiscal Year 2024. These hearings
23 continue WSSC Water's commitment to transparency and
24 follow extensive public outreach efforts. Please note
25 that this preliminary hearing is only for the FY 2024

1 preliminary proposed budget.

2 The highlights of the budget have been
3 prepared in summary form and included in the
4 preliminary proposed budget distributed for public
5 review in January. The FY 2024 estimated expenditures
6 for all funds total \$1.6 billion, or about 133 million
7 more than WSSC Water's Fiscal Year 2023 approved
8 budget.

9 And while WSSC Water understands the
10 difficulties associated with a rate increase in the
11 current economic climate, supply chain disruptions and
12 inflationary pressures impacting all Americans are
13 also impacting our budget.

14 We are also experiencing lower revenue due
15 to shifting water consumption patterns. Additionally,
16 just over 80,000 total customer accounts are past due.
17 This totals roughly \$56 million in arrears and this
18 impacts our revenue. At the same time, we must
19 continue to invest. We have to sustain our
20 reliability and the resilience of our critical
21 infrastructure systems.

22 These challenges make the rate increase
23 vital to fulfilling our mission to provide safe,
24 clean, and reliable water, life's most precious
25 resource to all of our customers. The preliminary

1 proposed budget is funded with a proposed 7 percent
2 average water and sewer rate increase and a 7 percent
3 increase to the account maintenance fee and
4 infrastructure investment fee.

5 A typical three-person household using an
6 average per person consumption of 55 gallons of water
7 per day, we'd see a quarterly increase of \$17.96 in
8 their bill according to the proposed budget.

9 And now, I'd like to ask Letitia Carolina-
10 Powell to brief us on the preliminary proposed budget.

11 MS. CAROLINA-POWELL: Good evening. For the
12 record, my name is Letitia Carolina-Powell and I'm the
13 Acting Chief Financial Officer.

14 I will be briefing you on our Fiscal Year
15 '24 preliminary proposed budget. So WSSC Water is
16 governed by six commissioners; three are appointed by
17 Montgomery County and three are appointed by Prince
18 George's County.

19 So this slide shows our strategic priorities
20 and our mission. Our mission is that we are entrusted
21 by our community to provide safe and reliable water,
22 life's most precious resource, and return clean water
23 to our environment all in an ethical, sustainable, and
24 financially responsible manner.

25 Our strategic priorities are to enhance

1 customer experience, optimize infrastructure, spend
2 customer dollars wisely, transform employee
3 engagement, and protect our resources.

4 So I'll walk you through our budget
5 calendar. On December 21st, the Commission approved
6 the transmittal of our Fiscal Year '24 preliminary
7 proposed budget to the counties and the budget was
8 transmitted on January 15th. And we held public
9 hearings in -- a public hearing in Montgomery County
10 on January 31st and here today in Prince George's
11 County. And at the February commission meeting, we
12 will be requesting approval of the Commission to
13 transmit the Fiscal Year '24 proposed budget to the
14 counties and they will be transmitted by March 1st.

15 And from February through April, we will be
16 meeting with the council -- county councils and
17 executive staff to discuss the budget. And in -- on
18 May 11th, there will be a bi-county meeting with the
19 councils from both counties to approve the budget.
20 And June 21st, the Commission is scheduled to adopt
21 the budget and the rates.

22 So we've held extensive public outreach to
23 notify the public and our customers and stakeholders
24 on this public hearing. Dates were prominently placed
25 in the October through December customer newsletters

1 included in WSSC Water bills. Ads were placed in the
2 Washington Post and the Prince George's Post.

3 We issued news releases to local media and
4 stakeholders, posted this information on the WSSC
5 Water website, and notified customers via constant
6 contact email list, as well as posted this information
7 on the hearings on Facebook, Twitter, and Instagram.

8 On some budget terms that you'll hear
9 tonight are capital budget and this is used for long-
10 term investments such as infrastructure and investment
11 in our facilities; debt service, which is principal
12 and interest payments on money that we borrow to fund
13 the capital budget; the operating budget that pays for
14 daily business of running WSSC Water including
15 maintenance and debt service; and our service area
16 covers over thousand miles so there is a lot to
17 maintain within that. We have over 11,000 miles of
18 pipe to service and maintain.

19 PAYGO or otherwise known as Pay As You Go.
20 That's using cash to fund capital expenditures instead
21 of debt. Ready to serve charges, those are the
22 account maintenance fee and the infrastructure
23 investment fee.

24 The account maintenance pays for the cost of
25 maintaining an account such as customer service,

1 maintaining meters, and infrastructure investment fee
2 that pays for a portion of the debt service on
3 reconstruction.

4 The Bay Restoration fee is \$15 per quarter
5 and that is a fee that is levied by the State, and
6 WSSC Water collects it and turns it over to the
7 Comptroller of the State of Maryland for the
8 restoration of the health of the Bay. Regional sewage
9 disposal. This pays for WSSC Water share of
10 maintenance and operating costs of DC Waters Blue
11 Plains Advanced Wastewater Treatment Facility.

12 Some of the highlights of our budget, the
13 capital budget we are replacing or planning to replace
14 27 miles of small diameter mains at a cost of \$87.2
15 million, and 6.5 miles of large diameter mains at a
16 cost of \$79 million, and rehabilitating 25 miles of
17 small diameter sewer mains at a cost of \$65 million,
18 and 10 miles of large diameter mains for \$55 million.

19 The operating budget includes painting for
20 elevated water tanks and painting of the tanks is
21 necessary not just so that they look nice, but also it
22 helps prevent corrosion, and thereby extending the
23 useful life of the tanks and maintaining the tank
24 structural integrity.

25 There's a revised lead and copper rule that

1 came from the EPA and so we will be working to comply
2 with that. We will be complying with that and that's
3 an additional cost of \$3.4 million and maintaining our
4 cyber security program at a cost of 2.4 million, and
5 facility maintenance and repair projects, another \$2.4
6 million.

7 And there's also 118 miles of acoustic
8 fiberoptic monitoring where we monitor our pre-
9 construct -- prestressed concrete cylinder pipes.
10 When those pipes blow, it can be catastrophic,
11 therefore, monitoring them is essential, and that cost
12 about \$1.4 million.

13 So since we are so capital intensive and we
14 issue a lot of debt to pay for our capital program
15 debt service, which again is the principal and
16 interest on the money we borrow, is the largest line
17 item in the budget at 36 percent or \$333 million.

18 Now on the capital side, contract work is
19 the largest expense at 56 percent of the budget. And
20 the county executives and county councils recommended
21 that a 7 percent spending affordability limit back in
22 the fall and our preliminary proposed budget is based
23 on a 7 percent rate increase and it meets that limit.
24 Thank you.

25 VICE CHAIR SPEED-BOST: Thank you for that

1 overview. At this time, we are going to ask -- I'm
2 sorry, (indiscernible) here.

3 At this time, we're going to ask for public
4 comment. Your feedback is very important to us,
5 therefore, this hearing record will be kept open until
6 Tuesday, February 14th and we will consider all public
7 comments received by the State.

8 The budget will be transmitted to the
9 executive and councils of both counties, the county
10 executives and the county councils of both counties on
11 March 1st. And each -- so as you come forward with
12 your comments, we're asking each speaker to limit
13 themselves to three minutes.

14 When you come up, we ask that speakers
15 provide their name and indicate whether you are
16 currently a WSSC Water customer. If your comments are
17 longer than three minutes, we're going to ask you to
18 reduce them to writing and submit the remainder of
19 your comments to us that way.

20 So -- and before I ask those to come up who
21 have signed up, I would like to take a moment and
22 acknowledge the other members of the WSSC Water team
23 that are here today.

24 Cristi Bickham is our Chief Administrative
25 Officer, Crystal Knight-Lee is our Chief of Staff, Jay

1 Price our Deputy General Manager, Guy Andes is our
2 Acting Intergovernmental Relations Director, Jon
3 Rhymer is our Inspector General over the Office of
4 Inspector General, and Bob Maloney is our Chief
5 Emergency Op Manager.

6 Let me thank them for their time and putting
7 together the effort -- the budget that's put before
8 you and being here tonight to answer questions. And
9 so for those who have signed up, we ask you again, if
10 you would come to the mic so we can have a clear
11 record and state your name and whether you are a
12 current WSSC Water customer.

13 And with -- are there any who have signed
14 who would like to come and speak?

15 MS. STARKS: Good evening. My name is Joyce
16 Starks and I am a Prince George's County rate payer.
17 I have some concern and that is I need to ask the
18 question. Was the rate increase based solely on the
19 limit that the County Council gave, or was it based on
20 a combination of what the County Council submitted and
21 some kind of study because I don't understand the
22 increase and nothing really spelled out specifically
23 what the increase was supposed to do. Okay.

24 MS. CAROLINA-POWELL: Okay. The rate
25 increase, we are experiencing a lot of inflationary

1 pressures right now just as people in businesses
2 throughout the nation are experiencing inflation. For
3 instance, I don't have the numbers with me right now
4 in front of me, but chemical costs have dramatically
5 increased over 50 percent. And I believe chlorine has
6 increased over a hundred percent, I think, and asphalt
7 for paving that's increased tremendously, and that's
8 because of -- it's based on oil prices and energy.
9 That's another one that's increased quite a bit.

10 So the 7 percent -- we had actually gone to
11 the counties and requested more than 7 percent. We
12 requested an 8 percent rate increase, but the counties
13 felt that a 7 percent was more reasonable. But in
14 order to maintain our triple A bond rating, and this
15 is something that the rating agencies have expressed
16 concern about, our rate increase is not being high
17 enough. So in essence, we are requesting what is
18 needed to fund the operations.

19 Read your No. 3 question. Okay. How can
20 WSSC justify more rate increases year after year when
21 they can't even justify spending \$120 million on a
22 customer billing system that does not work correctly?

23 VICE CHAIR SPEED-BOST: So Ms. Starks, thank
24 you and we'll submit this as part of the record.

25 I do want to emphasize that today's

1 discussion is about the proposed budget that was put
2 forward and it is not -- it's not about prior budgets
3 or prior expenditures. So we're -- I believe Ms.
4 Carolina-Powell addressed the first question. We'll
5 have these submitted for the record and go from there.
6 We appreciate your comments for today though. Thank
7 you so much for being here.

8 Are there any other -- others here that have
9 questions?

10 (No audible response.)

11 VICE CHAIR SPEED-BOST: That's the last in-
12 person question that we have.

13 For the record, I will now ask Fariha Babar
14 of the Budget Division to report on any written
15 correspondence received.

16 MS. BABAR: Good evening. For the record,
17 my name is Fariha Babar and I'm the Operating Budget
18 Section Manager at WSSC Water. As of today, we have
19 received two written comments; one concerning the
20 proposed 7 percent average water and sewer rate
21 increase being too high. And the other comment
22 received includes question concerning billing
23 accuracy, the advanced metering infrastructure, and
24 customer to meter systems.

25 If any new correspondence is received until

1 the close of the record that is February 14, it will
2 be included in the next commission packet, become part
3 of the record for this hearing, and will be
4 transmitted to the two counties. The transcript of
5 this hearing will be also provided to the counties.
6 Thank you.

7 VICE CHAIR SPEED-BOST: Thank you for that -
8 - thank you for that, Ms. Babar. And now, that
9 concludes our session for this evening. We'd like to
10 thank you for joining us tonight and for participating
11 in our budget process. Again, the record will be kept
12 open until Tuesday, February the 14th for those who
13 would like to submit comments by that date. Thank you
14 and have a great evening.

15 (Whereupon, the above-entitled meeting was
16 adjourned.)

CERTIFICATE OF NOTARY

I, Chris Hofer, Notary Public, before whom the foregoing testimony was taken, do hereby certify that the witness was duly sworn by me; that said testimony is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to this action, nor financially or otherwise interested in the outcome of the action; and that the testimony was reduced to typewriting by me or under my direction.

This certification is expressly withdrawn upon the disassembly or photocopying of the foregoing transcript, including exhibits, unless disassembly or photocopying is done under the auspices of Hunt Reporting Company, and the signature and original seal is attached thereto.



CHRIS HOFER, Notary Public in
and for the State of Maryland

My Commission Expires:

8/1/25

Written Testimony

From: [Babar, Fariha R](#)
To: Joycestarks@aol.com
Cc: [Carolina-Powell, Letitia](#)
Subject: Comments for Budget Hearing, Feb. 2, 2023 - Responses to Ms. Starks
Date: Friday, February 17, 2023 7:07:00 PM
Attachments: [image001.png](#)

Ms. Starks,

Thank you for attending WSSC Water's FY24 Preliminary Proposed Operating and Capital Budget public hearing held at Prince George's County on February 02, 2023. Below are the Agency's responses to your comments regarding the FY24 proposed budget.

1. [Is the rate increase based on a cost of services study?](#)

WSSC Water's current four tier rate structure is based on a cost of service study completed in 2017. The FY 2024 proposed rate increase is based on increased operating costs. WSSC Water is experiencing inflationary pressures just as the rest of the nation. Some major cost drivers include the following:

- Chemicals: 73.8% increase
- Heat, Light & Power: 32.7% increase
- Paving: 52.9% increase
- Regional Sewage Disposal (Blue Plains): 6.4% increase (note that this does not include an additional \$6.7 million/11% that will need to be absorbed due to delayed notification of the increase by DC Water)
- 6% increase in construction costs which impacts debt service
- \$13 million increase in PAYGO to help improve our leverage ratio and other financial metrics required to maintain our AAA bond rating which is crucial to our ability to issues bonds at the lowest possible interest rate thereby saving our ratepayers money

An 8.0% rate increase is needed and was requested. However, the Montgomery County and Prince George's County Councils recommended a 7% average water and sewer rate increase limit. WSSC Water prepared the FY 2024 Preliminary Proposed Budget based on the 7% rate increase which meets the County Councils' limit.

2. [If so, what were the results of that study?](#)

A cost of service was conducted in 2022. Recommendations from the cost of service will be reflected in the FY 2025 rate schedule.

3. [How can WSSC justify more rate increases year after year when they can't even justify spending \\$120M on a customer billing system that does not work correctly?](#)

The C2M billing system has worked effectively since it was first placed into service in

July 2019 and has issued over 6.8 million bills on time with nearly \$2.6 billion in revenue collected. The majority of the billing issues are caused by aging meters which tend to under register usage and the challenges associated with manual reads done by meter readers which lead to estimated bills. The implementation of AMI would virtually eliminate the need for estimated billing. Note that the C2M system will enable us to move forward with implementing Advanced Metering Infrastructure (AMI) in the future. AMI will provide WSSC Water with the ability to obtain meter readings electronically daily, which will reduce estimated billing, improve accuracy and enable monthly billing. By enabling monthly billing and providing the ability to monitor water usage, AMI will allow customers to better manage their household budget.

Under the leadership of our new General Manager Kishia Powell, WSSC Water is assessing our current billing processes and systems to improve service delivery and our customer's experience. Our new General Manager has made this a priority and complaints will not go ignored.

The rate increase is needed to fund operating expenses, pay debt service, meet regulatory obligations and to continue providing safe, clean water with no water quality violations.

Thank you,
Fariha Babar



WSSC Water is the proud provider of safe, seamless and satisfying water services, making the essential possible every day.

FARIHA BABAR (Fa-ree-ha)

Section Manager, Operating Budget
Finance Department

301.206.8443 (O)
fariha.babar@wsscwater.com

-
14501 Sweitzer Lane
Laurel, Maryland 20707

wsscwater.com



Transportation, Infrastructure, Energy & Environment Committee Briefing

Finance Department

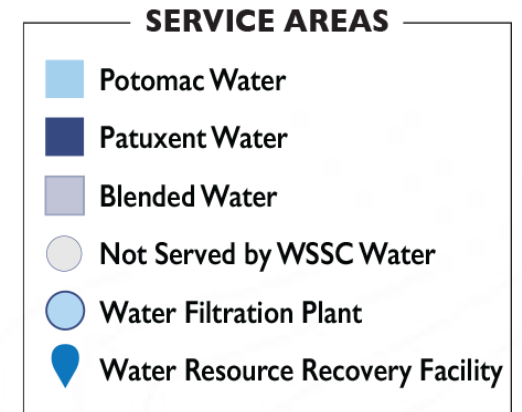
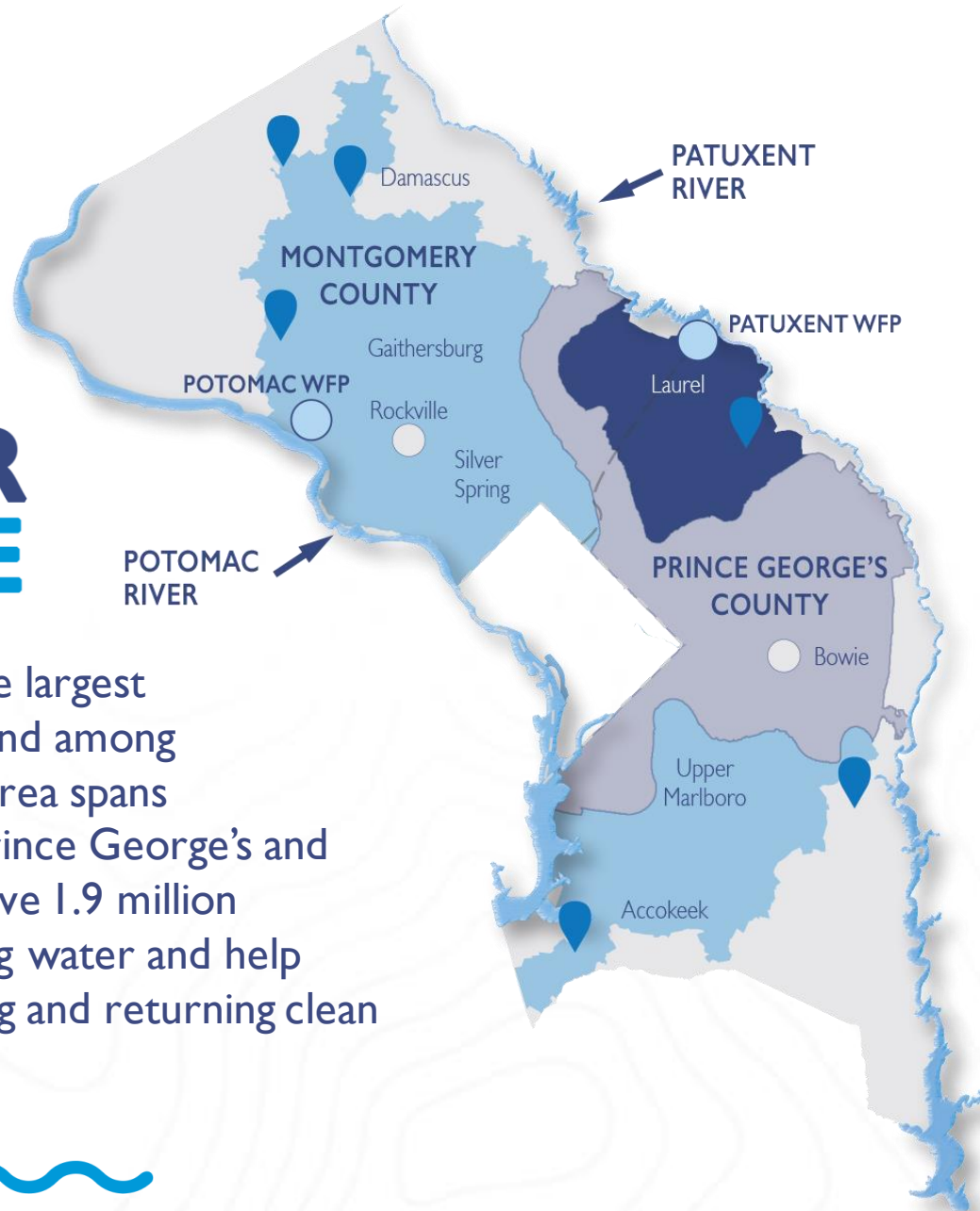
March 23, 2023

105 years & counting
No drinking water quality violations...ever!



WSSC WATER AT A GLANCE

Established in 1918, WSSC Water is the largest water/wastewater utility in Maryland and among the largest in the nation. Our service area spans approximately 1,000 square miles in Prince George's and Montgomery counties. We proudly serve 1.9 million residents with safe and reliable drinking water and help protect the Chesapeake Bay by treating and returning clean water back to Maryland waterways.





162,000,000 GALLONS OF WATER PER DAY
DELIVERED TO 1.9 MILLION RESIDENTS



3 RESERVOIRS



2 WATER FILTRATION PLANTS



60 WATER TANKS



55 PUMPING STATIONS



6 WATER RESOURCE RECOVERY FACILITIES



1,630 EMPLOYEES



Our drinking water system spans
5,800+ miles



Our wastewater system spans
5,600+ miles



500,000 WATER QUALITY TESTS PER YEAR



504,800 METERS IN OUR SYSTEM



2.25 MILLION METER READS PER YEAR

TEAM H₂O



\$5.3 MILLION

FINANCIAL ASSISTANCE TO 12,345 CUSTOMERS SINCE THE PANDEMIC BEGAN.
(WSSC WATER, FEDERAL, AND STATE PROGRAMS)

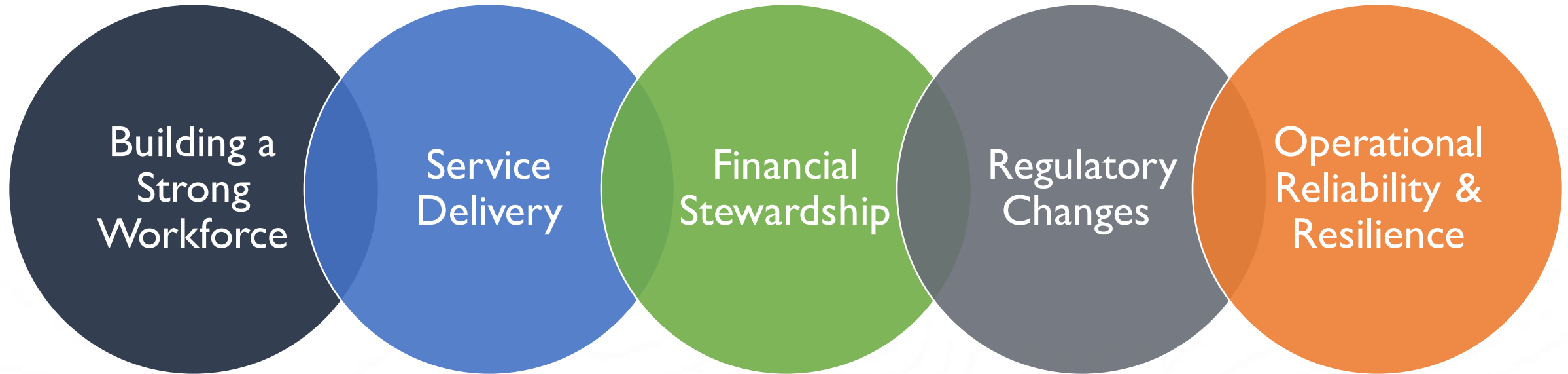
17,343

RESIDENTS ENROLLED IN OUR CUSTOMER ASSISTANCE PROGRAM IN FY 2022.
(\$1.8 MILLION BENEFIT TO ENROLLEES)

\$1.6 BILLION

FY2024
PROPOSED BUDGET

First Year Priorities



- Knowledge Management
- Safety First Culture
- Total Rewards
- Engagement
- Development
- Recruitment and retention

- Stakeholder Engagement and Communications
- Customer Experience
- Metering
- Billing
- Collections
- Service Levels

- Policies
- Reserves
- External Funding
- Alternative Revenue Sources
- Bond Rating/Outlook
- Outcome-Based Budget

- Drinking Water Quality
- Consent Decrees
- PFAS
- Supplier Diversity/MBE

- Infrastructure Investments
- Operational Efficiencies
- Cyber Security
- Climate Adaptation and Mitigation
- Financial Sustainability

Diversity, Equity, Inclusion and Environmental Justice

FY 2024 Proposed Operating and Capital Budget

FY 2024 Proposed Budget

- The FY 2024 Proposed Capital and Operating Budget totals \$1.614 billion
 - Capital Budget increase of 12.9% or \$78.3 million
 - Operating Budget increase of 7.7% or \$66.6 million
- 7.0% Water & Sewer Average Rate Increase (Volumetric and Fixed)
- 40 new positions added to support Production (4), Engineering & Construction (5), and Customer Service (31)*

* 31 Customer Service positions were offset by a reduction to Customer Service temporary staff and therefore have no budget impact.

Major Cost Drivers

- Inflationary increases
 - Chemicals: \$9.9 million; 74% increase
 - Paving: \$6.7 million; 53% increase
 - Heat Light & Power: \$8.6 million; 46% increase
 - Construction: 6.0% increase for capital projects
 - DC Water projected Regional Sewage Payment: \$10.6 million
 - \$3.9 million is in the Proposed Budget whereas \$6.7 million is not budgeted for
- PAYGO: \$13.0 million
- Debt service: \$6.6 million
- Lead & Copper Rule compliance: \$3.4 million
- IT infrastructure: \$4.3 million



Budget Highlights

Capital Budget

- Replacing 27 miles of small-diameter water mains (**\$87.2M**) and 6.5 miles of large-diameter water mains (**\$79.3M**)
- Rehabilitating 25 miles of small-diameter sewer mains and laterals in roadways (**\$65.5M**) and 10 miles of sewer mains in environmentally sensitive areas (**\$55.2M**)

Operating Budget

- Painting of four elevated water tanks (**\$4.4M**)
- Revised Lead & Copper Rule compliance (**\$3.4M**)
- Maintaining cybersecurity program (**\$2.4M**)
- Facility maintenance and repair projects (**\$2.4M**)
- 118 miles of Acoustic Fiber Optic monitoring (**\$1.4M**)

How Each Operating Dollar is Spent



Support Services

- Governance and management of organization
- Customer service
- Corporate finance
- Employee benefits
- IT Services

20¢



Capital Project Financing

- Debt payments and cash for the construction of pipes and facilities

40¢

40¢

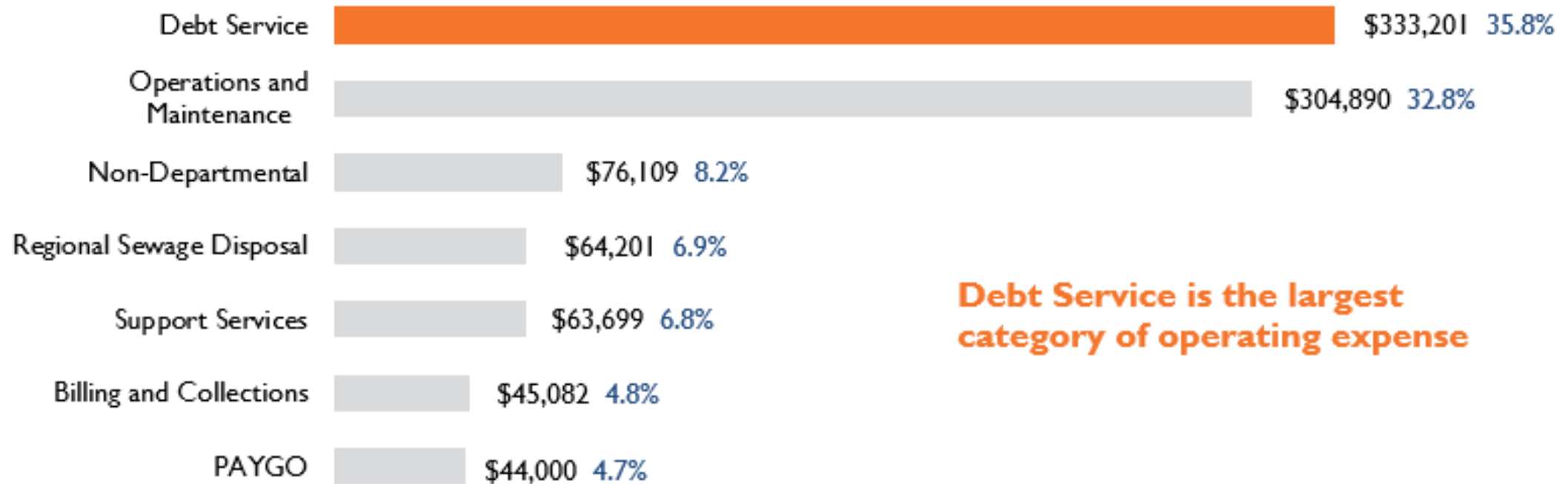
Operations & Maintenance

- Operations and maintenance for facilities (including share of Blue Plains)
- Fixing broken or leaking pipes and repairing roads
- Heat, light, and power for facilities
- Maintaining vehicles and equipment

FY 2024 Operating Budget Funding Uses



Operating Expense = \$931,182 (\$ in thousands)



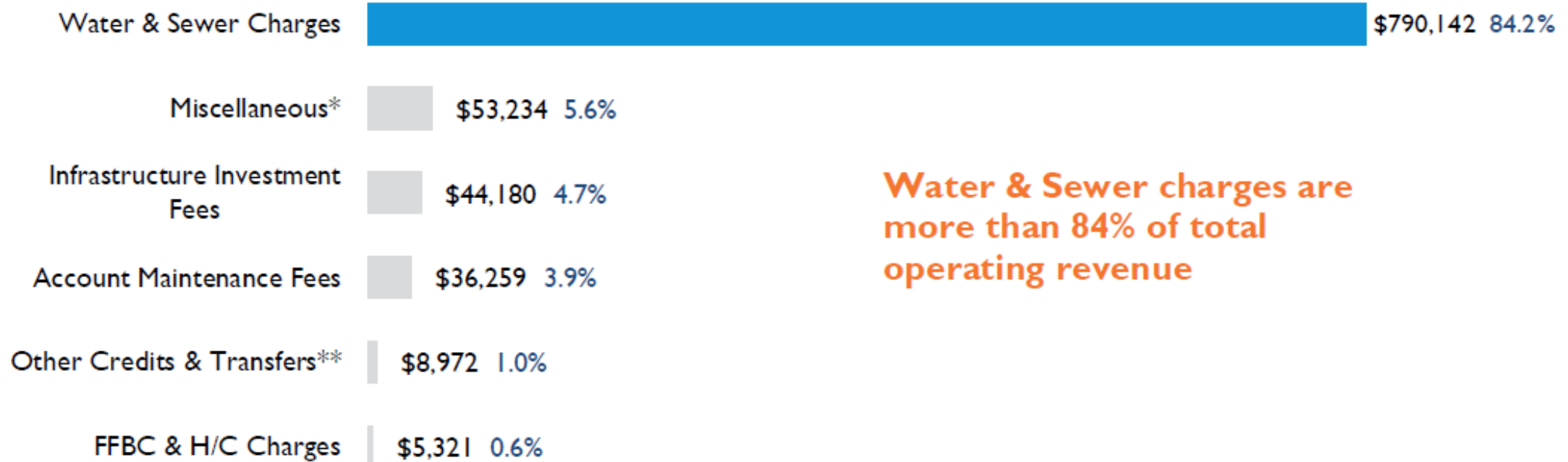
Debt Service is the largest category of operating expense

Includes Water Operating, Sewer Operating and General Bond Debt Service

FY 2024 Operating Budget Funding Sources



Operating Revenue = \$938,108 (\$ in thousands)



(*) Plumbing and inspection fees, Rockville sewer use, interest income and other miscellaneous fees and uncollectible revenue

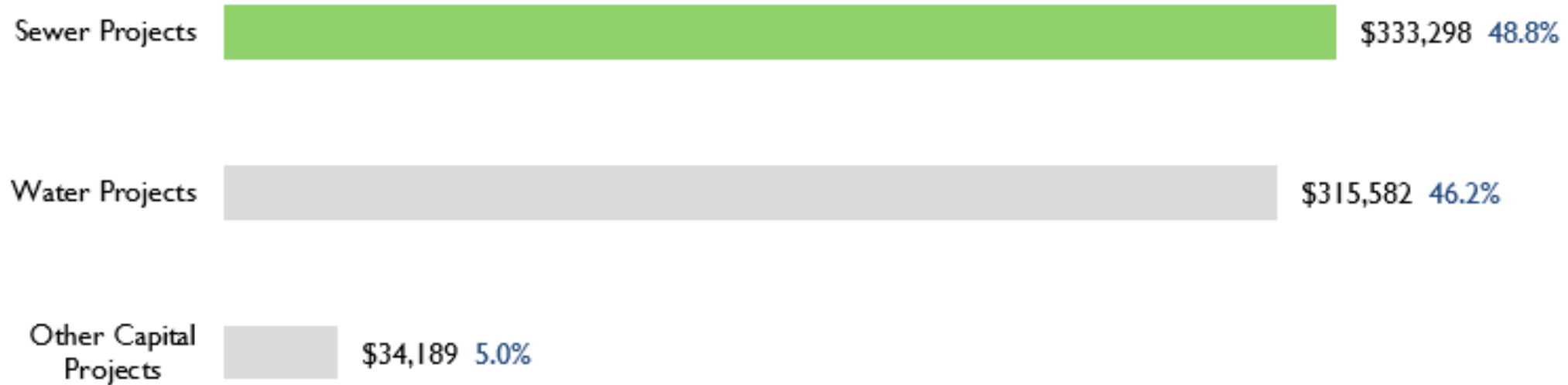
(**) Includes SDC Debt Service Offset, Premium Transfer and Underwriters Discount

Includes Water Operating, Sewer Operating and General Bond Debt Service

FY 2024 Capital Budget Funding Uses



Capital Expense = \$683,069 (\$ in thousands)

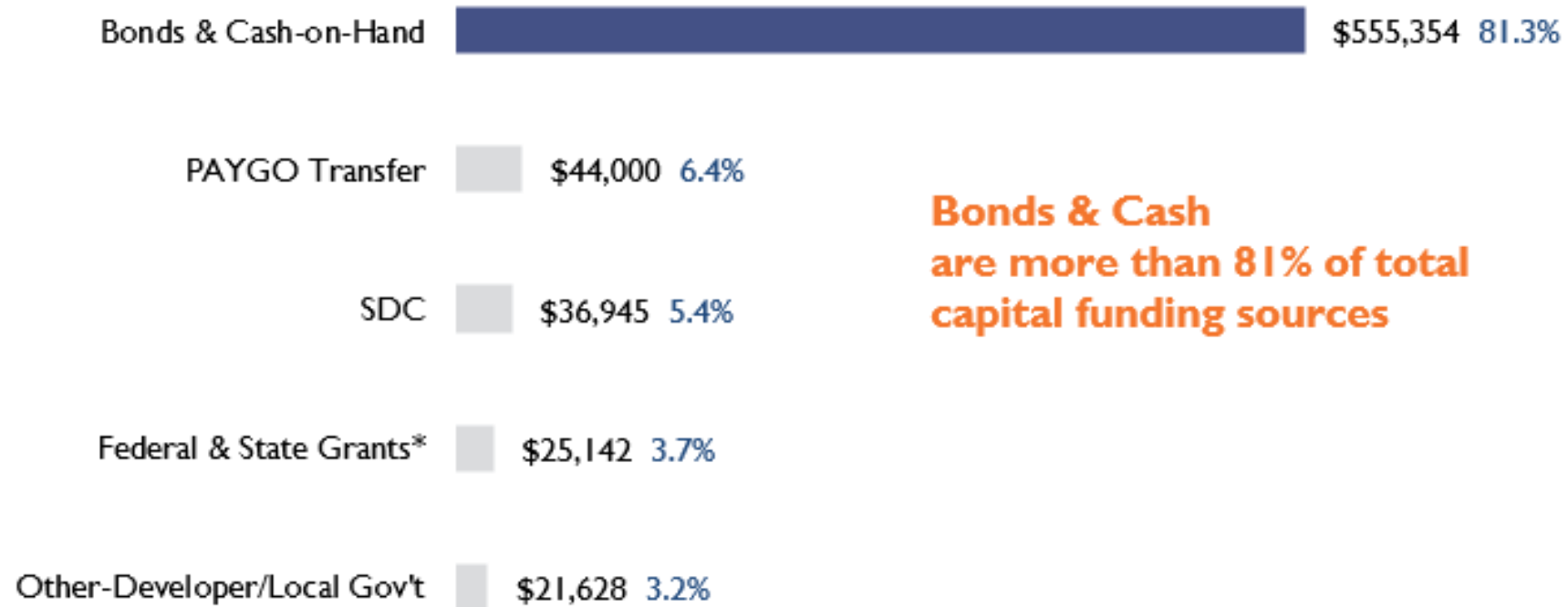


Includes Water Operating, Sewer Operating and General Bond Debt Service

FY 2024 Capital Budget Funding Sources



Capital Funds = \$683,069 (\$ in thousands)



Bonds & Cash are more than 81% of total capital funding sources

Includes funding under Maryland's Bay Restoration Fund

FYs 2024-2029 CIP

Capital Budget Affordability

A fiscally responsible Capital Improvements Program (CIP) results in:

- Maintaining our AAA credit rating
 - Adhering to financial metrics and guidelines
- An affordable CIP
 - Fits within rate increases as proposed
 - Aligns anticipated bond issuance limits over the six-year program
 - Keeps project funding in line with what is affordable
- Increased importance on prioritization of projects for inclusion, elimination, scale-down, or deferral
- Increased use of PAYGO to lower debt service expense and improve metric results - especially with rate risk

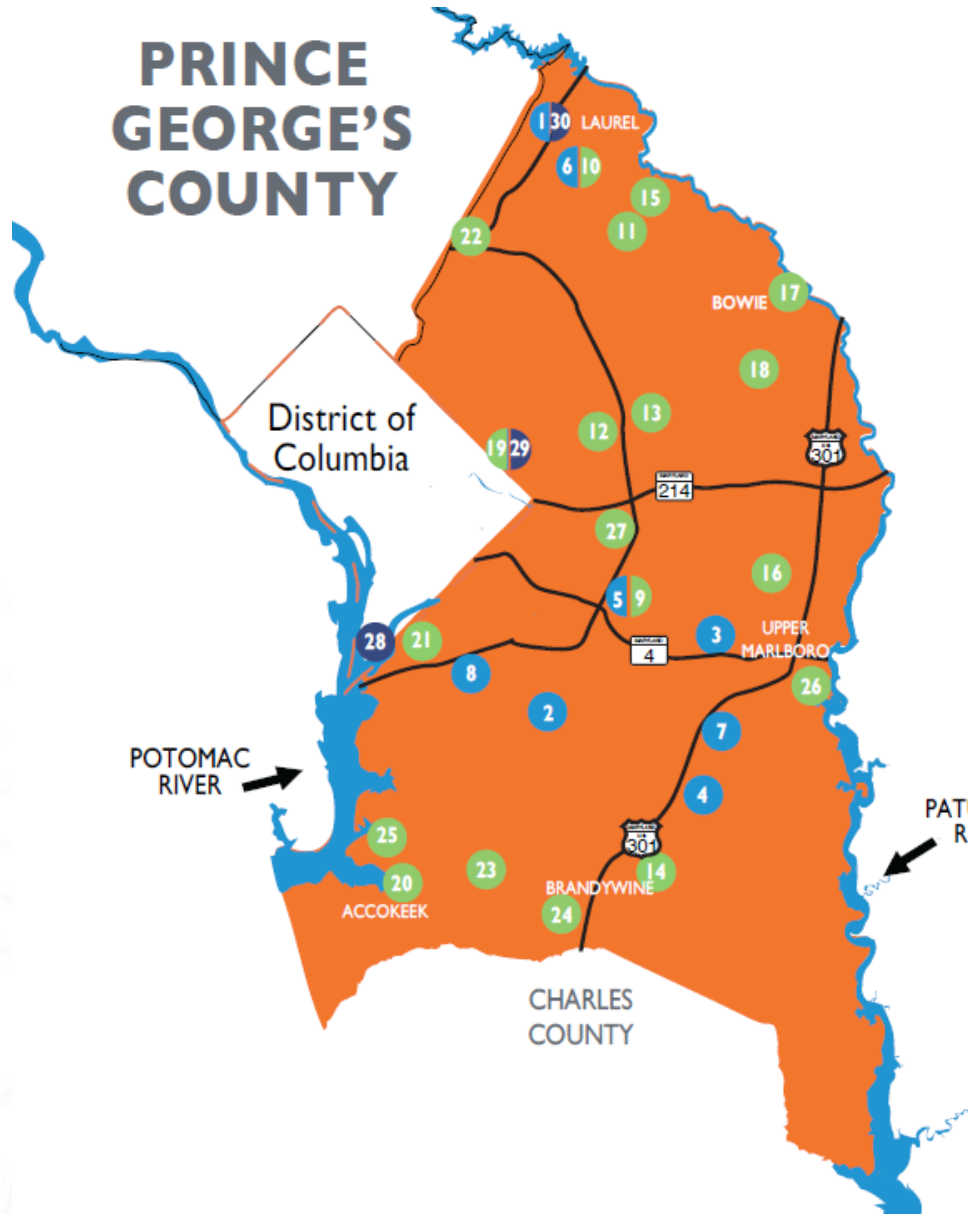
CIP Overview



FY 2024 Proposed CIP (\$ in thousands)

System	Total 6-Year Program Cost	Share
Reservoirs/Source Water Protection	18,490	0.4%
Water Filtration Plants	265,611	5.9%
Water Tanks	46,892	1.0%
Water Pipes	2,253,641	50.0%
Sewer Pipes	994,380	22.1%
Wastewater Pumping Stations/Force Mains	175,820	3.9%
Water Resource Recovery Facilities	595,201	13.2%
Support Facilities	140,291	3.1%
Lab	15,457	0.4%
Total	4,505,783	100.0%

FY 2024 CIP Overview and Highlights



WATER

- 1 Prince George's County HG415 Zone Water Main (W-12.02)
Patuxent Raw Water Pipeline (W-172.07)
- 2 Old Branch Avenue Water Main (W-34.02)
Branch Avenue Water Transmission Improvements (W- 34.04)
- 3 Marlboro Zone Reinforcement Main (W-34.05)
- 4 Rosaryville Water Storage Facility (W-62.06)
- 5 Smith Home Farms Water Main (W-84.03)
Westphalia Town Center Water Main (W-84.04)
Prince George's County 450A Zone Water Main (W-84.05)
- 6 Konterra Town Center East Water Main (W-93.01)
- 7 Marlton Section 18 Water Main, Lake Marlton Avenue (W-105.01)
- 8 South Potomac Supply Improvement, Phase 2 (W-137.03)

SEWER

- 9 Westphalia Town Center Sewer Main (S-27.08)
- 10 Konterra Town Center East Sewer (S-28.18)
- 11 Pumpkin Hill WWPS & FM (S-28.20)
- 12 Landover Mall Redevelopment (S-68.01)
- 13 Carsons Dale WWPS & FM (S-68.02)
- 14 Brandywine Woods WWPS & FM (S-75.23)
- 15 Parkway WRRF Facility & Electrical Upgrades (S-77.21)
- 16 National Capital Business Park Sewer (S-86.20)
- 17 Horsepen WWPS & FM (S-87.19)
- 18 Freeway Airport WWPS & FM (S-87.20)
- 19 Anacostia #2 WWPS Upgrades (S-89.24)
Colmar Manor WWPS & FM (S-89.26)
- 20 Piscataway WRRF Facility Upgrades (S-96.14)
Piscataway Bioenergy (S-103.02)
- 21 Forest Heights WWPS & FM (S-113.13)
- 22 Viva White Oak Sewer Augmentation (S-118.10)
- 23 Pleasant Valley Sewer Main, Part 2 (S-131.05)
Pleasant Valley Sewer Main, Part 1 (S-131.07)
- 24 Calm Retreat Sewer Main (S-131.11)
- 25 Swan Creek WWPS & FM (S-131.12)
- 26 Western Branch WRRF Process Train Improvements (S-157.02)
- 27 D'Arcy Park North Relief Sewer (S-300.01)

OTHER

- 28 Blue Plains WWTP: Liquid Train Projects, Part 2 (S-22.06)
Blue Plains WWTP: Biosolids Management, Part 2 (S-22.07)
Blue Plains WWTP: Plant-Wide Projects (S-22.09)
Blue Plains: Pipelines & Appurtenances (S-22.11)
- 29 Anacostia Depot Reconfiguration (A-100.01)
- 30 RGH Building Upgrades (A-101.06)

Capital: Aging Infrastructure

- 40% of the water mains that we maintain are more than 50 years old (about 2,330 miles out of nearly 5,888 miles)
- 27% are between 31 and 50 years old (about 1,609 miles of water mains)
- 33% are less than 30 years old (about 1,949 miles of water mains)
- Meters are on average 17 years old
- 1,381 water main breaks as of February 2023



Capital: Environmental Compliance

- Sanitary Sewer Overflow Consent Decree: 2005 Agreement with EPA on a multi-year plan to significantly minimize and, where possible, eliminate sewer overflows (Est \$1.6B)
- Potomac Consent Decree: 2016 Agreement requires operational changes and capital improvements at the Potomac Plant for “significant” reduction in solids discharged (Est. \$195M)
- Compliance with other environmental regulations¹ (Est. \$131M)
- Lead & Copper Rule Compliance: Revisions to the Lead & Copper Rule resulted in the addition of \$3.4M (\$2.2M operating impact) to the operating and capital budgets in FY 2024
- Per- and Polyfluoroalkyl Substances (PFAS): This is a developing area that could require significant capital and operating budget investments in the future

¹ Includes Blue Plains Pipelines & Appurtenances and watershed protection

WSSC Water Compared to Other Utilities

Quarterly Customer Bills at Various Consumption Levels



- Quarterly customer bills include Account Maintenance Fees and Infrastructure Investment Fees
- Average per person consumption is reduced from 55 GPD to 50 GPD due to the declining trend in water consumption

Meter Size	Average Daily Consumption (Gallons Per Quarter)	Approved FY 2020	Approved FY 2021	Approved FY 2022	Approved FY 2023	Proposed FY 2024
3/4" Residential Meter	100 (9,125 gal/qtr)	\$ 138.94	\$ 145.58	\$ 152.48	\$ 162.42	\$ 173.77
3/4" Residential Meter	150 (13,688 gal/qtr)	199.62	209.91	220.60	234.96	251.39
3/4" Residential Meter	500 (45,625 gal/qtr)	794.66	840.78	888.79	946.56	1,012.72
2" Meter	1,000 (91,250 gal/qtr)	1,903.02	2,004.81	2,110.76	2,248.01	2,405.15
3" Meter	5,000 (456,250 gal/qtr)	9,736.92	10,284.01	10,853.51	11,559.50	12,367.29
6" Meter	10,000 (912,500 gal/qtr)	19,748.55	20,852.26	22,001.19	23,432.35	25,069.80

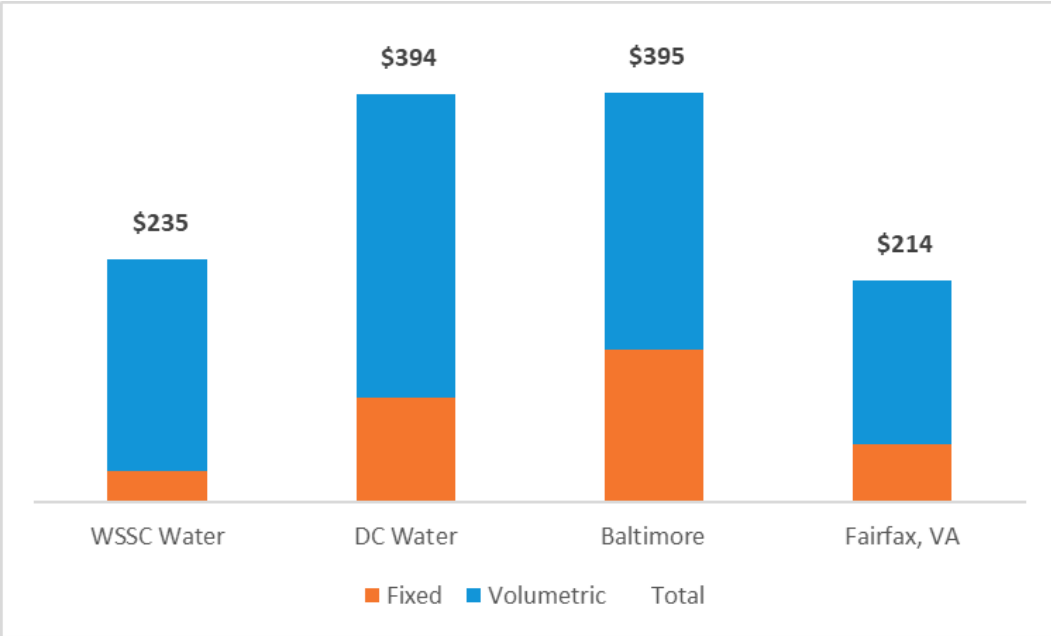
FY 2023 Residential Quarterly Bill Comparison

(150 Gallons per Day; 3/4" Meter)



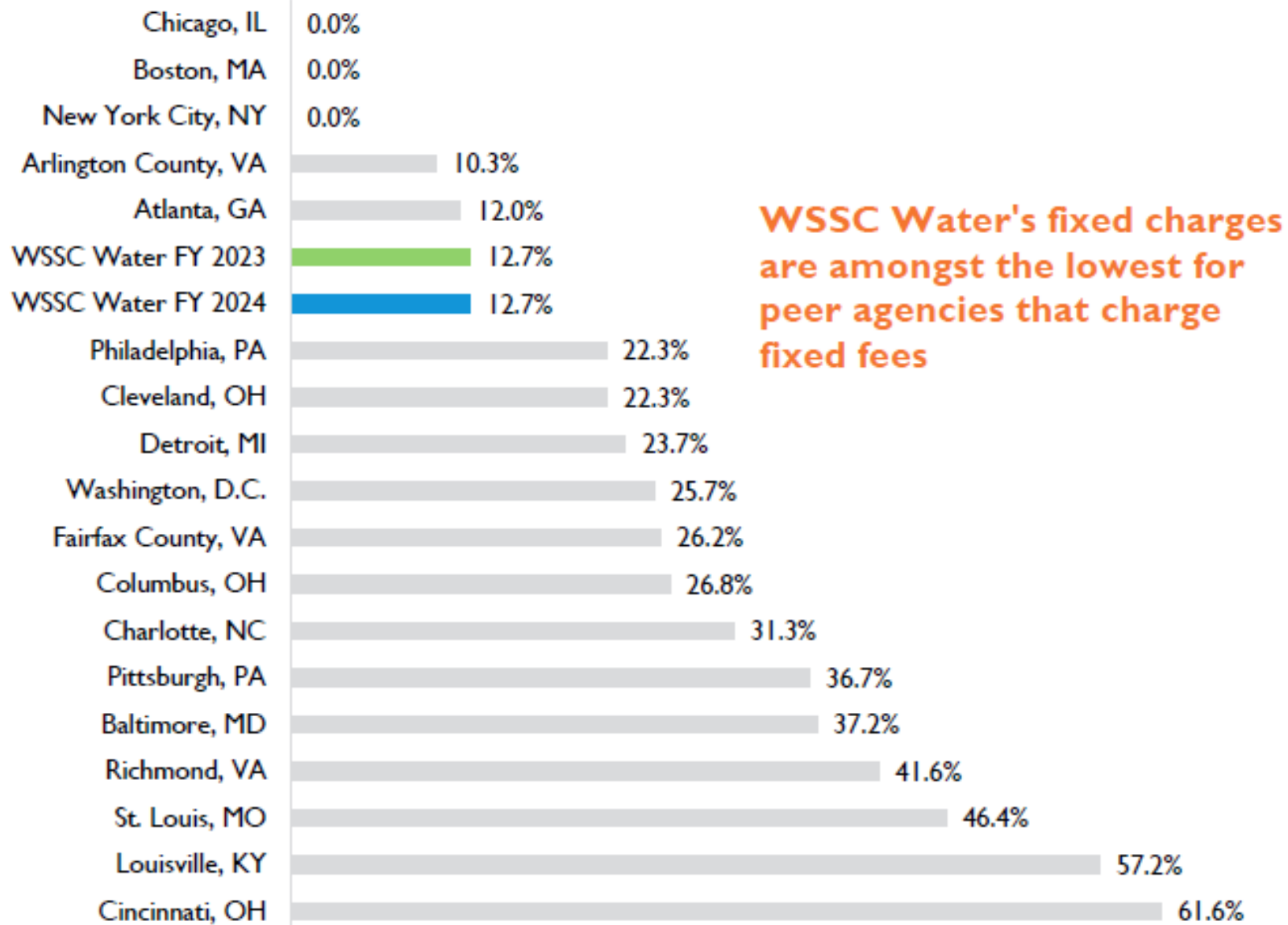
- The Ready-to-Serve charges are the Account Maintenance Fee and the Infrastructure Investment Fee
 - AMF is meant to cover fixed costs for account maintenance
 - IIF helps pay debt service expenses related to pipe replacement

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

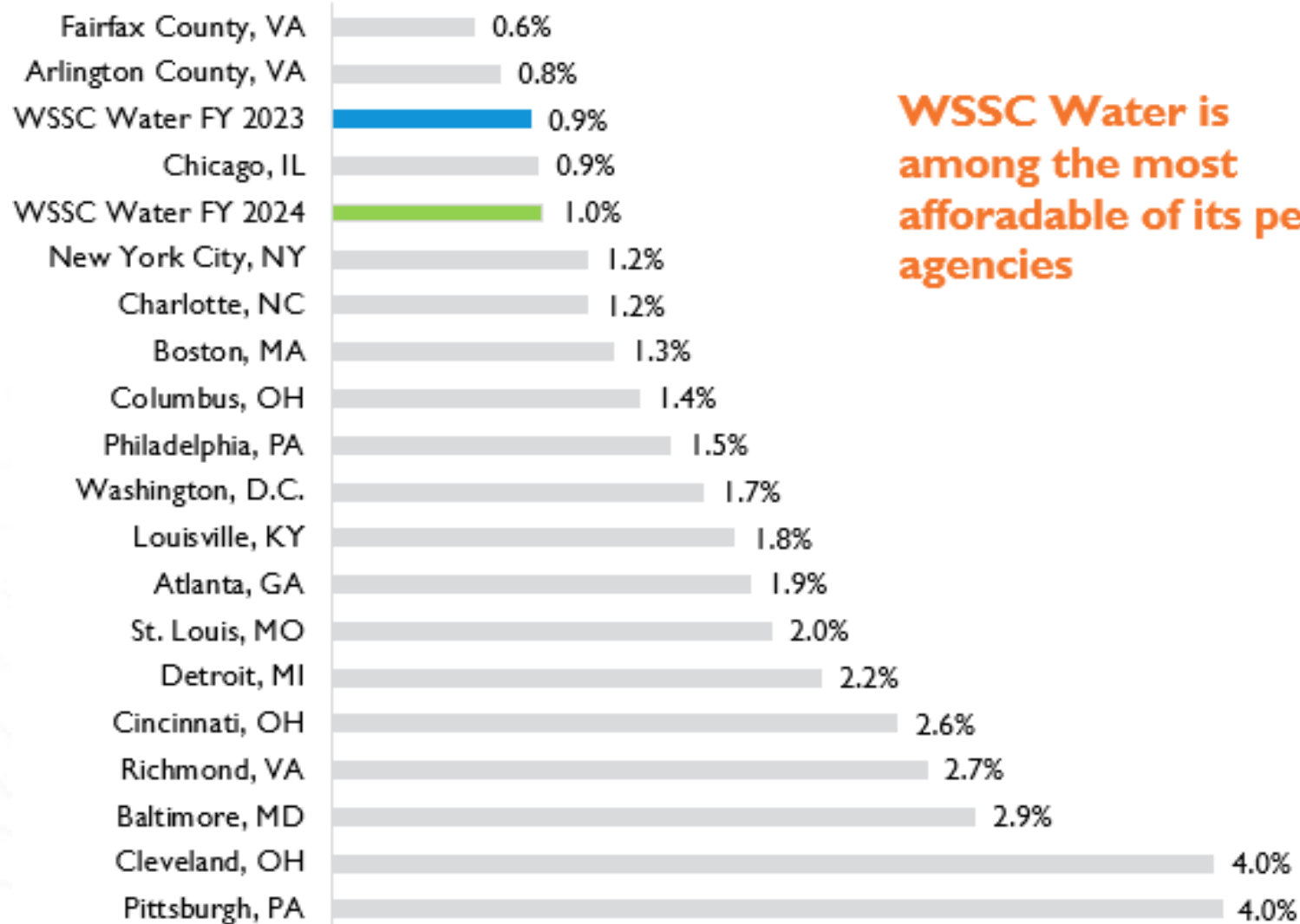


	WSSC Water	DC Water	Baltimore	Fairfax, VA
Fixed	\$ 30	\$ 101	\$ 147	\$ 56
Volumetric	\$ 205	\$ 293	\$ 248	\$ 158
Total	\$ 235	\$ 394	\$ 395	\$ 214

% of Avg. Residential Bill From Fixed Charges (150 Gallons per Day)



Average Residential Bill a % of Median Income (150 Gallons per Day)



WSSC Water is among the most affordable of its peer agencies

Rate Increase Comparison



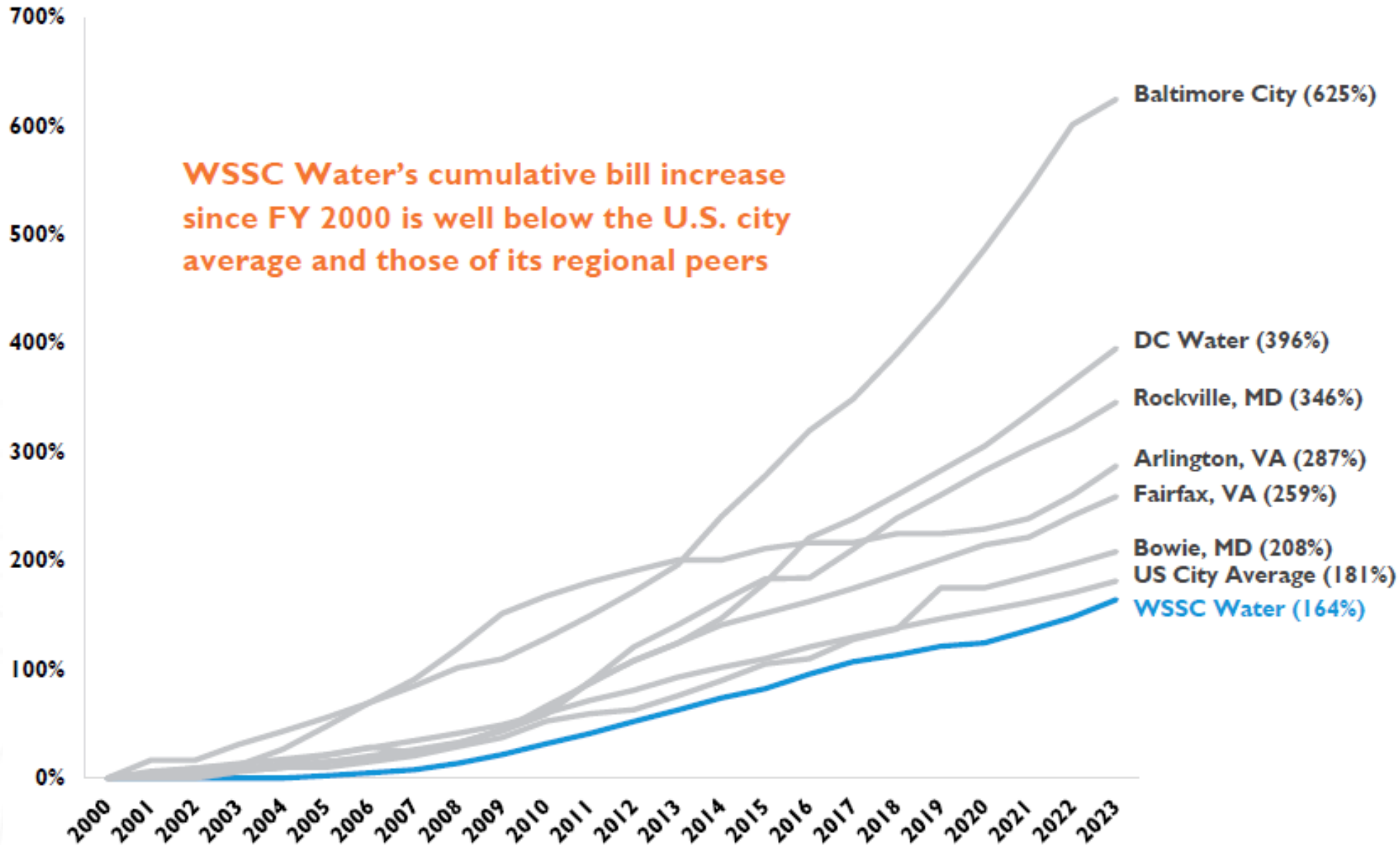
Agency/Region	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
WSSC Water								
Volumetric Rates	5.9%	6.5%	7.0%	8.0%	8.0%	6.5%	6.5%	6.5%
Fixed Fees	0.0%	6.5%	7.0%	8.0%	8.0%	6.5%	6.5%	6.5%
DC Water								
Volumetric Rates	7.8%	9.5%	3.3%	10.0%	7.5%	8.5%	8.0%	8.0%
Fixed Fees	5.7%	-0.8%	11.0%	1.1%	4.4%	4.8%	2.5%	7.0%
Baltimore City								
Volumetric Rates	9.3%	3.4%	3.3%	3.4%				
Fixed Fees	9.5%	3.2%	3.2%	3.2%				
Fairfax, VA *								
Volumetric Rates	5.4%	4.5%	4.8%					
Fixed Fees	8.3%	7.1%	8.5%					

Actual (green) and projected (black) increases per agency websites.

* Fairfax Water is approved through FY 2024, but Fairfax County sewer is only approved through FY 2023.

FYs 2000-2023 Bill Increase Comparison

(150 Gallons per Day; 5/8" Meter)



Financial Challenges & Strategies

Financial Status

Combined Water and Sewer Operating Fund

	FY'18	FY'19	FY'20	FY'21	FY'22
<u>REVENUES</u>					
Water Consumption & Sewer Use Charges	\$597,614	\$615,249	\$618,158	\$628,555	\$709,034
Use of Accumulated Net Revenue	227	11,580	11,341	8,000	0
All Other Revenues	112,279	118,313	122,209	109,601	119,495
TOTAL REVENUES	710,120	745,142	751,708	746,156	828,529
<i>Growth Since FY2018</i>					16.7%
<u>EXPENSES</u>					
Operating Expenses	438,048	467,694	472,147	454,780	455,239
PAYGO	10,065	15,754	0	0	27,585
Debt Service Expense	257,502	275,385	279,745	281,844	280,257
GROSS EXPENSES	705,615	758,833	751,892	736,624	763,081
<i>Growth Since FY2018</i>					8.1%
Less: Reconstruction Debt Service Offset	(7,700)	(12,500)	(11,600)	(9,500)	(6,000)
Less: SDC Debt Service Offset	(2,396)	(5,551)	(6,695)	(5,772)	(5,772)
Less: Premium Transfer	0	0	(7,904)	(9,151)	(2,000)
NET EXPENSES	695,519	740,782	725,693	712,201	749,309
NET REVENUE (LOSS) FOR YEAR	\$14,601	\$4,360	\$26,015	\$33,955	\$79,220
ACCUMULATED NET REVENUE - BEGINNING	173,494	179,780	132,931	142,942	163,334
ACCUMULATED NET REVENUE - ENDING	\$187,868	\$172,560	\$147,605	\$168,897	\$242,554
<i>Growth Since beginning of FY2018</i>					39.8%

*The change in the Ending Accumulated Net Revenue in FY 2019 and the Beginning Accumulated Net Revenue in FY 2020 is due to a change in the depreciation calculation

Declining Consumption Trend

- Since FY 2020 water consumption is down 5.9% and sewer consumption is down 3.3%
- Higher delinquencies and shifts in the water and sewer consumption by rate tiers significantly impact volumetric revenue
- In the FY 2024 Proposed Budget, the average per person consumption is reduced from 55 gallons per day (GPD) to 50 GPD due to the declining trend in water consumption

Water Consumption (%)			
	Non-residential	Residential	Total
FY23	25%	75%	100%
FY22	24%	76%	100%
FY21	21%	79%	100%
FY20	27%	73%	100%

Sewer Consumption (%)			
	Non-residential	Residential	Total
FY23	22%	78%	100%
FY22	21%	79%	100%
FY21	19%	81%	100%
FY20	24%	76%	100%

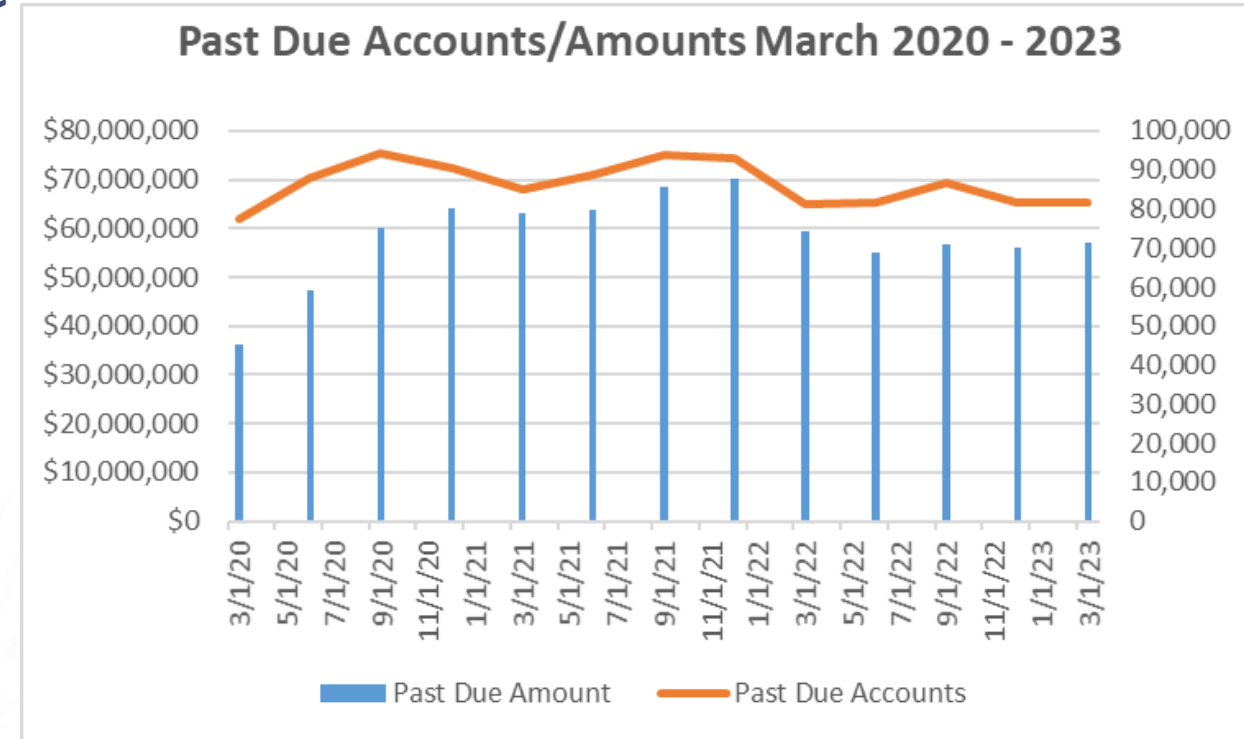
Water Consumption (TG)			
	Non-residential	Residential	Total
FY23	7,394,124	22,433,599	29,827,723
FY22	7,315,707	23,564,502	30,880,209
FY21	6,442,438	23,539,589	29,982,027
FY20	8,678,415	23,024,418	31,702,833

Sewer Consumption (TG)			
	Non-residential	Residential	Total
FY23	6,107,460	21,234,801	27,342,261
FY22	6,033,251	22,173,035	28,206,286
FY21	5,213,877	22,351,318	27,565,195
FY20	6,661,750	21,624,450	28,286,200

1) The water and sewer consumption amounts are thru February of a fiscal year
 2) TG means thousand gallons

Delinquencies

- The pandemic increased delinquent accounts balance which impacted revenue
 - Pre-pandemic delinquencies were \$37 million
 - During the pandemic delinquencies grew and peaked at \$70 million
 - Delinquencies decreased as the economy recovered and water turn-offs were reinstated but continues to be significantly higher than the pre-pandemic level



Rating Agency Analyst Comments/Questions



Moody's

Rating outlook

- Stable outlook reflects expectation that the district's financial position will remain sound, given a **demonstrated willingness to implement annual rate increases**

Factors that could lead to a downgrade

- **Failure to raise rates** or levy ad valorem tax when needed to support operations and debt
- Material erosion of reserves and liquidity
- Substantial deterioration of customer base or service area
- Downgrade of Montgomery or Prince George's counties

S&P

Rating outlook

- WSSD's credit quality is anchored by the extremely strong management team that has historically demonstrated an ability and **willingness to reduce expenditures and increase rates** to maintain sufficient coverage and liquidity

Factors that could lead to a downgrade

- **If management is unable to effectuate necessary rate increases** or contain costs which results in a reduction in reserves or a failure to meet forecast projections, we will lower the rating one or more notches

Fitch

Rating outlook

- Negative Outlook reflects leverage that may again exceed or remain near 10.0x for the next one to two years
- A sustained trend in declining leverage longer-term is **dependent upon continued robust rate adjustments** over the five-year horizon and beyond to generate FADS in support of ongoing capital spending and increasing operating costs

Factors that could lead to a downgrade

- **Failure to secure rate increases** that satisfactorily support operations, continued robust capital investment and declining leverage
- Failure to realize continued improvement in leverage through the five-year horizon

Factors that could lead to stabilization of Outlook

- Sustained improvement in the district's financial performance supporting leverage comfortably below 10.0x and rate increases sufficient to keep pace with expense growth and maintain robust capital investment

Moody's Aaa Medians



2020 Medians US Combined Water and Sewer Utilities by Rating Category					
<u>Selected Indicators</u>	<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>	<u>WSSC</u>
Median Family Income (% of US Median)	111%	95%	83%	94%	165%
Asset Condition: (Remaining Useful Life)	26	27	24	29	42
Debt to Operating Revenues	1.9	1.9	2.4	5.5	4.7
Annual Debt Service Coverage	3.29	2.52	2	1.5	1.16
Days Cash on Hand	827	521	359	148	201
System Size (O&M, \$000)	98,404	25,313	7,533	665	539,416
Debt Service (\$000)	22,492	7,498	2,353	1,969	285,669
Net Revenues (\$000)	85,347	20,352	4,609	4,876	330,189
Net Funded Debt (\$000)	261,193	71,604	24,803	9,128	3,911,011
Total Revenues (\$000)	181,675	43,221	13,278	10,840	833,602

Source: Moody's MFRA database

Financial Strategy to Maintain AAA Rating

- Maintaining the AAA rating is a key part of our strategy for preserving long-term affordability for our customers
- A negative outlook is a time-limited rating category of 18-24 months
- WSSC Water needs to demonstrate a sustained improvement in financial conditions to retain the AAA rating by Fall 2023
- Initiating a plan to reduce delinquencies to pre-COVID levels through application of external funding to eligible customer accounts and expedited shutoffs
- Continue focus on external funding opportunities and growing non-rate revenues including monetizing surplus real estate assets, marketing Class A biosolids, renewable natural gas, and intellectual property licensing
- Revise financial metrics to align with rating agency standards

Recommended Actions to Address Rating Agency Concerns

- Use cash based rather than accrual model for financial projections and metrics
- Primary focus on these three metrics
 - Leverage Ratio = $<10.0x$ (**Total Debt/Funds Available for Debt Service**)
 - No change from current metric
 - Days Cash on Hand; (DCOH) = 250 days (**# of days to pay expenses without new revenue**)
 - Current metric is 120 – 150 days based on accrual model
 - Debt Service Coverage Ratio (DSCR) = 1.50 (**Net Revenue/Debt Service**)
 - Current metric is 1.10 to 1.25 based on accrual model
- Rate Increases to improve Coverage Ratio to 1.50 and maintain other metrics
 - FY 2025 & FY 2026 = 8.0%; Gradual Compliance by FY 2029

FY 2023 Revised Forecast



FY 2024 WITH 8% Rate Increases in FY 25 & FY 26/ INCREASE PAYGO/LEVEL PRINCIPAL

A Financial Plan	FY 2023 Estimate	FY 2024 Proposed	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
I Affordability:							
Rate Increase	6.5%	7.0%	8.0%	8.0%	6.5%	6.5%	6.5%
II Capital Demands:							
New Debt Issues	\$ 358,840	\$ 379,960	\$ 388,352	\$ 326,030	\$ 364,708	\$ 325,870	\$ 287,053
PAYGO	31,016	44,000	65,000	147,000	141,597	148,546	177,000
Total Funding for Bonded Projects	\$ 389,856	\$ 423,960	\$ 453,352	\$ 473,030	\$ 506,305	\$ 474,416	\$ 464,053
III Debt Service Coverage:							
Net Operating Revenue	\$ 347,773	\$ 371,740	\$ 423,397	\$ 486,581	\$ 533,154	\$ 577,911	\$ 632,064
Debt Service	302,982	328,467	366,169	387,288	405,949	424,137	434,635
Net Revenue Strength	\$ 44,791	\$ 43,273	\$ 57,228	\$ 99,293	\$ 127,205	\$ 153,774	\$ 197,429
IV Liquidity and Reserves:							
Ending Fund Balance	\$ 266,601	\$ 274,845	\$ 274,846	\$ 234,910	\$ 228,266	\$ 241,242	\$ 269,418
Net Increase/(Shortfall)	24,047	8,244	0	0	(0)	12,976	28,176

Long-Range Financial Plan Metrics



Capital Policy Guidelines

- Reduce new debt issuance and related debt service expense through increased PAYGO
- Maintain improved liquidity and debt service coverage

Metrics	CFO Guideline	FY 2023 Estimated	FY 2024 Proposed	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
I Debt Service Coverage:								
a Debt Service (P+I) as a Percentage Total Expenditures	<40.0%	35.9%	35.5%	36.6%	34.5%	35.1%	35.3%	34.5%
b Debt Service Coverage "Stress Case" *	1.50	1.34	1.31	1.32	1.40	1.43	1.45	1.52
c Leverage Ratio "Stress Case"	<10.0	9.7	9.6	8.8	8.0	7.5	7.1	6.5
II Liquidity and Reserves:								
a Days Cash-on-Hand "Stress Case"*	≥250	227	250	276	275	275	283	310
b Ending Fund Balance as a Percentage of Operating	20.0%	31.1%	29.8%	27.7%	21.9%	20.0%	20.0%	21.0%
III Workforce								
Workyears	n/a	1,796	1,836	1,836	1,836	1,836	1,836	1,836
* The "Stress Case" assumes an increase in capital costs of 10%. This is consistent with how Fitch calculates the Leverage Ratio and Days-Cash-on-Hand								

FY 2024 Budget Summary Highlights



- The proposed budget meets the spending affordability limits of a 7.0% water and sewer rate increase
- Inflation is significantly impacting non-discretionary costs
- Past due amounts continue to be significantly higher than the pre-pandemic levels
- Aging infrastructure with 40% of water mains more than 50 years old
- Consent decree projects on time and on budget
- Capital Improvements Program provides for critical infrastructure investment
- Maintaining customer financial assistance programs
- **Preserving our AAA bond rating**



Questions?



Prince George's County Customer Assistance Program by District –
Attachment B

Prince Georges County	
District	No. of Participants
1	714
2	478
3	830
4	654
5	1,549
6	1,548
7	1,967
8	1,372
9	1,377
Grand Total	10,489