



Angela D. Alsobrooks
County Executive

PRINCE GEORGE'S COUNTY GOVERNMENT

OFFICE OF THE COUNTY EXECUTIVE

April 5, 2023

The Honorable Thomas E. Dernoga
Chair
Prince George's County Council
Wayne K. Curry Administration Building
1301 McCormick Drive
Largo, Maryland 20774

Re: Transmission of WSSC Water Proposed Budgets for FY2024
Operating and Capital Improvement Program

Dear Chair Dernoga:

In accordance with Section 17-202 of the Public Utilities Article of the Annotated Code of Maryland, I am hereby transmitting my recommendations on the Washington Suburban Sanitary Commission ("WSSC Water") Proposed Budget for FY 2024, along with our comments on the Commission's proposed rate changes for FY 2024, FY 2024 – FY 2029 Proposed Capital Improvement Program, and supporting strategic priorities that guide the proposed budget.

WSSC Water's proposed revenues and expenditures are impacted by conditions that have presented challenges for years but were exacerbated by the global pandemic. On the revenue side, changes in water consumption patterns were evident for two decades; however, the pandemic created dramatic shifts in water usage which continue to persist. In addition, WSSC Water reports approximately 82,000 delinquent accounts with over \$56 million past due. Unlike some utilities, there are no available direct financial assistance or grants to address these particular conditions. However, WSSC Water successfully secured approximately \$3.1 million in indirect funding through housing/rental assistance programs and Low-Income Household Water Assistance Program.

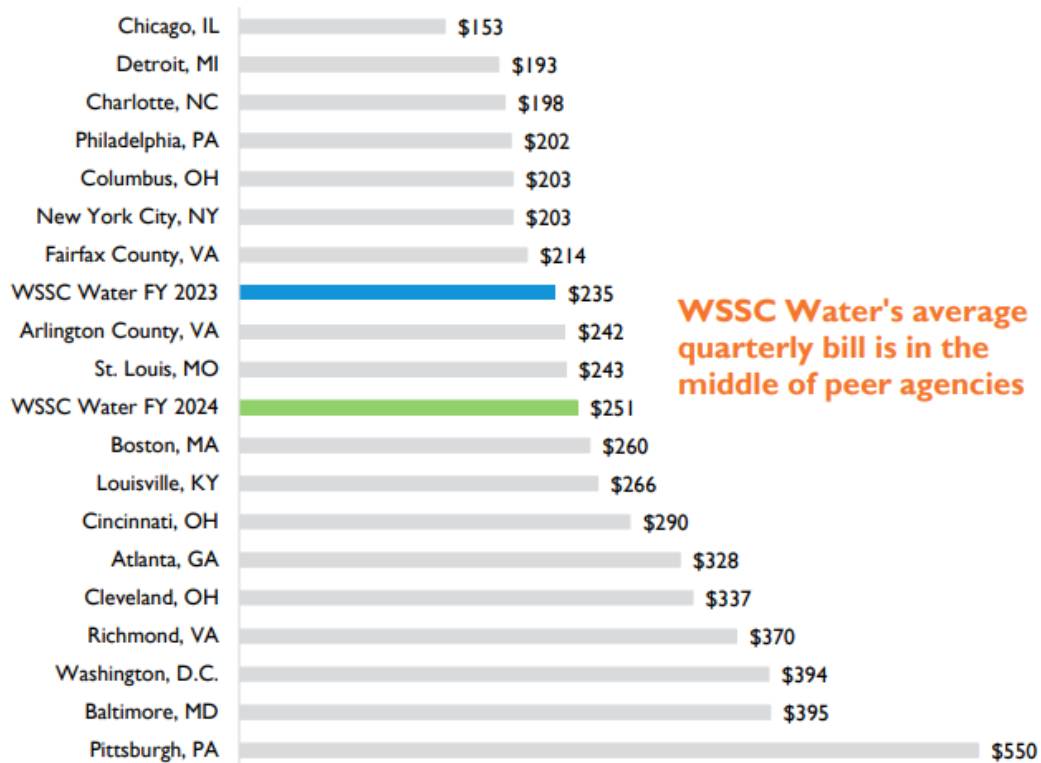
Expenditures for WSSC Water's water infrastructure and service demands continue to grow and face challenges. Like all capital programs, WSSC Water experiences supply chain issues during the construction process. Demands for service continue as WSSC Water maintains its performance levels related to repairs while improving its performance of calls answered by customer service agents.

Rate and Fee Overview

WSSC Water has submitted its FY 2024 Proposed Budget with a 7% rate increase. This increase will result in the addition of an estimated additional \$16.43 to the average quarterly bill of a three-person household. The proposed budget was developed around the rate established through their spending affordability process, and the proposed budget is within those guidelines.

WSSC Water rates continue to be favorable when compared to many other regional water and sewer utilities. The table below shows WSSC Water’s rate structure for an average household of three using 50 gallons per day, per person, benchmarked against peer utility providers in the region and nation. The table includes both the current and proposed rates. As shown below, WSSC Water’s rates are comparable to these peer utilities. When removing the outlier rate (Pittsburgh), WSSC Water’s rates are slightly below the mid-range rate (\$274). Further, the Environmental Protection Agency (EPA) established that an acceptable rate is at 4.5% of the median household income levels for the customer base. WSSC Water’s proposed rate increase would be at 1.0% of the median household income for its customers and would place it in the bottom five of the peer utilities shown below.

**Residential Quarterly Water/Sewer Bill Comparison
(150 Gallons per Day)**



Budget Overview (Operating and Capital Budgets)

The proposed budget for FY 2024 for all operating and capital funds total \$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 Approved Operating Budget. Debt service obligations total \$6.8 million, a decrease \$1.8 million (21.1%). The proposed capital budget of \$683.1 million is \$78.3 million (12.9%) above the FY 2023 Approved Capital Budget. Expenditures by fund type are summarized in the table below.

(\$ in thousands)	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Approved	FY 2024 Proposed	FY 2024 Over/(Under) FY 2023	% Change
Operating Funds							
Water Operating	\$ 338,471	\$ 335,324	\$ 339,252	\$ 379,808	\$ 421,293	\$ 41,485	10.9 %
Sewer Operating	413,421	401,300	423,829	476,137	503,059	26,922	5.7 %
General Bond Debt Service	14,292	12,006	10,720	8,661	6,830	(1,831)	(21.1)%
Total Operating	\$ 766,184	\$ 748,630	\$ 773,801	\$ 864,606	\$ 931,182	\$ 66,576	7.7 %
Capital Funds							
Water Supply Bond	\$ 162,378	\$ 142,441	\$ 138,613	\$ 239,027	\$ 315,582	\$ 76,555	32.0 %
Sewer Disposal Bond	211,729	265,865	238,063	343,081	333,298	(9,783)	(2.9)%
General Construction	20,278	18,587	21,131	22,674	34,189	11,515	50.8 %
Total Capital	\$ 394,385	\$ 426,893	\$ 397,807	\$ 604,782	\$ 683,069	\$ 78,287	12.9 %
Grand Total	\$ 1,160,569	\$ 1,175,523	\$ 1,171,608	\$ 1,469,388	\$ 1,614,251	\$ 144,863	9.9 %

The table below shows major expense categories. Salaries and wages increase by \$8.1 million, which is 5.0% above the FY 2023 level but is lower than the overall increase of 9.9%. Contractual staffing, through both contractual work and consulting engineers, increases by a combined \$44.7 million (10.6%) and captured in the capital expenditures.

(\$ 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

- With the impact to revenues persisting, WSSC Water initiated \$13.4 million in cuts to their operating and capital budgets to stay within the spending guidelines. Some of the deferrals/reductions are achieved through the following actions:
 - \$4.4 million in deferrals to maintenance and repairs at facilities, safety evaluations, dredging and research projects;
 - \$4.3 million from deferrals for IT related expenditures such as development/enhancement of applications, business analysis, quality assurance and tool functionality;
 - \$1.6 million for various testing services recommended to maintain certification;
 - \$1.0 through reductions in benefits and wellness programs;
 - \$792,000 shift for a program from operating to the capital budget; and
 - \$1.05 for reductions in fleet replacement and miscellaneous deferrals in analyses and studies of various workflows.

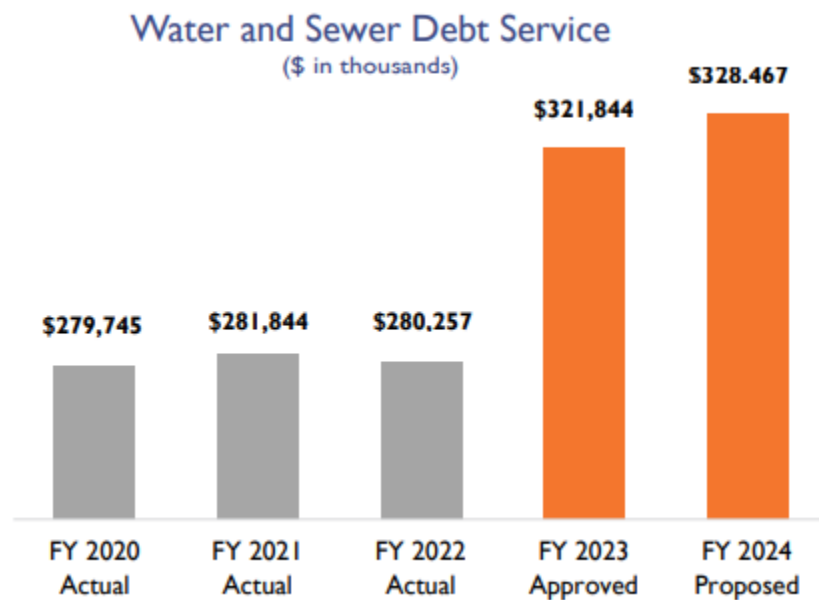
Note that WSSC Water did not identify any capital projects that would be delayed or deleted.

Compensation and FY 2024 Salary Enhancements

The FY 2024 proposed budget includes \$8.8 million for salary enhancements. The budget does not contemplate across-the-board salary adjustments, but does signal that WSSC Water will use a portion of the funding to address salary disparities that are associated with equity issues across the organization.

Debt Service

Debt service payments for Water and Sewer Operating in FY 2024 are \$328.5 million, an increase of \$6.6 million. In FY 2023, WSSC Water delayed numerous projects as a cost containment measure. As those projects come back online, debt service payments will continue to increase accordingly. Supply chain issues and inflationary impacts contribute to the escalating construction costs. The focus of the capital program continues to be rehabilitation programs which account for 40.7% of the FY 2024 proposed capital budget.



Fund Balance

The Water Operating fund projects an ending fund balance for FY 2024 of \$104.2 million, an increase of \$3.7 million. The year-end Sewer Operating fund balance is projected to be \$170.7 million, an increase of \$4.5 million. WSSC Water’s fiscal policies establish a maximum 30% net operating revenue and a minimum 20% net fund balance to offset unanticipated variations in water and sewer services revenues that may occur in future years. The combined \$274.9 million in net revenue exceeds the 30% net reserve guideline established in their fiscal guidelines. Of this, at least \$184.7 million must be held in balance to maintain the required 20% of net operating revenues.

WSSC Water also has a General Bond Debt Service Fund to support its debt service payments on certain installation projects. The projected FY 2024 fund balance in this account will decrease 75% because WSSC Water no longer installs most lines and connections to new development. Instead, developers are responsible for this and pass costs along to property owners. WSSC Water, thus, eliminates the debt service expenditures and the revenue previously supporting it.

Spending Affordability

WSSC Water’s spending affordability process continuously reviews and analyzes expenses and revenues for water and sewer services. The FY 2024 proposed budget was developed around the 7% rate increase established through their spending affordability process and in consultation with Prince George’s and Montgomery Counties. Both counties adopted resolutions in 2023 setting approved limits in the FY 2024 budget. The table below demonstrates that the proposed budget is within those guidelines.

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

Strategic Priorities

WSSC Water implemented the FY 2023 – FY 2025 Strategic Plan to guide them on a “journey to world class.” The plan is supported by the Strategic Roadmap describing specific initiatives being pursued to fulfill the plan. The strategic planning process began in the Fall 2021 and concluded with publication in August 2022.

This collaborative plan includes the following strategic priorities:

- Enhance Customer Experience
- Spend Customer Dollars Wisely (to maintain their AAA bond rating)
- Optimize Infrastructure
- Protect Our Resources
- Transform Employee Engagement

The Commission’s Performance Report is found beginning on page I-7 of the [FY 2024 Proposed Budget](#).

The Honorable Thomas E. Dernoga

April 5, 2023

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Conclusion

Over the last 100 years, WSSC Water continues to serve residents, visitors, and businesses in Prince George's County and the Bi-County region. We recognize WSSC Water for continuing to make strides in upgrading and maintaining the water supply and water treatment facilities, water lines, dams and reservoirs. WSSC's capital requirements, the decline in water usage and the current rate of inflation all makes the proposed increase of reasonable and consistent with the resolution adopted by the County Council. Therefore, I support WSSC Water's Proposed Operating and Capital Budget requests, and the 7.0% proposed rate increase that supports it.

Sincerely,



Angela D. Alsobrooks
County Executive

cc: Tara H. Jackson, Chief Administrative Officer
Jared M. McCarthy, Deputy Chief Administrative Officer for Government Operations
Stanley Earley, Director, Office of Management and Budget
Kishia L. Powell, General Manager/Chief Executive Officer, WSSC Water
Regina Y. Speed-Bost, Vice Chair (Prince George's County), WSSC Water
Lynnette D. Espy-Williams, Commissioner (Prince George's County), WSSC Water
Mark J. Smith, Commissioner (Prince George's County), WSSC Water

MAP OF PROJECTS IN PRINCE GEORGE'S COUNTY

The map below shows the location of the CIP projects within Prince George's County. It does not include projects with multiple jobsites, such as the reconstruction programs. Additionally, the map shows the location of the four CIP projects associated with the Blue Plains Advanced Wastewater Treatment Plant (Blue Plains) in Washington D.C., which are owned and operated by the District of Columbia Water and Sewer Authority (DC Water). For more information on all of the CIP projects within Prince George's County, please refer to the CIP document available on our website at <https://www.wsscwater.com/fin>.

