



WSSC WATER

DELIVERING THE ESSENTIAL

Transportation, Infrastructure, Energy and Environment (TIEE) Committee Briefing

October 13, 2022

Agenda

- Bond Rating Agency Reports
- FY 2024 Operating Budget Challenges
- FY 2024 Rate Increase Drivers
- Long-Range Financial Plan
- Budget Impacts of Reducing the Rate Increase
- WSSC Water Key Revenue and Expense Indicators
- Revenue Base – Counties Compared to WSSC Water
- WSSC Water Compared to Peers
- Cost-of-Service Study
- Past Due Accounts/Amounts
- CAP Past Due Accounts – Prince George’s County
- Non-CAP Past Due Accounts – Prince George’s County
- Financial Assistance Program
- Aging Infrastructure Challenges
- FY 2024 SAG Calendar
- Message to Stakeholders



Bond Rating Agency Reports

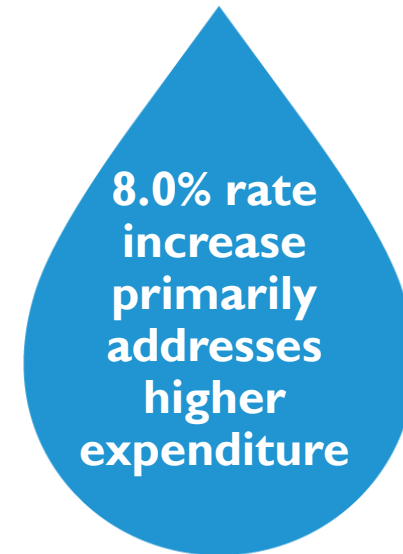
- Rated AAA by the three rating agencies
- Fitch maintained the Outlook as a Negative
- Factors that could lead to downgrade
 - “Sustained leverage above 10.0x through fiscal 2023 year will result in a downgrade Failure to secure rate increases that satisfactorily support operations while ensuring the ability to continue capital investment and maintain satisfactory liquidity and declining leverage” (Fitch)
 - “Failure to raise rates to support operations and debt needs, leading to declines in reserves and liquidity” (Moody’s)
 - “If management is unable to effectuate necessary rate increases or contain costs which results in a reduction in reserves or a failure to meet sum sufficient coverage, we will lower the rating one or more notches” (S&P)

FY 2024 Operating Budget Challenges

- The financial plan for FY 2024 at 8.0% includes the following challenges:
 - Inflationary pressures in essential goods and services, as well as capital construction
 - Infrastructure investment concerns on aging meters
 - A very competitive labor market in the Baltimore Washington area create challenges to recruit and retain employees especially in IT and engineering
 - Continued revenue volatility due to declining per capita consumption and above normal account delinquency in lower income communities
 - Credit rating risk on post pandemic concern in ability to absorb financial “shock” based on revenue challenges and rising utility operational and capital costs

FY 2024 Rate Increase Drivers

Driver	Amount	Percent
Additional Cash Balance Reserve	\$ (2,103,000)	-0.3%
Water & Sewer Revenue Impairment	8,000,000	1.1%
Ready-to-Serve Charges	(6,014,000)	-0.8%
Uncollectible	1,975,000	0.3%
<u>Other Funding Sources*</u>	<u>(2,072,000)</u>	<u>-0.3%</u>
<u>Subtotal - Reduced Revenue</u>	<u>(214,000)</u>	<u>0.0%</u>
Debt Service	6,623,000	0.9%
PAYGO	12,984,000	1.8%
Heat, Light, and Power	7,637,000	1.0%
Regional Sewage Disposal	3,858,000	0.5%
<u>Operating Expense Growth**</u>	<u>28,196,000</u>	<u>3.8%</u>
<u>Total</u>	<u>\$ 59,084,000</u>	<u>8.0%</u>



8.0% rate increase primarily addresses higher expenditure

*Other Funding Sources includes Miscellaneous Fees, Interest Income and Reconstruction Debt Service Offset

**Operating Expense Growth includes \$11.7 million increase in Chemicals cost

Long-Range Financial Plan 8.0%

	(In Thousands \$000s)	FY 2023 Approved	FY 2023 Estimated	FY 2024 Prelimin	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
1	New Water and Sewer Debt Issues	\$ 358,840	\$ 358,840	\$ 379,960	\$ 388,352	\$ 393,030	\$ 426,305	\$ 374,416	\$ 354,053
2	Total Water and Sewer Debt Service	321,844	302,982	328,467	366,169	391,029	414,536	436,628	451,693
3	Total Water and Sewer Expenditures	855,946	843,430	915,245	993,263	1,049,753	1,092,679	1,154,577	1,200,142
4	Water and Sewer Combined Rate Increase (Ave)	6.5%	6.5%	8.0%	8.0%	5.3%	5.3%	5.3%	5.0%
5	Water and Sewer User Charges	\$ 746,450	\$ 738,450	\$ 797,533	\$ 861,336	\$ 906,987	\$ 955,057	\$ 1,005,675	\$ 1,055,959
6	Other Sources/Fees	114,057	114,057	120,765	127,971	133,346	138,986	144,903	150,806
	Interest Income	2,800	10,000	8,000	5,500	5,500	5,500	5,500	5,500
	Cost Sharing Reimbursement	635	635	514	80	5,857	5,857	154	-
	Uncollectible @ 1% of User Charges	(6,000)	(7,385)	(7,975)	(8,613)	(9,070)	(9,551)	(10,057)	(10,560)
7	Operating Revenues	857,942	855,758	918,837	986,273	1,042,620	1,095,849	1,146,176	1,201,705
	Growth (% change)			7.4%	7.3%	13.5%	5.1%	4.6%	4.8%
8	OTHER TRANSFERS AND CREDITS	14,272	10,272	10,572	9,372	9,372	9,348	9,348	9,348
9	Total Funds Available	872,214	866,030	929,409	995,645	1,051,992	1,105,197	1,155,523	1,211,053
	(In Thousands \$000s)	FY 2023 Approved	FY 2023 Estimated	FY 2024 Prelimin	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
14	Operating Expenses	\$ 503,086	\$ 509,432	\$ 542,777	\$ 562,094	\$ 578,724	\$ 598,143	\$ 617,949	\$ 638,449
	Net Operating Revenue	354,856	346,326	376,060	424,179	463,896	497,706	528,226	563,256
16	Bonds and Notes Principal and Interest	\$321,844	\$302,982	328,467	\$366,169	\$391,029	\$414,536	\$436,628	\$451,693
	Operating Expenses with Debt Service	824,930	812,414	871,244	928,263	969,753	1,012,679	1,054,577	1,090,142
20	PAYGO (Contribution to bond fund)	31,016	31,016	44,000	65,000	80,000	\$80,000	100,000	110,000
21	Total Expenditures	855,946	843,430	915,245	993,263	1,049,753	1,092,679	1,154,577	1,200,142
26	ENDING FUND BALANCE - JUNE 30	\$ 188,997	\$ 265,153	\$ 279,318	\$ 281,701	\$ 283,940	\$ 296,458	\$ 297,404	\$ 308,315

Long-Range Financial Plan 8.0%

- Maintain CFO Guidelines
 - Restrain new debt issuance and related debt service expense
 - Maintain adequate liquidity and fund balance reserves

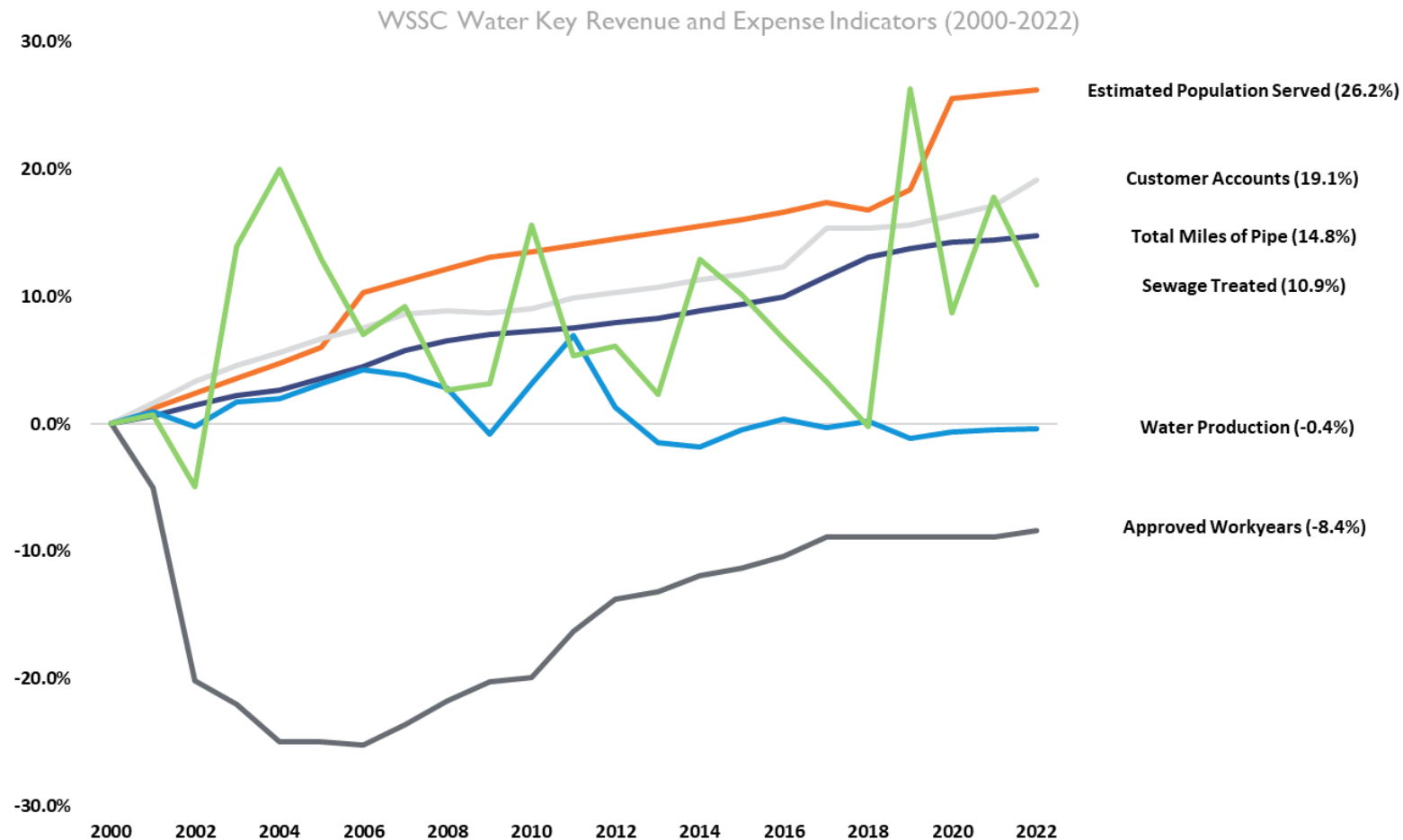
B Metrics	CFO Guideline	FY 2023 Estimate	FY 2024 Preliminary	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
I Debt Service Coverage:								
a Debt Service Coverage	1.10 - 1.25	1.14	1.14	1.16	1.19	1.20	1.21	1.25
b Debt Service (P+I) as a Percentage Total Expenditures	< 40.0%	35.9%	35.9%	36.9%	37.2%	37.9%	37.8%	37.6%
II Liquidity and Reserves:								
a Days Operating Reserves-on-Hand	120 - 150	179.1	173.7	164.0	157.3	159.6	151.2	150.4
b Ending Fund Balance as a Percentage of Operating Revenue	20.0%	31.0%	30.4%	28.6%	27.2%	27.1%	25.9%	25.7%
c Leverage Ratio	< 10.0	9.86	9.47	8.82	8.37	8.09	7.79	7.41
III Workforce								
Workyears	N/A	1,836	1,836	1,836	1,836	1,836	1,836	1,836

Budget Impacts of Reducing the Rate Increase

- **1.0%** decrease to the proposed rate increase would require:
 - \$7.4 million reduction to the Operating Budget **OR**
 - \$260.0 million reductions or deferrals to the CIP
- Alternatives on how to achieve reductions:
 - **1.0%** = \$6.0 million in operating reductions and \$50.3 million in capital deferrals
 - **2.0%** = \$10.0 million in operating reductions and \$173.1 million in capital deferrals
- Other - Ready-to-serve charge:
 - **-1.0%** = \$0.7 million in operating reductions

WSSC Water Key Revenue and Expense Indicators

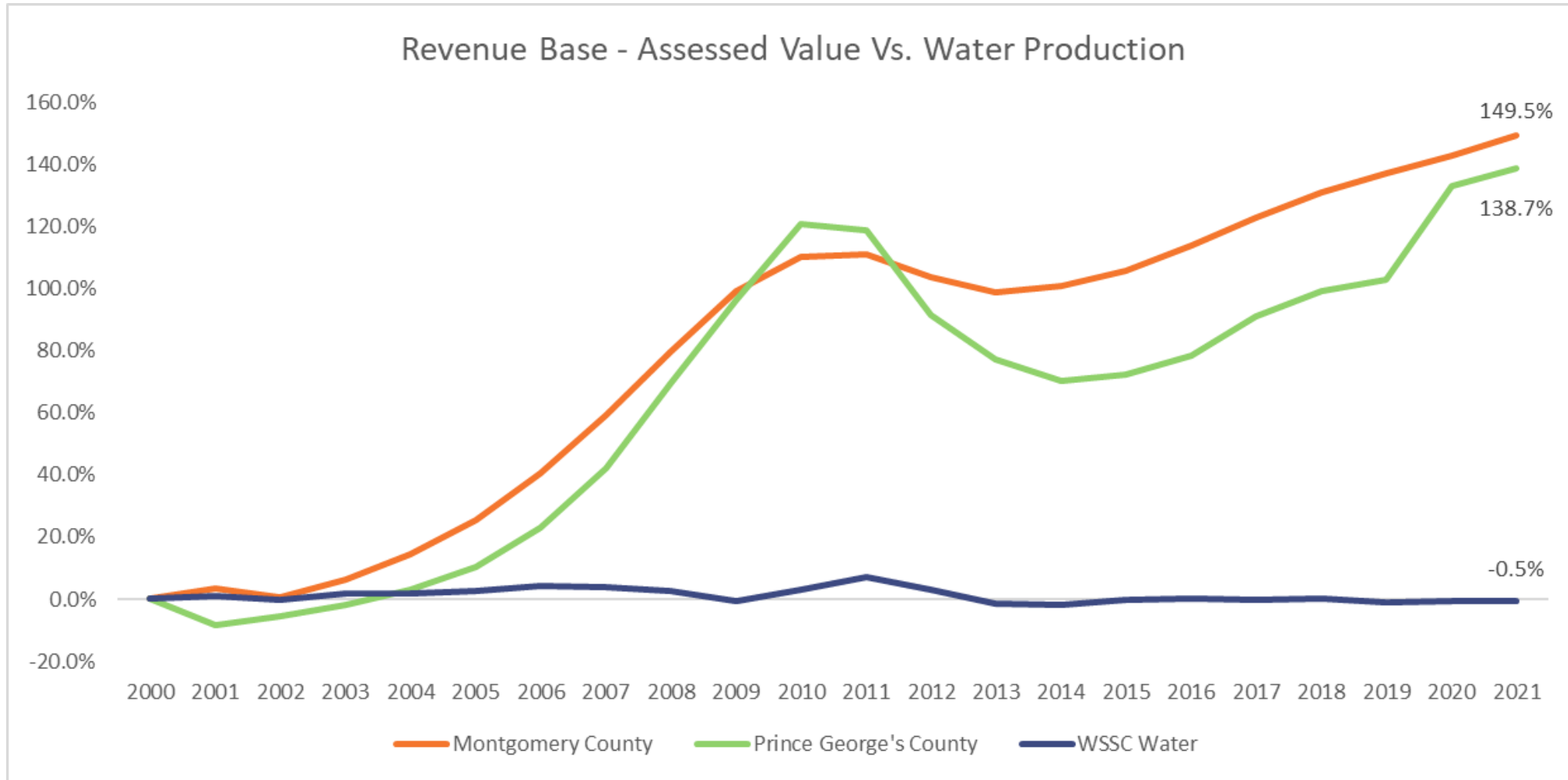
The trend of flat water production despite a growing population, combined with increases in the needs of the system and expenditures due to a growing system and inflation, require higher rate increases to operate and maintain the system



Revenue Base

Counties Compared to WSSC Water

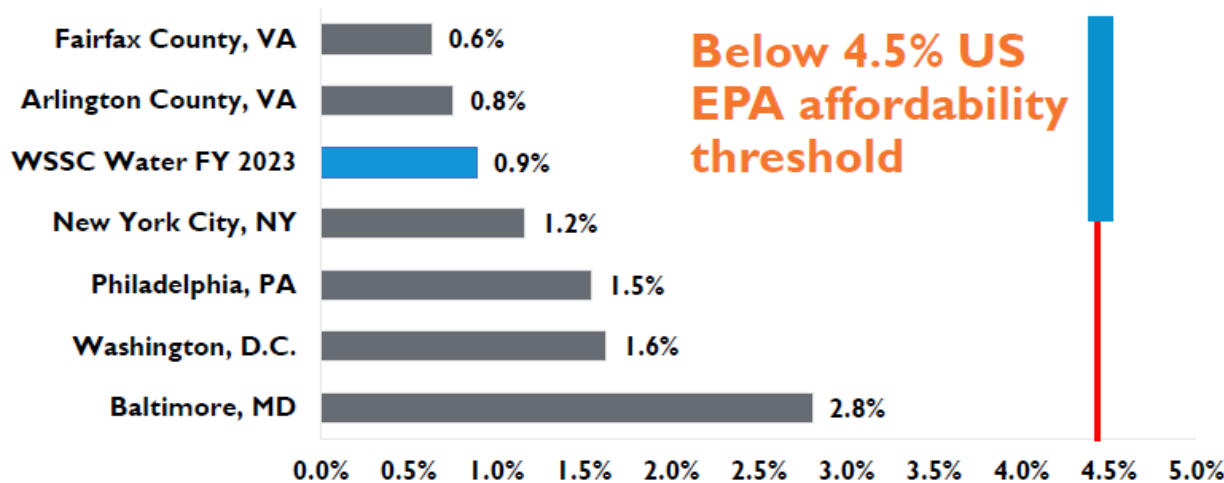
The assessed value of real and personal property for the Counties has increased significantly compared to the flat WSSC Water's water production



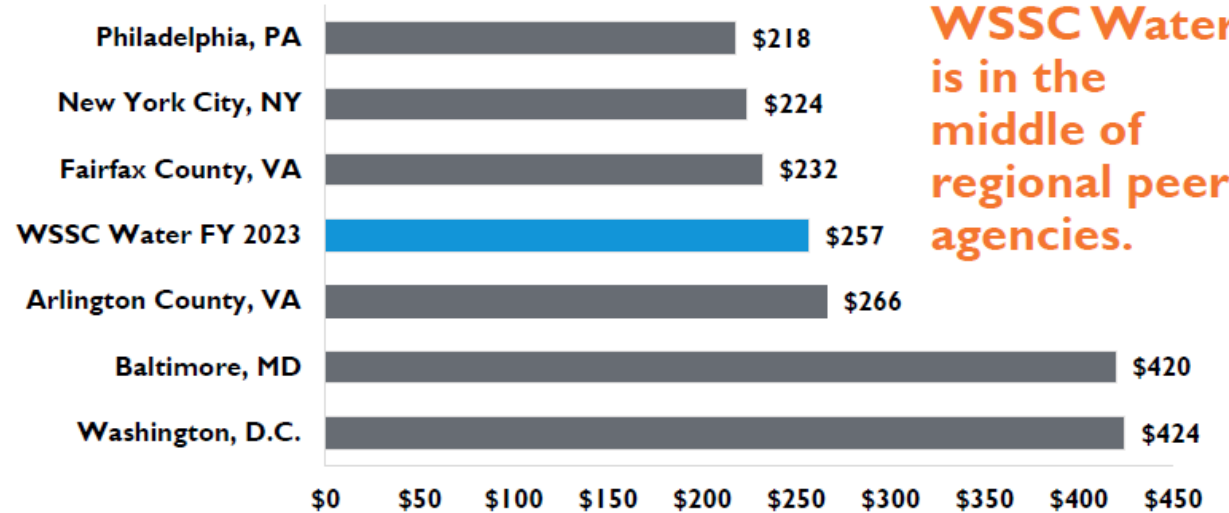
WSSC Water Compared to Peers

Average Residential Bill @ 165 Gallons per Day

- Per FY 2023 comparative peer data:



As a Percentage of Median Income



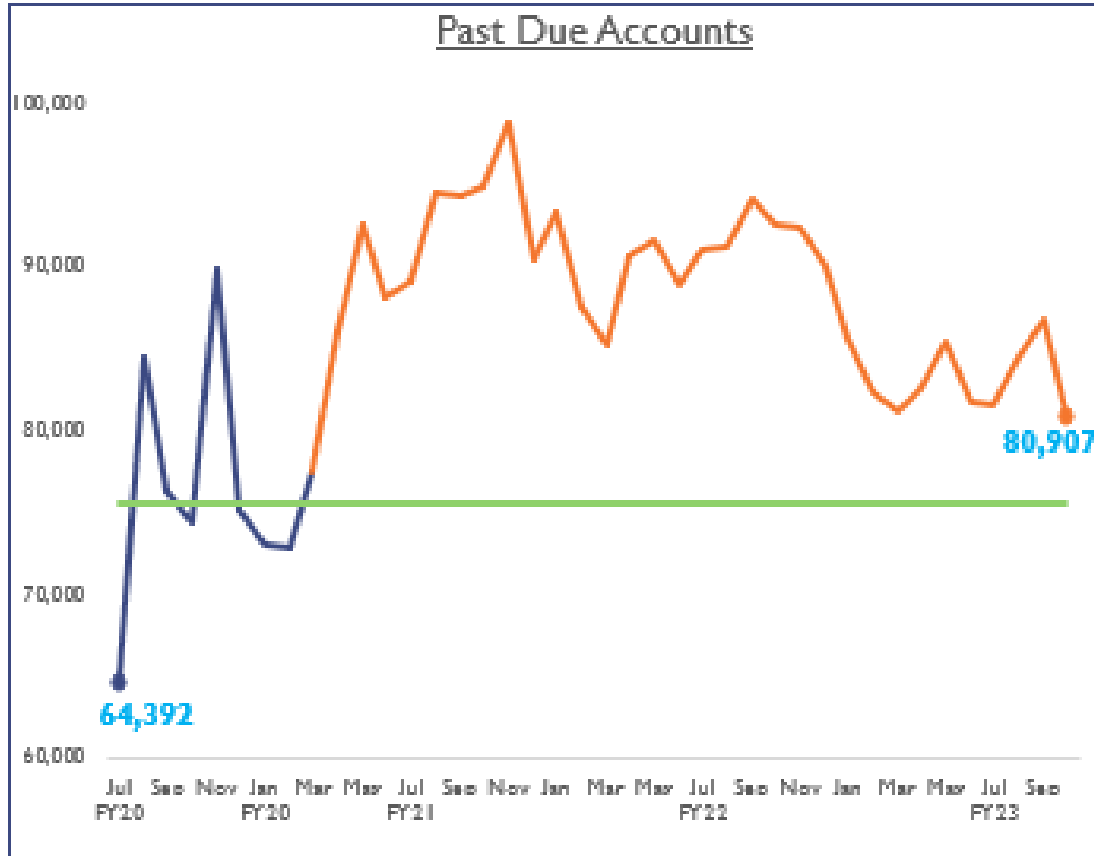
Residential Quarterly Water/Sewer Bill Comparison

WSSC Water is in the middle of regional peer agencies.

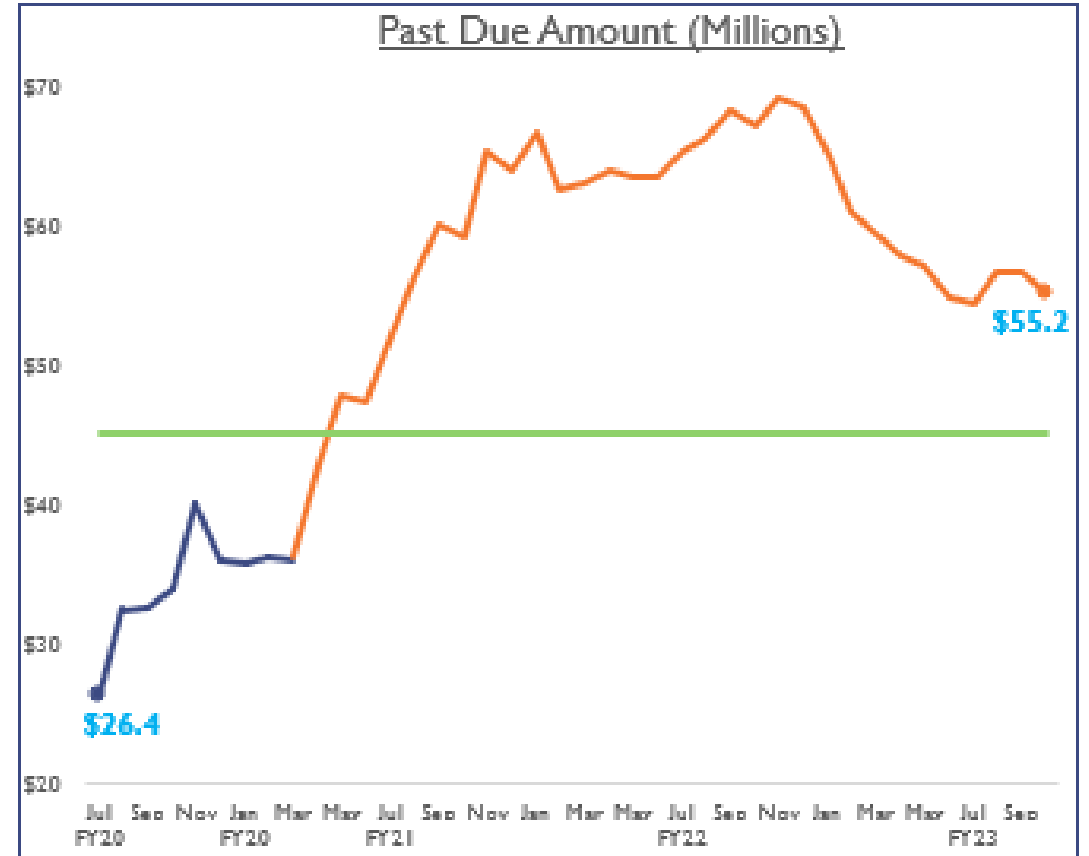
Cost-of-Service (COS) Study

- The last COS study was completed in April 2017
- WSSC Water will retain the current four-tier volumetric rate structure for all customers, but the rates will be adjusted based on the results of the COS study
- Cost-based updates to the Account Maintenance Fee and Infrastructure Fee (fixed fees)
- FY24 CAP subsidy expansion is under review in light of persistently high delinquencies among CAP customers

Past Due Accounts/Amounts (as of 10/05/22)



FY23 Target: 75,460 accounts

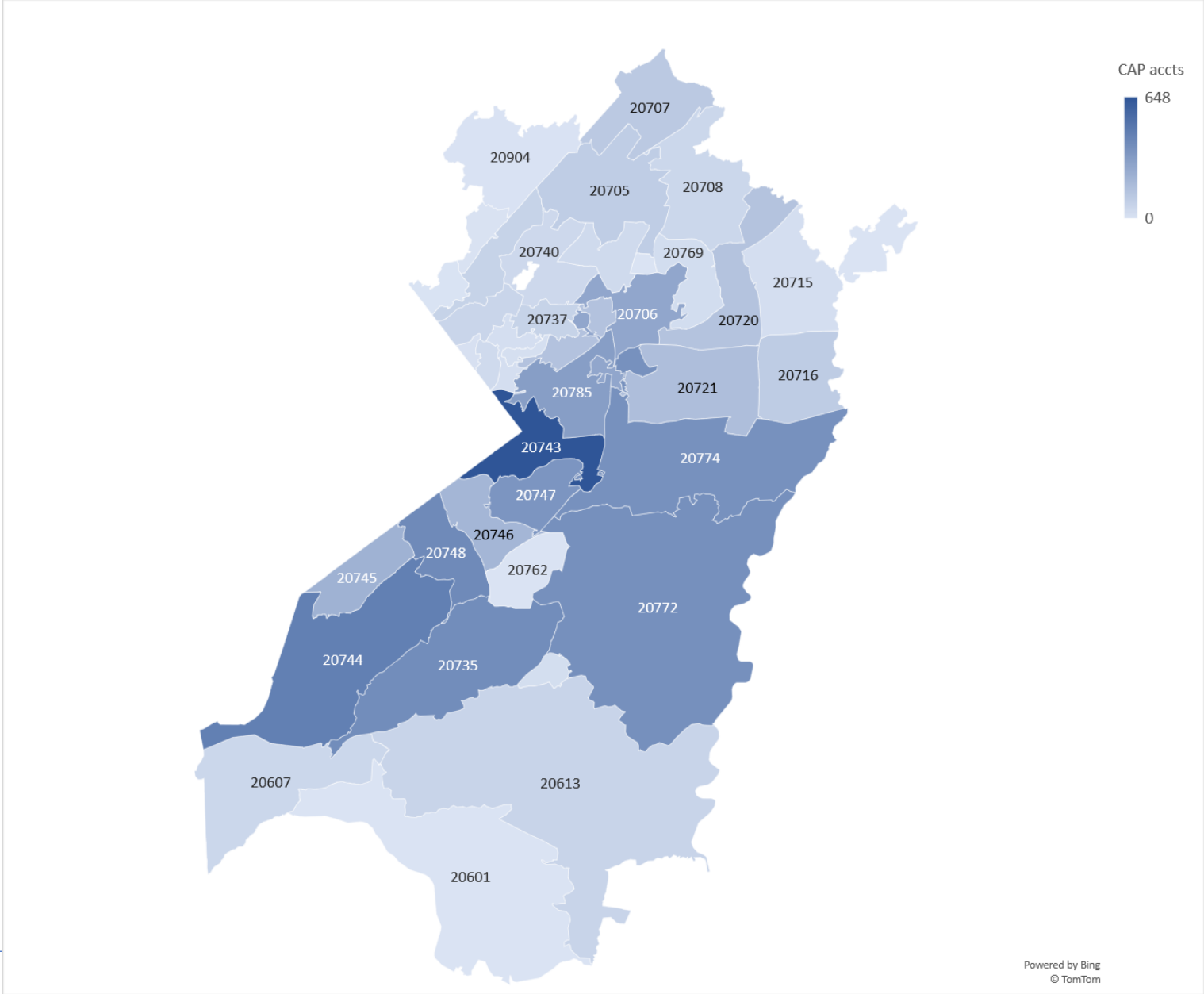


FY23 Target: \$45.2 Million

CAP Past Due Accounts - Prince George's County (as of 10/05/22)

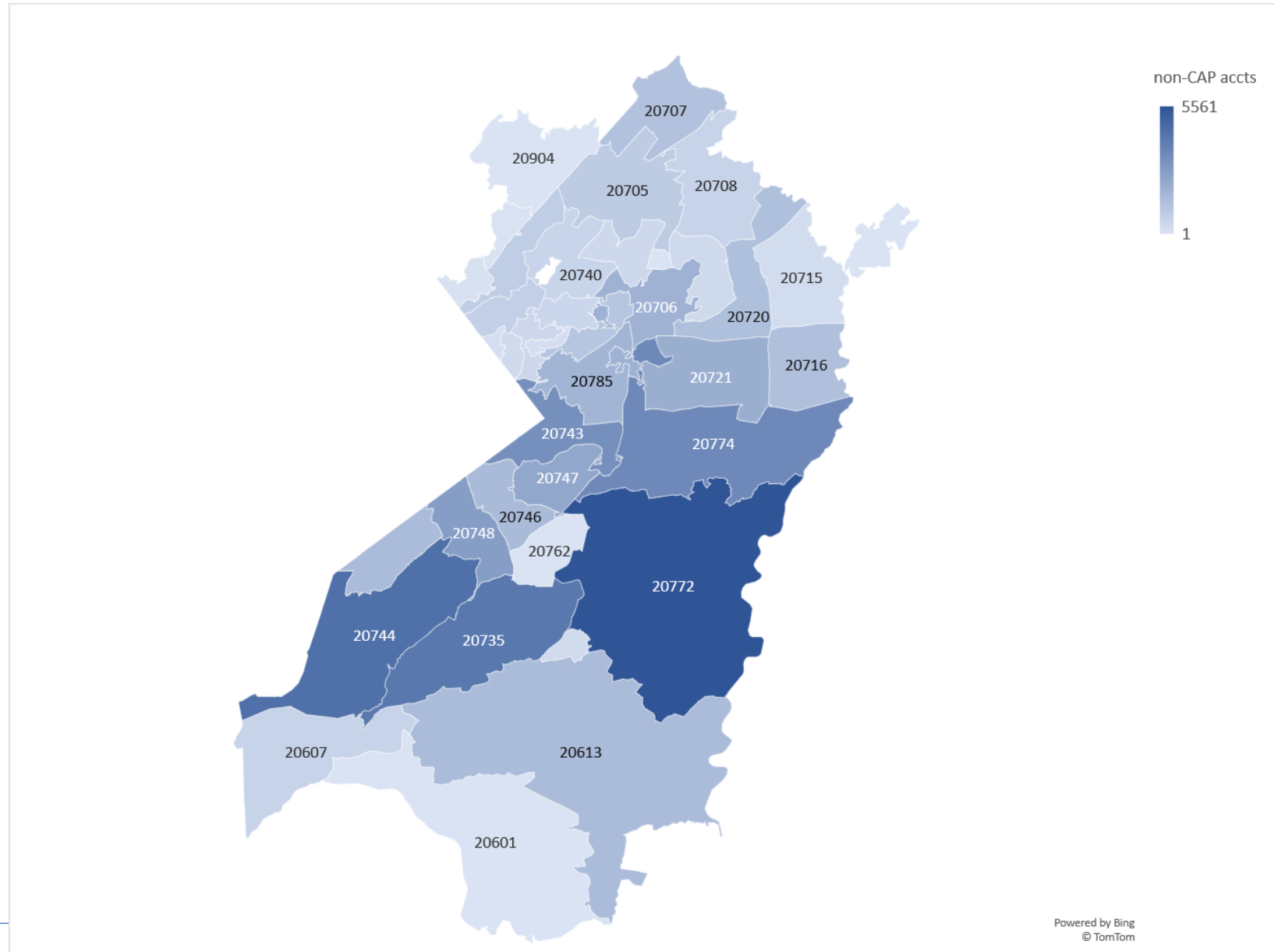
5,490 out of total 11,645
CAP customers accounts
are past due in Prince
George's County

47% of CAP
customers
accounts are
past due in
Prince George's
County



Non-CAP Past Due Accounts - Prince George's County (as of 10/05/22)

49,506 Non-CAP customers accounts are past due in Prince George's County



Financial Assistance Program

- **Customer Assistance Program (CAP)** provides a credit of up to \$120 per year for WSSC Water fixed fees
- The **Water Fund** allows for assistance with water and sewer bills, up to \$500 per year
- **PipeER Program** provides a loan to finance the replacement of a residential water service line. Qualified customers are eligible to receive a loan up to \$5,000
- **Bay Restoration Fund (BRF) Exemption** waives the state-mandated BRF fee of up to \$60 per year
- **Bill Adjustments**
- **Flexible Payment Options**

Aging Infrastructure Challenges



Capitol Heights Water Main
Break July 2022



Parkway WRRF



Potomac WFP
Pump Station 2

Aging Infrastructure Challenges



Anacostia Depot
(deferred in FY 2023)

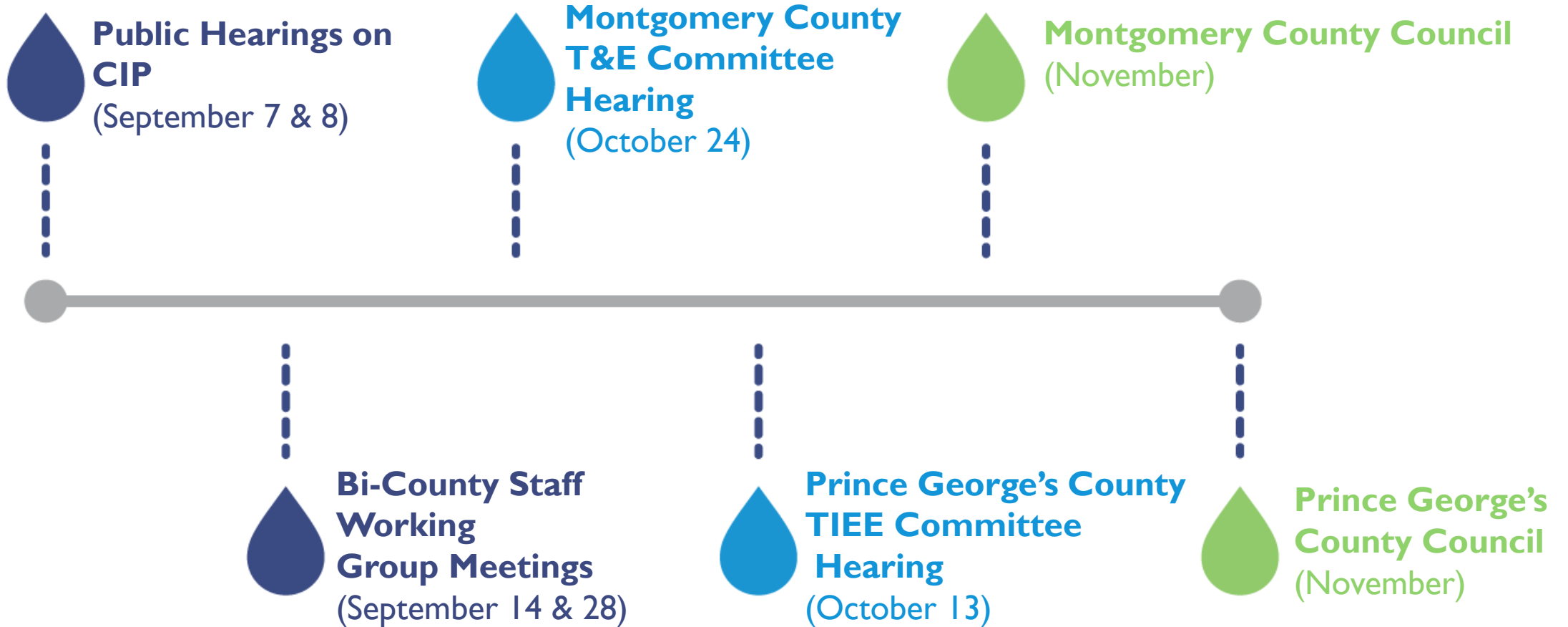


Gaithersburg Depot
(deferred in FY 2023)



Lyttonsville Depot

FY 2024 SAG Calendar



Message to Stakeholders

- Enhance Customer Experience
 - Investments in customer service and operational improvements
 - Enhancing our affordability programs
 - Increasing fixed fees that CAP customers do not pay relieves pressure on volumetric rates
- Optimize Infrastructure
 - CIP addresses mandatory projects, regulatory requirements, and system reinvestment
 - Long-term rate stability needed for multi-year CIP implementation
- Spend Customer Dollars Wisely
 - Significant cost savings achieved and on-going
 - Innovation programs underway to improve service, lower costs, and identify non-rate revenue sources
 - Leverage grant and loan opportunities

Questions?

