

Worksession

MEMORANDUM

October 2, 2020

TO: County Council

FROM: Keith Levchenko, Senior Legislative Analyst

SUBJECT: **Worksession:** FY22 Washington Suburban Sanitary Commission (WSSCWater) Spending Control Limits

PURPOSE: To discuss and make recommendations regarding spending control limits for WSSCWater's FY22 Budget

WSSCWater Staff Revised Base Case

| Spending Control Limits | FY22 Revised Base Case | Change from FY21 Budget |
|--|-------------------------------|--------------------------------|
| Rate Increase | 6.6% | FY21 = 6.0% |
| New Debt | 427,880,000 | 4.4% |
| Debt Service | 310,683,000 | -1.0% |
| Total W/S Oper. Expenses | 846,266,000 | 1.2% |
| Quarterly Bill Increase | | |
| Residential Customer Quarterly Impact | \$\$\$ | Percent |
| Impact at 500 gpd usage | \$54.34 | 6.4% |
| Impact at 165 gpd usage | \$13.45 | 5.8% |
| Impact at 100 gpd usage | \$7.86 | 5.4% |

Council Staff Recommendation: Council Staff supports the Revised Base Case as presented above.

Meeting Participants Include:

WSSC

- Howie Denis, Commission Chair
- Fausto Bayonet, Commissioner
- Eloise Foster, Commissioner
- Carla Reid, General Manager
- Joseph Beach, Deputy General Manager for Administration
- Monica Johnson, Deputy Director for Strategy and Partnerships
- James Price, Deputy General Manager for Operations
- Letitia Carolina-Powell, Budget Division Leader
- Mark Brackett, Capital Budget Section Manager
- Julie Pohutsky, Budget Section Manager
- Karyn Riley, Intergovernmental Relations Office Director
- Guy Andes, Government Affairs Manager
- Chuck Brown, Communications and Community Relations Director

Executive Branch

- Rafael Murphy, Fiscal and Policy Analyst, Office of Management and Budget
- Steve Shofar, Chief, Intergovernmental Affairs Division, Department of Environmental Protection (DEP)

Background

WSSCWATER's spending control limits process was established in April 1994 via resolution by both Montgomery and Prince George's County Councils, with the goal of both Councils agreeing on certain budgetary limits by November 1 of each year. Some summary information regarding the process is noted below:

- Based on a multi-year planning model, a strategy to stabilize annual rate increases over time, and holding customer fee-supported debt service below 40 percent of the operating budget.
- Limits provide direction to WSSCWATER as to what to request, but do not create a ceiling (or a floor) as to what the Councils may jointly approve later.¹
- The Councils have agreed on these limits in most years. Even in years when there has not been agreement, the process provided a rate increase range for WSSCWATER to work within to build its budget.

Schedule

- Bi-County Working Group Meetings: September 9 and September 23, 2020
- Montgomery County Council Public Hearing: September 29, 2020
- **T&E Committee Discussion: October 7, 2020**
- Prince George's County Council Briefing: October 8, 2020
- Prince George's County Council TIEE Committee Discussion: Mid-October
- Both Councils' Action: By November 1, 2020

¹ State law defines the annual WSSCWATER Proposed Budget as the "default" budget, should the Montgomery and Prince George's County Councils not agree on changes. Therefore, the limits are an important first step to define proposed budget parameters that are acceptable to both Councils.

NOTE: The County Executive is expected to transmit his recommendations on WSSCWater’s spending control limits prior to the T&E Committee worksession.

The goal of the spending control limits process is for the Montgomery and Prince George’s County Councils to come to agreement by November 1 of each year so that WSSCWater can work within the approved limits for its Operating Budget Public Hearing Draft, which is released by January 15 each year. WSSCWater must transmit an Operating Budget to both counties by March 1 of each year.

Spending Control Limits History

The following chart presents the rate increase limits agreed upon by both Councils (unless otherwise noted) since FY96 and the actual rate increase later approved for each fiscal year.

**Table 1:
Spending Control Limits & Actual Rates**

| Fiscal Year | Rate Increase | | Fiscal Year | Rate Increase | |
|-------------|-----------------|--------|-------------|-----------------|-----------|
| | Approved* Limit | Actual | | Approved* Limit | Actual |
| FY96 | 3.0% | 3.0% | FY09* | 9.7% | 8.0% |
| FY97 | 3.0% | 3.0% | FY10* | 9.5% | 9.0% |
| FY98 | 3.0% | 2.9% | FY11* | 9.9% | 8.5% |
| FY99 | 2.0% | 0.0% | FY12* | 9.9% | 8.5% |
| FY00 | 1.5% | 0.0% | FY13 | 8.5% | 7.5% |
| FY01 | 0.0% | 0.0% | FY14* | 8.0% | 7.3% |
| FY02* | 2.0% | 0.0% | FY15 | 6.0% | 5.5% |
| FY03 | 0.0% | 0.0% | FY16** | 2.1% (7.0%) | 1% (6.0%) |
| FY04 | 0.0% | 0.0% | FY17** | 3.5% (7.0%) | 3% (6.5%) |
| FY05 | 3.0% | 3.0% | FY18 | 3.5% | 3.5% |
| FY06* | 2.5% | 2.5% | FY19 | 5.0% | 4.5% |
| FY07 | 3.0% | 3.0% | FY20 | 5.0% | 5.0% |
| FY08 | 5.3% | 6.5% | FY21 | 7.0% | 6.0% |

*No agreement was reached in FYs 02,06,09,10,11,12, 14, and 18. Limits shown for those years reflect Montgomery County Council recommendations.

**Increases in fixed fees in FYs16-17 resulted in lower rate increases. The % shown in parenthesis present the equivalent customer impact in those years.

- **FY99 through FY04:** Although rate increases were assumed in the approved spending control limits for FY99 and FY00, the WSSCWater budget was approved in those years without rate increases. In fact, there were six straight years without rate increases (FY99-FY04). During this time, WSSCWater was implementing its Competitive Action Plan (CAP) effort, which resulted in a reduction of approximately 1/3 of its workforce.
- **FY05 through FY07:** Modest rate increases in the range of 2.5 and 3.0 percent were approved.
- **FY08 through FY15:** The Councils debated, and ultimately approved, substantial rate increases. These increases were the result of a combination of factors, including:
 - Flat revenues: WSSCWater’s water production has been largely flat in recent years, even as the number of customer accounts has increased.
 - Expenditure Pressures: Increases in excess of inflationary levels in areas such as Debt Service (to cover many capital needs, including WSSCWater’s need to ramp up its water and sewer main reconstruction efforts and its large diameter water main inspections, repairs, and monitoring program) as well as in many operating cost areas, including:

Chemicals; Heat, Light, and Power; Regional Sewage Disposal; and Benefits and Compensation.

- **FY16-FY17:** The Councils supported a recalibration of the Account Maintenance Fee in FY16 and creation of a new infrastructure investment fee (phased in over two years), which resulted in increased revenue equivalent to about a 5 percent rate increase in FY16 and a 3.5 percent rate increase in FY17. Therefore, lower rate increase ceilings were approved in FY16 and FY17. Ultimately, the two Councils approved rate increases of 1.0 percent and 3.0 percent, respectively, in FY16 and FY17.
- **FY18:** A 3.5 percent rate limit was approved by both Councils for FY18, and the FY18 budget was approved with this rate increase assumption.
- **FY19:** The two Councils did not agree on a rate increase limit. The Prince George’s Council approved a 4.0 percent rate increase while the Montgomery Council supported a 5.0 percent rate increase. The WSSCWater budget was transmitted with a 4.5 percent rate increase, which was ultimately supported by both Councils.
- **FY20-FY21:** In each of the past two years, the Councils agreed on rate increase limits. The FY20 limit was 5.0 percent, and the WSSCWater budget was ultimately approved with that rate increase. For FY21 the rate increase limit was 7.0 percent. Ultimately, the Councils agreed to a n FY21 rate increase of 6.0 percent based on the removal of salary enhancements from WSSCWater’s Proposed budget.

WSSCWATER Rate and Cost Trends/Savings

Rate Increases versus Budget Increases

As shown earlier on Table #1, over the past 25 years, WSSC’s rate increases have varied from zero (FY99-FY04) to as high as 9.0 percent (FY10). The cumulative rate impact over that period is 89.6 percent which is equivalent to annual rate increases of about 4.2 percent.

Over the past decade, WSSCWater’s residential annual bill increases have been significantly higher (a cumulative increase of 79.3 percent over that period, equivalent to a 6.0 percent annual rate increase).

However, as shown on Table #2 below, WSSC’s Operating Budget expenditures over that same period have only increased about 33.5 percent (equivalent to less than a 3.3 percent annual budget increase of that time period).

**Table 2:
Water and Sewer Operating Expenditures by Category**

| Expense Categories | Approved | | Change (FY21-FY12) | |
|--------------------------|----------------|----------------|--------------------|--------------|
| | FY2012 | FY21 | \$\$ | % |
| Salaries and Wages | 98,418 | 127,726 | 29,308 | 29.8% |
| Heat, Light, and Power | 25,275 | 20,423 | (4,852) | -19.2% |
| Regional Sewage Disposal | 49,478 | 58,000 | 8,522 | 17.2% |
| All Other | 217,211 | 284,993 | 67,782 | 31.2% |
| Debt Service/PAYGO | 235,763 | 344,881 | 109,118 | 46.3% |
| Total | 626,145 | 836,023 | 209,878 | 33.5% |

More than half the increase has been in Debt Service/PAYGO as WSSCWATER has ramped up its CIP program over the past decade to address aging infrastructure, upgrade its water and sewage treatment plants, and to implement work under its sanitary sewer overflow (SSO) consent decree. Taking Debt Service/PAYGO out, the percentage increase is 25.8 percent (an equivalent annual increase of 2.6 percent).

Cumulative rate increases have been so much greater than budget increases over that same time period because WSSC's water production has been flat or declining over the past 25 years. Per capita water usage in the WSSCWATER service area is down 21.8 percent since FY96 even as the population served by WSSCWATER has increased by 25 percent. Lower water production means less volumetric rate revenue which then must be made up through rate increases.

Residential Bill Increase Comparisons

The chart on ©22 shows residential customer bill increases over the past 20 years for various water utilities in the region as well as the US City average. WSSCWATER's average residential customer bill increase since 2000 was 137 percent; the lowest of the regional utilities compared as well as lower than the US City average (160 percent). WSSCWATER's 137 percent bill increase since 2000 equates to an average annual bill increase of approximately 4.4 percent over that 21-year period. Additional comparative rate and customer bill information for several regional utilities (including Fairfax County) is attached.

Cost Savings

A summary by WSSCWATER of some of its major cost savings efforts is provided on ©35-37. These savings include both capital and operating dollars.

Three years ago, given the impact of debt service on the Base Case rate increase, both Councils supported WSSCWATER revisiting its FY19-25 CIP proposal for potential deferrals in the CIP. In the short term, reductions in capital projects have a relatively small impact on the operating budget. For instance, to save \$1.0 million in debt service in year one of the operating budget requires about \$25 million in CIP reductions in year one of the CIP (although year two savings are doubled if deferrals are not ultimately restored). In the long term, however, CIP savings can bring debt service down to more manageable levels. Ultimately, WSSCWATER proposed and both Councils approved about \$113 million in bond-funded reductions in the CIP and Information Only projects.

Two years ago, for the FY20-25 CIP, WSSCWATER proposed a \$110 million reduction (-3.3 percent) in the CIP and Information Only projects. Water Main reconstruction was reduced by \$46 million in FY20 (compared to FY19) and the Potomac Submerged Channel Intake project was deferred beyond FY25.

The Approved FY21-26 CIP (and information-only projects) involved minimal overall changes, (a 1.6 percent six-year increase).

This year's Proposed FY21-26 CIP (including information only projects) assumes a 5.4 percent increase in six-year expenditures. In the coming months, both Councils can consider additional cost savings opportunities, although this may be challenging given the prior reductions already taken.

Multi-Year Context/Financial Forecast

While the spending control limits process is an annual process, the Bi-County Working Group takes a multi-year look at trends. The outyear estimates help staff identify issues that could arise in future years. For instance, rate increases in the first year help improve WSSCWater’s fiscal situation in future years by increasing WSSCWater’s base revenues. Conversely, deferring rate increases to future years, or using one-time revenue to reduce a rate increase in the first year, increases future fiscal challenges, since the revenue base is lower in future years.

This year’s latest (revised) base case forecast assumes a 6.6 percent rate increase in FY22, 8.0 percent rate increases in FYs23-24s and lower rate increases in FYs25-27 (7.0 percent, 6.5 percent, and 6.0 percent respectively). (see ©4-8). These projections accommodate WSSCWater’s debt needs for its Proposed FY22-27 CIP, get WSSCWater within its debt service coverage target (between of 1.1 and 1.25 by FY24), keep debt service as a percentage of the operating budget below 40 percent (with substantial increases in PAYGO assumed), and provide for inflationary increases in most operating expense categories. Unlike past forecasts, no unspecified reductions or are assumed.

The financial forecast assumes water consumption remains flat over the financial forecast period. While water conservation is a good thing from an environmental standpoint, it means WSSCWater's dominant revenue source (about 85 percent of its revenue) has been stagnant, putting more pressure on rates to address large increases in debt service in recent years needed for ongoing infrastructure needs. Therefore, WSSCWater continues to face significant fiscal challenges going forward, with rate increases which are significantly higher than inflation needed.

FY22 Spending Control Limits Revised Base Case

For the first Bi-County Working Group meeting on September 9, WSSCWater staff prepared an initial base case spending control limits scenario with an assumed 7.9 percent rate increase. The group requested an alternative 5.9 percent rate increase scenario for discussion at the second meeting.

At the second meeting on September 23, WSSCWater Staff provided a “revised” base case with a 6.6 percent rate increase. The primary change was a lowering of debt service costs in FY22 based on favorable experience from its recent bond sale. The 5.9 percent scenario was also provided. Both scenarios are attached (see ©4-8 and ©9-13). The Revised Base Case is summarized in Table #2 below:

**Table #3:
WSSCWater Staff Revised Base Case**

| Spending Control Limits | FY22 Revised Base Case | Change from FY21 Budget |
|--|-------------------------------|--------------------------------|
| Rate Increase | 6.6% | FY21 = 6.0% |
| New Debt | 427,880,000 | 4.4% |
| Debt Service | 310,683,000 | -1.0% |
| Total W/S Oper. Expenses | 846,266,000 | 1.2% |
| Quarterly Bill Increase | | |
| Residential Customer Quarterly Impact | \$\$\$ | Percent |
| Impact at 500 gpd usage | \$54.34 | 6.4% |
| Impact at 165 gpd usage | \$13.45 | 5.8% |
| Impact at 100 gpd usage | \$7.86 | 5.4% |

This revised base case scenario includes the following major assumptions:

- No changes in WSSCWater’s fixed fees (i.e., the Infrastructure Renewal Fee and the Account Maintenance Fee). *NOTE: This results in the percentage impact on a customer’s bill being lower than the assumed rate increase.*
- COVID-19 Pandemic-related revenue reductions in FY20 and FY21 are reflected as are WSSCWater’s FY20 and FY21 Savings Plans in response to the COVID-19 Pandemic (see discussion below)
- Full funding of WSSCWater’s Proposed FY22-27 Capital Improvements Program
- Salary and Wage increases (+4.5 percent in FY22 and in each of the outyears; same as assumed in last year’s forecast)²
- Inflationary increases in current programs (+2.0 percent in FY22 and the outyears; same as assumed in last year’s forecast)
- Increases in Regional Sewage Disposal costs in FY22, based on the latest information from DCWater
- No “Additional and Reinstated Programs” costs are assumed in FY22. Last year, \$10.933 was assumed in FY21 to address operational improvements. Some additional dollars are assumed in the forecast in FYs25-27.
- No Unspecified Reductions are assumed in any years of the forecast.
- Significant decreases in “funds available” resulting from reduced sewer use revenue, lower interest income, reduced use of Reconstruction Debt Service Offset (REDO)³ and zeroing out the use of excess fund balance. Water consumption is assumed to remain flat throughout the six-year forecast (126 million gallons per day⁴). See details in Table #3 below.

COVID-19 and FY20 Savings Plan (see ©32-33)

The COVID-19 Pandemic resulted in a significant increase in delinquent accounts as well as an overall decline in water consumption. Overall, FY20 revenue was down about \$31.4 million (per WSSCWater’s June Financial report). WSSCWater’s FY20 Savings Plan included \$61.1 million in one-time savings and its FY21 Savings Plan includes \$72.7 million.

The financial forecast assumes that the FY20 and FY21 Savings Plans involve one-time expenditure reductions and that revenues return to previously projected levels in FY22. The FY20 and FY21 revenue lost due to COVID is not assumed to be recovered.

Revised Base Case Funding Gap

The major elements of the revised base case funding gap are shown in Table 3 below. The overall gap is \$44.9 million, resulting in a 6.6 percent rate increase requirement.⁵

² Both Councils have agreed in past years to keep WSSCWater’s compensation increases in-line with County employee (non-public safety) increases. Modifications to WSSCWater’s Proposed Budget for salary and wages, if needed, are made later in the budget process when County employee compensation decisions are known.

³ REDO is the use of surplus funds from the General Bond Debt Service Fund to offset a portion of the debt service cost of the Water and Sewer Reconstruction programs. The surplus funds are expected to be exhausted in FY23 (the same as assumed in last year’s forecast).

⁴ Past financial forecasts have presented “Water Production” as a major assumption. The current forecast has switched to using “Water consumption.” Water consumption includes only the billable water used of all water produced.

⁵ A one percent increase in volumetric rates generates approximately \$6.8 million in revenue.

**Table #4:
Contributors to the FY22 Revised Base Case Rate Increase**

| Contributors to the FY21 Base Case Rate Increase | Change from FY21 (in \$Millions) | Impact on Rate | Cumulative Rate Incr. |
|---|---|-----------------------|------------------------------|
| Changes in Funds Available (incl. use of Fund Balance) | (34.641) | 5.1% | 5.1% |
| Debt Service | (3.182) | -0.5% | 4.6% |
| Regional Sewage Disposal | 1.160 | 0.2% | 4.8% |
| Heat, Light, and Power | 0.817 | 0.1% | 4.9% |
| Maintenance and Operating (2.0% inflationary increase) | 5.699 | 0.8% | 5.8% |
| Salaries and Wage Increases (4.5% increase) | 5.748 | 0.8% | 6.6% |
| Total Base Case Rate Increase Assumption | | 6.6% | |

Changes in Funds Available (-\$34.6 million) accounts for three quarters of the base case rate increase. This category includes volumetric rate revenue, fixed fees, other revenue, and adjustments. Table #4 below breaks out these changes.

**Table #5:
WSSC Revised Base Case - Changes in Funds Available - FY21 to FY22**

| | Approved FY21 | Scenario FY22 | Change | | Impact on Rate (%) |
|--|----------------------|----------------------|---------------------|---------------|---------------------------|
| | | | \$ | % | |
| Revenue | | | | | |
| Water and Sewer Rate Revenue | 689,210,000 | 677,814,000 | (11,396,000) | -1.7% | 1.68% |
| Interest Income | 10,000,000 | 1,000,000 | (9,000,000) | -90.0% | 1.33% |
| Miscellaneous Revenue | 110,040,000 | 108,796,000 | (1,244,000) | -1.1% | 0.18% |
| -Account Maintenance Fee | 32,360,000 | 32,425,000 | 65,000 | 0.2% | -0.01% |
| -Infrastructure Investment Fee | 39,410,000 | 39,488,000 | 78,000 | 0.2% | -0.01% |
| -Rockville Sewer Use | 3,000,000 | 3,000,000 | - | 0.0% | 0.00% |
| -Plumbing and Inspection Fees | 14,470,000 | 13,685,000 | (785,000) | -5.4% | 0.12% |
| -Other | 20,800,000 | 20,198,000 | (602,000) | -2.9% | 0.09% |
| Total Revenue | 809,250,000 | 787,610,000 | (21,640,000) | -2.7% | 3.19% |
| Adjustments/Use of Fund Balance | | | | | |
| Adjustments-SDC | 5,772,000 | 5,771,000 | (1,000) | 0.0% | 0.00% |
| Adjustments-REDO | 9,500,000 | 6,000,000 | (3,500,000) | -36.8% | 0.52% |
| Adjustments-Prior Year Net Revenue | | - | - | | |
| Other | 3,500,000 | 2,000,000 | (1,500,000) | | |
| Adjustments-Use of Fund Balance | 8,000,000 | - | (8,000,000) | -100.0% | 1.18% |
| Total Adjustments | 26,772,000 | 13,771,000 | (13,001,000) | -48.6% | 1.92% |
| Total Funds Available | 836,022,000 | 801,381,000 | (34,641,000) | -4.1% | 5.11% |

The largest rate impacts are from lower-than-projected volumetric rate revenue in FY22, primarily due to lower sewer use revenue (-\$12 million). WSSCWater has reset its revenue assumptions for sewer use revenue based on actuals and is exploring why this revenue has come in lower than previous projections. Interest income is also down sharply from past years (-\$9.0 million) based on historically low interest rates. The longtime REDO balance (which can be transferred to General Revenues as a positive adjustment) is expected to be depleted in FY24 and WSSCWater is phasing this adjustment down accordingly. Finally, use of fund balance is also being eliminated for FY22 and beyond in order to avoid future spikes in rate increases and to help bring WSSCWater’s “operating reserves on hand” up to its policy range (75 to 110 days) by the end of the six-year period (see ©7).

On the expenditure side, Debt Service costs are down slightly \$3.2 million (-0.5 percent rate impact) based on recent positive experience in WSSC's recent bond sale. The projection assumes bond-funded expenditures consistent with WSSCWater's soon-to-be-transmitted FY22-27 CIP.

Some other WSSCWater expenditures, which are essentially fixed (at least in the short run), are also presented. Regional Sewage Disposal expenses (which are based on actual WSSCWater's sewage flows to the Blue Plains Wastewater Treatment Plant) are up \$1.2 million for FY22. Heat, Light, and Power costs are expected to increase slightly. The Maintenance and Operating category is inflated by 2.0 percent in the base case (with a 0.8 percent rate impact).

Salaries and Wages are inflated by 4.5 percent to cover potential COLA and merit increases (the same as last year's assumptions) with a 0.8 percent rate impact. WSSCWater's proposed compensation adjustments will be reviewed during the regular budget process next spring. In recent years, this Council has supported employee compensation adjustment levels for WSSCWater comparable to County Government (non-public safety) compensation adjustments.

To cover Changes in Funds Available; Debt Service; PAYGO; Regional Sewage Disposal; and Heat, Light, and Power (all essentially fixed short-term costs) requires about a 4.9 percent rate increase. The Maintenance and Operating 2.0 percent inflationary increase bumps the rate increase requirement up to 5.8 percent. Assuming salary adjustments moves the rate requirement up to 6.6 percent.

WSSCWater also has some excess reserves (beyond its fiscal policy reserve levels) which will help WSSCWATER meet its "operating reserve on hand" policy goals. In past years, excess fund balance has been used to address high-priority non-recurring items.

The quarterly impact of the revised base case scenario rate increase on an average residential account using 165 gallons per day (assuming average per capita usage of 55 gallons per day in a 3-person home) is \$13.45 (a 5.8 percent increase from the current average bill; from \$231.09 to \$244.54).

Public Hearing Testimony

At its September 29 public hearing, the Council received testimony from five speakers. Four of the five speakers focused their testimony on their opposition to WSSCWater implementing advanced metering infrastructure (i.e. smart meters).

The WSSCWater Commissioners are in the process of reviewing the Advanced Metering Infrastructure project and have requested an updated cost-benefit analysis for this project and will also be discussing the implications of various customer opt-out alternatives later this fall. If the Commission makes changes to this project's costs or schedule this fall, the WSSCWater Public Hearing Draft Budget can reflect these adjustments.

Gordie Brenne of the Montgomery County Taxpayers League (testimony attached on ©38) expressed support for "a much lower rate increase" than the 6.6 percent and 5.9 percent scenarios presented in order "to incentivize cost reductions." He also raised other fiscal concerns. Council Staff asked WSSCWATER to respond to each. Council Staff will forward WSSCWater's response when received.

Mr. Brenne's testimony was also critical of the AMI project and the Piscataway Bioenergy project for financial reasons citing low rates of return for these two projects. The bioenergy project is arguably

WSSCWater’s highest priority non-mandated project, as it represents WSSCWater’s long-term approach to addressing its biosolids management. While the project will not have an aggressive pay back (as WSSCWater expects of the AMI project) there will be revenue from renewable energy credits, as well as annual savings in energy costs, trucking and land application costs that will partially offset the project cost. Except for WSSCWater’s energy performance contracts, most WSSCWATER projects have little to no costs savings or revenue generation. The AMI project and the Bioenergy project are rare exceptions.

Alternative Scenarios

At the first Bi-County Working Group meeting, WSSCWater staff presented a base case scenario assuming a rate increase of 7.9 percent. WSSCWater staff were asked to prepare a 5.9 percent rate increase alternative scenario.

WSSCWater was also asked to review its debt service assumptions given its recent positive bond sale experience. As a result of this review, WSSCWater reduced its debt service projections across the six-year period (and slightly increased its SDC Debt Service Offset) resulting in a revised base case FY22 rate increase requirement of 6.6 percent.

The 5.9 percent scenario includes the above adjustments, plus an adjusting of the bond issuance interest rate from 5.0 percent to 4.0 percent for FY22 only (saving about \$950,000). With these changes, this alternative scenario assumes unspecified reductions of \$3.9 million.

Other scenarios are possible as well. Every 1 percent reduction in the rate increase limit results in a reduction in revenue of \$6.8 million. Unless other fiscal assumptions are changed, this reduction would result in equivalent unspecified reductions being needed to balance the forecast at the lower rate limit.

**Table #6
Summary of Impacts At Different Rate Increase Levels**

| A | B | C | D | E | | F |
|---|---------------------------|--------------------------|-------------------------------|-------------------------------|-----------------------|----------|
| Scenario | FY22 Rate Increase | Revenue Generated | Unspecified Reductions | % of FY22 Expenditures | | |
| | | | | Total (with DS) | Oper. Exp Only | |
| Revenue Gap (assuming no rate increase) >>> | | | 44,885,000 | 5.3% | | 8.4% |
| Impact of each 1% rate increase>>> | 1.0% | 6,778,140 | | | | |
| Revenue Adjustments + Debt Service Savings | 4.6% | 31,461,000 | 13,424,000 | 1.6% | | 2.5% |
| +Regional Sewage Disposal | 4.8% | 32,621,000 | 12,264,000 | 1.4% | | 2.3% |
| +Heat, Light, and Power | 4.9% | 33,438,000 | 11,447,000 | 1.4% | | 2.1% |
| +Maintenance and Operating | 5.8% | 39,137,000 | 5,748,000 | 0.7% | | 1.1% |
| 5.9% Rate Limit Alternative Scenario* | 5.9% | 39,991,026 | 3,943,000 | 0.5% | | 0.7% |
| +Salary Enhancements | 6.6% | 44,885,000 | 0 | Revised Base Case | | |

Table #6 above shows what can be funded in the WSSCWater Budget Revised Base Case forecast at different levels of rate increase, given the revenue and expenditure assumptions described earlier. Unspecified reductions reflect what WSSCWater would need to absorb during its budget development based on the expenditure and revenue assumptions of the Revised Base Case forecast.

Council Staff Recommendations

There is always uncertainty this early in the budget process as to how constrained revenues (and therefore the budget) will be going forward. This issue is exacerbated by the FY20 and FY21 impacts of the pandemic on WSSCWater’s budget and operations.

Council Staff believes the revised base case limits put forth by WSSCWater Staff are based on reasonable assumptions and are consistent with both WSSCWATER fiscal policy and past spending control limit actions by both Councils. The 6.6 percent rate increase limit in the Revised Base Case is primarily the result of continued flat or declining revenues and WSSCWater's policy goal of increasing its days over operating cash on hand. Under the Revised Base Case, the Water and Sewer operating costs limit would provide for only a 1.2 percent increase (and less if employee compensation adjustments are constrained again in FY22 as they were in FY21). Any unexpected cost increases or new and reinstated programs that WSSCWATER seeks to pursue would have to be offset by additional budget savings.

With regard to the CIP, as discussed earlier, the discretionary portions of the CIP (and Information-Only projects) were ratcheted back the last few years and Council Staff does not believe assuming additional substantial cutbacks in capital work (such as small diameter water and sewer reconstruction) is advisable.

Council Staff believes the Revised Base Case Spending Control Limits represent a good starting point of limits for WSSCWater's FY22 budget process. However, given the continued fiscal pressures reflected in WSSCWater's six-year forecast, WSSCWater will need to continue its efforts to find cost savings and efficiencies to minimize future rate increases and to accommodate high priority new initiatives.

Attachments

- WSSCWater's Spending Affordability Bi-County Workgroup Meeting #2 Packet (September 23, 2020)
 - Summary of Financial Forecast Scenarios (©3)
 - Revised Base Case (6.6 percent rate increase Scenario) (©4-8)
 - 5.9 percent Rate Increase Scenario (©9-13)
 - Past Due Accounts/Amounts Information (©14-15)
 - Rate Change and Budget Impacts (©16-17)
 - FY21 Quarterly Fixed Fee Comparison (WSSCWater vs. Utilities in the Region) (©18-19)
 - Percentage of Average Residential Bill from Fixed Charges (©20)
 - Other Utilities Approved and Planned Revenue Increases (©21)
 - Other Utilities: FY00 to FY21 Bill Increases (©22)
 - Message to Stakeholders (©23)
 - Appendix
 - Current Rates for WSSCWater and Various Utilities in the Region (©25-28)
 - Answers to Follow-up Questions from Meeting #1 (©29-30)
- WSSCWater's Spending Affordability Bi-County Workgroup Meeting #1 Packet Excerpt (September 9, 2020) (Excerpt)
 - COVID-19 Response (©32-33)
 - Bond Rating Agency Reports (©34)
 - Fiscal Planning Actions Implemented and Underway (©35-37)
- Public Hearing Testimony (Montgomery County Taxpayers League) (©38)
- Memorandum of September 25 from General Manager Reid to WSSCWater Commissioners regarding Fairfax County's rates compared to WSSCWater's rates (39-40)



WSSC WATER

DELIVERING THE ESSENTIAL

Spending Affordability – Meeting II

September 23, 2020 - Rev. 9/30/20

Agenda

- Financial Forecasts
- FY 2022 Rate Change and Budget Impacts
- Other Utilities: Approved and Planned Revenue Rate Increases
- Other Utilities: Bill Increase Comparisons
- Message to Stakeholders
- Appendix



Financial Forecast Scenarios

| Rate Increase Scenario* | Quarterly Bill Impact (165 gallons per day) | Bill Increase Percentage | Unspecified Operating Reductions | Debt Service Coverage Target: 1.1 - 1.25 | Days Operating Reserve On-hand Target: 75 - 105 | Debt Service as Percentage of Expenses Target: <40% |
|-------------------------|---|--------------------------|----------------------------------|--|---|---|
| 6.6% | \$13.45 | 5.8% | \$0 | 1.06 | 72.3 | 36.7% |
| 5.9% | \$11.98 | 5.2% | \$3.9 million | 1.06 | 72.7 | 36.8% |

*Scenarios assume a "needs based" CIP

Assumption Summary

| | PLANNING DATA | PROJECTED | | | | |
|--|------------------------------------|------------|------------|------------|------------|------------|
| | FY 2022 | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
| REVENUE RATE INCREASE | | | | | | |
| | 6.6% | 8.0% | 8.0% | 7.0% | 6.5% | 6.0% |
| 1 REVENUE | | | | | | |
| 2 Water Consumption and Sewer Treatment | | | | | | |
| 3 | Water consumption (Average MGD) | 126.0 | 126.0 | 126.0 | 126.0 | 126.0 |
| 4 Credits and Transfers (\$000's) | | | | | | |
| 5 | Use of Fund Balance | \$ - | \$ - | \$ - | \$ - | \$ - |
| 6 | SDC Debt Service Offset | \$ 5,771 | \$ 5,771 | \$ 5,773 | \$ 5,772 | \$ 5,771 |
| 7 EXPENDITURE | | | | | | |
| 8 Operating (\$000's) | | | | | | |
| 9 | Workyears | 1,776.0 | 1,776.0 | 1,776.0 | 1,776.0 | 1,776.0 |
| 10 | Salary and Wages Increase | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| 11 | All Other | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| 12 | Debt Service | \$ 310,683 | \$ 333,763 | \$ 359,177 | \$ 385,154 | \$ 406,109 |
| 13 | Yearly Growth % | 5.8% | 7.4% | 7.6% | 7.2% | 5.4% |
| 14 | PAYGO | \$31,016 | \$31,016 | \$44,000 | \$65,000 | \$ 80,000 |
| 15 Capital Expenditure Parameters | | | | | | |
| 16 | Water and Sewer Completion Factor | 80.0% | 80.0% | 80.0% | 84.7% | 84.7% |
| 17 | Information Only Completion Factor | 90.0% | 90.0% | 90.0% | 95.0% | 95.0% |
| 18 BOND ISSUANCE | | | | | | |
| 19 | Interest Rate | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |



Revenues and Expenditures Impact on Approved Charges

| | | (In Thousands \$000s) | FY 2021 Approved | FY 2022 Proposed | Dollar Change | W&S Rev Impact* |
|----|--|-----------------------|---------------------|---------------------|------------------|------------------------------|
| 1 | OPERATING REVENUES (BASE) | | | | | |
| 2 | Water and Sewer Charges | \$ | 689,212 | \$ | 677,814 | |
| 3 | ADJUSTMENTS TO REVENUES | | | | | |
| 4 | Other Sources and Fees | | 110,040 | | 108,796 | (1,244) 0.2% |
| 5 | Interest Income | | 10,000 | | 1,000 | (9,000) 1.3% |
| 6 | Revenue Impairment | | - | | - | - 0.0% |
| 7 | OTHER TRANSFERS AND CREDITS | | 26,772 | | 13,771 | (13,001) 1.9% |
| 8 | | \$ | 146,812 | \$ | 123,567 | \$ (23,245) 3.4% |
| 9 | OPERATING EXPENSES | | | | | |
| 10 | Salaries and Wages | \$ | 127,726 | \$ | 133,474 | \$ 5,748 0.8% |
| 11 | Heat, Light, and Power | | 20,423 | | 21,240 | 817 0.1% |
| 12 | Regional Sewage Disposal | | 58,000 | | 59,160 | 1,160 0.2% |
| 13 | All Other | | 284,993 | | 290,692 | 5,699 0.8% |
| 14 | Unspecified Reductions/Additional & Reinstated | | - | | - | - 0.0% |
| 15 | DEBT SERVICE | | 313,865 | | 310,683 | (3,182) -0.5% |
| 16 | PAYGO (Contribution to bond fund) | | 31,016 | | 31,016 | 0 0.0% |
| 17 | | \$ | 836,024 | \$ | 846,266 | \$ 10,242 1.5% |
| 18 | YEAR-END ADJUSTMENTS | | | | | |
| 19 | Water User Growth Adjustment | | 602 | | - | (602) -0.1% |
| 20 | Sewer User Rebaseline Adjustment | | 12,000 | | - | (12,000) 1.8% |
| 21 | Total - Base Case Revenue Need | \$ | 677,814 | \$ | 722,699 | \$ 44,885 6.6% |
| 22 | | | | \$ | - | \$ 44,885 |

*Approximately \$6.8 million in additional operating expenses = 1 percent increase in revenue

| | FY 2022 Estimated | W&S Rev Impact |
|----|---|-------------------|
| 25 | | |
| 26 | Potential Offsets to Revenue Increase: | |
| 27 | \$50 million CIP Reduction = Debt Service Impact @ 5.0% Interest | \$ (2,002) -0.3% |
| 28 | \$100 million CIP Reduction = Debt Service Impact @ 5.0% Interest | \$ (4,005) -0.6% |
| 29 | \$125 million CIP Reduction = Debt Service Impact @ 5.0% Interest | \$ (5,006) -0.7% |

31 Notable Assumptions:

32 4.5% annual increase in Salaries & Wages FY 2022 through FY 2027

33 2.0% annual increase in All Other

34 \$12.0 million reduction included for Sewer Use Charges in FY 2022 to rebaseline projections

35 80% completion factor for CIP; 90% for Information Only (including Reconstruction)

36 Debt service impact on new bond issuance assumes only one interest payment (or half year) in FY 2022. Outer year
37 impact would double interest paid.

FY 2022 Forecast

6.6% Needs Based CIP

| | (In Thousands \$000s) | FY 2021 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|----|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | | Approved | Estimated | Proposed | Projected | Projected | Projected | Projected | Projected |
| 1 | New Water and Sewer Debt Issues | \$ 409,922 | \$ 350,000 | \$ 427,880 | \$ 443,100 | \$ 383,600 | \$ 350,000 | \$ 350,000 | \$ 350,000 |
| 2 | Total Water and Sewer Debt Service | 313,865 | 293,652 | 310,683 | 333,763 | 359,177 | 385,154 | 406,109 | 426,179 |
| 3 | Total Water and Sewer Expenditures | 836,022 | 769,061 | 846,266 | 883,198 | 935,893 | 1,000,778 | 1,050,118 | 1,100,919 |
| 4 | Water and Sewer Combined Rate Increase (Avg) | 6.0% | 6.0% | 6.6% | 8.0% | 8.0% | 7.0% | 6.5% | 6.0% |
| 5 | Water and Sewer User Charges | \$ 689,211 | \$ 689,212 | \$ 722,699 | \$ 770,540 | \$ 833,221 | \$ 892,672 | \$ 951,916 | \$ 1,010,340 |
| | Water Consumption Charges | 295,511 | 301,067 | 301,669 | 324,715 | 353,983 | 385,513 | 415,447 | 445,289 |
| | Sewer Use Charges | 393,699 | 388,145 | 376,145 | 388,587 | 417,595 | 448,834 | 478,446 | 507,936 |
| | Revenue Increase Adjustments | 0 | 0 | 44,885 | 57,238 | 61,643 | 58,325 | 58,024 | 57,115 |
| 6 | Other Sources/Fees | 110,040 | 108,054 | 108,796 | 109,552 | 110,323 | 111,109 | 111,910 | 112,727 |
| | Account Maintenance Fees | 32,360 | 32,360 | 32,425 | 32,489 | 32,554 | 32,619 | 32,685 | 32,750 |
| | Rockville Sewer Use | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| | Plumbing and Inspection Fees | 14,470 | 13,286 | 13,685 | 14,095 | 14,518 | 14,954 | 15,402 | 15,864 |
| | Infrastructure Investment Fee | 39,410 | 39,410 | 39,488 | 39,567 | 39,647 | 39,726 | 39,805 | 39,885 |
| | Miscellaneous | 20,800 | 19,998 | 20,198 | 20,400 | 20,604 | 20,810 | 21,018 | 21,228 |
| | Interest Income | 10,000 | 500 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| | Revenue Impairment | - | (31,658) | - | - | - | - | - | - |
| 7 | Operating Revenues | 809,250 | 766,108 | 832,494 | 881,092 | 944,544 | 1,004,781 | 1,064,826 | 1,124,068 |
| 8 | OTHER TRANSFERS AND CREDITS | 26,772 | 22,923 | 13,771 | 11,771 | 9,773 | 7,772 | 7,771 | 7,748 |
| | Use of Fund Balance | 8,000 | - | - | - | - | - | - | - |
| | Reconstruction Debt Service Offset (REDO) | 9,500 | 8,000 | 6,000 | 4,000 | 2,000 | - | - | - |
| | SDC Debt Service Offset | 5,772 | 5,772 | 5,771 | 5,771 | 5,773 | 5,772 | 5,771 | 5,748 |
| | Premium Transfer | 1,500 | 7,151 | - | - | - | - | - | - |
| | Underwriter's Discount Transfer | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| | Miscellaneous Offset | - | - | - | - | - | - | - | - |
| 9 | Total Funds Available | 836,022 | 789,031 | 846,266 | 892,863 | 954,317 | 1,012,553 | 1,072,597 | 1,131,815 |
| 10 | Salaries and Wages | \$ 127,726 | \$ 127,726 | \$ 133,474 | \$ 139,480 | \$ 145,756 | \$ 152,316 | \$ 159,170 | \$ 166,332 |
| 11 | Heat, Light, and Power | 20,423 | 20,423 | 21,240 | 22,090 | 22,974 | 22,042 | 21,148 | 22,142 |
| 12 | Regional Sewage Disposal | 58,000 | 58,000 | 59,160 | 60,343 | 61,550 | 62,781 | 64,037 | 65,317 |
| 13 | All Other | 284,993 | 284,993 | 290,692 | 296,506 | 302,436 | 308,485 | 314,655 | 320,948 |
| 14 | Operating Expenses | \$ 491,143 | \$ 491,142 | \$ 504,566 | \$ 518,419 | \$ 532,716 | \$ 545,624 | \$ 559,009 | \$ 574,740 |
| 16 | Bonds and Notes Principal and Interest | 313,865 | 293,652 | 310,683 | 333,763 | 359,177 | 385,154 | 406,109 | 426,179 |
| 17 | Operating Expenses with Debt Service | 805,008 | 784,794 | 815,250 | 852,182 | 891,893 | 930,778 | 965,118 | 1,000,919 |
| | Growth (% change) | | | 3.9% | 4.5% | 4.7% | 4.4% | 3.7% | 3.7% |
| 18 | OTHER TRANSFERS AND ADJUSTMENTS | | | | | | | | |
| 19 | Unspecified Reductions/Additional & Reinstated | - | (25,733) | - | - | - | 5,000 | 5,000 | 20,000 |
| 20 | PAYGO (Contribution to bond fund) | 31,016 | 10,000 | 31,016 | 31,016 | 44,000 | 65,000 | 80,000 | 80,000 |
| 21 | Total Expenditures | 836,023 | 769,061 | 846,266 | 883,198 | 935,893 | 1,000,778 | 1,050,118 | 1,100,919 |
| 22 | Net Revenue (Loss) | (1) | 19,970 | 0 | 9,664 | 18,424 | 11,775 | 22,479 | 30,896 |
| 23 | BEGINNING FUND BALANCE - JULY 1 | \$ 129,388 | \$ 147,605 | \$ 167,575 | \$ 167,575 | \$ 177,239 | \$ 195,663 | \$ 207,439 | \$ 229,918 |
| 24 | Net Increase (Decrease) in Fund Balance | (1) | 19,970 | - | 9,664 | 18,424 | 11,775 | 22,479 | 30,896 |
| 25 | Use of Fund Balance/Other Adjustments | (8,000) | - | - | - | - | - | - | - |
| 26 | ENDING FUND BALANCE - JUNE 30 | \$ 121,387 | \$ 167,575 | \$ 167,575 | \$ 177,239 | \$ 195,663 | \$ 207,439 | \$ 229,918 | \$ 260,814 |

FY 2022 Forecast – 6.6%

Needs Based CIP

- Capital Policy Guidelines
 - Maintain adequate liquidity and fund balance reserves

| Metrics | CFO Guideline | FY 2021 Estimated | FY 2022 Proposed | FY 2023 Projected | FY 2024 Projected | FY 2025 Projected | FY 2026 Projected | FY 2027 Projected |
|--|-------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| I Debt Service Coverage: | | | | | | | | |
| a Debt Service Coverage | 1.1 - 1.25 | 1.02 | 1.06 | 1.09 | 1.15 | 1.18 | 1.23 | 1.24 |
| b Debt Service (P+I) as a Percentage Total Expenditures | <40.0% | 38.2% | 36.7% | 37.8% | 38.4% | 38.5% | 38.7% | 38.7% |
| II Liquidity and Reserves: | | | | | | | | |
| a Days Operating Reserves-on-Hand | 75 - 105 | 79.5 | 72.3 | 73.2 | 76.3 | 75.7 | 79.9 | 86.5 |
| b Ending Fund Balance as a Percentage of Operating Revenue | 15.0% | 21.9% | 20.1% | 20.1% | 20.7% | 20.6% | 21.6% | 23.2% |
| III Workforce | n/a | 1,776 | 1,776 | 1,776 | 1,776 | 1,776 | 1,776 | 1,776 |

Annual and Quarterly Customer Bills

| Proposed Revenue Rate Increase | | 6.6% | | | | | |
|--------------------------------|--|------------------|----------------------------|------------------|----------------------------|--------------------|------------------|
| Meter Size | Average Daily Consumption (Gallons Per Year) | Approved FY 2021 | Quarterly Approved FY 2021 | Proposed FY 2022 | Quarterly Proposed FY 2022 | Quarterly Perc Chg | Quarterly \$ Chg |
| 3/4" Residential Meter | 100 (36,500 gal/yr) | \$586.76 | \$146.69 | \$618.19 | \$154.55 | 5.4% | \$7.86 |
| 3/4" Residential Meter | 165 (60,225 gal/yr) | 924.36 | 231.09 | 978.15 | 244.54 | 5.8% | \$13.45 |
| 3/4" Residential Meter | 500 (182,500 gal/yr) | 3,394.32 | 848.58 | 3,611.66 | 902.92 | 6.4% | \$54.34 |
| 2" Meter | 1,000 (365,000 gal/yr) | 8,088.72 | 2,022.18 | 8,568.21 | 2,142.05 | 5.9% | \$119.87 |
| 3" Meter | 5,000 (1,825,000 gal/yr) | 41,512.12 | 10,378.03 | 44,088.61 | 11,022.15 | 6.2% | \$644.12 |
| 6" Meter | 10,000 (3,650,000 gal/yr) | 84,168.40 | 21,042.10 | 89,366.12 | 22,341.53 | 6.2% | \$1,299.43 |



Assumption Summary

| | PLANNING DATA | PROJECTED | | | | |
|--|------------------------------------|------------|------------|------------|------------|------------|
| | FY 2022 | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
| REVENUE RATE INCREASE | | | | | | |
| | 5.9% | 8.0% | 8.0% | 7.0% | 6.5% | 6.0% |
| 1 REVENUE | | | | | | |
| 2 Water Consumption and Sewer Treatment | | | | | | |
| 3 | Water consumption (Average MGD) | 126.0 | 126.0 | 126.0 | 126.0 | 126.0 |
| 4 Credits and Transfers (\$000's) | | | | | | |
| 5 | Use of Fund Balance | \$ - | \$ - | \$ - | \$ - | \$ - |
| 6 | SDC Debt Service Offset | \$ 5,771 | \$ 5,771 | \$ 5,773 | \$ 5,772 | \$ 5,771 |
| 7 EXPENDITURE | | | | | | |
| 8 Operating (\$000's) | | | | | | |
| 9 | Workyears | 1,776.0 | 1,776.0 | 1,776.0 | 1,776.0 | 1,776.0 |
| 10 | Salary and Wages Increase | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| 11 | All Other | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| 12 | Debt Service | \$ 309,733 | \$ 330,673 | \$ 356,087 | \$ 382,064 | \$ 403,019 |
| 13 | Yearly Growth % | 5.5% | 6.8% | 7.7% | 7.3% | 5.5% |
| 14 | PAYGO | \$31,016 | \$31,016 | \$44,000 | \$65,000 | \$ 80,000 |
| 15 Capital Expenditure Parameters | | | | | | |
| 16 | Water and Sewer Completion Factor | 80.0% | 80.0% | 80.0% | 84.7% | 84.7% |
| 17 | Information Only Completion Factor | 90.0% | 90.0% | 90.0% | 95.0% | 95.0% |
| 18 BOND ISSUANCE | | | | | | |
| 19 | Interest Rate | 4.0% | 5.0% | 5.0% | 5.0% | 5.0% |



Revenues and Expenditures Impact on Approved Charges

| | (In Thousands \$000s) | FY 2021 Approved | FY 2022 Proposed | Dollar Change | W&S Rev Impact* |
|----|--|---------------------|---------------------|------------------|--------------------|
| 1 | OPERATING REVENUES (BASE) | | | | |
| 2 | Water and Sewer Charges | \$ 689,212 | \$ 677,814 | | |
| 3 | ADJUSTMENTS TO REVENUES | | | | |
| 4 | Other Sources and Fees | 110,040 | 108,796 | (1,244) | 0.2% |
| 5 | Interest Income | 10,000 | 1,000 | (9,000) | 1.3% |
| 6 | Revenue Impairment | - | - | - | 0.0% |
| 7 | OTHER TRANSFERS AND CREDITS | | | | |
| 8 | | \$ 146,812 | \$ 123,567 | \$ (23,245) | 3.4% |
| 9 | OPERATING EXPENSES | | | | |
| 10 | Salaries and Wages | \$ 127,726 | \$ 133,474 | \$ 5,748 | 0.8% |
| 11 | Heat, Light, and Power | 20,423 | 21,240 | 817 | 0.1% |
| 12 | Regional Sewage Disposal | 58,000 | 59,160 | 1,160 | 0.2% |
| 13 | All Other | 284,993 | 290,692 | 5,699 | 0.8% |
| 14 | Unspecified Reductions/Additional & Reinstated | - | (3,943) | (3,943) | -0.6% |
| 15 | DEBT SERVICE | | | | |
| 16 | PAYGO (Contribution to bond fund) | 31,016 | 31,016 | 0 | 0.0% |
| 17 | | \$ 836,024 | \$ 841,372 | \$ 5,348 | 0.8% |
| 18 | YEAR-END ADJUSTMENTS | | | | |
| 19 | Water User Growth Adjustment | 602 | - | (602) | -0.1% |
| 20 | Sewer User Rebaseline Adjustment | 12,000 | - | (12,000) | 1.8% |
| 21 | Total - Base Case Revenue Need | \$ 677,814 | \$ 717,805 | \$ 39,991 | 5.9% |

24 *Approximately \$6.8 million in additional operating expenses = 1 percent increase in revenue

| | FY 2022 Estimated | W&S Rev Impact |
|----|--|-------------------|
| 25 | | |
| 26 | Potential Offsets to Revenue Increase: | |
| 27 | \$ (1,892) | -0.3% |
| 28 | \$ (3,783) | -0.6% |
| 29 | \$ (4,729) | -0.7% |

31 Notable Assumptions:

32 4.5% annual increase in Salaries & Wages FY 2022 through FY 2027

33 2.0% annual increase in All Other

34 \$12.0 million reduction included for Sewer Use Charges in FY 2022 to rebaseline projections

35 80% completion factor for CIP; 90% for Information Only (including Reconstruction)

36 Debt service impact on new bond issuance assumes only one interest payment (or half year) in FY 2022. Outer year
37 impact would double interest paid.



FY 2022 Forecast - 5.9% Scenario

| | FY 2021 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|---|------------|------------|------------|------------|------------|------------|------------|--------------|
| (In Thousands \$000s) | Approved | Estimated | Proposed | Projected | Projected | Projected | Projected | Projected |
| 1 New Water and Sewer Debt Issues | \$ 409,922 | \$ 350,000 | \$ 427,880 | \$ 443,100 | \$ 383,600 | \$ 350,000 | \$ 350,000 | \$ 350,000 |
| 2 Total Water and Sewer Debt Service | 313,865 | 293,652 | 309,733 | 330,673 | 356,087 | 382,064 | 403,019 | 423,090 |
| 3 Total Water and Sewer Expenditures | 836,022 | 769,061 | 841,372 | 880,108 | 932,803 | 997,688 | 1,047,028 | 1,097,829 |
| 4 Water and Sewer Combined Rate Increase (Avg) | 6.0% | 6.0% | 5.9% | 8.0% | 8.0% | 7.0% | 6.5% | 6.0% |
| 5 Water and Sewer User Charges | \$ 689,211 | \$ 689,212 | \$ 717,805 | \$ 765,259 | \$ 827,510 | \$ 886,554 | \$ 945,391 | \$ 1,003,415 |
| Water Consumption Charges | 295,511 | 301,067 | 301,669 | 322,268 | 351,338 | 382,651 | 412,379 | 442,017 |
| Sewer Use Charges | 393,699 | 388,145 | 376,145 | 386,141 | 414,952 | 445,977 | 475,386 | 504,674 |
| Revenue Increase Adjustments | 0 | 0 | 39,991 | 56,850 | 61,221 | 57,926 | 57,626 | 56,723 |
| 6 Other Sources/Fees | 110,040 | 108,054 | 108,796 | 109,552 | 110,323 | 111,109 | 111,910 | 112,727 |
| Account Maintenance Fees | 32,360 | 32,360 | 32,425 | 32,489 | 32,554 | 32,619 | 32,685 | 32,750 |
| Rockville Sewer Use | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| Plumbing and Inspection Fees | 14,470 | 13,286 | 13,685 | 14,095 | 14,518 | 14,954 | 15,402 | 15,864 |
| Infrastructure Investment Fee | 39,410 | 39,410 | 39,488 | 39,567 | 39,647 | 39,726 | 39,805 | 39,885 |
| Miscellaneous | 20,800 | 19,998 | 20,198 | 20,400 | 20,604 | 20,810 | 21,018 | 21,228 |
| Interest Income | 10,000 | 500 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Revenue Impairment | - | (31,658) | - | - | - | - | - | - |
| 7 Operating Revenues | 809,250 | 766,108 | 827,601 | 875,811 | 938,833 | 998,663 | 1,058,301 | 1,117,142 |
| 8 OTHER TRANSFERS AND CREDITS | 26,772 | 22,923 | 13,771 | 11,771 | 9,773 | 7,772 | 7,771 | 7,748 |
| Use of Fund Balance | 8,000 | - | - | - | - | - | - | - |
| Reconstruction Debt Service Offset (REDO) | 9,500 | 8,000 | 6,000 | 4,000 | 2,000 | - | - | - |
| SDC Debt Service Offset | 5,772 | 5,772 | 5,771 | 5,771 | 5,773 | 5,772 | 5,771 | 5,748 |
| Premium Transfer | 1,500 | 7,151 | - | - | - | - | - | - |
| Underwriter's Discount Transfer | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Miscellaneous Offset | - | - | - | - | - | - | - | - |
| 9 Total Funds Available | 836,022 | 789,031 | 841,372 | 887,581 | 948,606 | 1,006,434 | 1,066,072 | 1,124,890 |
| 10 Salaries and Wages | \$ 127,726 | \$ 127,726 | \$ 133,474 | \$ 139,480 | \$ 145,756 | \$ 152,316 | \$ 159,170 | \$ 166,332 |
| 11 Heat, Light, and Power | 20,423 | 20,423 | 21,240 | 22,090 | 22,974 | 22,042 | 21,148 | 22,142 |
| 12 Regional Sewage Disposal | 58,000 | 58,000 | 59,160 | 60,343 | 61,550 | 62,781 | 64,037 | 65,317 |
| 13 All Other | 284,993 | 284,993 | 290,692 | 296,506 | 302,436 | 308,485 | 314,655 | 320,948 |
| 14 Operating Expenses | \$ 491,143 | \$ 491,142 | \$ 504,566 | \$ 518,419 | \$ 532,716 | \$ 545,624 | \$ 559,009 | \$ 574,740 |
| 16 Bonds and Notes Principal and Interest | 313,865 | 293,652 | 309,733 | 330,673 | 356,087 | 382,064 | 403,019 | 423,090 |
| 17 Operating Expenses with Debt Service | 805,008 | 784,794 | 814,299 | 849,092 | 888,803 | 927,688 | 962,028 | 997,829 |
| Growth (% change) | | | 3.8% | 4.3% | 4.7% | 4.4% | 3.7% | 3.7% |
| 18 OTHER TRANSFERS AND ADJUSTMENTS | | | | | | | | |
| 19 Unspecified Reductions/Additional & Reinstated | - | (25,733) | (3,943) | - | - | 5,000 | 5,000 | 20,000 |
| 20 PAYGO (Contribution to bond fund) | 31,016 | 10,000 | 31,016 | 31,016 | 44,000 | 65,000 | 80,000 | 80,000 |
| 21 Total Expenditures | 836,023 | 769,061 | 841,372 | 880,108 | 932,803 | 997,688 | 1,047,028 | 1,097,829 |
| 22 Net Revenue (Loss) | (1) | 19,970 | 0 | 7,473 | 15,803 | 8,747 | 19,044 | 27,061 |
| 23 BEGINNING FUND BALANCE - JULY 1 | \$ 129,388 | \$ 147,605 | \$ 167,575 | \$ 167,575 | \$ 175,048 | \$ 190,851 | \$ 199,598 | \$ 218,642 |
| 24 Net Increase (Decrease) in Fund Balance | (1) | 19,970 | - | 7,473 | 15,803 | 8,747 | 19,044 | 27,061 |
| 25 Use of Fund Balance/Other Adjustments | (8,000) | - | - | - | - | - | - | - |
| 26 ENDING FUND BALANCE - JUNE 30 | \$ 121,387 | \$ 167,575 | \$ 167,575 | \$ 175,048 | \$ 190,851 | \$ 199,598 | \$ 218,642 | \$ 245,702 |

FY 2022 Forecast – 5.9%

- Capital Policy Guidelines

- Maintain adequate liquidity and fund balance reserves

| Metrics | CFO Guideline | FY 2021 Estimated | FY 2022 Proposed | FY 2023 Projected | FY 2024 Projected | FY 2025 Projected | FY 2026 Projected | FY 2027 Projected |
|--|------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| I Debt Service Coverage: | | | | | | | | |
| a Debt Service Coverage | 1.1 - 1.25 | 1.02 | 1.06 | 1.08 | 1.14 | 1.17 | 1.23 | 1.23 |
| b Debt Service (P+I) as a Percentage Total Expenditures | <40.0% | 38.2% | 36.8% | 37.6% | 38.2% | 38.3% | 38.5% | 38.5% |
| II Liquidity and Reserves: | | | | | | | | |
| a Days Operating Reserves-on-Hand | 75 - 105 | 79.5 | 72.7 | 72.6 | 74.7 | 73.0 | 76.2 | 81.7 |
| b Ending Fund Balance as a Percentage of Operating Revenue | 15.0% | 21.9% | 20.2% | 20.0% | 20.3% | 20.0% | 20.7% | 22.0% |
| III Workforce | n/a | 1,776 | 1,776 | 1,776 | 1,776 | 1,776 | 1,776 | 1,776 |

Annual and Quarterly Customer Bills

| | | Proposed Revenue Rate Increase | | | | 5.9% | |
|------------------------|--|--------------------------------|----------------------------|------------------|----------------------------|--------------------|------------------|
| Meter Size | Average Daily Consumption (Gallons Per Year) | Approved FY 2021 | Quarterly Approved FY 2021 | Proposed FY 2022 | Quarterly Proposed FY 2022 | Quarterly Perc Chg | Quarterly \$ Chg |
| 3/4" Residential Meter | 100 (36,500 gal/yr) | \$586.76 | \$146.69 | \$614.76 | \$153.69 | 4.8% | \$7.00 |
| 3/4" Residential Meter | 165 (60,225 gal/yr) | 924.36 | 231.09 | 972.29 | 243.07 | 5.2% | \$11.98 |
| 3/4" Residential Meter | 500 (182,500 gal/yr) | 3,394.32 | 848.58 | 3,587.97 | 896.99 | 5.7% | \$48.41 |
| 2" Meter | 1,000 (365,000 gal/yr) | 8,088.72 | 2,022.18 | 8,515.94 | 2,128.98 | 5.3% | \$106.80 |
| 3" Meter | 5,000 (1,825,000 gal/yr) | 41,512.12 | 10,378.03 | 43,807.72 | 10,951.93 | 5.5% | \$573.90 |
| 6" Meter | 10,000 (3,650,000 gal/yr) | 84,168.40 | 21,042.10 | 88,799.44 | 22,199.86 | 5.5% | \$1,157.76 |

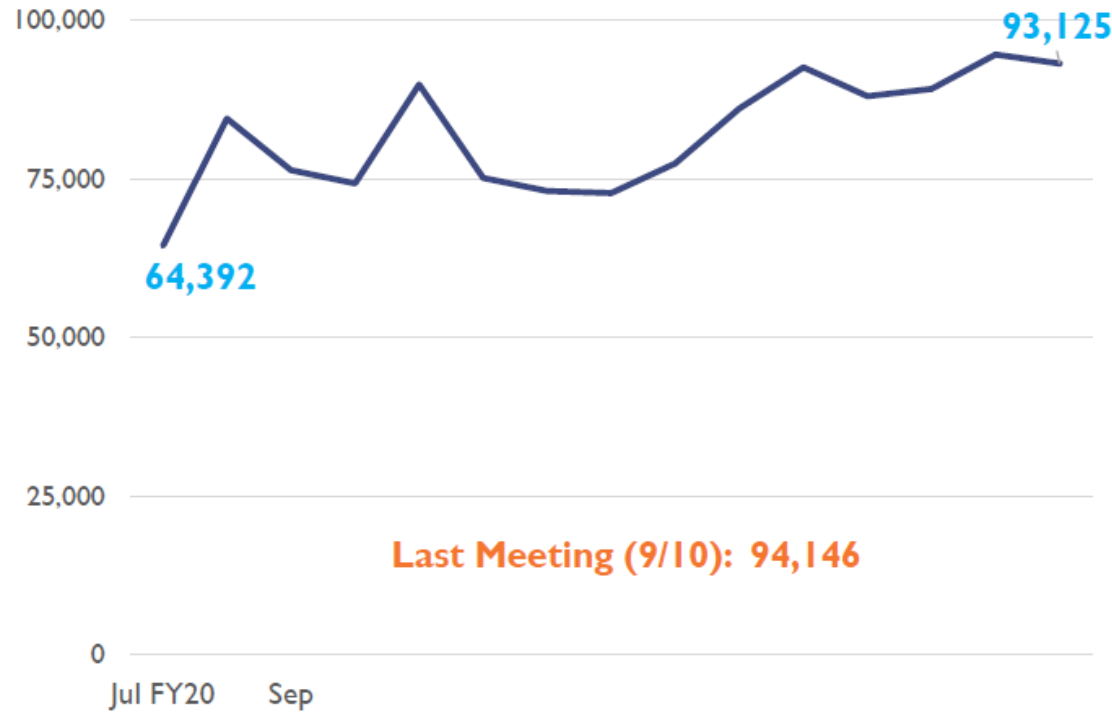


Past Due Accounts/Amounts (as of 9/17/20)

High-Level

Past Due Accounts*

of accounts 30 days past the bill date

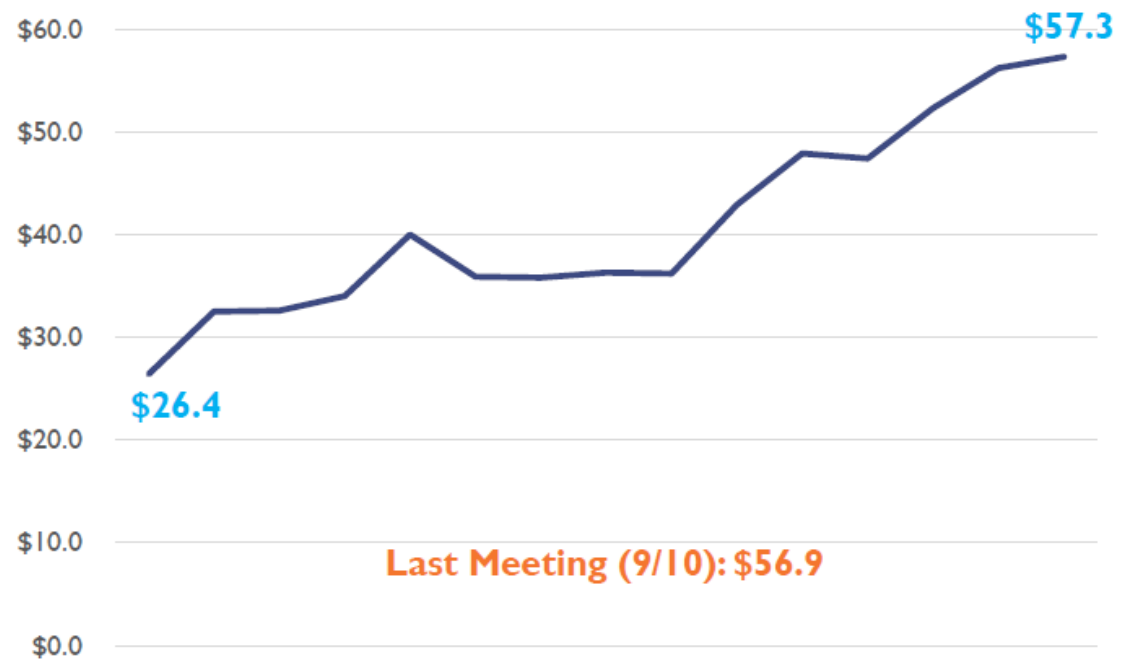


- End of June FY20: 87,984 accounts past due
- End of July FY21: 89,123 accounts past due
- End of August FY21: 94,547 accounts past due



Past Due Amount*

\$ of accounts (millions) 30 days past the bill date



- End of June FY20: \$47.4 Million past due
- End of July FY21: \$52.3 Million past due
- End of August FY21: \$56.2 Million past due

Past Due Accounts on Pay Plans (as of 9/17/20)

- About 97.5% of past due accounts/amount **not** on pay plans
- Total Past Due: \$57.3M; 93.1K accounts
 - 90.5K accounts *not* on pay plans
 - \$55.9 million *not* on pay plans
- Of the ~2,613 past due accounts that *are* on pay plans:
 - 99% or 2,587 are residential customers
 - 79% or 2,068 are past due by 6 months or less

| <u>Past Due Accounts on Pay Plans</u> (by Customer Class) | |
|--|-------------|
| Residential | 99% |
| Commercial | 0.6% |
| Government | 0.4% |

FY 2022 Rate Change and Budget Impacts

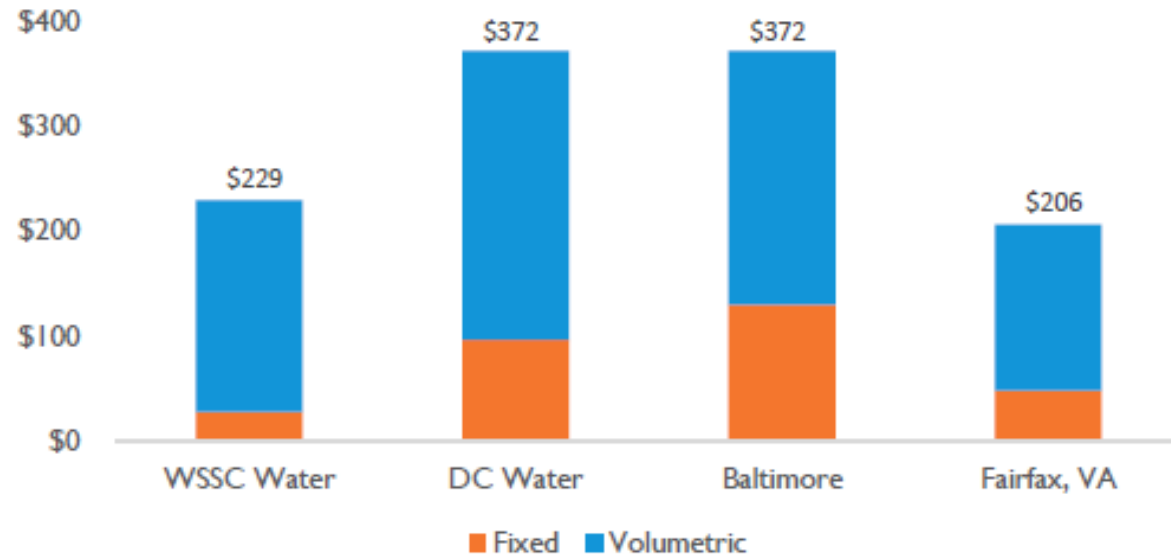
- 1.0% Water and Sewer Average Rate Increase/Decrease
 - Operating Budget impact = \$6.8 million
- Capital Budget impact:
 - \$50 million in Capital = \$2.0 million Operating Budget*
 - \$100 million in Capital = \$4.0 million Operating Budget*
 - \$125 million in Capital = \$5.0 million Operating Budget*
 - \$169 million in Capital = \$6.8 million Operating Budget*

*Debt service changes with one principal and one interest payment in FY 2022

FY 2022 Rate Change and Budget Impacts

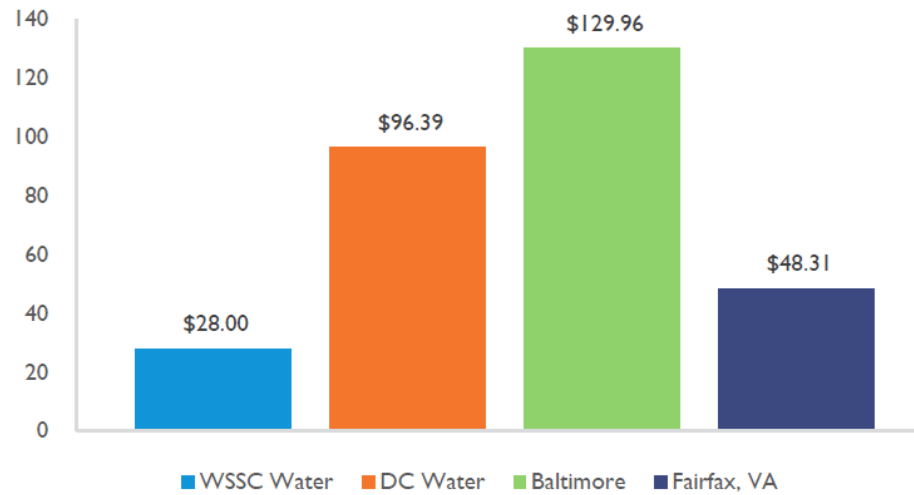
- 1.0% Average Rate Decrease: \$6.8 million in reductions
 - \$125 million in capital reductions plus
 - \$1.8 million in operating reductions
- 2.0% Average Rate Decrease: \$13.6 million in reductions
 - \$125 million capital reductions plus
 - \$8.6 million operating reductions
- Take additional \$6.8 million in operating reductions for every 1.0% reduction in the water & sewer rates

FY 2021 Quarterly Bill Comparison (165 Gallons per Day; 3/4" Meter)



| | WSSC Water | DC Water | Baltimore | Fairfax, VA |
|--------------|---------------|---------------|---------------|---------------|
| Fixed | \$ 28 | \$ 97 | \$ 130 | \$ 48 |
| Volumetric | \$ 201 | \$ 275 | \$ 242 | \$ 158 |
| Total | \$ 229 | \$ 372 | \$ 372 | \$ 206 |

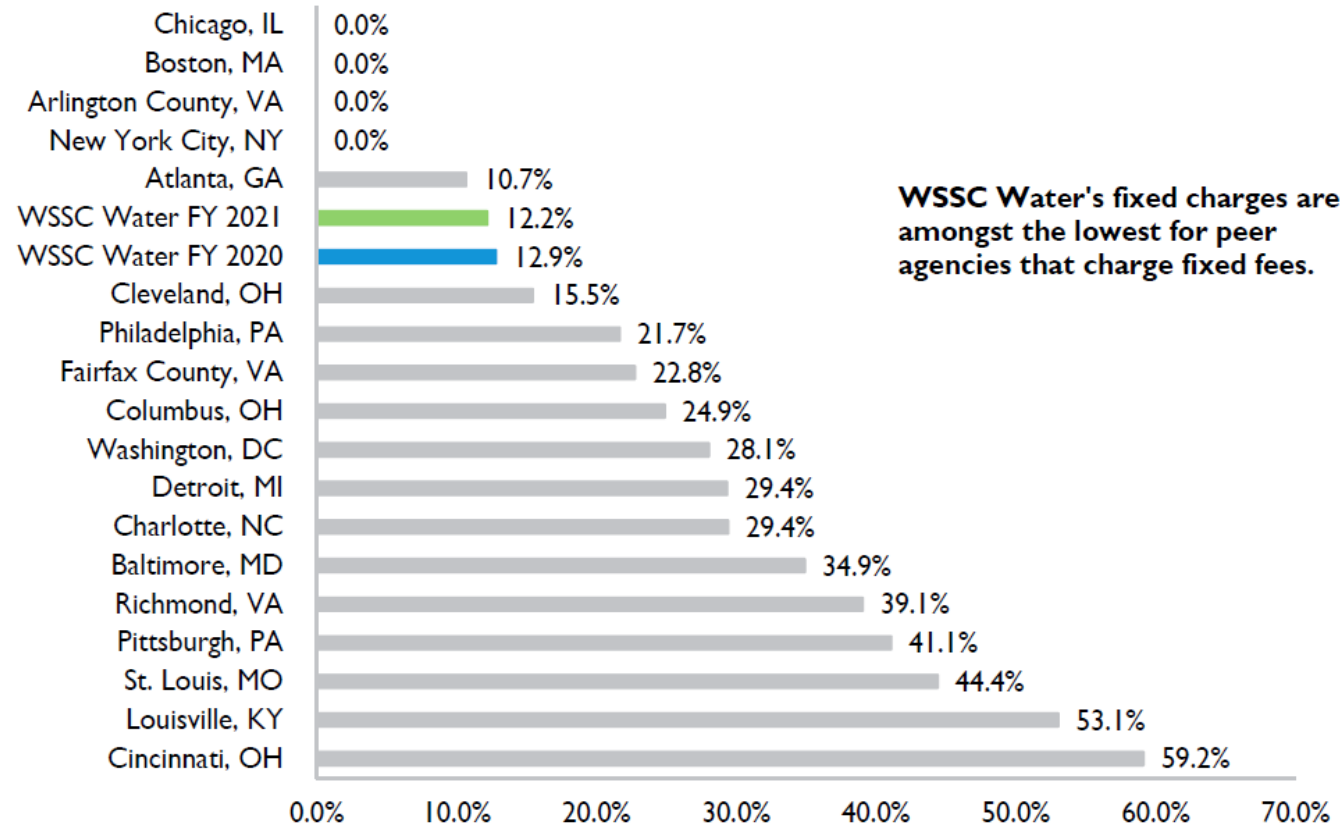
FY 2021 Quarterly Fixed Fee Comparison for 3/4" Meter



| WSSC Water | | DC Water | | Baltimore | | Fairfax, VA | |
|-------------------------------|------------------|-------------------------------------|------------------|-----------------------------|------------------|--|------------------|
| Fee | Quarterly Charge | Fee | Quarterly Charge | Fee | Quarterly Charge | Fee | Quarterly Charge |
| Account Maintenance Fee | \$ 16.00 | Customer Metering Fee | \$ 15.66 | Account Management Fee | \$ 11.82 | Quarterly Billing Service Charge (Fairfax Water) | \$ 15.40 |
| Infrastructure Investment Fee | \$ 12.00 | Water System Replacement Fee | \$ 22.17 | Water Infrastructure Charge | \$ 64.23 | Base Charge (Fairfax County Sewer) | \$ 32.91 |
| | | Clean Rivers Impervious Area Charge | \$ 58.56 | Sewer Infrastructure Charge | \$ 53.91 | | |
| Total | \$ 28.00 | Total | \$ 96.39 | Total | \$ 129.96 | Total | \$ 48.31 |



Percentage of Average Residential Bill from Fixed Charges (165 Gallons per Day)



Other Utilities: Approved and Planned Revenue Rate Increases

| Agency | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 | Cumulative |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------|
| WSSC Water | | | | | | | | | | | |
| Water + Wastewater (volumetric) | 5.00% | 6.00% | 6.60% | 8.00% | 8.00% | 7.00% | 6.50% | 6.00% | 6.00% | 6.00% | 87.8% |
| Water + Wastewater (fixed fee for 5/8" meter) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.0% |
| DC Water | | | | | | | | | | | |
| Residential Water + Sewer (volumetric) | 11.50% | 9.90% | 7.80% | 8.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 121.2% |
| Customer Metering Fee (5/8" meter) | 0.00% | 28.50% | 56.25% | | | | | | | | |
| Clean Rivers Impervious Area Charge (per Equivalent Residential Unit) | -8.96% | -6.78% | -5.74% | | | | | | | | |
| Water System Replacement Fee (5/8" meter) | 0.00% | 0.00% | 0.00% | | | | | | | | |
| City of Baltimore | | | | | | | | | | | |
| Water (volumetric and fixed charges) | 9.90% | 9.90% | 9.90% | 9.90% | 9.90% | 9.90% | 6.00% | 3.25% | 3.25% | 3.25% | 105.6% |
| Wastewater (volumetric and fixed charges) | 9.00% | 9.00% | 9.00% | 6.00% | 6.00% | 5.00% | 3.25% | 3.25% | 3.25% | 3.25% | 73.6% |
| Fairfax, VA | | | | | | | | | | | |
| Fairfax Water + Sewer (volumetric) | 4.12% | 1.26% | 7.54% | | | | | | | | |
| Fairfax Water + Sewer (fixed fee for 5/8" meter) | 5.94% | 4.88% | 13.93% | | | | | | | | |

Sources:

WSSC Water: FY 2022 Long-term Financial Plan, dated September 9th, 2020.

DC Water: Section III Financial Plan and Section IV Rates and Revenue <https://www.dewater.com/budget-and-financial-planning>

City of Baltimore: https://comptroller.baltimorecity.gov/sites/default/files/0001-0153_2019-01-09.pdf

Fairfax, VA based on a combination of rates and fees for Fairfax Water and Fairfax County Sewer.

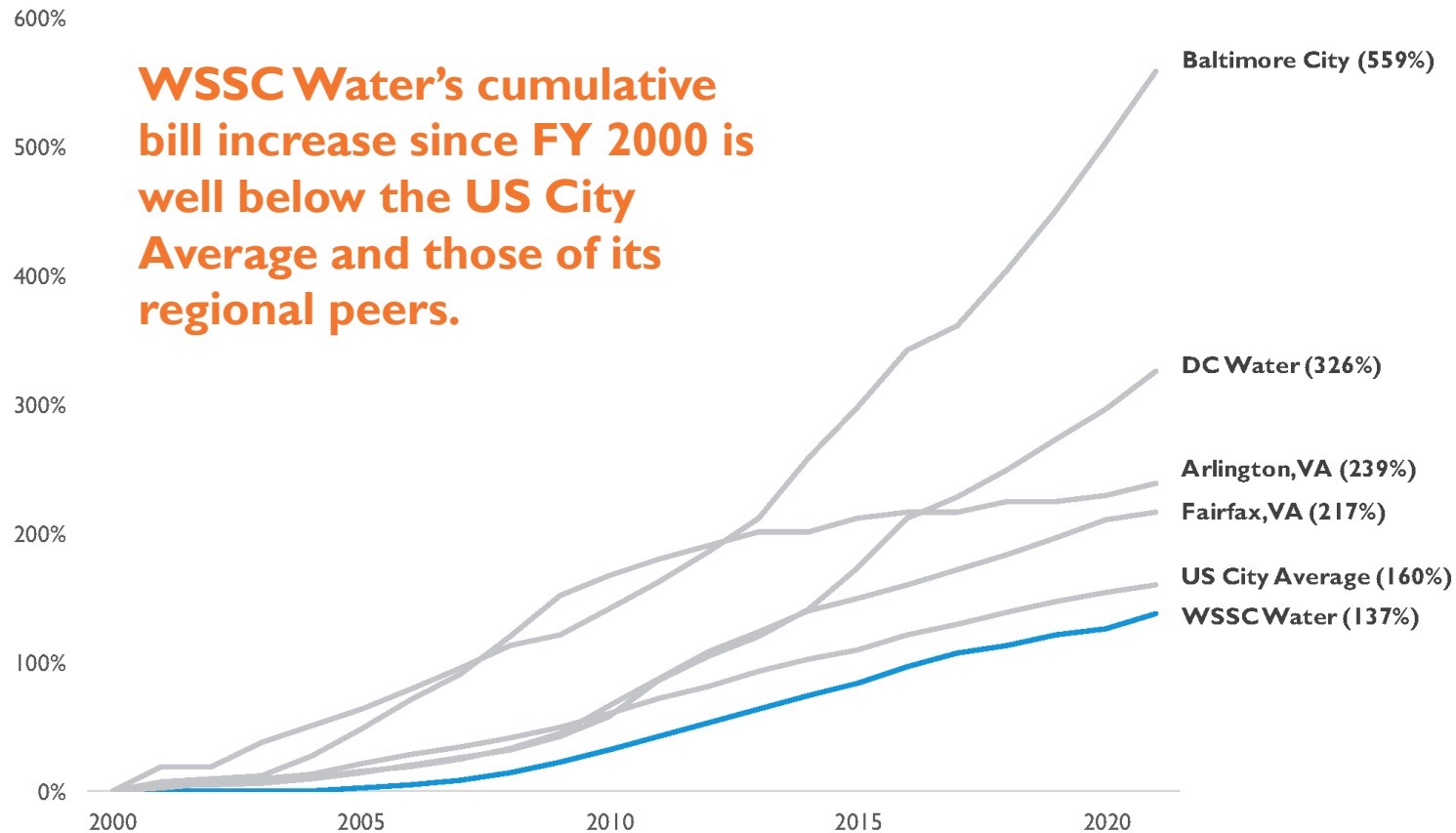
Fairfax Water: Based on adopted and proposed rate schedules effective April 1st of 2018, 2019, 2020, and 2021.

Fairfax County: FY 2021 Adopted Budget Plan <https://www.fairfaxcounty.gov/budget/current-year-adopted-budget-plan-0>



Other Utilities: FY00 to FY21 Bill Increases

FY 2000 to 2021 Bill Increase Comparison @ 165 Gallons per Day



Message to Stakeholders

- CIP addresses mandatory, regulatory, and system improvements
- Long-term rate stability needed for multi-year CIP implementation
- Investments in customer service and operational improvements
- Significant cost savings achieved and on-going
- Innovation programs underway to improve service and identify non-rate revenue sources
- Maintain service levels despite COVID-19 challenges
- Improving affordability programs
- \$57 million in past due accounts equates an 8.4% rate increase

Appendix

WSSC Water

WSSC Water's ratemaking process sets rates for a one-year period. Changes to rates for volumetric charges and fixed fees are not wholistic, meaning that the advertised rate increase applies only to volumetric rates and fixed fees have different rates of change. WSSC Water's rates and fees are approved by the Montgomery and Prince George's County Councils and the Commission that oversees the agency. The organization has implemented a four-tier rate structure for volumetric water and sewer charges for all customers based on average daily consumption (ADC) in gallons per day. Two fixed fees, the Account Maintenance Fee (AMF) and the Infrastructure Investment Fee (IIF), are also charged on a quarterly basis based on meter size for all customers. WSSC Water bills most of its customers quarterly.

| Tiers (ADC in Gallons) | Water (per 1,000 Gallons) | Sewer (per 1,000 Gallons) | Total (per 1,000 Gallons) |
|-----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| 0 - 80.9999 | \$ 5.35 | \$ 7.25 | \$ 12.60 |
| 81 - 165.9999 | \$ 6.04 | \$ 8.06 | \$ 14.10 |
| 166 - 275.9999 | \$ 6.96 | \$ 10.10 | \$ 17.06 |
| 276 & Greater | \$ 8.15 | \$ 13.33 | \$ 21.48 |

| Meter Size | AMF (Quarterly Charge) | IIF (Quarterly Charge) | Total (Quarterly Charges) |
|-------------------|-----------------------------------|-----------------------------------|--------------------------------------|
| 5/8" | \$ 16.00 | \$ 11.00 | \$ 27.00 |
| 3/4" | \$ 16.00 | \$ 12.00 | \$ 28.00 |
| 1" | \$ 16.00 | \$ 14.00 | \$ 30.00 |

DC Water

DC Water utilizes a multi-year ratemaking process to set rates and fees for a two-year period. The organization does not utilize a wholistic rate change approach, approving different changes for volumetric rates and fixed fees. DC Water’s Board of Directors is responsible for approving the rates and fees. DC Water has implemented a two-tier rate structure for volumetric water charges for residential customers based on total usage measured in hundreds of cubic feet, with flat rates for multi-family and non-residential customers, and a flat rate structure for volumetric sewer for all customers.¹ The organization charges six fixed fees, but three of the fees are pass-through charges from the District of Columbia. The three charges that are not pass-throughs are the Clean Rivers Impervious Area Charge (CRIAC), the Customer Metering Fee (CMF), and the Water System Replacement Fee (WSRF). The CRIAC varies by the number of equivalent residential units (ERUs), the CMF varies by meter size, and the WSRF varies by meter size and customer class. These fixed fees are charged on a monthly basis, as DC Water has implemented monthly billing.

| Customer Class/ Tiers | Water (per 1,000 Gallons) | Sewer (per 1,000 Gallons) | Total (per 1,000 Gallons) |
|--------------------------|------------------------------|------------------------------|------------------------------|
| Residential. 0-4 CCF | \$ 4.67 | \$ 13.06 | \$ 17.73 |
| Residential, > 4 CCF | \$ 6.02 | \$ 13.06 | \$ 19.08 |
| Multi-family | \$ 5.30 | \$ 13.06 | \$ 18.36 |
| Non-residential | \$ 6.20 | \$ 13.06 | \$ 19.26 |

| Residential Customers | CRIAC (Monthly Charge) | CMF (Monthly Charge) | WSRF (Monthly Charge) |
|--------------------------|---------------------------|-------------------------|--------------------------|
| 5/8" | | \$ 4.96 | \$ 6.30 |
| 3/4" | | \$ 5.22 | \$ 7.39 |
| 1" | | \$ 5.86 | \$ 9.67 |
| Per ERU | \$ 19.52 | | |

¹ One hundred cubic feet (CCF) equals 748 gallons.

City of Baltimore

The City of Baltimore has adopted a multi-year ratemaking process that approves rates and fees for a three-year period. The City has also adopted a wholistic approach to rate changes, where one rate of change applies to both the volumetric rates and the fixed fees. The City's Board of Estimates is the entity responsible for approving the rates and fees. The City of Baltimore has a flat rate structure for both water and sewer for all customers based on usage measured in hundreds of cubic feet.² Three fixed fees, the Account Management Fee (AMF), the Water Infrastructure Charge (WIC), and the Sewer Infrastructure Charge (SIC), are charged by the City on a monthly basis. The AMF is a flat fee per bill for each customer, while the infrastructure charges vary based on the customer's meter size. The City of Baltimore has implemented monthly billing.

| Customer Class/ Tiers | Water (per 1,000 Gallons) | Sewer (per 1,000 Gallons) | Total (per 1,000 Gallons) |
|----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| All Customers | \$ 4.41 | \$ 11.63 | \$ 16.04 |

| Meter Size | AMF (Monthly Charge) | WIC (Monthly Charge) | SIC (Monthly Charge) |
|-------------------|---------------------------------|---------------------------------|---------------------------------|
| 5/8" | | \$ 11.90 | \$ 9.99 |
| 3/4" | | \$ 21.41 | \$ 17.97 |
| 1" | | \$ 47.57 | \$ 39.93 |
| Per Bill | \$ 3.94 | | |

² One hundred cubic feet (CCF) equals 748 gallons.

Fairfax Water (Water Only)

Fairfax Water utilizes a one-year ratemaking process for its water rates and fees. The volumetric and fixed fee increases for Fairfax Water are not wholistic, as volumetric and fixed fees have different rates of change. The water rates and fees are approved by the Board of Directors. Fairfax Water has a flat rate structure with peak pricing for all customers. For the peak pricing, consumption in the two quarters that contain the summer months is compared to the winter quarter and if certain criteria are met, then the additional peak usage charges are applied. The organization also has one fixed fee, the Quarterly Billing Service Charge (QBSC), which is based on the size of the customer’s meter and the class of customer. Fairfax Water utilizes quarterly billing for most of its customers.

| Customer Class/ Tiers | Water (per 1,000 Gallons) |
|----------------------------|------------------------------|
| All Customers | \$ 3.20 |
| Additional Peak Use Charge | \$ 3.85 |

| Single Family/ Townhouse | QBSC (Quarterly Charge) |
|-----------------------------|----------------------------|
| 5/8" | \$ 14.40 |
| 3/4" | \$ 15.40 |
| 1" | \$ 16.25 |

Fairfax County (Sewer Only)

The ratemaking process at Fairfax County appears to be a mix of one-year and multi-year processes. The Board of Supervisors approves the rates and fees each year, but the County Code contains a six-year schedule of rates and fees. The schedule in the County Code appears to be updated each year based on the rates approved by the Board of Supervisors, but it is not clear if the rates and fees for subsequent years are automatically implemented if no subsequent action is taken by the Board of Supervisors to adopt or amend them. The sewer rates are based on a flat rate structure for all customers. Fairfax County also charges one fixed fee, the Base Charge (BC), on a quarterly basis. This fixed fee has one rate for residential customers and various rates based on meter size for commercial customers. The Fairfax County sewer charges are billed quarterly and are included on the bill received from Fairfax Water.

| Customer Class/ Tiers | Sewer (per 1,000 Gallons) |
|--------------------------|------------------------------|
| All Customers | \$ 7.28 |

| Residential Customers | BC (Quarterly Charge) |
|--------------------------|--------------------------|
| All Residential | \$ 32.91 |

Additional Follow-up Questions

1. Is the \$31.7 million revenue impairment shown on Slide 5 for Estimate FY21 solely from Sewer Use Revenue shortfalls? Slide 4 shows a \$12 million revised baseline for sewer revenue in FY21. [The \\$31.7 million impairment includes both COVID and sewer revenue shortfalls. We did not carry the COVID related revenue impairment into FY22.](#)
2. Why is interest income down so much in FY21 (Approved = \$10 million Estimate = \$500k)? [This is based on historical comparisons. We looked at prior actuals when we were in a low interest rate environment.](#)
3. Is the reduction in “additional and reinstated” for Estimate FY21 solely from that category or is that a catchall for all one-time operating savings expected in FY21? [This is a catchall. There are no additional & reinstated in FY21. We can change the name of the row.](#)
4. What would the Water and Sewer rate revenue be in FY22 before any rate increase? [\\$677,814,000 \(This is the approved \\$689,212,000 less the \\$12,000,000 sewer revenue adjustment and plus \\$602,000 water revenue growth\)](#)
5. What is the non-rounded number for revenue generated from each 1% rate increase? For a \$53.4 million gap, I get a 7.7% rate increase requirement, not a 7.9% requirement, probably because I don't have the correct water/sewer revenue number. [\\$53,376/677,814 = 7.9%](#)
6. How much is assumed in FY22 for the Customer Assistance Program? [\\$2.0 million. We had increased the budget for enhancements to affordability programs. However, these additional funds had to repurposed to offset increased CAP participation.](#) What is the status of WSSC's efforts to expand the program to indirect customers?

[Key Updates:](#)

- [The Customer Service Department hired a new Division Manager, Customer Engagement and Advocacy who will help co-lead this project.](#)
- [The project will also be co-led by a Government Affairs Manager from the Intergovernmental Relations Office.](#)
- [We recognize that renters continue to be a target group that could benefit from water affordability/customer assistance, especially due to the impact of COVID-19.](#)
- [It is important to note that for the past three fiscal years, we have exceeded the allocated \\$888,000.00 budget for our customer assistance program \(CAP\).](#)
- [The current COVID-19 environment is impacting our revenue collections and could further impact our ability to fund the expansion of CAP.](#)
- [Customer Service is working closely with Finance and IRO to monitor the financial impact of the crises on our customers.](#)

| Task | Who | Estimated Completion |
|--|--------------------------|----------------------|
| 1. Form cross-functional planning committee a. Identify external participants and key partners b. Plan meeting logistics | Customer Service | FY Sep 2021 |
| 2. Conduct planning sessions a. Identify target group for assistance b. Determine budget and amount of assistance c. Determine method for assisting renters and indirect customers d. Develop communication plan | Planning Committee | FY Apr 2021 |
| 3. Approve recommendations | GM/CEO and Commissioners | FY Jun 2021 |
| 4. Implement plan | Customer Service | FY Sep 2022 |

7. Canjor asked for a scenario with a 5.9% rate increase. It would be helpful to some multiple options for how you would get to 5.9% (not just increasing unspecified reductions in year one and revising rates in year 2 and beyond to catch up to the Base Case assumptions). For instance, considering a reduction in the debt service costs, recovery of some delinquent charges during COVID, etc.

Potential savings options are as follows:

- Reduce interest rates on debt service
- Reduce street repairs
- Reduce customer service – increases here have been very costly
- Stop CIP projects that are currently in design (primarily PGC projects) – does not include mandated or regulatory
- Reduce Large Diameter Water Pipe & Large Valve Rehabilitation Program by 25%
- Suspend high bill adjustments
- Reduction in the operating fund investment in the Piscataway for inflow and infiltration in improvements

8. What has been your bond interest experience the past few years? I think it has been less than the 5% assumed in the Base Case. What would be the impact on the model if you assumed a 4% bond interest?

The True Interest Cost (TIC) for the last 3 deals on Consolidated Public Improvement bonds has been as follows:

- 2018 3.59 (average coupon 4.15%)
- 2019 2.64 (average coupon 3.247%)
- 2020 1.94 (average coupon 2.44%)

Note that the TIC (true interest cost) is lower due to the receipt of bond premiums which enable us to reduce the size of the bond sale, but the serial maturities do have higher coupons. The debt service was lower as we did reduce the size of the sales for 2019 and 2020, but for 2018, we did not lower the size of the sale. We received the premium and used the premium to help lower debt service costs and the balance was used for projects to also lower future debt. We plan on using future premiums to lower bond size. We will prepare a model that assumes 4% and include it in this Wednesday's package.

9. WSSC has had substantial IT implementation costs over the past few years. Are these costs expected to go down (or up) in FY21 and FY22? The Fiscal Plan does not take into account one-time fluctuations up or down in the budget. C2M implementation costs were significant. Excess costs associated with stabilizing the system were covered by PAYGO not transferred to the bond funds. We will have more information regarding required IT costs after budgets are submitted.
10. Are there other one-time costs in FY21 that can be removed from the base going into FY22? There were no one-time costs included in the FY21 budget that can be removed.
11. Given that the current AMI implementation schedule assumes a phase-in of the program over the next several years, and these program costs are built into the Six-Year Fiscal Plan, the assumed payback from the program should also be reflected in the Fiscal Plan. The 2011 study assumed substantial annual savings (a 6 to 8 year payback). These savings could result in significant rate impacts downward; especially in the later years of the CIP. We can insert estimated impacts from the AMI project in a separate scenario when the Cost Benefit Analysis is finalized. We expect it to be completed within the next three weeks.
12. The Piscataway BioEnergy project is programmed to be completed in FY24. Annual cost savings/additional revenue should also be reflected in the Six-Year Fiscal Plan. We have added projected energy savings from this project to the forecast.

COVID-19 Response

Customer related:

- Late fees are waived and all water shut offs are suspended
- All in-home non-emergency work is cancelled or postponed
- Facilities are closed to the public until further notice

Operations:

- Field and Fleet depot crews are working alternative shifts to promote social distancing and resiliency
- In-person public meetings are postponed indefinitely
- Social distancing measures implemented
- Non-essential employees are required to telework for foreseeable future
- No ride sharing in WSSC Water vehicles by work crews



COVID-19 Financial Impacts

Proactive Savings Plan implemented to offset COVID-19 impacts:

- FY 2020: \$61.1 million
- FY 2021: \$72.7 million

Revenue:

- Delinquent accounts from about \$26.4 million as of 7/1/19 to \$47.4 million as of June 30th
- Payments were down approximately 10% from expectations since March 2020
- Total Consumption (All Customer Classes) – Down since start of pandemic (March-June) by 7.7%. Down FY20 YTD compared to FY19 YTD by 7.1%.
- FY20 savings plan more than offset revenue losses
- Secured \$100 million line of credit for liquidity purposes; no draws needed to date



Bond Rating Agency Reports

- Recently rated AAA by the three rating agencies
- S&P rated Green Bonds E1 – the highest rating
- Factors that could lead to downgrade
 - “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 of more notches” (S&P)
 - “COFO that consistently falls below 1.0x concurrent with liquidity equating to less than 120 days' cash on hand” (Fitch)

Fiscal Planning Actions Implemented

- Operating Supply management project identified savings since FY 2013
 - Cost reductions in excess of \$8.1 million
 - Cost avoidance savings of nearly \$17.2 million
- Group insurance plan revision savings of \$5.1 million since FY 2017
- 66 frozen positions
- Reduced overtime expenses of \$4.7 million since FY 2017
- Cost savings to offset COVID-19 impacts
 - FY 2020: \$61.1 million
 - FY 2021: \$72.7 million



Fiscal Planning Actions Implemented

- Capital Savings
 - Water Main Reconstruction program at 31 miles for FY 2022 remains below target level of 55 miles
 - Potomac Submerged Channel Intake will remain deferred beyond FY 2027
- Maintain AAA Bond Rating
 - Increase PAYGO from \$31 million in FY 2021 to \$80 million in FY 2027 to manage debt service ratios
 - Implement level principal payments beginning FY 2023
- Strategic Sourcing Teams and operating departments identified \$54 million in capital cost savings/avoidance since FY 2013



Fiscal Planning Actions Underway

WSSC Water is piloting several technologies to improve our environmental stewardship, productivity, and cost control:

- Water system transient pressure monitoring systems to reduce breaks and extend pipe life
- New low impact, lower cost high pressure, pull through liners for water main rehabilitation
- Technologies to reduce chemical use and improve Nitrogen and Phosphorus removal at Piscataway, Seneca and Parkway Water Resource Recovery Facilities
- Satellite leak detection for 20% of water system this year to identify and reduce water loss and water main breaks



WSSC SAG Testimony, 9/29/20- Gordie Brenne, Treasurer MC Taxpayers League

In 1998 the state stepped in to restructure WSSC. We ask that you step in now to avoid service interruptions and to keep our rates competitive. WSSC is again approaching insolvency. This time because of Covid 19 revenue impacts. Its cost structure remains unchanged because the Council continues to approve above market rate increases. Poor governance and mismanagement of this bloated cost-plus monopoly threatens service to our County residents. It's time for the Council to lead us out of the "significant fiscal challenges" that your briefing memo only partially addresses.

Unbelievably, the proposed rate increases are predicated on an assumption that telework will stop and revenues will bounce back in FY'22. The latest Moody's rating approval came with two important caveats: that WSSC will successfully deal with the Covid revenue threat and the taxpayers will bail out WSSC if they can't manage costs. Is the County ready for a property tax bailout at the detriment of other programs?

The 6.6% and alternative 5.9% proposed rate increases should not be approved. A much lower rate increase to incentivize cost reductions is needed. Both proposals include above market compensation increases while maintaining a bloated payroll of 1,776 employees whose productivity has declined over the years. A Benchmarking study found that WSSC has too many managers, engineers and IT staff. Capital projects are also bloated with Piscataway sewage treatment and AMI projects having rates of return below their cost of capital, adding to debt service that is perilously close to the underwriting limit of 40%. This doesn't even account for the costs and service level risks that are imposed by WSSCs continued deferral of needed pipe replacement (now only 31 vs. 55 miles a year targeted), and delays in large diameter water main inspections and repairs. Yes, there is a legacy of poorly controlled consent decree spending, but we cannot continue to layer new foolish spending on top of that and stay afloat.

Worse, WSSC cash on hand is insufficient to meet the current revenue crisis. We are at 80 Days of reserves even with the generous redefinition to include other other current assets, compared to Fairfax Water's 1 year cash-on-hand reserve. All this while we've experienced a secular consumption decline over the last 20 years because of more efficient water appliances. Costs need to be adjusted to reflect this lower consumption. Rate payers have done their part.

Our water and sewer rates are the highest in the Metro area and impair our economic development competitiveness. WSSC consistently misrepresents this by cherry picking comparisons to rust bucket cities and using subsidized 2nd tier rates. This comparison is rigged to hide WSSCs profligate spending.

Opportunities to fix this problem have been squandered. As a condition of a bailout, Taxpayers will insist WSSC be broken in two to achieve better economies of scale, and rate approval be shifted to politically independent PSC.



Interoffice Memorandum

TO: WSSC Water Commissioners DS
 FROM: Carla Reid CR
 General Manager/Chief Executive Officer
 DATE: September 25, 2020
 RE: Comparison of Fairfax Water Rates with WSSC Water

At September's Capital Improvement Program (CIP) public hearings earlier this month some of the speakers stated that Fairfax Water's rates were half of WSSC Water's rates. For the reasons stated below, this is very misleading and inaccurate. We are available to discuss this issue in more detail at your earliest convenience.

- Fairfax Water provides only water and not sewer services so to have a meaningful comparison the charges from Fairfax County for sewer should be included.
- Fairfax Water has a very different rate structure than WSSC Water's 4 tier inclining structure and includes seasonal peak usage rates.
- A more accurate basis of comparison is the quarterly bill for both water and sewer.
 - The average quarterly bill (165 GPD) for Fairfax customers that includes the County's sewer charges and fixed fees is \$206 (assuming no peak use charges) compared to \$229 for WSSC Water. A difference of 11.2%.
- Since FY2000, Fairfax County's water and sewer bill has increased by 217% compared to 137% for WSSC Water.
- Fairfax Water derives a much larger amount of its water revenues (25%) from sales to wholesale customers which reduces its account servicing costs. WSSC Water by contrast derives only 1.4% of our water revenues from wholesale customers.
- WSSC Water is a much older and larger system than Fairfax which significantly affects our capital and operations and maintenance costs.

| | <u>Water Mains</u> | <u>Sewer Mains</u> | <u>Size of Service Area</u> | <u>Age</u> |
|----------------|--------------------|----------------------|-----------------------------|--------------------|
| WSSC Water | 5,939 | 5,687 | 1,000 sq. miles | 1918 ⁱ |
| Fairfax Water | 4,018 | n/a | 406 sq. miles | 1957 ⁱⁱ |
| Fairfax County | n/a | 3,250 ⁱⁱⁱ | | |

Fairfax Water and Fairfax County Sewer Rate Detail

Fairfax Water Current rates through March 31, 2021: <https://www.fairfaxwater.org/rates>
 Consumption Charge (Per 1KG): \$3.20 - \$3.35 depending on new/existing account and season
 Peak Use Charge: \$3.85
 Total with Peak Use Charge^{iv} \$7.05
 Fairfax County Sewer Rates \$7.28
 Combined Before Peak \$10.58
 Combined with Peak Charge \$14.33

Fixed Fees (3/4" meter): \$48.31 per quarter (\$15.40 Fairfax Water and \$32.91 Fairfax County)

WSSC Water Rate Detail

| GPD | Water | Sewer | Combined |
|-------------|--------------|--------------|-----------------|
| 0 - 80.9999 | \$5.35 | \$7.25 | \$12.60 |
| 81 - 165.9 | \$6.04 | \$8.06 | \$14.10 |
| 166 - 275.9 | \$6.96 | \$10.10 | \$17.06 |
| 276 & > | \$8.15 | \$13.33 | \$21.48 |

Fixed Fees (3/4" meter): \$28.00 per quarter (\$16.00 AMF and \$12.00 IIF)

ⁱ <https://www.wsscwater.com/files/live/sites/wssc/files/Financial/FY2021%20Proposed%20Budget.pdf> (p. 3-2/52)

ⁱⁱ <https://www.fairfaxwater.org/about-us>

ⁱⁱⁱ <https://www.fairfaxcounty.gov/budget/sites/budget/files/assets/documents/fy2021/adopted/volume2.pdf> (p. 357)

^{iv} for all consumption by existing customers in the June through November billing periods exceeding the greater of: (1) 1.3 times the preceding winter quarter consumption or (2) 6,000 gallons above the preceding winter quarter consumption

Copies:

- Patti Colihan, Chief Financial Officer, WSSC Water
- Kenneth Battle, Director, Prince George's County Council TIEE Committee
- Lavinia Baxter, Special Assistant to the Deputy Chief Administrative Officer, Office of the County Executive
- Keith Levchenko, Senior Legislative Analyst, Montgomery County Council
- Rafael Murphy, Fiscal and Policy Analyst, Montgomery County Government Office of Management and Budget