



Montgomery  
County Council

**Committee:** T&E  
**Staff:** Keith Levchenko, Senior Legislative Analyst  
**Purpose:** Final action – vote expected  
**Keywords:** #WSSC and spending control limits

AGENDA ITEM #4  
 October 29, 2019  
**Action**

**SUBJECT**

FY21 Washington Suburban Sanitary Commission (WSSC) Spending Control Limits

**EXPECTED ATTENDEES**

**WSSC**

- T. Eloise Foster, Commission Vice-Chair
- Fausto Bayonet, Commissioner
- Howie Denis, Commissioner
- Carla Reid, General Manager/CEO
- Joseph Beach, Deputy General Manager for Administration
- James Price, Deputy General Manager for Operations

- Patricia Colihan, Chief Financial Officer
- Letitia Carolina-Powell, Budget Division Leader
- Julie Pohutsky, Budget Section Manager

**OMB**

- Trevor Lobaugh, Management and Budget Specialist

**COUNCIL DECISION POINTS AND COMMITTEE RECOMMENDATION**

- Approve the following spending control limits as recommended by Council Staff per the attached resolution on ©A-C.

**T&E Committee Recommendation**

Spending Control Limits	FY21	Change from FY20 Budget
<b>Rate Increase</b>	<b>7.0%</b>	
New Debt	409,922,000	
Debt Service	313,865,000	2.5%
Total W/S Oper. Expenses*	837,660,000	4.4%
<b>Residential Customer Monthly Impact</b>	<b>Monthly Bill Increase</b>	
Impact at 500 gpd usage	\$17.85	6.7%
Impact at 165 gpd usage	\$4.42	6.1%
Impact at 100 gpd usage	\$2.58	5.6%

**DESCRIPTION/ISSUE**

**Background/Schedule/Spending Control Limits History (see pages 2-4 of the Council Staff Report)**

- This spending control limits process is unique to WSSC. The goal of the process is to stabilize annual rate increases over time and hold customer fee-supported debt service below 40 percent of the operating budget.
- Limits provide direction to WSSC as to what to request, but do not create a ceiling (or a floor) as to what the Councils may jointly approve later at the conclusion of the budget process each May.

### **WSSC Cost Trends/Savings (see pages 4-5)**

- Large growth in the CIP over the past decade resulting in substantial increases in Debt service/PAYGO needed to fund CIP
- Overall budget increases over the past decade have averaged 3.2 percent annually.
- Flat volumetric rate revenue (85% of revenues) due to a decline in per capita water usage

### **“Base Case” Scenario (see pages 6-9)**

- A “Base Case” multi-year planning model is developed each year by WSSC staff. This year’s Base Case assumed an 8 percent rate increase. For major assumptions, see page 6.
- A Bi-County staff workgroup reviewed the Base Case on September 11 and 25, 2019.
- The Council held a public hearing on September 24 on the Base Case.
- The County Executive transmitted his recommendations on October 9 (7.0 percent rate increase)

### **T&E Committee Review/Recommendations (see pages 9-11)**

- The T&E Committee met on October 14 and concurred with Council Staff’s recommended 7.0 percent rate increase

### **Prince George’s County Council**

- Prince George’s County Council staff are recommending a 7.0 percent rate increase to the Council’s TIEE Committee for its review on October 24.

### **This report contains:**

Council Staff Report

Pages 1-12

Attachments

©A-39

- FY21 Spending Control Limits Approval Resolution (©A-B)
- WSSC’s Spending Affordability Fiscal Year 2021 Packet (October 1, 2019) (©1-24)
  - Fiscal Planning Actions Implemented to Minimize Rate Increase (©2)
  - FY2021 Multi-Year Financial Forecast Summary (©3)
  - SAG Financial Forecast – Revised Base Case (©4-7)
  - SAG Financial Forecast – 7.2 percent Model with Fixed Fee Increases (©8-11)
  - SAG Financial Forecast – 6.5 percent Model (©12-15)
  - Bi-County Workgroup Meeting 1 Follow-Up Items (©16-24)
- FY21 High Priority Additional and Reinstated Program Requests Summary (©25-28)
- Public Hearing Testimony from Gordie Brenne, Vice President, Montgomery County Taxpayers League (©29)
- WSSC Response to 9-24-19 Public Hearing Comments by Montgomery County Tax Payer’s League (©30-33)
- County Executive Recommendation (Transmittal Letter Dated 10/9/2019) (©34-35)
- SAG Financial Forecast – 7.0 Percent Model (©36-39)


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**Action**

**MEMORANDUM**

October 24, 2019

TO: County Council

FROM:  Keith Levchenko, Senior Legislative Analyst

SUBJECT: **Action:** FY21 Washington Suburban Sanitary Commission (WSSC) Spending Control Limits<sup>1</sup>

PURPOSE: To approve FY21 spending control limits for WSSC

**T&E Committee Recommendation**

Spending Control Limits	Revised Base Case*	Change from FY20 Budget	Committee Recommendation	Change from FY20 Budget
<b>Rate Increase</b>	<b>8.0%</b>		<b>7.0%</b>	
New Debt	409,922,000		409,922,000	
Debt Service	313,865,000	2.5%	313,865,000	2.5%
Total W/S Oper. Expenses	844,149,000	5.2%	837,660,000	4.4%
<b>Residential Customer Monthly Impact</b>	<b>Monthly Bill Increase</b>		<b>Monthly Bill Increase - Council Staff</b>	
			\$\$\$	Percent
Impact at 500 gpd usage	\$20.40	7.7%	\$17.85	6.7%
Impact at 165 gpd usage	\$5.05	7.0%	\$4.42	6.1%
Impact at 100 gpd usage	\$2.95	6.4%	\$2.58	5.6%

**Meeting Participants Include:**

**WSSC**

- T. Eloise Foster, Commission Vice-Chair
- Fausto Bayonet, Commissioner
- Howie Denis, Commissioner
- Carla Reid, General Manager/CEO
- Joseph Beach, Deputy General Manager for Administration
- James Price, Deputy General Manager for Operations
- Patricia Colihan, Chief Financial Officer
- Letitia Carolina-Powell, Budget Division Leader
- Julie Pohutsky, Budget Section Manager

**OMB**

- Trevor Lobaugh, Management and Budget Specialist

<sup>1</sup> Keywords: #WSSC and Spending Control Limits.

## Background

WSSC'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.
- 4 limits
  - Maximum Average Rate Increase\*
  - Debt Service
  - New Debt
  - Total Water and Sewer Operating Expenses.
- Limits provide direction to WSSC as to what to request, but do not create a ceiling (or a floor) as to what the Councils may jointly approve later.<sup>2</sup>
- Process has generally worked well, even in years when the Councils have not agreed on the same limits. Even in years when there has not been agreement, the process provided a rate increase range for WSSC to build its budget.
- Debate focuses on the average rate increase for the coming year and the rate implications for the out years. The other limits are then adjusted to take into account the impacts of the rate decision.

*\*NOTE: The maximum average rate increase limit covers volumetric water/sewer charges only. WSSC's fixed fees (which are not assumed to change in the WSSC Base Case) include the Infrastructure Renewal Fee and the Account Maintenance Fee.*

## Schedule

- Bi-County Working Group Meetings: September 11 and September 25, 2019
- Montgomery County Council Public Hearing: September 24, 2019
- Prince George's County TIEE Committee Review: October 10, 2019 and October 24, 2019
- T&E Committee Discussion: October 15, 2019
- Montgomery County Council Action: October 29, 2019

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 WSSC can build the approved limits into its Operating Budget Public Hearing Draft, which is released by January 15 each year. WSSC 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.

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<sup>2</sup> State law defines the annual WSSC 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.

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

Fiscal Year	Rate Increase		Fiscal Year	Rate Increase	
	Approved* Limit	Actual		Approved* Limit	Actual
1 FY96	3.0%	3.0%	FY09*	9.7%	8.0%
2 FY97	3.0%	3.0%	FY10*	9.5%	9.0%
3 FY98	3.0%	2.9%	FY11*	9.9%	8.5%
4 FY99	2.0%	0.0%	FY12*	9.9%	8.5%
5 FY00	1.5%	0.0%	FY13	8.5%	7.5%
6 FY01	0.0%	0.0%	FY14*	8.0%	7.25%
7 FY02*	2.0%	0.0%	FY15	6.0%	5.5%
8 FY03	0.0%	0.0%	FY16**	2.1% (7.0%)	1% (6.0%)
9 FY04	0.0%	0.0%	FY17**	3.5% (7.0%)	3% (6.5%)
10 FY05	3.0%	3.0%	FY18	3.5%	3.5%
11 FY06*	2.5%	2.5%	FY19	5.0%	4.5%
12 FY07	3.0%	3.0%	FY20	5.0%	5.0%
13 FY08	5.3%	6.5%	FY21	TBD	TBD

\*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 the account maintenance fee and the infrastructure investment fee in FYs 16 and 17 resulted in lower rate increases. The percentages 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 WSSC budget was approved in those years without rate increases. In fact, there were six straight years without rate increases (FY99-FY04). During this time, WSSC 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 percent 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: WSSC'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 WSSC'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 (to be 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 WSSC budget was transmitted with a 4.5 percent rate increase, which was ultimately supported by both Councils.
- **FY20:** The two Councils agreed on a rate increase limit of 5.0 percent and the FY20 budget was approved with this rate increase assumption.

### WSSC Cost Trends/Savings

As shown earlier on Table #1, WSSC's rate increases have varied from 3.5 percent to as high as 8.5 percent over the past 10 years (from FY11 to FY20). This is a cumulative increase of about 62.8 percent over that period. However, as noted earlier, WSSC's cumulative residential customer bill increases since 2000 (see ©24) are lower than other utilities in the region.

As shown on Table #2 below, WSSC's Operating Budget expenditures over that time have increased about 32.5 percent over that same time period. This increase is equivalent to about 3.18 percent annual budget increases over that time period. More than half of the increase has been in Debt Service/PAYGO as WSSC 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.

**Table #2**  
**WSSC Approved Operating Budget Expenditures by Category (FY11-FY20)**

Category	FY11	FY20	Change	Percent
Salaries and Wages	95,120,000	129,676,000	34,556,000	36.3%
Heat, Light, and Power	27,819,000	19,436,000	(8,383,000)	-30.1%
Regional Sewage Disposal	47,713,000	59,000,000	11,287,000	23.7%
All Other	201,862,000	257,185,000	55,323,000	27.4%
Debt Service and PAYGO	233,036,000	337,323,000	104,287,000	44.8%
<b>Total</b>	<b>605,550,000</b>	<b>802,620,000</b>	<b>197,070,000</b>	<b>32.5%</b>

Cumulative rate increases have been so much greater over that same time period because WSSC's water production has been flat or declining over the past 25 years. During the FY11 to FY20 timeframe, the population served has increased about 4.4 percent, but annual water production is down 6.3 percent from FY11. Lower water production means less volumetric rate revenue which then must be made up through rate increases.

#### Cost Savings

A summary by WSSC of some of its major cost savings efforts is provided on ©2. These savings include both capital and operating dollars.

Two years ago, given the impact of debt service on the Base Case rate increase, both Councils supported WSSC 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 over \$30 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,

WSSC proposed and both Councils approved about \$113 million in bond-funded reductions in the CIP and Information Only projects.

Last year, for the FY20-25 CIP, WSSC 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.

This year's Proposed FY21-26 CIP (including Information Only projects) assumes a 15 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.

### New Rate Structure as of FY20

In June 2018, the Commission approved a new rate structure (which took effect in July 2019) that reduced the number of tiers from 16 to 4 (see tier structure in Table #3 below). WSSC also changed how customers are billed for water usage at the different tiers, with water usage being billed "through the tiers" rather than all water being billed at the highest tier reached. A customer pays one rate for the first 80.999 gallons of usage, a second rate for the next tier of usage, and so on through the 4 tiers.

**Table #3  
FY20 Water/Sewer Rates per Tier**

Avg. Daily Consumption gallons per day	Rate per 1000 gallons
0-80.9999	11.89
81-165.9999	13.30
166-275.9999	16.09
276 and greater	20.26

### Multi-Year Context/Financial Forecast

While the spending control limits review 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 WSSC's fiscal situation in future years by increasing WSSC'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 original Base Case forecast developed by WSSC staff assumed 8.0 percent rate increases through FY26 with 5.0 percent rate increases projected in FY27 and beyond. **However, WSSC developed a revised Base Case subsequent to the Bi-County Work Group's meetings. The revised Base Case assumes 8.0 percent rate increases in FY21 and FY22 followed by 7.0 percent rate increases in FY23 and FY24, 6.5 percent rate increases in FY25 and FY26, and 5.0 percent rate increases in FY27 and beyond (see ©4-5).** These projections accommodate WSSC's existing debt and debt service projections for its FY21-26 Proposed CIP, get WSSC to its debt service coverage target of 1.10 by FY22, keep debt service as a percentage of the operating budget below 40 percent, and provide for inflationary increases in most operating expense categories. Unlike past forecasts, no unspecified reductions are assumed.

Per capita water usage in the WSSC Service area is down 21.8 percent since FY96 and overall water production is expected to remain flat over the financial forecast period. While water conservation

is a good thing from an environmental standpoint, it means WSSC's dominant revenue source (over 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, WSSC continues to face significant fiscal challenges going forward, with rate increases higher than inflation needed.

**FY21 Spending Control Limits Revised Base Case**

For the upcoming budget, WSSC staff prepared a Base Case spending control limits scenario for review and comment by County staffs (see ©1-6 for details), as summarized in Table #4 below. WSSC later revised some assumptions within the Base Case, but the assumed FY21 spending control limits and customer impacts shown below did not change.

**Table #4:  
WSSC Spending Control Limits**

Spending Control Limits	Revised Base Case*	Change from FY20 Budget
<b>Rate Increase</b>	<b>8.0%</b>	
New Debt	409,922,000	
Debt Service	313,865,000	2.5%
Total W/S Oper. Expenses	844,149,000	5.2%
<b>Monthly Bill Increase - Base Case</b>		
<b>Residential Customer Monthly Impact</b>	<b>\$\$\$</b>	<b>Percent</b>
Impact at 500 gpd usage	\$20.40	7.7%
Impact at 165 gpd usage	\$5.05	7.0%
Impact at 100 gpd usage	\$2.95	6.4%

\*Assumes Additional & Reinstated Programs totaling \$7.4 million & fully funding the WSSC Proposed FY21-26 CIP (including a \$13 million increase in PAYGO).

This revised Base Case scenario assumes:

- Debt service and PAYGO as required to fully fund WSSC’s recently-transmitted FY21-26 Capital Improvements Program
- Increases in PAYGO (\$10.1 million) to address urgent infiltration and inflow issues in the Piscataway and Broadcreek basins
- Compensation increases (+4.5 percent in FY21 and in each of the outyears; same as assumed in last year’s forecast)
- Inflationary increases in current programs (+2.0 percent in FY21 and the outyears; same as assumed in last year’s forecast)
- An increase of \$1.0 million in Regional Sewage Disposal costs in FY21, based on the latest information from DCWater
- Reconstruction Debt Service Offset (REDO)<sup>3</sup> at \$9.5 million in FY21 (a slight decline from FY20), with further declines assumed through FY23 (with zero assumed beyond FY23; same as assumed in last year’s spending control limits process)
- Use of \$8.0 million in excess fund balance in FY21 (a decrease from the FY19 use of \$11.0 million)

<sup>3</sup> 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).



- \$7.4 million for Additional and Reinstated Programs to address operational improvements. No dollars were assumed for these improvements in last year's FY20 Base Case. In the FY19 Base Case reviewed two years ago, \$6.0 million was assumed. For a summary of Additional and Reinstated Programs under consideration, please see ©25-28.
- Last year's FY20 Base Case assumed \$4.6 million in Unspecified Reductions. This year's Base Case does not assume any Unspecified Reductions.

The elements of the revised Base Case funding gap are shown in Table 5 below. The overall gap is \$51.1 million, equivalent to an 8.0 percent rate increase.

**Table #5  
Contributors to the FY21 Revised Base Case Rate Increase**

Contributors to the FY21 Base Case Rate Increase	Change from FY20 (in \$Millions)	Use of Fund Bal	Budget Impact	Impact on Rate	Cumulative Rate Incr.
Changes in Funds Available (incl. use of Fund Balance)	10.384		10.384	1.6%	1.6%
Debt Service	7.558		7.558	1.2%	2.8%
PAYGO (No increase from FY19)	12.984		12.984	2.0%	4.8%
Regional Sewage Disposal	1.000		1.000	0.2%	4.9%
Heat, Light, and Power	1.272		1.272	0.2%	5.1%
Maintenance and Operating (2.0% inflationary increase)	5.143		5.143	0.8%	5.9%
Salaries and Wage Increases	5.835		5.835	0.9%	6.8%
Additional and Reinstated Programs	7.736		7.736	1.2%	8.0%
<b>Total Base Case Rate Increase Assumption</b>	<b>51.91</b>	<b>-</b>	<b>51.912</b>	<b>8.0%</b>	

### Changes in Funds Available

Overall changes in Funds Available (including revenue estimates, revenue adjustments, and reduced use of fund balance) is assumed to be down by \$10.4 million (equivalent to a 1.6 percent rate increase). This is a result mostly of lower-than-projected volumetric rate revenue in FY20 and a resetting of expected revenue in FY21 and beyond (-\$8.7 million).

WSSC is also paring down use of fund balance over time, with \$8.0 million assumed for FY21 for information technology-related expenditures. This amount is \$3.3 million less than excess fund balance budgeted in FY20. Other adjustments (such as REDO and prior year net revenue) are also down (-\$3.6 million). Partially offsetting these decreases are increases in some miscellaneous categories (+\$5.3 million)

### Debt Service and PAYGO

Debt Service costs are up \$7.6 million (equivalent to a 1.16 percent rate increase) based on WSSC's recently transmitted FY21-26 CIP.

The Base Case also assumes a substantial increase in PAYGO of \$13 million (equivalent to a 2.0 percent rate increase), the largest increase reflected in the Base Case. Much of this increase (\$10.07 million) is related to immediate non-bondable work needed in the Piscataway and Broadcreek basins to reduce infiltration and inflow (I/I). These I/I issues were exacerbated by record rainfall in 2018 and the first part of 2019.

The balance of the PAYGO increase in FY21 and beyond is intended to help WSSC keep its debt service ratio as a percentage of total expenditures below 40 percent and to meet its debt service coverage target by FY23. Both assumptions are based on WSSC's recently-transmitted FY21-26 CIP.

### Regional Sewage Disposal

Some other WSSC expenditures, which are essentially fixed (at least in the short run), are also presented. Regional Sewage Disposal expenses (which are based on actual WSSC sewage flows to the Blue Plains Wastewater Treatment Plant) are up \$1.0 million (0.2 percent rate impact) for FY21. Substantial increases in this charge were included in last year's Base Case.

### Heat, Light & Power

Heat, Light, and Power costs were initially expected to decline in WSSC's original Base Case but are now expected to increase by \$1.3 million (0.2 percent rate impact) based on the now known impacts of the increase in the Renewable Portfolio Standard (RPS) in Maryland.

### Other Expenditures

The Maintenance and Operating category is inflated by 2.0 percent in the Base Case (equivalent to a 0.8 percent rate impact).

Salaries and Wages are inflated by 4.5 percent (\$5.8 million) to cover COLA and merit increases (the same as last year's assumptions), which is equivalent to a 0.9 percent rate increase. WSSC's proposed compensation adjustments will be reviewed during the regular budget process next spring. Historically, the Council has supported WSSC compensation adjustment levels comparable to County Government (non-public safety) compensation adjustments.

Finally, as noted earlier, WSSC is assuming \$7.7 million (equivalent to a 1.2 percent rate increase) in Additional and Reinstated Programs. This number is down slightly from the original Base Case scenario to offset increases in the Heat, Light, and Power category noted earlier.

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 5.1 percent rate increase. Adding the Maintenance and Operating 2.0 percent inflationary increase bumps the rate increase requirement up to 5.9 percent. Assuming salary adjustments moves the rate requirement up to 6.8 percent.

### Fund Balance and "Days Operating Reserve on Hand"

WSSC has excess cash reserves (beyond its 10 percent policy reserve level). Its fund balance projection at the end of FY20 is \$162.4 million, while its 10 percent reserve requirement is about \$77 million, leaving about \$85.4 million in excess reserves. As noted earlier, WSSC continues to use some excess fund balance to address high priority non-recurring items (IT upgrades in FY21 are assumed).

Two years ago, WSSC staff noted that it was shifting from a simple 10 percent minimum operating reserve policy to a "Days Cash on Hand" (DCOH) policy (changed last year to "Days Operating Reserve-on-Hand"). WSSC staff support a 60- to 90-day operating reserve-on-hand as an appropriate target to allow WSSC to weather a major event causing a temporary loss in revenue generation. This target, however, reduces the availability of excess fund balance for one-time uses going forward, since fund balances higher than 10 percent are needed.

The Revised Base Case assumes to keep WSSC within the low end of the 60- to 90-day range (64.2 days in FY21, increasing to 74.1 days by FY26).

### Residential Bill Impact under the Revised Base Case Scenario

The monthly impact of the 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 \$5.05 per month (a 7.0 percent increase from the current average bill, from \$72.41 to \$77.46). Each 1 percent increase in the rate adds about \$0.63 per month.

The chart on ©24 shows residential customer bill increases over the past 20 years for various water utilities in the region, as well as the US City average. WSSC's residential customer bill increases since 2000 have increased 125 percent, the lowest of the regional utilities compared and lower than the US City average. WSSC's 125 percent bill increase since 2000 equates to approximately 3.9 percent annual increases over that 20-year period. As shown earlier on Table 1, WSSC had six straight years of no rate increases (from FY99 through FY04). Over the past decade, most of WSSC's residential annual bill increases have been higher than WSSC's 20-year average of 3.9 percent, to cover WSSC's substantial ramp-up of its capital program.

### Public Hearing Testimony

At its September 24 public hearing, the Council received testimony from Gordie Brenne of the Montgomery County Taxpayers League (testimony attached on ©29). Mr. Brenne supported approving a smaller rate increase to "incentivize better cost controls." He also raised a number of other fiscal concerns. WSSC's response to the testimony is attached on ©30-33.

### County Executive Recommendations (see ©34-35)

The County Executive transmitted his recommendations to the Council on October 9. He recommends a 7.0 percent rate increase, the same as recommended by Council Staff to the T&E Committee (see page 11).

### **Additional Scenarios**

As in past years, the Bi-County Working Group met to discuss WSSC staff's Base Case and additional scenarios. For reference, each 1.0 percent added to the rate provides approximately \$6.5 million in revenue to the budget. Alternatively, each 1.0 percent reduction in the rate removes that amount in revenues for that year and future years. Each 1.0 percent rate increase results in about a \$0.62 monthly impact to the average residential customer (165 gallons per day).

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

A Scenario	B FY21 Rate Increase	C Revenue Generated	D Unspecified Reductions	E % of FY21 Expenditures Total (with DS)	F Oper. Exp Only
Revenue Gap (assuming no rate increase) >>> Impact of each 1% rate increase >>>	1.0%	6,501,970	51,912,000	6.1%	9.8%
+Revenue Adjustments	1.6%	10,384,000	41,528,000		
+Debt Service	2.8%	17,942,000	33,970,000		
+Paygo	4.8%	30,926,000	20,986,000		
+Regional Sewage Disposal	4.9%	31,926,000	19,986,000		
+Heat, Light, and Power	5.1%	33,198,000	18,714,000		
+Maintenance and Operating	5.9%	38,341,000	13,571,000		
+Salary Enhancements	6.8%	44,176,000	7,736,000		
+Additional & Reinstated/Revised Base Case >>>	8.0%	51,912,000	-		

Table #6 above shows what can be funded in the WSSC Budget Base Case expenditures at different levels of rate increase, given the revenue and expenditure assumptions described earlier. Each 1.0 percent rate increase provides about \$6.5 million in additional revenue. The Base Case gap represents “unspecified reductions” that WSSC would need to address during its budget development based on the expenditure and revenue assumptions of the Base Case forecast.

The monthly impact of the Base Case scenario rate increase on an average residential account (assuming 165 gallons per day of water usage) is about \$5.06 per month (a 7.0 percent increase from the current average bill; \$72.61 to \$77.67).

The Bi-County Workgroup looked at two alternative scenarios:

- A scenario assuming a 6.5 percent volumetric rate increase in FY21, with 7.0 percent and 7.5 percent rate increases in FY22 and FY23, and 8.0 percent increases in FY24 through FY26 (see ©12-15). To achieve the lower rate increase in FY21, this scenario assumes to zero out all Additional and Reinstated items (-\$7.7 million) and reduce PAYGO by about \$2.0 million.
- A scenario assuming to increase WSSC’s fixed fees (the account maintenance fee and the Infrastructure Investment Fee) equal to the increase in volumetric rates. This results in a 7.2 percent increase in volumetric rates in FY21, an 8.0 percent rate increase in FY22, 7.0 percent rate increases in FY23 and FY24, and 6.5 percent rate increases in FY25 and FY26 (see ©8-11).

WSSC’s Infrastructure Investment Fee was phased in over two years beginning in FY16. The Account Maintenance Fee was also revised in FY16. WSSC’s fixed fees are much lower as a percentage of its revenue compared with other utilities. For instance, DCWater’s and Baltimore City’s fixed fees are a much higher percentage of a customer’s bill (see ©19). **However, before considering increases to these fees, Council Staff recommends that WSSC study its current fees and what costs they are intended to cover and consider options for modifying these fees in time for the FY22 Budget.**

*NOTE: WSSC Staff later provided a scenario consistent with Council Staff’s and the County Executive’s 7.0 percent rate increase recommendations (see ©36-39).*

## T&E Committee Recommendations

As has been the case for years, much of the fiscal challenge facing WSSC is from debt service increases resulting from WSSC's infrastructure recapitalization efforts over the past decade, even as volumetric rate revenue has been flat or declining. This year, additional fiscal pressure results from WSSC's need for an additional \$10.07 million in PAYGO to address urgent I/I issues in the Piscataway and Broadcreek basins. This increase alone results in a rate increase requirement of 1.55 percent.

The spending control limits process requires balancing WSSC's revenue estimates and expenditure pressures with what are reasonable rate increases to assume in the coming year (and future years). It should be kept in mind that the spending control limits approved by both Councils this fall create a ceiling for the WSSC Proposed Budget to stay within, not a final budget.

Since WSSC has not gone through its budget process yet, some level of reasonable budget constraint is appropriate to encourage WSSC to continue to seek savings within its base budget to help fund other identified needs. However, given WSSC's budget profile discussed earlier (i.e., its high level of debt and other fixed and/or mandated costs and its flat revenue projections), rate increases above inflation are likely to continue to be needed until WSSC's debt service costs stabilize.

### **Council Staff recommends the following:**

- **7.0 percent rate increase in FY20**
- **The same level of new debt and debt service as in the Revised Base Case. *NOTE: Reductions in WSSC's CIP can be considered in the context of the Council's review of the WSSC CIP early next year.***
- **Based on WSSC staff's 7.0 percent model (see ©36-39), assume \$837.660 million in Total Water/Sewer Operating Expenses.** This represents a reduction from the Revised Base Case of approximately \$6.5 million. The 7.0 percent model assumes a lower expenditure for Additional and Reinstated items (dropped from \$7.7 million to \$1.2 million). However, the actual budget impacts will be determined during WSSC's budget development process this fall and winter. Within the Revised Base Case for FY21, this reduction represents about 1.2 percent of WSSC's water and sewer operating expenses (excluding Debt Service).
- **As discussed earlier, Council Staff recommends that WSSC review its fixed fees and consider options for modifying these fees for the FY22 Budget or later.**

*As noted earlier, the County Executive concurred with Council Staff's recommendations.*

**The T&E Committee concurred with Council Staff's recommendations.**

### Attachments

- FY21 Spending Control Limits Approval Resolution (©A-B)
- WSSC's Spending Affordability Fiscal Year 2021 Packet (October 1, 2019) (©1-24)
  - Fiscal Planning Actions Implemented to Minimize Rate Increase (©2)
  - FY2021 Multi-Year Financial Forecast Summary (©3)
  - SAG Financial Forecast – Revised Base Case (©4-7)
  - SAG Financial Forecast – 7.2 percent Model with Fixed Fee Increases (©8-11)
  - SAG Financial Forecast – 6.5 percent Model (©12-15)
  - Bi-County Workgroup Meeting 1 Follow-Up Items (©16-24)
- FY21 High Priority Additional and Reinstated Program Requests Summary (©25-28)

- Public Hearing Testimony from Gordie Brenne, Vice President, Montgomery County Taxpayers League (©29)
- WSSC Response to 9-24-19 Public Hearing Comments by Montgomery County Taxpayers League (©30-33)
- County Executive Recommendation (Transmittal Letter Dated 10/9/2019) (©34-35)
- SAG Financial Forecast – 7.0 percent Model (©36-39)

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Resolution No.: \_\_\_\_\_  
Introduced: \_\_\_\_\_  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: County Council

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**SUBJECT:** Establishment of Spending Control Limits for Use in the Preparation of the FY21 Capital and Operating Budget of the Washington Suburban Sanitary Commission

**Background**

1. When the Montgomery and Prince George's County Councils approved the FY94 budget of the Washington Suburban Sanitary Commission (WSSC) in May 1993, their concern about rising WSSC rates, debt, and debt service led them to create a Bi-County Working Group on WSSC Spending Controls to review WSSC's finances and recommend spending control limits to guide the preparation of the WSSC budget.
2. The Working Group's January 1994 report recommended "the creation of a spending affordability process that requires the Counties to set annual ceilings on WSSC's rates and debt (debt in this context means both bonded indebtedness and debt service), and then place corresponding limits on the size of the capital and operating budgets of the Commission."
3. On February 15, 1994, the Prince George's County Council adopted Resolution No. CR-12-1994. This resolution proposed a Bi-County Rate Affordability Committee (RAC), which would transmit to the two Councils before October 15 of each year recommended "limits to the increase of debt and debt service in the WSSC water and sewer operating budget and to the increase of WSSC water and sewer rates for the next fiscal year", as well as "debt and rate targets for the next six years."
4. On April 5, 1994, the Montgomery County Council adopted Resolution No. 12-1558, which calls for the establishment of a WSSC spending affordability process in each county. Under this process, each Council appoints a Spending Affordability Committee (SAC); for Montgomery County, the SAC is the Transportation, Infrastructure, Energy and Environment Committee. Each SAC recommends spending control limits to its Council, and each Council recommends limits and transmits them to the other Council. Spending control limits are "ceilings on elements of the WSSC capital and operating budgets in the following year that have been selected by the SACs. Spending control limits must include ceilings on debt and debt service."

(A)

5. Both Councils' resolutions provide for the Councils to adopt identical spending affordability resolutions for the following fiscal year. Both resolutions state that the Councils must not approve a WSSC budget in excess of the approved Bi-County spending control limits unless a majority of each Council votes to raise the limits.
6. A public hearing was held on September 24, 2019.
7. On October 14, 2019, the Transportation, Infrastructure, Energy and Environment Committee discussed spending control limits for WSSC's FY21 capital and operating budget and made recommendations to the Council.

**Action**

The County Council for Montgomery County, Maryland approves the following resolution:

1. The Montgomery County Council recommends to the Prince George's County Council the joint establishment of four spending control limits for use in preparation of the FY21 WSSC capital and operating budget.
2. These spending control limits are:
  - New debt: \$409,922,000
  - Debt service: \$313,865,000
  - Total water/sewer operating expenses: \$837,660,000
  - Maximum average rate increase: 7.0%
3. Montgomery County Council action on FY21 spending control limits does not presume approval of any specific level of WSSC workforce compensation or benefits adjustments for FY21. Compensation and benefits decisions for the FY21 budget will be made during the budget review process next spring, in the context of the Council's review of compensation and benefit adjustments across all County agencies.
4. Regarding employee compensation changes in FY21, the Council will not support any base salary or lump sum increases that exceed the amounts provided to County general government employees.

This is a correct copy of Council action.

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Mary Anne Paradise  
Acting Clerk of the Council

(B)





# **SPENDING AFFORDABILITY FISCAL YEAR 2021**

**October 1, 2019**

## FISCAL PLANNING ACTIONS IMPLEMENTED TO MINIMIZE RATE INCREASE

### Capital Savings:

- Total reductions in debt of \$413 million reflected in prior CIP are maintained in FY 2021-2026 CIP:
  - Water Main Reconstruction program will remain at the reduced rate of 25 miles for FY 2021
  - Potomac Submerged Channel Intake will remain deferred beyond FY 2026
- Maintain AAA Bond Rating:
  - Increase PAYGO from \$44 million in FY 2021 to \$65 million in FY 2026 to manage debt service ratios
  - Implement level principal payments beginning FY 2023
- Strategic Sourcing Teams identified millions of dollars in capital cost savings/avoidance since FY 2013

### Operating Savings:

- Strategic Sourcing Teams identified millions of dollars in operating cost savings/avoidance since FY 2013
- Group Insurance plan design changes: \$4.3 million savings in FY 2017-2019
- Overtime Reduced by \$3.4 million since FY 2016
- No Increase in positions since FY 2017
- Workers' Compensation FY 2018 v. FY 2019 reductions:
  - 25% in lost work days
  - 50% in Workers' compensation claims - \$425,000
- WSSC is piloting several technologies to improve our environmental stewardship, productivity, and cost control

### FY 2021 Multi-Year Financial Forecast Summary

Forecast Scenario	PAYGO	Additional & Reinstated	Use of Fund Balance IT Strategic Plan	Unspecified Reductions	Volumetric Rate Increase	Ready to Serve Charge Increase
Scenario 1 - Base Case	44,000	7,736	8,000	-	8.0%	0.0%
Scenario 2 - Base Case + Fixed Fee Increase	44,000	7,702	8,000	-	7.2%	7.2%
Scenario 3 - Base Case with no Additional & Reinstated	42,003	-	8,000	-	6.5%	0.0%

## ASSUMPTION SUMMARY FOR SAG FINANCIAL FORECAST MODEL (NEED BASED)

	WORKLOAD DATA		PROJECTED				
	FY 2020E	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
<b>1 REVENUE</b>							
<b>2 <u>Water Consumption and Sewer Treatment</u></b>							
3 Water to be supplied (Average MGD)	164.0	164.0	164.0	164.0	164.0	164.0	164.0
4 Yearly Growth %		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>7 <u>Credits and Transfers</u></b>							
8 Use of Fund Balance	\$ 11,341	\$ 8,000	\$ 7,000	\$ 6,000	\$ 5,000	\$ -	\$ -
10 REDO Offset	\$ 11,600	\$ 9,500	\$ 7,400	\$ 6,000	\$ -	\$ -	\$ -
<b>16 EXPENDITURE</b>							
<b>17 <u>Operating</u></b>							
19 Workyears	1,776.0	1,776.0	1,776.0	1,776.0	1,776.0	1,776.0	1,776.0
20 Salary and Wages Increase	1.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
22 Regional Sewage Disposal	\$ 59,000	\$ 60,000	\$ 61,200	\$ 62,424	\$ 63,672	\$ 64,946	\$ 66,245
23 All Other	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
24 Debt Service	\$ 306,307	\$ 313,865	\$ 336,142	\$ 365,610	\$ 389,665	\$ 415,351	\$ 438,129
25 Yearly Growth %		2.5%	7.1%	8.8%	6.6%	6.6%	5.5%
26 PAYGO	\$ 31,016	\$ 44,000	\$ 44,000	\$ 44,000	\$ 60,000	\$ 85,000	\$ 95,000
<b>27 <u>Capital Expenditure Parameters</u></b>							
29 Water and Sewer Completion Factor	80.0%	80.0%	80.0%	80.0%	80.0%	84.7%	84.7%
30 Information Only Completion Factor	89.7%	90.0%	90.0%	90.0%	90.0%	95.0%	95.0%
<b>31 BOND ISSUANCE</b>							
33 Interest Rate	3.8%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

**REVENUE AND EXPENDITURES – IMPACT ON ADOPTED CHARGES (NEED BASED)**

		(In Thousands \$000s)	FY 2020 Approved	FY 2021 Proposed	Dollar Change	W&S Rev Impact*
1	<b>OPERATING REVENUES (BASE)</b>					
2	Adopted Water and Sewer Charges		\$ 658,899	\$ 650,197		
3	<b>ADJUSTMENTS TO REVENUES</b>					
4	Sewer User Charge Adjustment		-	8,702	8,702	1.3%
5	Other Sources and Fees		(112,827)	(118,056)	(5,229)	-0.8%
6	<b>OTHER TRANSFERS AND CREDITS</b>		(30,894)	(23,984)	6,910	1.1%
7			\$ (143,721)	\$ (133,338)	\$ 10,383	1.6%
8	<b>OPERATING EXPENSES</b>					
9	Salaries and Wages		\$ 129,676	\$ 135,511	\$ 5,835	0.9%
10	Heat, Light, and Power		19,436	20,708	1,272	0.2%
11	Regional Sewage Disposal		59,000	60,000	1,000	0.2%
12	All Other		257,185	262,328	5,143	0.8%
13	+ Additional and Reinstated		-	7,736	7,736	1.2%
14	<b>DEBT SERVICE</b>		306,307	313,865	7,558	1.2%
15	<b>PAYGO (Contribution to bond fund)</b>		31,016	44,000	12,984	2.0%
16			\$ 802,620	\$ 844,149	\$ 41,529	6.4%
17	<b>Total - Base Case Revenue Need</b>		\$ 658,899	\$ 710,811	\$ 51,912	8.0%
18	(Line 16 + Line 7)					

\*Approximately \$6.5 million in additional operating expenses = 1 percent increase in revenue

Potential Offsets to Revenue Increase:	FY 2021 Estimated	W&S Rev Impact
\$50 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (2,002)	-0.3%
\$100 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (4,005)	-0.6%
\$125 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (5,006)	-0.8%

**Notable Assumptions:**

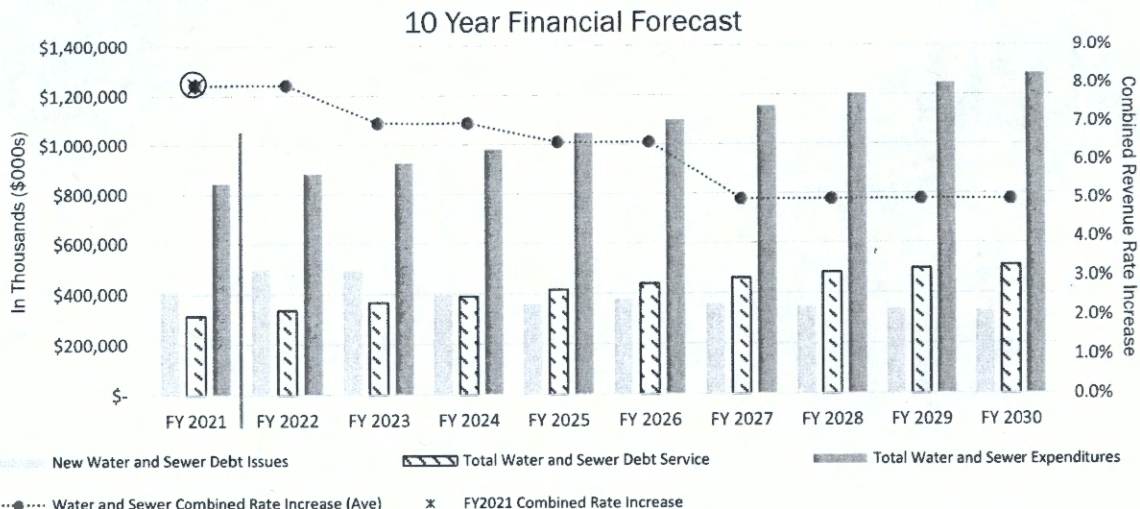
4.5% annual increase in Salaries & Wages FY 2021 through FY 2026

2.0% annual increase in All Other

\$10.0 million reduction included for Sewer Use Charges in FY 2020 to rebaseline projections

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

Debt service impact on new bond issuance assumes only one interest payment (or half year) in FY 2021. Outer year impact would double interest paid.



**FINANCIAL FORECAST AT 8.0% STRAIGHT W. NO LIMIT NEW ISSUE, NO PAYGO CAP, AND  
FY 2025 LEVEL PRINCIPAL (NEED BASED)**

		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
	(In Thousands \$000s)	Approved	Proposed	Projected	Projected	Projected	Projected	Projected
1	New Water and Sewer Debt Issues	\$ 384,910	\$ 409,922	\$ 503,092	\$ 495,728	\$ 403,775	\$ 357,972	\$ 379,483
2	Total Water and Sewer Debt Service	306,350	313,865	336,142	365,610	389,665	415,351	438,129
3	Total Water and Sewer Expenditures	802,620	844,149	882,989	926,486	981,021	1,046,657	1,098,999
4	Water and Sewer Combined Rate Increase (Ave)	5.0%	8.0%	8.0%	7.0%	7.0%	6.5%	6.5%
5	Water and Sewer User Charges	\$ 658,899	\$ 702,109	\$ 759,578	\$ 814,155	\$ 872,668	\$ 931,023	\$ 993,288
6	Other Sources/Fees	112,827	118,056	118,798	119,554	120,325	121,111	121,912
	Account Maintenance Fees	32,296	32,361	32,426	32,491	32,556	32,621	32,686
	Rockville Sewer Use	3,000	3,000	3,000	3,000	3,000	3,000	3,000
	Plumbing and Inspection Fees	12,900	13,286	13,685	14,095	14,518	14,954	15,403
	Infrastructure Investment Fee	39,331	39,410	39,488	39,567	39,647	39,726	39,805
	Miscellaneous	19,800	19,998	20,198	20,400	20,604	20,810	21,018
	Interest Income	5,500	10,000	10,000	10,000	10,000	10,000	10,000
	Unspecified Revenue Adjustment	-	-	-	-	-	-	-
7	<b>Operating Revenues</b>	<b>771,726</b>	<b>820,164</b>	<b>878,375</b>	<b>933,709</b>	<b>992,993</b>	<b>1,052,134</b>	<b>1,115,200</b>
8	OTHER TRANSFERS AND CREDITS	30,894	23,984	19,384	16,983	9,982	4,984	4,984
9	<b>Total Funds Available</b>	<b>802,620</b>	<b>844,148</b>	<b>897,759</b>	<b>950,692</b>	<b>1,002,975</b>	<b>1,057,118</b>	<b>1,120,185</b>
10	Salaries and Wages	\$ 129,676	\$ 135,511	\$ 141,609	\$ 147,982	\$ 154,641	\$ 161,600	\$ 168,872
11	Heat, Light, and Power	19,436	20,708	21,537	22,398	23,294	24,226	25,195
12	Regional Sewage Disposal	59,000	60,000	61,200	62,424	63,672	64,946	66,245
13	All Other	257,185	262,328	267,575	272,926	278,385	283,952	289,632
14	<b>Operating Expenses</b>	<b>\$ 485,297</b>	<b>\$ 478,548</b>	<b>\$ 491,921</b>	<b>\$ 505,730</b>	<b>\$ 519,992</b>	<b>\$ 534,724</b>	<b>\$ 549,943</b>
15	DEBT SERVICE							
16	Bonds and Notes Principal and Interest	306,307	313,865	336,142	365,610	389,665	415,351	438,129
18	OTHER TRANSFERS AND ADJUSTMENTS							
19	Additional and Reinstated	-	7,736	10,926	\$11,145	\$11,364	\$11,582	\$15,926
20	PAYGO (Contribution to bond fund)	31,016	44,000	44,000	44,000	60,000	85,000	95,000
21	<b>Total Expenditures</b>	<b>802,620</b>	<b>844,149</b>	<b>882,989</b>	<b>926,486</b>	<b>981,021</b>	<b>1,046,657</b>	<b>1,098,999</b>
22	<b>Net Revenue (Loss)</b>	<b>0</b>	<b>0</b>	<b>14,770</b>	<b>24,207</b>	<b>21,954</b>	<b>10,461</b>	<b>21,186</b>
23	BEGINNING FUND BALANCE - JULY 1	\$ 173,717	\$ 156,528	\$ 148,529	\$ 156,299	\$ 174,505	\$ 191,459	\$ 201,920
24	Net Increase (Decrease) in Fund Balance	0	0	14,770	24,207	21,954	10,461	21,186
25	Use of Fund Balance/Other Adjustments	(11,341)	(8,000)	(7,000)	(6,000)	(5,000)	-	-
26	<b>ENDING FUND BALANCE - JUNE 30</b>	<b>\$ 162,376</b>	<b>\$ 148,529</b>	<b>\$ 156,299</b>	<b>\$ 174,505</b>	<b>\$ 191,459</b>	<b>\$ 201,920</b>	<b>\$ 223,106</b>
27	Debt Service Coverage (1.10 is target)	1.00	1.06	1.12	1.14	1.18	1.22	1.25
28	Debt Service as a Percentage of Total Expenditures (Below 40% is target)	38.2%	37.2%	38.1%	39.5%	39.7%	39.7%	39.9%
29	Days Operating Reserve-on-Hand (60-90 days target)	73.8	64.2	64.6	68.7	71.2	70.4	74.1
30	Ending Fund Balance as a Percentage of Operating Revenue (10% min)	21.0%	18.1%	17.8%	18.7%	19.3%	19.2%	20.0%

**ANNUAL AND QUARTERLY CUSTOMER BILLS AT VARIOUS CONSUMPTION LEVELS (NEEDS BASED)**

		Proposed Revenue Rate Increase			8.0%		
Meter Size	Average Daily Consumption (Gallons Per Year)	Approved FY 2020	Quarterly Approved FY 2020	Proposed FY 2021	Quarterly Proposed FY 2021	Perc Chg	Quarterly \$ Chg
3/4" Residential Meter	100 (36,500 gal/yr)	\$555.76	\$138.94	\$591.19	\$147.80	6.4%	\$8.86
3/4" Residential Meter	165 (60,225 gal/yr)	871.31	217.83	931.93	232.98	7.0%	\$15.16
3/4" Residential Meter	500 (182,500 gal/yr)	3,178.63	794.66	3,423.47	855.87	7.7%	\$61.21
2" Meter	1,000 (365,000 gal/yr)	7,612.08	1,903.02	8,152.13	2,038.03	7.1%	\$135.01
3" Meter	5,000 (1,825,000 gal/yr)	38,947.68	9,736.92	41,849.38	10,462.34	7.5%	\$725.42
6" Meter	10,000 (3,650,000 gal/yr)	78,994.18	19,748.55	84,847.93	21,211.98	7.4%	\$1,463.44

Annual customer bills include the Account Maintenance Fee and Infrastructure Investment Fee.

### ASSUMPTION SUMMARY FOR SAG FINANCIAL FORECAST MODEL (7.2%)

	WORKLOAD DATA		PROJECTED				
	FY 2020E	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
<b>1 REVENUE</b>							
<b>2 <u>Water Consumption and Sewer Treatment</u></b>							
3	Water to be supplied (Average MGD)	164.0	164.0	164.0	164.0	164.0	164.0
4	Yearly Growth %		0.0%	0.0%	0.0%	0.0%	0.0%
<b>7 <u>Credits and Transfers</u></b>							
8	Use of Fund Balance	\$ 11,341	\$ 8,000	\$ 7,000	\$ 6,000	\$ 5,000	\$ -
10	REDO Offset	\$ 11,600	\$ 9,500	\$ 7,400	\$ 6,000	\$ -	\$ -
<b>16 EXPENDITURE</b>							
<b>17 <u>Operating</u></b>							
19	Workyears	1,776.0	1,776.0	1,776.0	1,776.0	1,776.0	1,776.0
20	Salary and Wages Increase	1.4%	4.5%	4.5%	4.5%	4.5%	4.5%
22	Regional Sewage Disposal	\$ 59,000	\$ 60,000	\$ 61,200	\$ 62,424	\$ 63,672	\$ 64,946
23	All Other	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%
24	Debt Service	\$ 306,307	\$ 313,865	\$ 336,142	\$ 365,610	\$ 389,665	\$ 415,351
25	Yearly Growth %		2.5%	7.1%	8.8%	6.6%	6.6%
26	PAYGO	\$ 31,016	\$ 44,000	\$ 44,000	\$ 44,000	\$ 60,000	\$ 85,000
<b>27 <u>Capital Expenditure Parameters</u></b>							
29	Water and Sewer Completion Factor	80.0%	80.0%	80.0%	80.0%	80.0%	84.7%
30	Information Only Completion Factor	89.7%	90.0%	90.0%	90.0%	90.0%	95.0%
<b>31 BOND ISSUANCE</b>							
33	Interest Rate	3.8%	5.0%	5.0%	5.0%	5.0%	5.0%



**REVENUE AND EXPENDITURES – IMPACT ON ADOPTED CHARGES (7.2%)**

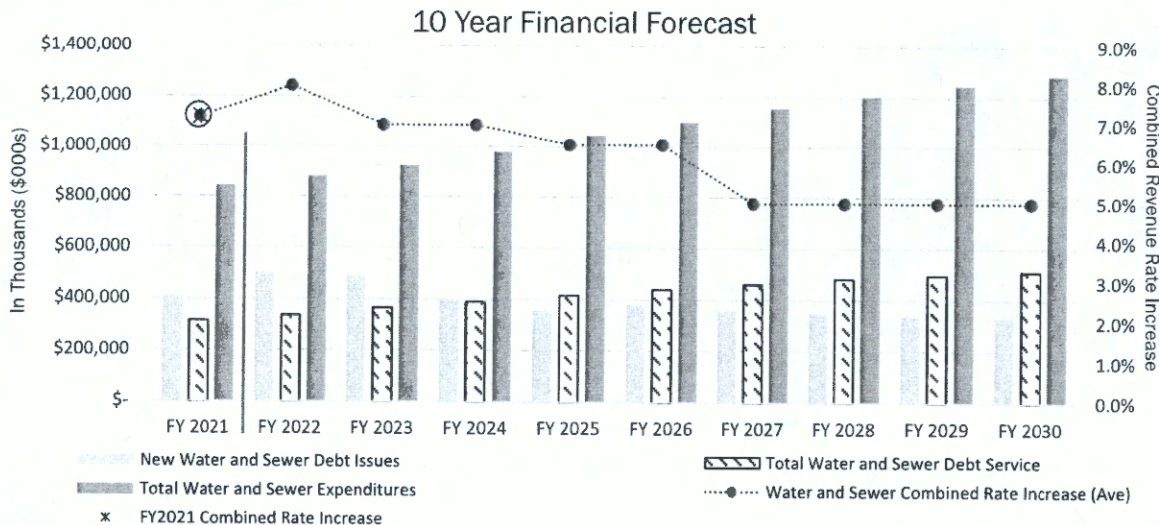
		(In Thousands \$000s)	FY 2020 Approved	FY 2021 Proposed	Dollar Change	W&S Rev Impact*
1	<b>OPERATING REVENUES (BASE)</b>					
2	Adopted Water and Sewer Charges	\$	658,899	\$ 650,197		
3	<b>ADJUSTMENTS TO REVENUES</b>					
4	Sewer User Charge Adjustment		-	8,702	8,702	1.3%
5	Other Sources and Fees		(112,827)	(123,213)	(10,386)	-1.6%
6	<b>OTHER TRANSFERS AND CREDITS</b>		(30,894)	(23,984)	6,910	1.1%
7		\$	(143,721)	\$ (138,495)	\$ 5,226	0.8%
8	<b>OPERATING EXPENSES</b>					
9	Salaries and Wages	\$	129,676	\$ 135,511	\$ 5,835	0.9%
10	Heat, Light, and Power		19,436	20,708	1,272	0.2%
11	Regional Sewage Disposal		59,000	60,000	1,000	0.2%
12	All Other		257,185	262,328	5,143	0.8%
13	+ Additional and Reinstated		-	7,702	7,702	1.2%
14	<b>DEBT SERVICE</b>		306,307	313,865	7,558	1.2%
15	<b>PAYGO (Contribution to bond fund)</b>		31,016	44,000	12,984	2.0%
16		\$	802,620	\$ 844,115	\$ 41,495	6.4%
17	<b>Total - Base Case Revenue Need</b>	\$	658,899	\$ 705,620	\$ 46,721	7.2%
18	(Line 16 + Line 7)					

\*Approximately \$6.5 million in additional operating expenses = 1 percent increase in revenue

Potential Offsets to Revenue Increase:	FY 2021 Estimated	W&S Rev Impact
\$50 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (2,002)	-0.3%
\$100 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (4,005)	-0.6%
\$125 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (5,006)	-0.8%

**Notable Assumptions:**

- 4.5% annual increase in Salaries & Wages FY 2021 through FY 2026
- 2.0% annual increase in All Other
- \$10.0 million reduction included for Sewer Use Charges in FY 2020 to rebaseline projections
- 80% completion factor for CIP; 90% for Information Only (including Reconstruction)
- Debt service impact on new bond issuance assumes only one interest payment (or half year) in FY 2021. Outer year impact would double interest paid.



**FINANCIAL FORECAST - WATER AND SEWER OPERATING FUNDS AT 7.2% W. NO LIMIT NEW ISSUE,  
REVISED READY-TO-SERVE, NO PAYGO CAP, AND FY 2025 LEVEL PRINCIPAL**

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
(In Thousands \$000s)	Approved	Proposed	Projected	Projected	Projected	Projected	Projected
1 New Water and Sewer Debt Issues	\$ 384,910	\$ 409,922	\$ 503,092	\$ 495,728	\$ 403,775	\$ 357,972	\$ 379,483
2 Total Water and Sewer Debt Service	306,350	313,865	336,142	365,610	389,665	415,351	438,129
3 Total Water and Sewer Expenditures	802,620	844,115	882,989	926,486	981,021	1,046,657	1,098,999
4 Water and Sewer Combined Rate Increase (Ave)	5.0%	7.2%	8.0%	7.0%	7.0%	6.5%	6.5%
5 Water and Sewer User Charges	\$ 658,899	\$ 696,918	\$ 753,971	\$ 808,146	\$ 866,227	\$ 924,151	\$ 985,956
6 Other Sources/Fees	112,827	123,213	123,965	124,732	125,513	126,309	127,121
Account Maintenance Fees	32,296	34,687	34,756	34,826	34,895	34,965	35,035
Rockville Sewer Use	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Plumbing and Inspection Fees	12,900	13,286	13,685	14,095	14,518	14,954	15,403
Infrastructure Investment Fee	39,331	42,241	42,326	42,411	42,495	42,580	42,666
Miscellaneous	19,800	19,998	20,198	20,400	20,604	20,810	21,018
Interest Income	5,500	10,000	10,000	10,000	10,000	10,000	10,000
Unspecified Revenue Adjustment	-	-	-	-	-	-	-
7 <b>Operating Revenues</b>	<b>771,726</b>	<b>820,130</b>	<b>877,936</b>	<b>932,878</b>	<b>991,740</b>	<b>1,050,460</b>	<b>1,113,078</b>
8 OTHER TRANSFERS AND CREDITS	30,894	23,984	19,384	16,983	9,982	4,984	4,984
9 <b>Total Funds Available</b>	<b>802,620</b>	<b>844,114</b>	<b>897,320</b>	<b>949,861</b>	<b>1,001,722</b>	<b>1,055,445</b>	<b>1,118,062</b>
10 Salaries and Wages	\$ 129,676	\$ 135,511	\$ 141,609	\$ 147,982	\$ 154,641	\$ 161,600	\$ 168,872
11 Heat, Light, and Power	19,436	20,708	21,537	22,398	23,294	24,226	25,195
12 Regional Sewage Disposal	59,000	60,000	61,200	62,424	63,672	64,946	66,245
13 All Other	257,185	262,328	267,575	272,926	278,385	283,952	289,632
14 <b>Operating Expenses</b>	<b>\$ 465,297</b>	<b>\$ 478,548</b>	<b>\$ 491,921</b>	<b>\$ 505,730</b>	<b>\$ 519,992</b>	<b>\$ 534,724</b>	<b>\$ 549,943</b>
15 DEBT SERVICE							
16 Bonds and Notes Principal and Interest	306,307	313,865	336,142	365,610	389,665	415,351	438,129
18 OTHER TRANSFERS AND ADJUSTMENTS							
19 Additional and Reinstated	-	7,702	10,926	11,145	11,364	11,582	15,926
20 PAYGO (Contribution to bond fund)	31,016	44,000	44,000	44,000	60,000	85,000	95,000
21 <b>Total Expenditures</b>	<b>802,620</b>	<b>844,115</b>	<b>882,989</b>	<b>926,486</b>	<b>981,021</b>	<b>1,046,657</b>	<b>1,098,999</b>
22 <b>Net Revenue (Loss)</b>	<b>0</b>	<b>0</b>	<b>14,331</b>	<b>23,375</b>	<b>20,701</b>	<b>8,788</b>	<b>19,063</b>
23 BEGINNING FUND BALANCE - JULY 1	\$ 173,717	\$ 156,528	\$ 148,529	\$ 155,860	\$ 173,235	\$ 188,935	\$ 197,723
24 Net Increase (Decrease) in Fund Balance	0	0	14,331	23,375	20,701	8,788	19,063
25 Use of Fund Balance/Other Adjustments	(11,341)	(8,000)	(7,000)	(6,000)	(5,000)	-	-
26 ENDING FUND BALANCE - JUNE 30	\$ 162,376	\$ 148,529	\$ 155,860	\$ 173,235	\$ 188,935	\$ 197,723	\$ 216,787
27 Debt Service Coverage (1.10 is target)	1.00	1.06	1.12	1.14	1.18	1.21	1.25
28 Debt Service as a Percentage of Total Expenditures (Below 40% is target)	38.2%	37.2%	38.1%	39.5%	39.7%	39.7%	39.9%
29 Days Operating Reserve-on-Hand (60-90 days target)	73.8	64.2	64.4	68.2	70.3	69.0	72.0
30 Ending Fund Balance as a Percentage of Operating Revenue (10% min)	21.0%	18.1%	17.8%	18.6%	19.1%	18.8%	19.5%

### ANNUAL AND QUARTERLY CUSTOMER BILLS AT VARIOUS CONSUMPTION LEVELS

Meter Size	Average Daily Consumption (Gallons Per Year)	Approved FY 2020	Quarterly Approved FY 2020	Proposed FY 2021	7.2%		
					Proposed W&S Revenue Rate Increase	Proposed IIF Revenue Rate Increase	
					7.2%	Quarterly	
					Proposed	Perc	Quarterly
					FY 2021	Chg	\$
					FY 2021		Chg
3/4" Residential Meter	100 (36,500 gal/yr)	\$555.76	\$138.94	\$595.71	\$148.93	7.2%	\$9.99
3/4" Residential Meter	165 (60,225 gal/yr)	871.31	217.83	933.93	233.48	7.2%	\$15.66
3/4" Residential Meter	500 (182,500 gal/yr)	3,178.63	794.66	3,407.05	851.76	7.2%	\$57.11
2" Meter	1,000 (365,000 gal/yr)	7,612.08	1,903.02	8,159.18	2,039.80	7.2%	\$136.77
3" Meter	5,000 (1,825,000 gal/yr)	38,947.68	9,736.92	41,746.69	10,436.67	7.2%	\$699.75
6" Meter	10,000 (3,650,000 gal/yr)	78,994.18	19,748.55	84,671.23	21,167.81	7.2%	\$1,419.26

Annual customer bills include the Account Maintenance Fee and Infrastructure Investment Fee.

## ASSUMPTION SUMMARY FOR SAG FINANCIAL FORECAST MODEL (6.5%)

WORKLOAD DATA	PROJECTED						
	FY 2020E	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
<b>1 REVENUE</b>							
<b>2 <u>Water Consumption and Sewer Treatment</u></b>							
3 Water to be supplied (Average MGD)	164.0	164.0	164.0	164.0	164.0	164.0	164.0
4 Yearly Growth %		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>7 <u>Credits and Transfers</u></b>							
8 Use of Fund Balance	\$ 11,341	\$ 8,000	\$ 7,000	\$ 6,000	\$ 5,000	\$ -	\$ -
10 REDO Offset	\$ 11,600	\$ 9,500	\$ 7,400	\$ 6,000	\$ -	\$ -	\$ -
<b>16 EXPENDITURE</b>							
<b>17 <u>Operating</u></b>							
19 Workyears	1,776.0	1,776.0	1,776.0	1,776.0	1,776.0	1,776.0	1,776.0
20 Salary and Wages Increase	1.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
22 Regional Sewage Disposal	\$ 59,000	\$ 60,000	\$ 61,200	\$ 62,424	\$ 63,672	\$ 64,946	\$ 66,245
23 All Other	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
24 Debt Service	\$ 306,307	\$ 313,865	\$ 336,142	\$ 365,610	\$ 389,665	\$ 415,351	\$ 438,129
25 Yearly Growth %		2.5%	7.1%	8.8%	6.6%	6.6%	5.5%
26 PAYGO	\$ 31,016	\$ 42,003	\$ 44,000	\$ 44,000	\$ 60,000	\$ 85,000	\$ 95,000
<b>27 <u>Capital Expenditure Parameters</u></b>							
29 Water and Sewer Completion Factor	80.0%	80.0%	80.0%	80.0%	80.0%	84.7%	84.7%
30 Information Only Completion Factor	89.7%	90.0%	90.0%	90.0%	90.0%	95.0%	95.0%
<b>31 BOND ISSUANCE</b>							
33 Interest Rate	3.8%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

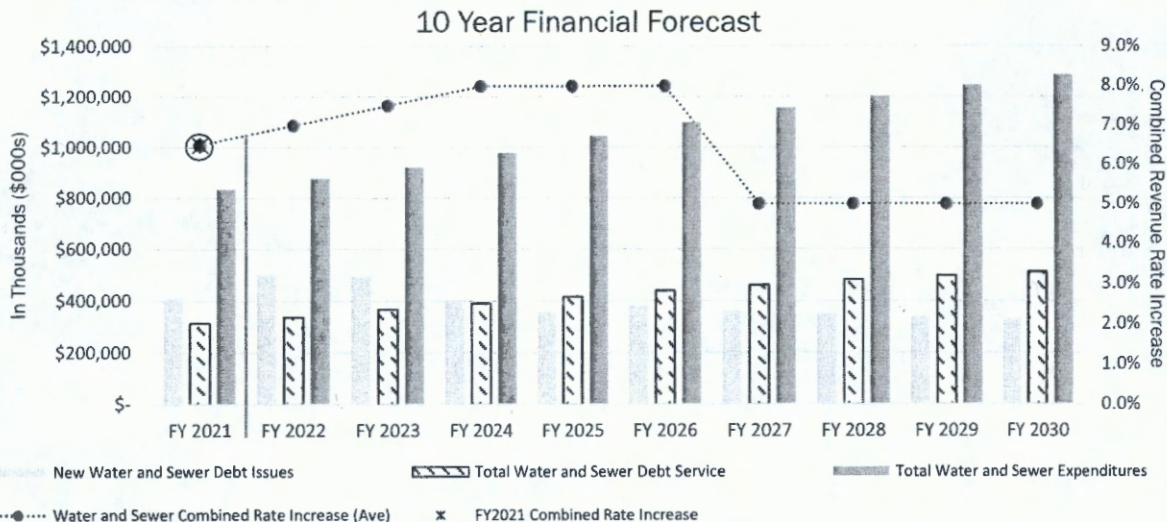
**REVENUE AND EXPENDITURES – IMPACT ON ADOPTED CHARGES (6.5%)**

		(In Thousands \$000s)	FY 2020 Approved	FY 2021 Proposed	Dollar Change	W&S Rev Impact*
1	OPERATING REVENUES (BASE)					
2	Adopted Water and Sewer Charges	\$	658,899	\$ 650,197		
3	ADJUSTMENTS TO REVENUES					
4	Sewer User Charge Adjustment		-	8,702	8,702	1.3%
5	Other Sources and Fees		(112,827)	(118,056)	(5,229)	-0.8%
6	OTHER TRANSFERS AND CREDITS		(30,894)	(23,984)	6,910	1.1%
7		\$	(143,721)	\$ (133,338)	\$ 10,383	1.6%
8	OPERATING EXPENSES					
9	Salaries and Wages	\$	129,676	\$ 135,511	\$ 5,835	0.9%
10	Heat, Light, and Power		19,436	20,708	1,272	0.2%
11	Regional Sewage Disposal		59,000	60,000	1,000	0.2%
12	All Other		257,185	262,328	5,143	0.8%
13	+ Additional and Reinstated		-	-	-	0.0%
14	DEBT SERVICE		306,307	313,865	7,558	1.2%
15	PAYGO (Contribution to bond fund)		31,016	42,003	10,987	1.7%
16		\$	802,620	\$ 834,415	\$ 31,796	4.9%
17	<b>Total - Base Case Revenue Need</b>	\$	<b>658,899</b>	<b>\$ 701,078</b>	<b>\$ 42,179</b>	<b>6.5%</b>
18	(Line 16 + Line 7)					

\*Approximately \$6.5 million in additional operating expenses = 1 percent increase in revenue

	FY 2021 Estimated	W&S Rev Impact
Potential Offsets to Revenue Increase:		
\$50 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (2,002)	-0.3%
\$100 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (4,005)	-0.6%
\$125 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (5,006)	-0.8%

Notable Assumptions:  
 4.5% annual increase in Salaries & Wages FY 2021 through FY 2026  
 2.0% annual increase in All Other  
 \$10.0 million reduction included for Sewer Use Charges in FY 2020 to rebaseline projections  
 80% completion factor for CIP; 90% for Information Only (including Reconstruction)  
 Debt service impact on new bond issuance assumes only one interest payment (or half year) in FY 2021. Outer year impact would double interest paid.



**FINANCIAL FORECAST - WATER AND SEWER OPERATING FUNDS AT 6.5% W. NO LIMIT NEW ISSUE, NO PAYGO CAP, AND FY 2025 LEVEL PRINCIPAL**

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
(In Thousands \$000s)	Approved	Proposed	Projected	Projected	Projected	Projected	Projected
1 New Water and Sewer Debt Issues	\$ 384,910	\$ 409,922	\$ 503,092	\$ 495,728	\$ 403,775	\$ 357,972	\$ 379,483
2 Total Water and Sewer Debt Service	306,350	313,865	336,142	365,610	389,665	415,351	438,129
3 Total Water and Sewer Expenditures	802,620	834,415	877,523	922,341	978,558	1,046,657	1,098,999
4 Water and Sewer Combined Rate Increase (Ave)	5.0%	6.5%	7.0%	7.5%	8.0%	8.0%	8.0%
5 Water and Sewer User Charges	\$ 658,899	\$ 692,375	\$ 742,142	\$ 799,190	\$ 864,612	\$ 935,382	\$ 1,011,946
6 Other Sources/Fees	112,827	118,056	118,798	119,554	120,325	121,111	121,912
Account Maintenance Fees	32,296	32,361	32,426	32,491	32,556	32,621	32,686
Rockville Sewer Use	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Plumbing and Inspection Fees	12,900	13,286	13,685	14,095	14,518	14,954	15,403
Infrastructure Investment Fee	39,331	39,410	39,488	39,567	39,647	39,726	39,805
Miscellaneous	19,800	19,998	20,198	20,400	20,604	20,810	21,018
Interest Income	5,500	10,000	10,000	10,000	10,000	10,000	10,000
Unspecified Revenue Adjustment	-	-	-	-	-	-	-
7 <b>Operating Revenues</b>	<b>771,726</b>	<b>810,431</b>	<b>860,940</b>	<b>918,744</b>	<b>984,937</b>	<b>1,056,493</b>	<b>1,133,858</b>
8 OTHER TRANSFERS AND CREDITS	30,894	23,984	19,384	16,983	9,982	4,984	4,984
9 <b>Total Funds Available</b>	<b>802,620</b>	<b>834,415</b>	<b>880,323</b>	<b>935,727</b>	<b>994,919</b>	<b>1,061,478</b>	<b>1,138,842</b>
10 Salaries and Wages	\$ 129,676	\$ 135,511	\$ 141,609	\$ 147,982	\$ 154,641	\$ 161,600	\$ 168,872
11 Heat, Light, and Power	19,436	20,708	21,537	22,398	23,294	24,226	25,195
12 Regional Sewage Disposal	59,000	60,000	61,200	62,424	63,672	64,946	66,245
13 All Other	257,185	262,328	267,575	272,926	278,385	283,952	289,632
14 <b>Operating Expenses</b>	<b>\$ 465,297</b>	<b>\$ 478,548</b>	<b>\$ 491,921</b>	<b>\$ 505,730</b>	<b>\$ 519,992</b>	<b>\$ 534,724</b>	<b>\$ 549,943</b>
15 DEBT SERVICE							
16 Bonds and Notes Principal and Interest	306,307	313,865	336,142	365,610	389,665	415,351	438,129
18 OTHER TRANSFERS AND ADJUSTMENTS							
19 Additional and Reinstated	-	-	5,460	7,000	8,900	11,582	15,926
20 PAYGO (Contribution to bond fund)	31,016	42,003	44,000	44,000	60,000	85,000	95,000
21 <b>Total Expenditures</b>	<b>802,620</b>	<b>834,415</b>	<b>877,523</b>	<b>922,341</b>	<b>978,558</b>	<b>1,046,657</b>	<b>1,098,999</b>
22 <b>Net Revenue (Loss)</b>	<b>0</b>	<b>0</b>	<b>2,800</b>	<b>13,386</b>	<b>16,362</b>	<b>14,821</b>	<b>39,844</b>
23 BEGINNING FUND BALANCE - JULY 1	\$ 173,717	\$ 156,528	\$ 148,529	\$ 144,329	\$ 151,715	\$ 163,077	\$ 177,898
24 Net Increase (Decrease) in Fund Balance	0	0	2,800	13,386	16,362	14,821	39,844
25 Use of Fund Balance/Other Adjustments	(11,341)	(8,000)	(7,000)	(6,000)	(5,000)	-	-
26 ENDING FUND BALANCE - JUNE 30	\$ 162,376	\$ 148,529	\$ 144,329	\$ 151,715	\$ 163,077	\$ 177,898	\$ 217,742
27 Debt Service Coverage (1.10 is target)	1.00	1.06	1.08	1.11	1.17	1.23	1.30
28 Debt Service as a Percentage of Total Expenditures (Below 40% is target)	38.2%	37.6%	38.3%	39.6%	39.8%	39.7%	39.9%
29 Days Operating Reserve-on-Hand (60-90 days target)	73.8	65.0	60.0	60.0	60.8	62.0	72.3
30 Ending Fund Balance as a Percentage of Operating Revenue (10% min)	21.0%	18.3%	16.8%	16.5%	16.6%	16.8%	19.2%

**ANNUAL AND QUARTERLY CUSTOMER BILLS AT VARIOUS CONSUMPTION LEVELS**

		Proposed Revenue Rate Increase			6.5%		
Meter Size	Average Daily Consumption (Gallons Per Year)	Approved FY 2020	Quarterly Approved FY 2020	Proposed FY 2021	Quarterly Proposed FY 2021	Perc Chg	Quarterly \$ Chg
3/4" Residential Meter	100 (36,500 gal/yr)	\$555.76	\$138.94	\$584.55	\$146.14	5.2%	\$7.20
3/4" Residential Meter	165 (60,225 gal/yr)	871.31	217.83	920.56	230.14	5.7%	\$12.31
3/4" Residential Meter	500 (182,500 gal/yr)	3,178.63	794.66	3,377.57	844.39	6.3%	\$49.73
2" Meter	1,000 (365,000 gal/yr)	7,612.08	1,903.02	8,050.87	2,012.72	5.8%	\$109.70
3" Meter	5,000 (1,825,000 gal/yr)	38,947.68	9,736.92	41,305.31	10,326.33	6.1%	\$589.41
6" Meter	10,000 (3,650,000 gal/yr)	78,994.18	19,748.55	83,750.35	20,937.59	6.0%	\$1,189.04

Annual customer bills include the Account Maintenance Fee and Infrastructure Investment Fee.

**MEETING 1 FOLLOW-UP ITEMS**

- 1) Provide a 6.5% scenario with the FY22 at 7.0%, FY23 at 7.5% and FY24 – FY26 at 8.0%  
The requested scenario is attached.
- 2) Provide “Need Based CIP” scenario increasing both fixed and volumetric rates.  
This scenario is attached and has fixed and volumetric rates increasing at 7.2%
- 3) Please provide an electronic copy of the 9/11 Meeting Packet (as well as the 9/25 meeting packet when that is available)  
Provided
- 4) How many meter reader positions does WSSC have?  
There are 37 meter reader positions.
- 5) How much does each 1mgd in daily water production provide in annual revenue?  
Factoring in the \$8.7 million adjustment to sewer revenue, combined FY21 water & sewer volumetric revenue is \$650,197,000 without a rate increase. Each 1MGD would provide approximately \$10,861.96 in revenue ( $\$650,197K \div 365 \div 164 \text{ MGD}$ )

- 6) Any new progress on Clean Water and developer SDC credits

There was only one project so far that was eligible and used the Wet Weather Project procedure:

- Pike and Rose Phase 2 (Part 8) DA5238H11
- SDC reimbursed so far \$11,331,185.71
- Total SDC Credit Estimate \$14,515,839
- The final audit on this project is not yet started.

A second project that is eligible and will probably use the Wet Weather Project procedure is Viva White Oak DA6420Z17. The HPA was approved and the Letter of Findings was issued on July 17, 2019. An SDC Credit Estimate has not been established at this time for this project. We are not aware of any other projects that qualify as Wet Weather.

- 7) Please provide the details/numbers behind the FY 2000 to 2020 Bill Increase Comparison @ 165 Gallons per day  
See attached Details for FY 2000 to 2020 Bill Increase Comparison.
- 8) Please provide the detail of the “Other Transfers and Credits” on Line 8 of the Financial Forecast on Page 6 of the 9/11 meeting packet.

Use of Fund Balance	8,000.00
Premium Transfer	1,500.00
SDC Debt Service Offset	4,984.00
<u>Reconstruction Debt Service Offset (REDO)</u>	<u>9,500.00</u>
Total Other Transfers & Credits	23,984.00



**MEETING 1 FOLLOW-UP ITEMS**

- 9) Please provide a revised volumetric rate schedule based on the 8.0% rate increase. If you assume fractions in the rate tiers, please provide the rate schedule with the fractions showing.

Note that an 8.0% increase was applied to existing rates to estimate FY21 rates under an 8.0% volumetric revenue increase. Actual proposed rates will vary slightly when the proposed budget is loaded into the cost of service rate model.

Average Daily Consumption by Customer Unit During Billing Period (Gallons Per Day)	Total	
	Combined	
0-80.9999	\$	12.84
81-165.9999		14.36
166-275.9999		17.37
276 and Greater		21.88

- 10) Please provide the formulas you used to calculate the customer impacts at different water usage levels under the 8.0% rate increase.

Calculation for consumption of 165 gallons per day

1<sup>st</sup> Tier (1<sup>st</sup> 80.9999 GPD):  $80.9999 * \$12.84 * 365/1000 = \$379.59$

2<sup>nd</sup> Tier (Remaining 84.0001 GPD):  $84.0001 * \$14.36 * 365/1000 = 440.28$

$\$379.59 + \$400.28 + \$48.00 + \$64.00 = \$931.87$  Annual Bill

At 100 GPD	Range (Gal/day)		Rate Total	Estimated Annual Customer Billing				Annual Total	Quarterly Total
	Beg	End		Used	Billed	IIF	AMF		
3/4" Res Meter	0	80.9999	\$12.84	80.9999	\$379.59				
	81	166	\$14.36	19.0001	\$99.60				
				100.0000	\$479.19	\$48.00	\$64.00	\$591.19	\$147.80
						% of Ready-to-Serve to Total Bill		19%	
At 165 GPD	3/4" Res Meter	Beg	End	Total	Used	Billed	IIF	AMF	Total
		0	80.9999	\$12.84	80.9999	\$379.59			
		81	166	\$14.36	84.0001	\$440.34			
			165.0000	\$819.93	\$48.00	\$64.00	\$931.93	\$232.98	
						% of Ready-to-Serve to Total Bill		12%	
At 500 GPD	3/4" Res Meter	Beg	End	Total	Used	Billed	IIF	AMF	Total
		0	80.9999	\$12.84	80.9999	\$379.59			
		81	166	\$14.36	84.9999	\$445.58			
		166	276	\$17.37	109.9999	\$697.59			
		276	Greater	\$21.88	224.0003	\$1,788.71			
			500.0000	\$3,311.47	\$48.00	\$64.00	\$3,423.47	\$855.87	
						% of Ready-to-Serve to Total Bill		3.3%	

## MEETING 1 FOLLOW-UP ITEMS

- 11) Please provide a breakdown of approved "All Other" costs (by the categories you have previously provided to me) going back 10 years

Ten Year Historical - All Other Expenses  
Water & Sewer Funds  
(\$ in Thousands)

Category	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Svc by Others & Prof Svc.	67,547	68,932	72,891	73,522	85,938	83,810	85,599	81,323	90,691	98,500
Employee Benefits	48,993	53,278	54,175	54,248	57,559	59,390	60,412	62,567	62,366	59,520
Outside Engineering	14,033	15,488	16,843	22,429	19,554	18,001	19,021	17,399	17,548	17,761
Contract Work	11,093	15,352	15,137	11,554	16,410	17,237	16,889	12,164	14,913	15,167
Materials	8,252	9,400	9,824	11,041	11,146	11,305	11,848	11,898	12,640	13,538
Contract Restoration	9,507	9,125	10,082	8,350	8,000	8,463	11,216	13,000	11,600	14,400
Chemicals	14,443	15,173	14,920	13,798	13,799	11,491	12,040	9,868	10,568	10,640
Depreciation/Moveable Assets	9,421	9,464	9,541	10,911	10,907	12,088	12,862	12,851	11,172	5,109
Insurance Premiums	1,904	1,910	1,889	1,894	1,539	2,039	2,104	2,121	2,133	2,146
Tele & Communications	1,356	1,327	1,646	1,476	1,685	1,687	2,014	1,988	1,544	1,640
Gasoline & Diesel Oil	1,520	1,678	2,301	2,664	2,852	2,431	2,121	1,439	1,409	1,406
All Other	11,336	11,890	12,702	13,748	14,192	14,615	15,297	15,558	15,937	17,361
<b>Total All Other Expenses</b>	<b>\$ 199,406</b>	<b>\$ 213,017</b>	<b>\$ 221,950</b>	<b>\$ 225,634</b>	<b>\$ 243,582</b>	<b>\$ 242,557</b>	<b>\$ 251,421</b>	<b>\$ 242,177</b>	<b>\$ 252,521</b>	<b>\$ 257,186</b>

- 12) If the PAYGO increase in FY21 (was zeroed out, what would be the impact on debt service to offset the reduction?  
There would be no change in debt service as the increase is a place holder for Piscataway related operating expenses. The increase in PAYGO would not be transferred to the bond funds.
- 13) Please provide program detail along with cost and staffing impacts of the Additional and Reinstated programs  
This will be provided by Friday.
- 14) If the account maintenance fee were to be "right-sized" for FY21 (i.e. updated to capture 100% of costs previously assumed to be captured) what would be the impact on the volumetric rate increase assuming no other budget changes?  
Determining the appropriate size of the Account Maintenance Fee and its impact on the volumetric rate increase would require a study. The Ready -To-Serve Study is currently on hold.
- 15) Based on best practices in the water/sewer industry, what level of increase does WSSC Staff feel would be appropriate for the infrastructure investment fee? How would this change affect volumetric rates (especially given that the lowest rate tier was weighted a little heavier than the other tiers to capture some of this IIF related-revenue.  
Black & Veatch provided two sources indicating 30% as a best practice for fixed fees. FitchRatings – Water and Sewer Rating Criteria, November 30, 2017, page 2 – second paragraph states that "utilities whose' fixed-charge components generate a significant amount (30% or more) of their revenue streams are considered stronger." The California Urban Water Conservation Council has a suggested 30% as part of Best Management Practice. Approximately 9% of WSSC's rate revenue comes from fixed fees. A study would be required to determine the appropriate rates for Ready-To-Serve Charges and the associated impact on volumetric tiers. We are not yet able to provide this information.

**MEETING 1 FOLLOW-UP ITEMS**

16) If a lower rate increase limit were to be approved for FY21 (such as Canjor's requested scenario), please note how WSSC would likely prioritize reductions in the base case (i.e. remove some or all of the additional and reinstated items first, additional reductions in certain CIP projects, reduced PAYGO, other?)

- 1st. Remove Additional & Reinstated Programs
- 2nd. Reduce CIP
- 3rd. Reduce PAYGO

17) Please provide any information you have regarding the proportion of revenue generated through fixed fees by WSSC compared to other utilities. I believe WSSC has stated previously that they generate a lower proportion than other utilities but it would be useful to have some data behind this.

We have encountered challenges in obtaining the proportion of revenue generated through fixed fees from other utilities. We are still working on gathering this information. We do have the fixed fees charged by other utilities including DC Water and Baltimore City. Based on the fixed charges as a percentage of quarterly bills shown in the table below, we can deduce that our neighboring utilities collect a much larger portion of their revenues from fixed fees.

Quarterly fixed charges included in bill estimates below are based on 3/4" meters.

WSSC		DCWater		Baltimore City	
Volumetric Charge	\$ 189.83	Volumetric Charge	\$ 248.96	Volumetric Charge	\$ 221.18
Account Maintenance Fee	16.00	Customer Metering Fee	12.18	Account Fee	10.77
Infrastructure Investment Fee	12.00	Water System replacement Fee	22.17	Infrastructure	107.88
		Clean Rivers Charge	62.82		
Quarterly Bill	217.83		346.13		339.83
<b>% Fixed Charges - WSSC</b>	<b>13%</b>	<b>% Fixed Charges - DCWater</b>	<b>28%</b>	<b>% Fixed Charges - Baltimore City</b>	<b>35%</b>

18) Can you provide further detail about what the use of fund balance will support in FY21 and the rest of the six-year period?

Fund balance will be used to support implementations in support of the IT Strategic Plan. FY20 was the final year to use fund balance for the Climate Change Vulnerability Assessment and the Strategic Energy Plan implementation.

19) Provide a written explanation of the sewer revenue decrease.

FY19 water production was below the five-year average. The lower water production has a greater impact on sewer use revenue than on water consumption revenue.

20) Provide DC Water's bill comparison chart.

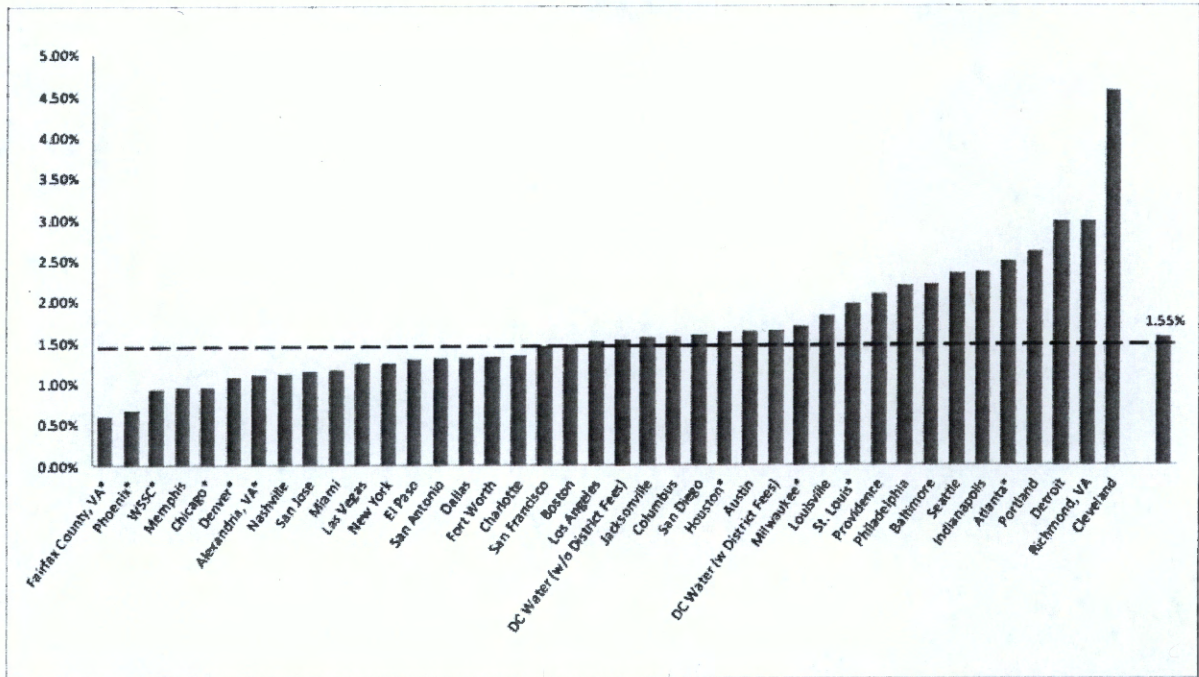
Page 89 of DC Water's 2018 Comprehensive Annual Financial Report

<https://www.dewater.com/sites/default/files/finance/2018-cafr.pdf>

MEETING 1 FOLLOW-UP ITEMS

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

EXHIBIT 9  
RESIDENTIAL WATER AND WASTEWATER BILL COMPARISONS  
AS A PERCENTAGE OF MEDIAN HOUSEHOLD INCOME (1)



(1) This analysis is based on a single family residential monthly bill as a percentage of median household income for large national utilities based on rates in effect spring 2018.

Source: DC Water Department of Finance & Budget

## MEETING 1 FOLLOW-UP ITEMS

## Baltimore City Monthly Fixed Fees

## Water Billing Rates and Fees

Starting July 1, 2019, Baltimore City will charge water/sewer fees listed in the chart below. These charges reflect a series of 9 percent increases to the current water, wastewater and stormwater charges, and fund the enhanced customer assistance program, Baltimore H<sub>2</sub>O Assists. The 9 percent increases are effective July 1, 2019, July 1, 2020, and July 1, 2021.

The water and wastewater rate increases apply to two components, fixed charges and volumetric charges. The monthly water charge is set by meter size and is assessed until a property is formally abandoned. Water consumption is charged in CCF (100 Cubic Feet). One CCF equals 748 Gallons.

## New Water and Sewer Rates for Baltimore City Customers

FIXED CHARGE COMPONENTS						
	FY 2020		FY 2021		FY 2022	
	<i>Effective: July 1, 2019</i>		<i>Effective: July 1, 2020</i>		<i>Effective: July 1, 2021</i>	
<b>Account Management Fee</b>	\$3.59		\$3.94		\$4.33	
<i>(per bill)</i>						
<b>Infrastructure Charge</b>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
	<i>per month</i>	<i>per month</i>	<i>per month</i>	<i>per month</i>	<i>per month</i>	<i>per month</i>
<u>Meter Size</u>						
5/8"	\$10.82	\$9.16	\$11.90	\$9.99	\$13.08	\$10.89
3/4"	\$19.48	\$16.48	\$21.41	\$17.97	\$23.53	\$19.59
1"	\$43.28	\$36.63	\$47.57	\$39.93	\$52.28	\$43.53
1-1/2"	\$75.73	\$64.10	\$83.23	\$69.87	\$91.47	\$76.16
2"	\$173.10	\$146.50	\$190.24	\$159.69	\$209.08	\$174.07
3"	\$302.91	\$256.37	\$332.90	\$279.45	\$365.86	\$304.61
4"	\$692.36	\$585.98	\$760.91	\$638.72	\$836.25	\$696.21
6"	\$1,224.09	\$1,052.93	\$1,367.26	\$1,147.70	\$1,502.62	\$1,251.00
8"	\$1,947.26	\$1,648.06	\$2,140.04	\$1,796.39	\$2,351.91	\$1,958.07
10"	\$2,758.62	\$2,334.75	\$3,031.73	\$2,544.88	\$3,331.88	\$2,773.92
12"	\$4,922.24	\$4,165.92	\$5,409.55	\$4,540.86	\$5,945.10	\$4,949.54

<https://publicworks.baltimorecity.gov/Water-Bill-Rates-and-Fees>

## MEETING 1 FOLLOW-UP ITEMS



## Recent and Proposed Rate &amp; Fee Changes

summary overview financial plan **rates&rev** capital financing departmental glossary

## AVERAGE RESIDENTIAL CUSTOMER MONTHLY BILL

FY 2016 – FY 2020

	Units	FY 2016	FY 2017	FY 2018	Current FY 2019	Proposed FY 2020
DC Water Water and Sewer Retail Rates <sup>(1)</sup>	Ccf	\$ 54.56	\$ 57.25	\$ 60.13	\$ 68.27	\$ 76.38
DC Water Clean Rivers IAC <sup>(2)</sup>	ERU	20.30	22.24	25.18	23.00	20.94
DC Water Customer Metering Fee	5/8"	3.86	3.86	3.86	3.86	3.86
DC Water Water System Replacement Fee <sup>(4)</sup>	5/8"	6.30	6.30	6.30	6.30	6.30
<b>Subtotal DC Water Rates &amp; Charges</b>		<b>\$ 85.02</b>	<b>\$ 89.65</b>	<b>\$ 95.47</b>	<b>\$ 101.43</b>	<b>\$ 107.48</b>
Increase / Decrease		\$ 10.97	\$ 4.63	\$ 5.82	\$ 5.96	\$ 6.05
District of Columbia PILOT Fee <sup>(1)</sup>	Ccf	\$ 2.91	\$ 2.98	\$ 3.04	\$ 3.10	\$ 3.16
District of Columbia Right-of-Way Fee <sup>(1)</sup>	Ccf	1.05	1.05	1.12	1.12	1.18
District of Columbia PILOT/ROW Fee <sup>(1)</sup>	Ccf	3.96	4.03	4.16	4.22	4.34
District of Columbia Stormwater Fee <sup>(3)</sup>	ERU	2.67	2.67	2.67	2.67	2.67
<b>Subtotal District of Columbia Charges</b>		<b>\$ 6.63</b>	<b>\$ 6.70</b>	<b>\$ 6.83</b>	<b>\$ 6.89</b>	<b>\$ 7.01</b>
<b>Total Amount Appearing on DC Water Bill</b>		<b>\$ 91.65</b>	<b>\$ 96.35</b>	<b>\$ 102.30</b>	<b>\$ 108.32</b>	<b>\$ 114.49</b>
Increase / Decrease Over Prior Year		\$ 11.03	\$ 4.70	\$ 5.95	\$ 6.02	\$ 6.17
<b>Percent Increase in Total Bill</b>		<b>13.7%</b>	<b>5.1%</b>	<b>6.2%</b>	<b>5.9%</b>	<b>5.7%</b>

(1) Assumes average monthly consumption of 6.2 Ccf, or (4,638 gallons)

(2) Assumes average 1 Equivalent Residential Unit (ERU)

(3) District Department of the Environment stormwater fee of \$2.67 effective November 1, 2010

(4) DC Water "Water System Replacement Fee" of \$6.30 for 5/8" meter size effective October 1, 2015

Details for FY 2000 to 2020 Bill Increase Comparison @ 165 Gallons Per Day

Fiscal Year	WSSC		CPI-W		Fairfax		Arlington, VA		DC Water		Baltimore City	
	Annual Bill <sup>1</sup>	WSSC Cumulative Increase (%)	U.S. City Average for Water And Sewerage Maintenance <sup>2</sup>	Water/Sewer Cumulative Increase (%)	Annual Bill <sup>1,3</sup>	Cumulative Increase (%)	Annual Bill	Cumulative Increase (%)	Annual Bill <sup>1</sup>	DC Water Cumulative Increase (%)	Annual Bill <sup>1</sup>	Cumulative Increase (%)
2000	\$ 384.87	0.0%	219.000	0.0%	\$ 258.89	0.0%	\$ 252.34	0.0%	\$ 345.41	0.0%	\$ 193.57	0.0%
2001	\$ 384.87	0.0%	224.300	2.4%	\$ 268.52	3.7%	\$ 268.60	6.4%	\$ 362.32	4.9%	\$ 230.34	19.0%
2002	\$ 384.87	0.0%	231.200	5.6%	\$ 272.74	5.3%	\$ 275.83	9.3%	\$ 362.32	4.9%	\$ 230.34	19.0%
2003	\$ 384.87	0.0%	238.900	9.1%	\$ 277.95	7.4%	\$ 283.06	12.2%	\$ 367.11	6.3%	\$ 267.20	38.0%
2004	\$ 384.87	0.0%	247.900	13.2%	\$ 285.78	10.4%	\$ 319.19	26.5%	\$ 375.97	8.8%	\$ 291.25	50.5%
2005	\$ 395.11	2.7%	265.500	21.2%	\$ 299.04	15.5%	\$ 373.40	48.0%	\$ 393.68	14.0%	\$ 317.46	64.0%
2006	\$ 403.54	4.9%	280.700	28.2%	\$ 306.87	18.5%	\$ 429.40	70.2%	\$ 413.81	19.8%	\$ 346.03	78.8%
2007	\$ 414.38	7.7%	294.400	34.4%	\$ 323.13	24.8%	\$ 481.80	90.9%	\$ 433.94	25.6%	\$ 377.17	94.8%
2008	\$ 438.47	13.9%	309.907	41.5%	\$ 342.59	32.3%	\$ 554.07	119.6%	\$ 456.48	32.2%	\$ 411.12	112.4%
2009	\$ 469.79	22.1%	325.966	48.8%	\$ 374.30	44.6%	\$ 634.77	151.6%	\$ 490.69	42.1%	\$ 427.56	120.9%
2010	\$ 507.73	31.9%	349.827	59.7%	\$ 429.42	65.9%	\$ 674.52	167.3%	\$ 543.27	57.3%	\$ 466.04	140.8%
2011	\$ 545.67	41.8%	375.955	71.7%	\$ 482.82	86.5%	\$ 707.04	180.2%	\$ 642.47	86.0%	\$ 507.99	162.4%
2012	\$ 588.43	52.9%	396.520	81.1%	\$ 538.21	107.9%	\$ 734.14	190.9%	\$ 705.71	104.3%	\$ 553.70	186.0%
2013	\$ 629.39	63.5%	422.133	92.8%	\$ 579.96	124.0%	\$ 759.44	201.0%	\$ 758.58	119.6%	\$ 603.54	211.8%
2014	\$ 671.54	74.5%	442.848	102.2%	\$ 620.35	139.6%	\$ 759.44	201.0%	\$ 834.25	141.5%	\$ 694.12	258.6%
2015	\$ 705.87	83.4%	459.538	109.8%	\$ 647.07	149.9%	\$ 785.33	211.2%	\$ 941.36	172.5%	\$ 770.53	298.1%
2016	\$ 754.50	96.0%	483.515	120.8%	\$ 673.87	160.3%	\$ 799.19	216.7%	\$ 1,077.19	211.9%	\$ 855.39	341.9%
2017	\$ 796.37	106.9%	502.985	129.7%	\$ 702.82	171.5%	\$ 799.19	216.7%	\$ 1,135.59	228.8%	\$ 893.21	361.4%
2018	\$ 820.46	113.2%	522.005	138.4%	\$ 735.03	183.9%	\$ 820.26	225.1%	\$ 1,208.40	249.8%	\$ 976.27	404.3%
2019	\$ 851.78	121.3%	540.229	146.7%	\$ 768.96	197.0%	\$ 820.26	225.1%	\$ 1,288.40	273.0%	\$ 1,067.09	451.3%
2020	\$ 867.31	125.4%	555.290	153.6%	\$ 803.77	210.5%	\$ 831.11	229.4%	\$ 1,369.17	296.4%	\$ 1,167.70	503.2%

FY 2000-2020 Compound

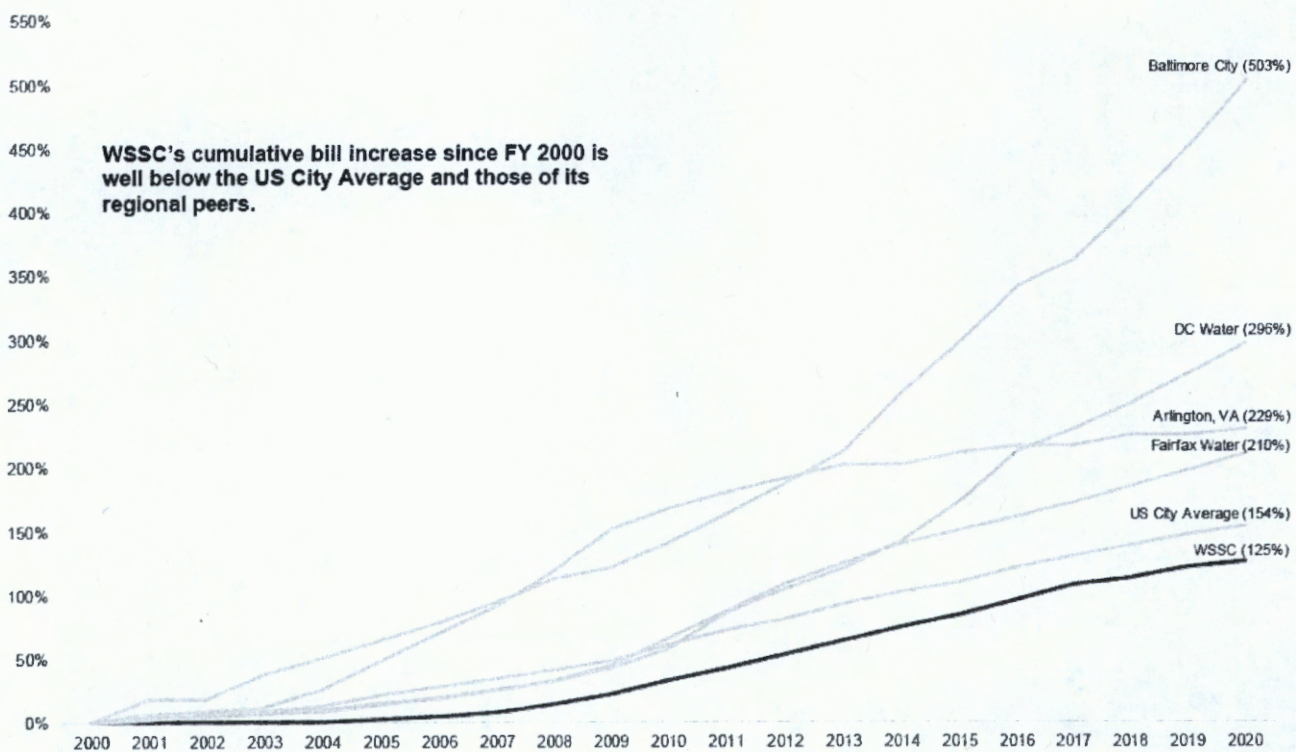
Average Annual Growth Rate:                      4.1%                      4.8%                      5.8%                      6.1%                      7.1%                      9.4%

<sup>1</sup>Assumes a 5/8" residential meter for purposes of determining the appropriate fees.

<sup>2</sup>Water and sewerage maintenance in U.S. city average, urban wage earners and clerical workers, not seasonally adjusted, values for July of each fiscal year (ex. July 2018 = FY 2019 value).

<sup>3</sup>Based on Fairfax Water rates and fees for water services and Fairfax County rates and fees for sewer services.

### FY 2000 to 2020 Bill Increase Comparison @ 165 Gallons per Day





## WSSCWater

### FY 2021 HIGH PRIORITY ADDITIONAL & REINSTATED PROGRAM REQUESTS SUMMARY

#### Piscataway Infiltration and Inflow (I/I) Removal Program

**Request:** Outside Engineering and Contract Work - Included in PAYGO

**Total Cost: \$41,606,000 - Water/Sewer Impact: \$10,071,600**  
**Capital: \$32,850,000**

Recent rainfalls over the past eighteen months and degraded sewer assets require rehabilitation. Sewer grouting, along with other infiltration and inflow removal efforts, in the Piscataway and Broadcreek basins will be employed to achieve infiltration and inflow removal using a holistic approach to sewer basin rehabilitation. The costs shown are preliminary estimates to immediately begin addressing the leaking assets as the program continues to develop.

#### Frozen Workyears Conversion

**Request:** 30 Workyears - Cost with benefits: \$2,820,600

Implementation of the new Customer-to-Meter (C2M) billing system required additional staffing to meet the needs of Customer Care. To meet this challenge WSSCWater strategically froze vacant positions throughout the Commission and brought on the needed Customer Care staff. With the first phase of C2M now in place, the additional staffing requirements in Customer Care remain the same. Other utilities have experienced increased staffing requirements after implementing similar systems. The 30 positions currently frozen throughout the Commission are placing a strain on daily operations and maintenance. It is possible that as customers and internal WSSCWater processes adjust to the new system some of these positions will sunset.

#### Unidirectional Flushing Program

**Request:** 10 Workyears (1 Project Manager, 1 Supervisor, 8 Utility Technicians)

**Water/Sewer Impact with benefits: \$826,400**

A focused, unidirectional flushing program is needed to address discolored water complaints that have increased dramatically in 2018 (approximately 500 percent). The focus of this program will be to flush 2,400 miles of unlined cast iron pipe and the area's most likely affected by the manganese by-product released into our system in 2018. The long-term performance goal established by the Commission is 1.0 discolored water complaint per 1,000 customers per year.

#### Inspections for Large Valve Repair and Replacement

**Request:** Services by Others - Water/Sewer Impact: \$199,400

Within the large valve inspection program, it has been determined that there is a growing backlog of needed repairs and replacements for 16 to 24-inch valves. These valves fall into a current gap in the CIP project for the Large Pipe and Valve Rehabilitation Program which currently focuses only on valves that are 36-inch and above.

## WSSCWater

### FY 2021 HIGH PRIORITY ADDITIONAL & REINSTATED PROGRAM REQUESTS SUMMARY

#### Fire Flow Testing Program

**Request: 2 Workyears - Water/Sewer Impact with benefits: \$303,100**

Currently, fire hydrant flow testing is only performed when requested by a developer or by the fire department. WSSCWater has approximately 44,000 fire hydrants and averages 220 flow tests per year. Best practice, as referenced in the AWWA G440-17 - Emergency Preparedness Practices, is to test 10 percent of assets or 4,400 hydrants per year. The requested funding represents the Commission's effort to adopt and proactively address recommended health and safety guidelines.

#### Utility Services Leak Detection

**Request: 2 Workyears - Water/Sewer Impact with benefits: \$301,800**

Leak detection is a vital activity assigned to the Utility Services Depots. As such, the WSSCWater has established a performance goal for each depot to perform one hundred miles of leak tests annually, using precision equipment. This equates to four hundred miles per year. Proactive leak detection provides the opportunity to avoid water main breaks and an opportunity to mitigate the financial inefficiency of non-revenue water loss associated with system leakage. Our most recent Water Loss Reduction Plan informs us that the cost of "Real Losses" due to system leakage was \$1.9 million in 2018. Locating leaks accurately and expeditiously is a skill obtained from the use of dedicated personnel.

#### Potomac Water Filtration Plant Operational & Maintenance (O/M) Technician

**Request: 1 Workyear - Water/Sewer Impact with benefits: \$123,500**

Due to the increased obligations and demands on staff pursuant to the Potomac Plant Consent Decree, this request is for an O/M Technician to support the increased workload of additional process equipment.

#### Production Support – Asset Management

**Request: Services by Others - Water/Sewer Impact: \$2,000,000**

This program represents a consolidation of a diverse group of projects whose unified purpose is to support the extensive water, sewer, and support services infrastructure that is owned, operated, and maintained by WSSCWater. Projects are identified primarily through WSSCWater's asset management program. The projects are diverse in scope and typically include work needed to upgrade operating efficiency, improve safety and security, or rehabilitate aging facilities. These projects do not include capital funded projects. Examples of projects include roof repairs and fuel storage tanks.

## WSSCWater

### FY 2021 HIGH PRIORITY ADDITIONAL & REINSTATED PROGRAM REQUESTS SUMMARY

#### Business Case Evaluations

##### **Request: Outside Engineering - Water/Sewer Impact: \$1,200,000**

The Project Needs Validation Process (PNVP) is the method through which WSSCWater identifies the capital needs of the organization, validates the needs, and evaluates solutions to address those needs. Business case evaluations, which are part of the PNVP, are used by WSSC to determine the most effective solution to a validated need based on lifecycle cost, risk, and/or level of service. The number and complexity of business cases has been growing since the implementation of the PNVP.

#### Geographic Information System (GIS) Facilities & Laterals Mapping

##### **Request: 2 Workyears & Professional Services - Water/Sewer Impact with benefits: \$506,200**

This program is to map facilities and lateral connections in GIS. As dependency on our GIS data has increased, the need to create asset data that feeds to other enterprise applications has grown. Mapping facilities and laterals will create a better association between GIS data, customer meters, house connections and associated appurtenances, such as meters and clean-outs. Currently, customer meters are identified by the main running along the street, but there isn't GIS data on how customers are connected to WSSCWater mains. In addition, mapping buried assets at water facilities, sewage plants and pumping stations will be performed to assist Production in their operational needs.

#### Large Meter Design (Capital)

##### **Request: 1 Workyear – Water/Sewer Impact with benefits: \$6,500 (Debt Service)**

This workyear is to support the design of large vault replacements identified in the Asset Management Program. As the large meter vault rehabilitation program expands, the associated workload for design work is also increasing. To keep pace with the program, an additional project manager is requested.

#### Cross Connection Program Inspectors

##### **Request: 2 Workyears - Water/Sewer Impact with benefits: \$308,400**

Two Cross Connection Program Inspectors are requested to support the continued development of the Cross-Connection Program. As part of the program, back-flow preventers are in place throughout the system to protect our public water supply from contamination. Staff workloads for completing test reports continue to rise as violators are identified and new commercial facilities are built. Additional workforce to support this program.

## WSSCWater

### FY 2021 HIGH PRIORITY ADDITIONAL & REINSTATED PROGRAM REQUESTS SUMMARY

#### Permits Acquisition

**Request: 2 Workyears - Water/Sewer Impact with benefits: \$243,700**

Two workyears are requested to secure timely acquisition of permits for pipeline programs. Pipeline design projects consistently require full time efforts to secure a variety of permits from agencies at the Federal, State, County, and Municipal levels. The high number of active projects necessitate continuous communications with these agencies to acquire the necessary permits. Additionally, new Federal and State regulations have resulted in more challenging and complex permitting processes for water and sewer projects that impact natural resources such as wetlands, floodplains, forests, streams, etc.

#### **Seneca WRRF, Damascus/Hyattstown WWTP Operators for Fats, Oils & Grease (FOG) and Septage Facilities**

**Request: 3 Workyears - Water/Sewer Impact with benefits: \$276,900**

Additional Operators are needed to operate the new FOG and Septage facilities at Rock Creek. As recommended in the 2012 FOG and Septage study, the additional work load of adding the FOG facility at Rock Creek would require adding three Operators to run the facility.

#### Innovation Program

**Request: Professional Services - Water/Sewer Impact: \$264,000**

Within the Office of Innovation and Research, this program finds, nurtures and implements employee ideas. Idea development may lead to the use of new technology, materials, and process improvements to reduce ongoing operational costs, improve efficiency, and increase the sustainability of the pipe networks and plants as well as lead to development of new products and revenue to benefit WSSCWater.

#### Climate Change and Vulnerability Study

**Request: Professional Services - Water/Sewer Impact: \$200,000**

This is a new annual action plan for Green House Gas inventory and Action Plan. The study provides Climate Extremes Design Guidelines, Alternatives Analysis/Preliminary engineering for facilities with high flood risk, screening of linear assets (manholes) against FEMA floodplains, and updates to Green House Gas inventory and Action (reduction) Plan.

## **WSSC Spending Control Limits Testimony, 9/24/19, Gordie Brenne, MC Taxpayers League**

This afternoon I'd like to show how you can overcome weak governance and management of WSSC. I hope my testimony will help you break the cycle of above market rate increases. **Approving a smaller rate increase will incentivize better cost controls.** High operating and capital budget cost trends have led to forecasts of 8% rate increases as far as the eye can see following the proposed above market rate increase of 5% next year. These trends are a symptom of WSSCs impending insolvency which will require a taxpayer bailout, at which point we'll insist the state split the system in two. Management's response to the lack of cost controls over the last decade has been to ratchet down needed pipe and large valve replacement and defer consent decree work. At the same time management's increased costs with above market pay raises, approved discretionary capital projects that don't pay for themselves, and continued to operate costly sewage treatment plants that don't have Blue Plains' economies of scale. The questions we ask of you are: Is it prudent that management gets pay raises whenever rates have to be increased because management failed to control costs? How do we explain to the average resident why the average employee in this monopoly makes more than they do? Why should Montgomery County rate payers, who we estimate are responsible for only 36% of sewage treatment costs, pay the same sewage rate as Prince Georges rate payers? And, how can you lower the risks of service interruptions and insolvency as the backlog of deferred maintenance and replacement project capital demands hits underwriting limits, and recession warning lights are blinking red?

Last week I sat at this table and spoke with you about capital limits the county faces given a **10%** underwriting standard for debt service. Well, WSSC faces a **40%** underwriting standard limit and still can't meet it without an 8% rate increase in 2 years. Why? Most projects approved by WSSC have a rate of return that's either negative or below WSSCs cost of capital. Two totally discretionary projects that we oppose, Smart Meters and Piscataway upgrades, will cost more than a half billion to build and do not reduce costs or increase revenues to cover the cost of capital. **This drives rates higher. Spending more than you get back is a prescription for bankruptcy in any business.**

Operating costs continue to balloon with a proposal for a 4.5% COLA (Inflation's only at 2%) and an FTE count that remains unchanged in the face of declining water consumption. (Worse, one driver of excessive operating costs is wasted water and sewer capacity- a record high 18% lost water rate, and an engineering study determination that 43% of sewage processed is from inflow and infiltration into sewage pipes that doesn't originate in homes or business! It's beyond comprehension that there's no strategic plan to control this waste. Per capita consumption will continue to stagnate because rates higher than the cost of service contribute to a decline in business investments and consumers have switched to more efficient water appliances.) **Lower consumption, combined with inadequate cost controls, drives higher rates.**

One dramatic illustration of cost mismanagement is how WSSC processes sewage, it most capital intensive and expensive operation. Currently, only 65% of total sewage is treated by Blue Plains (85% of Montgomery County sewage treated by Blue Plains vs. 60% for Prince Georges county). The Piscataway treatment plant and it's pumping stations are responsible for chronic spills (1 in 2017, 2 last year, and two others this summer). The latest on 8/9/19 spilled 5.22 million gallons of sewage into the Potomac water shed overnight, undoing years of storm water abatement that have cost the county's taxpayers 100s of millions! **Please, don't kick the can down the road again. Or break the monopoly.**

## WSSC Response to 9-24-19 Public Hearing Comments by Montgomery County Tax Payer's League

1. "Management's response to the lack of cost controls over the last decade has been to ratchet down needed pipe and large valve replacement and defer consent decree work."  
The small diameter water pipe replacements temporarily decreased in FY 2020 in order to evaluate the processes and ensure WSSC Water was addressing the most critical pipes as well as using the most beneficial and cost-effective methodology. Large diameter water main replacements are increasing, and large valve replacements remain the same as FY 2019. Small diameter sewer main replacements remain at steady state. Large diameter sewer consent decree work is expected to decrease as priority 1 work is completed, but other priority work, such as force mains, will be increasing. Total spending on the Sanitary Sewer Overflow (SSO) projects to date has been \$1.6 billion and an additional \$400 million is projected to be spent through FY26.

2. "...management's increased costs with above market pay raises..."  
Pay increases resulted from negotiated collective bargaining agreements and were reviewed by both County Councils and are in line with Prince Georges and Montgomery counties.

3. "...approved discretionary capital projects that don't pay for themselves..."

An ROI standard would not be appropriate as a basis for approving most WSSC projects (e.g. water & sewer main replacement, SSO related, Potomac WFP CD) since they are part of a comprehensive system of providing service to our customers or comply with regulatory requirements and do not discretely produce revenue or reduce costs. However, all projects are rigorously reviewed for need, schedule and timing, and a business case must be developed for all new projects before they are programmed.

When appropriate we do calculate an ROI for certain projects. For example, the economic benefits of the Piscataway Bioenergy project include recovering more than \$1.5 million of renewable energy costs/year; reducing biosolids disposal costs by ~\$1.7 million/year; reducing chemical costs by ~\$500,000/year; hedging against rising costs of power fuel and chemicals; and it is projected to provide a net payback over time.

The Advanced Metering Infrastructure project will improve both customer service and operational efficiency. The expected results include: Monthly billing based on actual meter readings. This would reduce bill size to help customers stay current with their payments, help customers develop a greater awareness of their water consumption, and ensure that problems such as excessive consumption due to leaks are addressed more quickly; Active notification of customers with abnormal consumption that might signify leaks before they get high consumption bills; Reduced customer calls; Reduced field investigation visits; Provide opportunities to employ more sophisticated rate structures; Analysis of individual consumption patterns to detect meters suspected of wearing out, or perform meter sizing analysis to ensure that large meters are optimally sized; Monitoring of individual consumption to perform precise, targeted conservation enforcement during droughts; Opportunities to improve the monitoring and operation of the distribution system, in order to detect and reduce non-revenue water

4. "...and continued to operate costly sewage treatment plants that don't have Blue Plains' economies of scale."

## WSSC Response to 9-24-19 Public Hearing Comments by Montgomery County Tax Payer's League

Reconfiguring six water resource recovery facilities for flow to Blue Plains would not be economically feasible.

5. "Montgomery County rate payers...are responsible for only 36% of sewage treatment costs, pay the same sewage rate as Prince George's rate payers?"  
WSSC Water is a bi-county agency. Montgomery and Prince George's customers share the water and sewage treatment costs. By state law, WSSC Water customers are charged the same rates.
6. "WSSC faces a 40% underwriting standard limit and still can't meet it without an 8% rate increase in 2 years."  
Declining revenue and consumption levels coupled with an expanding system and aging infrastructure requires an 8% rate increase in order to finance the timely replacement of aging infrastructure, prevent service disruptions through water and sewer main breaks, and provide safe, reliable drinking water.
7. "Most projects approved by WSSC have a rate of return that's either negative or below WSSC's cost of capital."  
As stated above an ROI standard would not be appropriate as a basis for approving most WSSC projects (e.g. water & sewer main replacement, SSO related, Potomac WFP CD) since they are part of a comprehensive system of providing service to our customers or comply with regulatory requirements and do not discretely produce revenue or reduce costs. However, all projects are rigorously reviewed for need, schedule and timing, and a business case must be developed for all new projects before they are programmed.
8. "Two totally discretionary projects that we oppose, Smart Meters and Piscataway upgrades, will cost more than a half billion to build and don't reduce costs or increase revenues to cover the cost of capital."  
See response to #3.
9. "Operating costs continue to balloon with a proposal for a 4.5% COLA (inflation's only at 2%)"  
For planning purposes, we assume a 4.5% compensation increase in FY21-26. However, we are currently negotiating a collective bargaining agreement that will be subject to County Council review so that any pay increases are in line with County government pay changes.
10. WSSC's "FTE count...remains unchanged in the face of declining water consumption."  
While water production has fallen by 7.3% since FY 1994, our workyears are down 15.7%. During this same time frame, the number of customer accounts grew by more than 20% and the size of the system (miles of pipe) to be maintained by 20%.

The most recent Benchmarking Study's findings concerning WSSC staffing levels actually indicated that "Compared to comparably sized Utilities providing water and wastewater services, WSSC's unit staffing levels are at or below median. Due to the mix of retail and wholesale services provision by large utilities this is, necessarily a rough evaluation of staffing efficiency." And "Functional staffing comparisons (compared to large utilities) show that WSSC is at or below average for most functions with the exception of IT and Engineering and Construction which are going through a major upgrade program." (Page II, Executive Summary).

**WSSC Response to 9-24-19 Public Hearing Comments by Montgomery County Tax Payer's League**

11. "...one driver of excessive operating costs is wasted water and sewer capacity – a record high 18% lost water rate, and an engineering study determination that 43% of sewage processed is from inflow and infiltration..."

WSSC Water is working to reduce our water loss through a multi-year Water Loss Reduction Roadmap exercise. As part of the exercise, we will be assessing existing water loss methods in further detail and identifying data gaps. Next, we will be gathering additional data available from new data gathering programs and processes, such as the new customer billing system and advanced metering infrastructure being implemented. All these data will be evaluated to develop a plan to further reduce water use in our system. This will be a program of continuous improvement as our data sources improve.

12. "...rates higher than the cost of service contribute to a decline in business investments..."

I am not sure what is meant by "rates higher than the cost of service." The projected water and sewer rate increase depends on several factors including the size of the CIP, operating budget, weather events, interest rate for debt issued, change in the number of customers, etc.

13. "Lower consumption, combined with inadequate cost controls, drives higher rates."

The General Manager and WSSC Water take cost controls very seriously because of their responsibilities to the rate payer. We had added no new positions to our agency since FY17. Most of the increases in the operating budget are due to increases in debt service and PAYGO to finance the capital program because of the priority placed on replacing aging infrastructure and complying with the terms of the Sanitary Sewer Overflow and Potomac Water Filtration plant Consent Decrees.

Since 2013, WSSC has instituted a Supply Chain Transformation initiative that has been focused on reducing costs, increasing collaboration, diversifying supply chain sourcing, and improving the quality of goods and services acquired. This has been a very successful effort and the achievements in costs controls are especially impressive.

The WSSC Water Office of the Inspector General has 13 staff members and a robust annual risk-based audit plan that promotes accountability, sound internal controls, and provides strong safeguards against fraud, waste, and abuse.

In addition, our efforts at Group Insurance plan design changes have resulted in significant savings including: \$570,000 in prescription costs for active employees; \$900,000 in annual savings for Medicare retiree prescription costs; medical cost savings of \$1,230 per enrollees in 2017; and a \$370,000 reduction to our Stop Loss Insurance for medical costs. In addition, WSSC is increased the employee premium share from 23% to 24% for point of service plan participants.

We have reduced overtime costs by \$3.4 million since FY 2016. FY 2019 Workers' Compensation claims are down by 50% (\$425,000) and lost work days are down 25% in comparison to FY 2018. All these efforts are ongoing, and we are working to embed this cost-conscious approach throughout all our operating departments and at every level of the organization. However, it should be recognized that several challenges are ahead in both maintenance and infrastructure that will require difficult decisions in the coming year. The freeze on new positions prevented us from several needed improvements including implementing a system wide flushing program



## WSSC Response to 9-24-19 Public Hearing Comments by Montgomery County Tax Payer's League

to address discolored water complaints; enhancing fire protection by testing 43,000 fire hydrants on a ten-year cycle; accelerating large water valve inspections from a 4-year to a 3-year cycle; and expanding the leak detection program to provide proactive repairs. To the limited extent that we can, we will make service improvements within existing resources. However, sustainable program enhancements require additional ongoing resources.

14. "One dramatic illustration of cost mismanagement is how WSSC processes sewage...only 65% of total sewage is treated by Blue Plains..."

As stated previously, reconfiguring six water resource recovery facilities for flow to Blue Plains would not be economically feasible.

15. "The Piscataway treatment plant and its pumping stations are responsible for chronic spills (1 in 2017, 2 last year, and two others this summer). The latest on 8/9/19 spilled 5.22 million gallons of sewage into the Potomac water shed overnight, undoing years of storm water abatement that have cost the county's taxpayers 100s of millions!

We acknowledge that SSO's are a significant environmental challenge. However, as noted above, WSSC has been making significant investments to prevent SSO's. Replacing aging, buried, infrastructure is costly from both a capital and operational perspective and can only be adequately addressed by ongoing investments.



OFFICE OF THE COUNTY EXECUTIVE  
ROCKVILLE, MARYLAND 20850

Marc Elrich  
County Executive

MEMORANDUM

October 9, 2019

TO: Nancy Navarro, President, County Council  
FROM: Marc Elrich, County Executive *Marc Elrich*  
SUBJECT: Washington Suburban Sanitary Commission (WSSC) Spending Affordability Limits for the FY21 Operating and Capital Budgets

In April 1994, the Council adopted Resolution No. 12-1558 which established a spending affordability process for the WSSC budget. Under this process, representatives of Montgomery and Prince George's counties meet to develop spending limits for WSSC's upcoming capital and operating budgets. The spending affordability controls consist of limits on the maximum average rate increase, debt service, new debt, and total water and sewer operating expenses. In practice, the greatest amount of attention is focused on the maximum average rate increase, which has the greatest direct effect on WSSC's customers.

WSSC has completed an analysis of the resource needs necessary to continue operations, repair aging infrastructure, and continue to enhance customer service functions and concluded that an 8.0 percent water and sewer maximum rate increase is required to provide for the operating and capital budgets in FY21. While I support the Commission's efforts to both continue to rehabilitate our aging water and sewer infrastructure and bring about needed customer service enhancements, I also want to stress the importance of finding balance between meeting the growing needs of the Commission and limiting the compounded fiscal impact to ratepayers.

I am recommending a Maximum Average Rate Increase for WSSC of 7.0 percent for the FY21 operating and capital budgets. This limit is 1.0 percent below the Commission's proposed maximum rate increase of 8.0 percent and represents a same-service level budget with \$1.2 million available for additional or reinstated programs. This rate increase limit for FY21 translates to the following budgetary limits for WSSC:

Maximum Average Rate Increase:	7.0%
Debt Service:	\$ 313,865,000
New Debt:	\$ 409,922,000
Total Water and Sewer Operating Expenses:	\$ 837,647,000

As is true for County Government departments, I am asking the Commission to examine opportunities for increased efficiency and process improvement within its operations. The Commission should work to bring the final rate increase below the 7.0 percent maximum through these actions to limit the fiscal impact on WSSC ratepayers.

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In addition, while making these difficult budget decisions, the Commission should preserve the following critical functions to the extent possible in an overall resource plan:

- The reconstruction and rehabilitation of WSSC's aging small diameter water and sewer mains;
- The continuation of the large valve replacement program; and
- Other critical infrastructure repairs associated with our aging water and sewer system.

As always, Executive Branch staff stand ready to assist you in your deliberations. I look forward to discussing these issues with you as you develop WSSC's FY21 spending affordability limits.

ME:tri

- c: Commissioner Fausto R. Bayonet, Washington Suburban Sanitary Commission  
Commissioner T. Eloise Foster, Washington Suburban Sanitary Commission  
Commissioner Howard A. Denis, Washington Suburban Sanitary Commission  
Carla A. Reid, General Manager/CEO, Washington Suburban Sanitary Commission  
Patricia Colihan, Chief Financial Officer, Washington Suburban Sanitary Commission  
Andrew Kleine, Chief Administrative Officer  
Adriana Hochberg, Assistant Chief Administrative Officer  
Richard S. Madaleno, Director, Office of Management and Budget  
Michael Coveyou, Acting Director, Department of Finance  
Adam Ortiz, Director, Department of Environmental Protection  
Marlene Michaelson, Executive Director, Montgomery County Council  
Keith Levchenko, Montgomery County Council Staff  
Steve Shofar, Department of Environmental Protection  
Trevor Lobaugh, Office of Management and Budget

ASSUMPTION SUMMARY FOR SAG FINANCIAL FORECAST MODEL

	WORKLOAD DATA		PROJECTED				
	FY 2020E	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
<b>1 REVENUE</b>							
<b>2 Water Consumption and Sewer Treatment</b>							
3	Water to be supplied (Average MGD)	164.0	164.0	164.0	164.0	164.0	164.0
4	Yearly Growth %		0.0%	0.0%	0.0%	0.0%	0.0%
<b>7 Credits and Transfers</b>							
8	Use of Fund Balance	\$ 11,341	\$ 8,000	\$ 7,000	\$ 6,000	\$ 5,000	\$ -
10	REDO Offset	\$ 11,600	\$ 9,500	\$ 7,400	\$ 6,000	\$ -	\$ -
<b>16 EXPENDITURE</b>							
<b>17 Operating</b>							
19	Workyears	1,776.0	1,776.0	1,776.0	1,776.0	1,776.0	1,776.0
20	Salary and Wages Increase	1.4%	4.5%	4.5%	4.5%	4.5%	4.5%
22	Regional Sewage Disposal	\$ 59,000	\$ 60,000	\$ 61,200	\$ 62,424	\$ 63,672	\$ 64,946
23	All Other	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%
24	Debt Service	\$ 306,307	\$ 313,865	\$ 336,142	\$ 365,610	\$ 389,665	\$ 415,351
25	Yearly Growth %		2.5%	7.1%	8.8%	6.6%	6.6%
26	PAYGO	\$ 31,016	\$ 44,000	\$ 44,000	\$ 44,000	\$ 60,000	\$ 85,000
<b>27 Capital Expenditure Parameters</b>							
29	Water and Sewer Completion Factor	80.0%	80.0%	80.0%	80.0%	80.0%	84.7%
30	Information Only Completion Factor	89.7%	90.0%	90.0%	90.0%	90.0%	95.0%
<b>31 BOND ISSUANCE</b>							
33	Interest Rate	3.8%	5.0%	5.0%	5.0%	5.0%	5.0%

REVENUES AND EXPENDITURES - IMPACT ON ADOPTED CHARGES  
WATER AND SEWER PROGRAM COMBINED OPERATING FUNDS

		(In Thousands \$000s)	FY 2020 Approved	FY 2021 Proposed	Dollar Change	W&S Rev Impact*
1	<b>OPERATING REVENUES (BASE)</b>					
2	Adopted Water and Sewer Charges		\$ 658,899	\$ 650,197		
3	<b>ADJUSTMENTS TO REVENUES</b>					
4	Sewer User Charge Adjustment		-	8,702	8,702	1.3%
5	Other Sources and Fees		(112,827)	(118,056)	(5,229)	-0.8%
6	<b>OTHER TRANSFERS AND CREDITS</b>		(30,894)	(23,984)	6,910	1.1%
7			\$ (143,721)	\$ (133,338)	\$ 10,383	1.6%
8	<b>OPERATING EXPENSES</b>					
9	Salaries and Wages		\$ 129,676	\$ 135,511	\$ 5,835	0.9%
10	Heat, Light, and Power		19,436	20,708	1,272	0.2%
11	Regional Sewage Disposal		59,000	60,000	1,000	0.2%
12	All Other		257,185	262,328	5,143	0.8%
13	+ Additional and Reinstated		-	1,247	1,247	0.2%
14	<b>DEBT SERVICE</b>		306,307	313,865	7,558	1.2%
15	PAYGO (Contribution to bond fund)		31,016	44,000	12,984	2.0%
16			\$ 802,620	\$ 837,660	\$ 35,040	5.4%
17	<b>Total - Base Case Revenue Need</b>		\$ 658,899	\$ 704,322	\$ 45,423	7.0%
18	(Line 16 + Line 7)					

\*Approximately \$6.5 million in additional operating expenses = 1 percent increase in revenue

	FY 2021 Estimated	W&S Rev Impact	
21			
22	Potential Offsets to Revenue Increase:		
23	\$50 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (2,002)	-0.3%
24	\$100 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (4,005)	-0.6%
25	\$125 million CIP Reduction = Debt Service Impact @ 5.0% Interest	\$ (5,006)	-0.8%

Notable Assumptions:

28 4.5% annual increase in Salaries & Wages FY 2021 through FY 2026

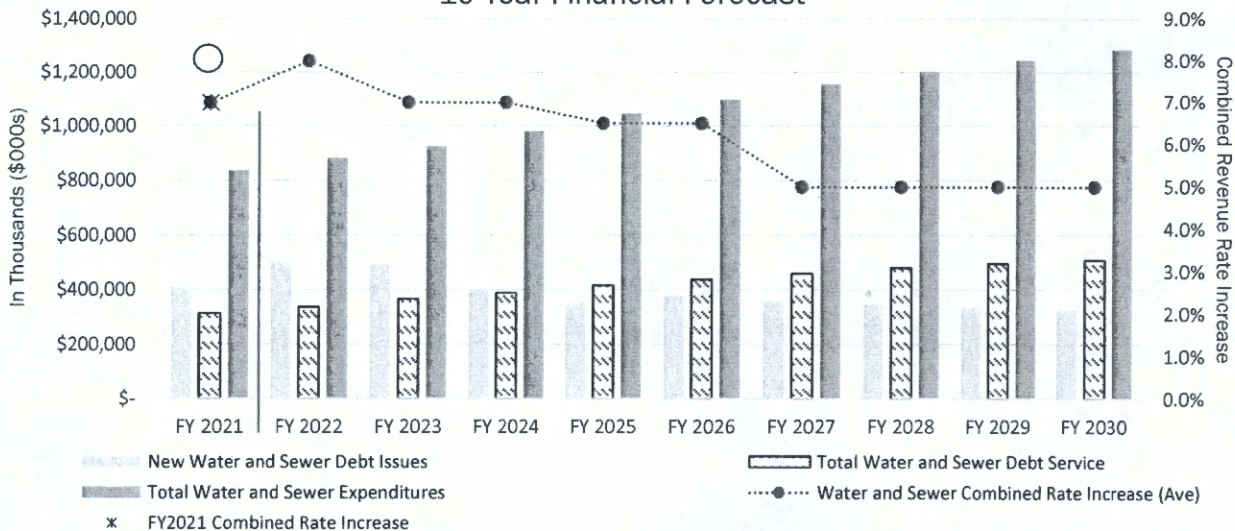
29 2.0% annual increase in All Other

30 \$10.0 million reduction included for Sewer Use Charges in FY 2020 to rebaseline projections

31 80% completion factor for CIP; 90% for Information Only (including Reconstruction)

32 Debt service impact on new bond issuance assumes only one interest payment (or half year) in FY 2021. Outer year  
33 impact would double interest paid.

10 Year Financial Forecast



FINANCIAL FORECAST - WATER AND SEWER OPERATING FUNDS AT 7.0% TO 6.5% W. NO LIMIT NEW ISSUE, NO PAYGO CAP, AND FY 2025 LEVEL  
 PRINCIPAL

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
(In Thousands \$000s)	Approved	Proposed	Projected	Projected	Projected	Projected	Projected
1 New Water and Sewer Debt Issues	\$ 384,910	\$ 409,922	\$ 503,092	\$ 495,728	\$ 403,775	\$ 357,972	\$ 379,483
2 Total Water and Sewer Debt Service	306,350	313,865	336,142	365,610	389,665	415,351	438,129
3 Total Water and Sewer Expenditures	802,620	837,660	882,989	926,486	981,021	1,046,657	1,098,999
4 Water and Sewer Combined Rate Increase (Ave)	5.0%	7.0%	8.0%	7.0%	7.0%	6.5%	6.5%
5 Water and Sewer User Charges	\$ 658,899	\$ 695,620	\$ 752,570	\$ 806,643	\$ 864,616	\$ 922,433	\$ 984,123
6 Other Sources/Fees	112,827	118,056	118,798	119,554	120,325	121,111	121,912
Account Maintenance Fees	32,296	32,361	32,426	32,491	32,556	32,621	32,686
Rockville Sewer Use	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Plumbing and Inspection Fees	12,900	13,286	13,685	14,095	14,518	14,954	15,403
Infrastructure Investment Fee	39,331	39,410	39,488	39,567	39,647	39,726	39,805
Miscellaneous	19,800	19,998	20,198	20,400	20,604	20,810	21,018
Interest Income	5,500	10,000	10,000	10,000	10,000	10,000	10,000
Unspecified Revenue Adjustment	-	-	-	-	-	-	-
7 <b>Operating Revenues</b>	<b>771,726</b>	<b>813,675</b>	<b>871,367</b>	<b>926,197</b>	<b>984,941</b>	<b>1,043,544</b>	<b>1,106,036</b>
8 OTHER TRANSFERS AND CREDITS	30,894	23,984	19,384	16,983	9,982	4,984	4,984
9 <b>Total Funds Available</b>	<b>802,620</b>	<b>837,659</b>	<b>890,751</b>	<b>943,181</b>	<b>994,923</b>	<b>1,048,528</b>	<b>1,111,020</b>
10 Salaries and Wages	\$ 129,676	\$ 135,511	\$ 141,609	\$ 147,982	\$ 154,641	\$ 161,600	\$ 168,872
11 Heat, Light, and Power	19,436	20,708	21,537	22,398	23,294	24,226	25,195
12 Regional Sewage Disposal	59,000	60,000	61,200	62,424	63,672	64,946	66,245
13 All Other	257,185	262,328	267,575	272,926	278,385	283,952	289,632
14 <b>Operating Expenses</b>	<b>\$ 465,297</b>	<b>\$ 478,548</b>	<b>\$ 491,921</b>	<b>\$ 505,730</b>	<b>\$ 519,992</b>	<b>\$ 534,724</b>	<b>\$ 549,943</b>
15 DEBT SERVICE							
16 Bonds and Notes Principal and Interest	306,307	313,865	336,142	365,610	389,665	415,351	438,129
18 OTHER TRANSFERS AND ADJUSTMENTS							
19 Additional and Reinstated	-	1,247	10,926	\$11,145	\$11,364	\$11,582	\$15,926
20 PAYGO (Contribution to bond fund)	31,016	44,000	44,000	44,000	60,000	85,000	95,000
21 <b>Total Expenditures</b>	<b>802,620</b>	<b>837,660</b>	<b>882,989</b>	<b>926,486</b>	<b>981,021</b>	<b>1,046,657</b>	<b>1,098,999</b>
22 <b>Net Revenue (Loss)</b>	<b>0</b>	<b>0</b>	<b>7,762</b>	<b>16,695</b>	<b>13,902</b>	<b>1,871</b>	<b>12,022</b>
23 BEGINNING FUND BALANCE - JULY 1	\$ 173,717	\$ 156,528	\$ 148,528	\$ 149,290	\$ 159,985	\$ 168,888	\$ 170,759
24 Net Increase (Decrease) in Fund Balance	0	0	7,762	16,695	13,902	1,871	12,022
25 Use of Fund Balance/Other Adjustments	(11,341)	(8,000)	(7,000)	(6,000)	(5,000)	-	-
26 ENDING FUND BALANCE - JUNE 30	\$ 162,376	\$ 148,528	\$ 149,290	\$ 159,985	\$ 168,888	\$ 170,759	\$ 182,781
27 Debt Service Coverage (1.10 is target)	1.00	1.06	1.10	1.12	1.16	1.20	1.23
28 Debt Service as a Percentage of Total Expenditures (Below 40% is target)	38.2%	37.5%	38.1%	39.5%	39.7%	39.7%	39.9%
29 Days Operating Reserve-on-Hand (60-90 days target)	73.8	64.7	61.7	63.0	62.8	59.5	60.7
30 Ending Fund Balance as a Percentage of Operating Revenue (10% min)	21.0%	18.3%	17.1%	17.3%	17.1%	16.4%	16.5%

**ANNUAL AND QUARTERLY CUSTOMER BILLS AT VARIOUS CONSUMPTION LEVELS**

Proposed Revenue Rate Increase

7.0%

Meter Size	Average Daily Consumption (Gallons Per Year)	Approved FY 2020	Quarterly Approved FY 2020	Proposed FY 2021	Quarterly Proposed FY 2021	Perc Chg	Quarterly \$ Chg
3/4" Residential Meter	100 (36,500 gal/yr)	\$555.76	\$138.94	\$586.76	\$146.69	5.6%	\$7.75
3/4" Residential Meter	165 (60,225 gal/yr)	871.31	217.83	924.35	231.09	6.1%	\$13.26
3/4" Residential Meter	500 (182,500 gal/yr)	3,178.63	794.66	3,392.87	848.22	6.7%	\$53.56
2" Meter	1,000 (365,000 gal/yr)	7,612.08	1,903.02	8,084.62	2,021.16	6.2%	\$118.14
3" Meter	5,000 (1,825,000 gal/yr)	38,947.68	9,736.92	41,486.66	10,371.67	6.5%	\$634.75
6" Meter	10,000 (3,650,000 gal/yr)	78,994.18	19,748.55	84,116.21	21,029.05	6.5%	\$1,280.51

Annual customer bills include the Account Maintenance Fee and Infrastructure Investment Fee shown of the following pages.