AGENDA CATEGORY: Finance Office

ITEM NUMBER: 

DATE: August 15, 2018

SUBJECT FY20 Spending Affordability Guidelines Briefing

SUMMARY This is a briefing for the Commissioners on the preliminary recommended FY20 Spending Affordability Guidelines (SAG) for WSSC and a briefing on the long term financial forecast for the WSSC Budget FY20-25.

SPECIAL COMMENTS

CONTRACT NO./REFERENCE NO. Not applicable.

COSTS Not applicable.

AMENDMENT/CHANGE ORDER NO. AMOUNT Not applicable.

MBE PARTICIPATION Not applicable.

PRIOR STAFF/COMMITTEE REVIEW Carla Reid, General Manager/CEO
Joseph F. Beach, Chief Financial Officer

PRIOR STAFF/COMMITTEE APPROVALS

RECOMMENDATION TO COMMISSION Briefing only - review of preliminary recommended Spending Affordability Guidelines for FY20 and the FY20-25 Financial Forecast.

COMMISSION ACTION
FY20–25 Spending Affordability Guidelines

Commission Meeting

August 15, 2018
Strategic Priorities

- Improve Infrastructure
- Achieve Business Process Excellence and Maintain Financial Stability
- Protect Our People, Infrastructure, Systems, and Resources
- Inspire Employee Engagement
- Enhance Customer Experience and Community Engagement
Established in April 1994 by Resolution by both Councils

Based on multi year planning model to stabilize annual rate increases and limit rate supported debt to less than 40% of the operating budget

Goal of establishing mutually acceptable limits by November 1 of each year for:
- Maximum Average Rate Increase
- Debt Service
- New Debt
- Total Water & Sewer Operating Expenses

Final Council approved budget/rates can be above or below November limits
# FY20 Budget & Rate Impact

<table>
<thead>
<tr>
<th></th>
<th>FY 2019 Approved</th>
<th>FY 2020 Proposed</th>
<th>Dollar Change</th>
<th>W&amp;S Rev Impact*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adopted Water and Sewer Charges</td>
<td>$627,943</td>
<td>$627,943</td>
<td>$0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>$127,902</td>
<td>$133,657</td>
<td>$5,756</td>
<td>0.9%</td>
</tr>
<tr>
<td>Heat, Light, and Power</td>
<td>20,577</td>
<td>21,194</td>
<td>617</td>
<td>0.1%</td>
</tr>
<tr>
<td>Regional Sewage Disposal</td>
<td>53,617</td>
<td>55,601</td>
<td>1,984</td>
<td>0.3%</td>
</tr>
<tr>
<td>All Other</td>
<td>252,521</td>
<td>257,571</td>
<td>5,050</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>DEBT SERVICE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PayGo (Contribution to bond fund)</td>
<td>31,016</td>
<td>31,016</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Sources and Fees</td>
<td>(107,306)</td>
<td>(112,013)</td>
<td>(4,708)</td>
<td>-0.7%</td>
</tr>
<tr>
<td>OTHER TRANSFERS AND CREDITS</td>
<td>(27,444)</td>
<td>(27,599)</td>
<td>(155)</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total - Base Case Revenue Need</strong></td>
<td>$627,943</td>
<td>$665,620</td>
<td>$37,677</td>
<td>6.0%</td>
</tr>
</tbody>
</table>
## Financial Forecast: FY20–25

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 2019 (In Thousands $000s)</th>
<th>FY 2020** (Proposed)</th>
<th>FY 2021 Projected</th>
<th>FY 2022 Projected</th>
<th>FY 2023 Projected</th>
<th>FY 2024 Projected</th>
<th>FY 2025 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 New Water and Sewer Debt Issues</td>
<td>$386,848</td>
<td>$385,527</td>
<td>$439,152</td>
<td>$432,080</td>
<td>$368,673</td>
<td>$350,042</td>
<td>$350,019</td>
</tr>
<tr>
<td>2 Total Water and Sewer Debt Service</td>
<td>275,162</td>
<td>306,193</td>
<td>323,890</td>
<td>341,796</td>
<td>357,270</td>
<td>377,105</td>
<td>393,047</td>
</tr>
<tr>
<td>3 Total Water and Sewer Expenditures</td>
<td>760,794</td>
<td>805,232</td>
<td>825,843</td>
<td>857,078</td>
<td>896,311</td>
<td>945,351</td>
<td>983,961</td>
</tr>
<tr>
<td>4 Water and Sewer Combined Rate Increase (Ave)</td>
<td>4.5%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>5.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>5 Water and Sewer User Charges</td>
<td>$627,943</td>
<td>$665,619</td>
<td>$705,556</td>
<td>$747,890</td>
<td>$792,763</td>
<td>$836,365</td>
<td>$878,183</td>
</tr>
<tr>
<td>6 Other Sources/Fees</td>
<td>111,306</td>
<td>112,013</td>
<td>112,734</td>
<td>113,468</td>
<td>114,216</td>
<td>116,769</td>
<td>119,389</td>
</tr>
<tr>
<td>7 Operating Revenues</td>
<td>739,249</td>
<td>777,633</td>
<td>818,290</td>
<td>861,357</td>
<td>906,979</td>
<td>953,134</td>
<td>997,573</td>
</tr>
<tr>
<td>8 TRANSFERS FROM OTHER FUNDS</td>
<td>27,444</td>
<td>27,599</td>
<td>22,484</td>
<td>19,383</td>
<td>16,982</td>
<td>9,984</td>
<td>4,984</td>
</tr>
<tr>
<td>9 Total Funds Available</td>
<td>766,693</td>
<td>805,232</td>
<td>840,774</td>
<td>880,740</td>
<td>923,961</td>
<td>963,119</td>
<td>1,002,557</td>
</tr>
<tr>
<td>10 ENDING FUND BALANCE - JUNE 30</td>
<td>$187,120</td>
<td>$175,778</td>
<td>$182,710</td>
<td>$199,372</td>
<td>$221,022</td>
<td>$233,790</td>
<td>$252,387</td>
</tr>
</tbody>
</table>

**FY 2020 is the planned implementation of new rate structure.**
Enhance current affordability programs of Customer Assistance Program (CAP), Water Fund, HomeServe Cares, Bay Restoration Fee Exemption with the following:

- Enhance assistance and billing options to low income customers
- Improve annual fund raising and voluntary contributions to the Water Fund
  - Blue Tie Ball/Golf Tournament/Other Events
- Expand the number of customers receiving assistance
- Reduce delinquencies
- Support state legislation to expand CAP eligibility
Minimizing Rate Increase Through Cost Savings

Capital Savings:

- Total planned reduction in debt of $413 million in FY20–25 CIP compared to previous CIP including:
  - Water Main Reconstruction reduced by $46 million FY20 compared to FY19
  - Potomac Submerged Channel Intake: $81 million deferred beyond FY25

- Debt service savings
  - Through debt reductions: $99.4 million (FY20–25)
  - Through change to level principal payments: $177.4 million or $6 million per year FY20–50

- Strategic Sourcing Teams identified $53 million in capital cost reductions through FY18
Minimizing Rate Increase Through Cost Savings

Operating Savings:

- Strategic Sourcing Teams identified nearly $32 million in operating cost reductions through FY18
- Group Insurance plan design changes: $4.3 million savings in FY17–19
- Overtime Reduced by $2.0 million since FY16
- Position Freeze in FY18 and FY19
- Workers Compensation:
  - 50% reduction in lost workday cases
  - 65% reduction in lost work days
  - 54% reduction in costs
- No Increase in positions since FY17
Minimizing Rate Increase Through Innovations

- WSSC is piloting several different technologies to improve our environmental stewardship, productivity, and cost control:
  - Pilot of two leak detection technologies to reduce water loss and potentially reduce water main breaks
  - Piloting new water main rehabilitation technologies
  - Water system flushing pilot to reduce discolored water complaints
  - Reduced chemical use through piloting new technologies at the Seneca and Parkway Water Resource Recovery Facilities
1% W&S Rate Increase = $6.3 million
Debt service impact on new bonds assumes one interest payment in FY20
$50 million CIP Reduction = $1.9 million
$100 million CIP Reduction = $3.7 million
$125 million CIP Reduction = $4.7 million
Budget Impact of Reduced Rates

- 5% Rate Increase: $6.3 million in reductions
  - $125 million in CIP reductions plus
  - $1.7 million in operating reductions

- 4% Rate Increase: $12.6 million in reductions
  - $125 million CIP reductions plus
  - $8 million operating reductions

- Add $6.3 million in additional operating reductions for every additional 1% reduction in the water & sewer rates
## What are other Utilities doing: Approved and Planned Rate Increases

<table>
<thead>
<tr>
<th>Utility</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>WSSC</td>
<td>4.5%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>5.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>DC Water</td>
<td>13.5%</td>
<td>6.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baltimore County</td>
<td>13.9%</td>
<td>6.5%</td>
<td>6.5%</td>
<td>6.5%</td>
<td>6.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City of Baltimore</td>
<td>9.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pittsburgh</td>
<td>16.7%</td>
<td>10.0%</td>
<td>11.0%</td>
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SAG Calendar/Process

- Bi-County Staff Working Group meet:
  - September (9/11 & 9/25) and review operating budget & rate scenarios and discuss related issues
- Public Hearings on CIP – (September 5–6)
- Montgomery County T&E Hearing (Oct. TBD)
- Prince George’s County THE Hearing (Oct. TBD)
- Prince George’s County Council (Nov. TBD)
- Montgomery County Council (Nov. TBD)
Coordination with Counties

- CIP addresses mandatory, regulatory, and system improvements
- Customer service and operational improvements
- Long-term rate stability needed for CIP implementation
- Cost savings achieved
- Innovation programs underway