

FY 2021- 2026

Spending Affordability Guidelines

Commission Meeting

August 21, 2019

Strategic Priorities

- ▶ Enhance Customer Experience
- ▶ Optimize Infrastructure
- ▶ Protect our Resources
- ▶ Spend Customer Dollars Wisely
- ▶ Transform Employee Engagement

Spending Affordability Guidelines Background

- ▶ 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 service to less than 40% of the operating budget

Spending Affordability Guidelines Background

- ▶ 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 can be above or below November limits

FY 2021 Budget & Rate Impact

Need Based

		(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 REVENUE	\$	(143,721)	\$	(133,338)	\$	10,383	1.6%
4	OPERATING EXPENSES							
5	Salaries and Wages	\$	129,676	\$	135,511	\$	5,835	0.9%
6	Heat, Light, and Power		19,436		20,019		583	0.1%
7	Regional Sewage Disposal		59,000		60,000		1,000	0.2%
8	All Other		257,185		262,328		5,143	0.8%
9	+ Additional and Reinstated		-		5,348		5,348	0.8%
10	DEBT SERVICE		306,307		329,841		23,534	3.6%
11	PAYGO (Contribution to bond fund)		31,016		31,016		0	0.0%
12		\$	802,620	\$	844,063	\$	41,444	6.4%
13	Total - Base Case Revenue Need	\$	658,899	\$	710,726	\$	51,827	8.0%

Financial Forecast: Need Based

	(In Thousands \$000s)	FY 2020 Approved	FY 2021 Proposed	FY 2022 Projected	FY 2023 Projected	FY 2024 Projected	FY 2025 Projected	FY 2026 Projected
1	New Water and Sewer Debt Issues	\$ 384,910	\$ 409,922	\$ 503,092	\$ 484,744	\$ 399,775	\$ 352,972	\$ 354,483
2	Water and Sewer Combined Rate Increase (Ave)	5.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
3	Water and Sewer User Charges	\$ 658,899	\$ 702,023	\$ 759,486	\$ 821,651	\$ 888,905	\$ 961,664	\$1,040,378
4	Other Sources and Fees	112,827	118,056	118,798	119,554	120,325	121,111	121,912
5	Operating Revenues	771,726	820,079	878,283	941,205	1,009,230	1,082,775	1,162,290
6	Other Transfers and Credits	30,894	23,984	19,384	16,983	9,982	4,984	4,984
7	Total Funds Available	802,620	844,063	897,667	958,188	1,019,212	1,087,759	1,167,275
8	Operating Expenses	\$ 465,297	\$ 483,207	\$ 501,807	\$ 520,937	\$ 540,616	\$ 560,861	\$ 581,691
9	Total Water and Sewer Debt Service	306,307	329,841	354,306	379,839	401,576	427,426	452,077
10	PAYGO (Contribution to bond fund)	31,016	31,016	31,016	42,000	60,000	90,000	120,000
11	Total Water and Sewer Expenditures	802,620	844,063	887,128	942,776	1,002,192	1,078,287	1,153,768
12	ENDING FUND BALANCE - JUNE 30	\$ 162,376	\$ 148,876	\$ 152,415	\$ 161,827	\$ 173,847	\$ 183,318	\$ 196,825

Financial Forecast: Need Based

▶ Capital Policy Guidelines

- Maintain adequate liquidity and fund balance reserves

	FY 2020 Approved	FY 2021 Proposed	FY 2022 Projected	FY 2023 Projected	FY 2024 Projected	FY 2025 Projected	FY 2026 Projected
(In Thousands \$000s)							
1 Debt Service Coverage (1.10 is target)	1.00	1.02	1.06	1.11	1.17	1.22	1.28
2 Debt Service as a Percentage of Total Expenditures (Below 40% is target)	38.2%	39.1%	39.9%	40.3%	40.1%	39.6%	39.2%
3 Days Operating Reserve-on-Hand (60-90 days target)	73.8	64.4	62.7	62.7	63.3	62.1	62.3
4 Ending Fund Balance as a Percentage of Operating Revenue (10% min)	21.0%	18.2%	17.4%	17.2%	17.2%	16.9%	16.9%

Customer Affordability

- ▶ Affordability programs include Customer Assistance Program (CAP), Water Fund, Bay Restoration Fee Exemption along with the following:
 - Offering PipeER loan program effective July 1, 2019
 - Providing assistance and billing options available to low income customers
 - Continuing annual fund raising and voluntary contributions to the Water Fund
 - Blue Tie Ball/Golf Tournament/Other Events
 - Expanding the number of customers receiving assistance
 - Implementing State legislation to expand CAP eligibility

Fiscal Planning Actions Implemented

Capital Savings:

- ▶ Total reductions in debt of \$413 million reflected in prior Capital Improvements Program (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 \$31 million in FY 2021 to \$120 million in FY 2026 to manage debt service ratios
 - Implement level principal payments beginning FY 2023
- ▶ Strategic Sourcing Teams identified \$59 million in capital cost savings/avoidance since FY 2013

Fiscal Planning Actions Implemented

Operating Savings:

- ▶ Strategic Sourcing Teams identified nearly \$36 million 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
- ▶ Position Freeze in FY 2018, FY 2019, and FY 2020
- ▶ 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

Fiscal Planning Actions Implemented

- ▶ WSSC is piloting several technologies to improve our environmental stewardship, productivity, and cost control:
 - Water system transient pressure monitoring systems to reduce breaks and extend pipe life
 - New low impact, lower cost high pressure, pull through liners for both water and sewer main rehabilitation
 - Technologies to reduce chemical use and improve Nitrogen and Phosphorus removal at Piscataway, Seneca and Parkway Water Resource Recovery Facilities
 - Implementing satellite leak detection for 20% of water system in FY 2020 to identify and reduce water loss and water main breaks

FY 2021 Rate Change and Budget Impact

- ▶ 1.0% Water and Sewer Average Rate Increase/Decrease
 - Operating Budget impact = \$6.5 million
 - Capital Budget impact:
 - \$50 million in Capital = \$2.0 million Operating Budget*
 - \$100 million in Capital= \$4.0 million Operating Budget*
 - \$125 million in Capital= \$5.0 million Operating Budget*
 - \$162 million in Capital= \$6.5 million Operating Budget*

*Debt service changes with one principal and one interest payment in FY 2021

Examples:

Budget Impact with Reduced Average Rate

- ▶ 1.0% Average Rate Decrease: \$6.5 million in reductions
 - \$125 million in capital reductions plus
 - \$1.5 million in operating reductions
- ▶ 2.0% Average Rate Decrease: \$13.0 million in reductions
 - \$125 million CIP reductions plus
 - \$8.0 million operating reductions
- ▶ Take \$6.5 million in additional operating reductions for every additional 1.0% reduction in the water & sewer rates

Other Utilities: Approved and Planned Revenue Rate Increases

Utility	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
WSSC	4.5%	5.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
DC Water (Retail rate for water and sewer)	13.0%	11.5%	12.5%	11.5%	8.5%	7.5%	6.0%	5.5%
City of Baltimore (fixed and volumetric rates)	9.2%	9.4%	9.4%	9.4%				

Sources:

DC Water:

https://www.dewater.com/sites/default/files/finance/budgets/2020/section_3_financial_plan.pdf

Baltimore City:

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

FY 2021 Calendar

- ▶ Public Hearings on CIP – (Sept. 4 & 5)
- ▶ Bi-County Staff Working Group Meetings – (Sept. 11 & 25)
- ▶ Montgomery County T&E Hearing - (Oct. TBD)
- ▶ Prince George's County TIEE Hearing - (Oct. TBD)
- ▶ Prince George's County Council - (Nov. TBD)
- ▶ Montgomery County Council - (Nov. TBD)

Key Messages

- ▶ WSSC's infrastructure is aging – about 40 percent of our water/sewer mains are more than 50 years old
- ▶ WSSC's CIP is carefully developed to repair and replace old plants, pipes and pumps – ensuring we continue to deliver safe, clean and reliable water to our customers and return clean water to the environment.
- ▶ Long-term rate stability is key to funding a CIP that continues our commitment to superior water quality, exceptional customer service, safety and financial stability.
- ▶ WSSC has saved tens of millions through cost-saving measures and will continue to look for opportunities to control costs and save money.
- ▶ WSSC has a robust innovation program designed to save money and generate revenue to help stabilize rates.

