



FY 2023 – 2028 Spending Affordability Guidelines

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Agenda

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Spending Affordability Guidelines Background

- Established in April 1994 via Resolution by both Councils
- Based on a multi-year financial model, which helps stabilize annual rate increases and keep key financial metrics within Chief Financial Officer guidelines
- 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

Long-Range Financial Plan

- Customer affordability pressure with preliminary rate increase of 8.0% in FY 2023
 - Increases Ready-to-Serve (RTS) charges at same rate as volumetric
 - Use of fund balance has been phased-out

A Financial Plan	FY 2022 Estimate	FY 2023 Preliminary	FY 2024 Projected	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected
I Affordability:							
Rate Increase	5.9%	8.0%	8.0%	7.0%	6.5%	6.0%	6.0%
II Capital Demands:							
New Debt Issues	\$ 350,000	\$ 430,093	\$ 397,210	\$ 374,496	\$ 371,511	\$ 358,063	\$ 330,000
PAYGO	27,585	31,016	44,000	65,000	80,000	80,000	100,000
Total Funding for Bonded Projects	377,585	461,110	441,210	439,496	451,511	438,063	430,000
III Debt Service Coverage:							
Net Operating Revenue	\$ 316,858	\$ 351,216	\$ 406,590	\$ 459,616	\$ 511,962	\$ 546,335	\$ 598,873
Debt Service	307,493	324,693	348,176	375,922	398,703	419,705	439,474
Net Revenue Strength	9,365	26,524	58,414	83,693	113,258	126,630	159,399
IV Liquidity and Reserves:							
Ending Fund Balance	\$ 157,844	\$ 165,124	\$ 189,309	\$ 215,775	\$ 256,805	\$ 311,183	\$ 378,330
Net Increase/(Shortfall)	(4,448)	7,279	24,186	26,465	41,030	54,378	67,147
V Unspecified:							
Tentative (Savings Plan)/A&R	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 20,000	\$ 20,000

Long-Range Financial Plan

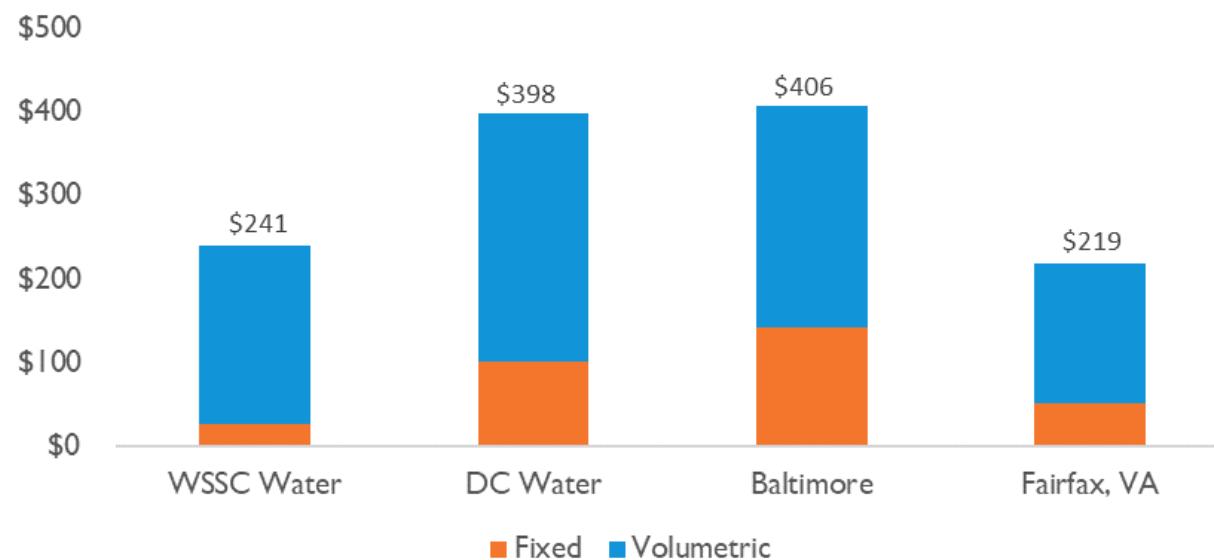
- Capital policy guidelines
 - Restrain new debt issuance and related debt service expense
 - Maintain adequate liquidity and fund balance reserves

B Metrics	CFO Guideline	FY 2022 Estimate	FY 2023 Preliminary	FY 2024 Projected	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected
I Debt Service Coverage:								
a Debt Service Coverage	1.10 - 1.25	1.03	1.08	1.17	1.22	1.28	1.30	1.36
b Debt Service (P+I) as a Percentage Total Expenditures	< 40.0%	36.6%	36.9%	37.4%	37.9%	38.2%	38.3%	38.2%
II Liquidity and Reserves:								
a Days Operating Reserves-on-Hand	75 - 105	68.5	68.5	74.2	79.3	89.8	103.7	119.9
b Ending Fund Balance as a Percentage of Operating Revenue	15.0%	19.2%	18.9%	20.0%	21.3%	23.8%	27.2%	31.2%
III Workforce								
Workyears	N/A	1,786	1,786	1,786	1,789	1,789	1,789	1,789

Ready-to-Serve Charges

- The RTS charges are the Account Maintenance Fee (AMF) and the Infrastructure Investment Fee (IIF)
 - AMF is meant to cover fixed costs for account maintenance
 - IIF helps pay debt service expenses related to pipe replacement
- WSSC Water has not increased the RTS charges since FY 2017

Quarterly Residential Water/Sewer Bill Comparison
(165 Gallons per Day; 3/4" Meter)

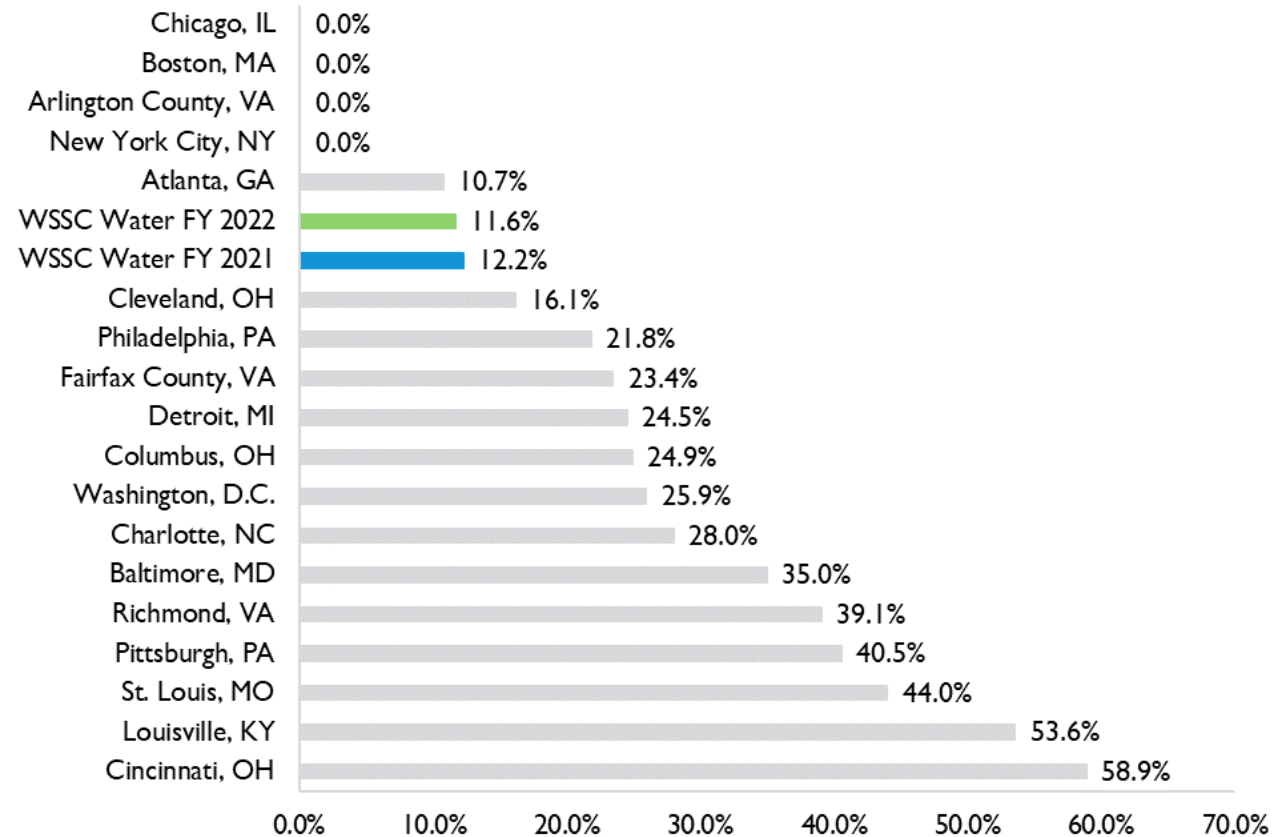


WSSC Water's fixed charges per quarter are significantly lower than other regional providers

FY 2022	WSSC Water	DC Water	Baltimore	Fairfax, VA
Fixed	\$ 28	\$ 102	\$ 142	\$ 52
Volumetric	\$ 213	\$ 296	\$ 264	\$ 166
Total	\$ 241	\$ 398	\$ 406	\$ 219

Ready-to-Serve Charges

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



- Revenue from RTS charges as a share of total revenues decreases each year that the RTS charges are not increased
- Fixed charges are a key source of revenue stability for capital intensive water and sewer utilities

WSSC Water's fixed charges are amongst the lowest for peer agencies that charge fixed fees

FY 2023 Fiscal Needs

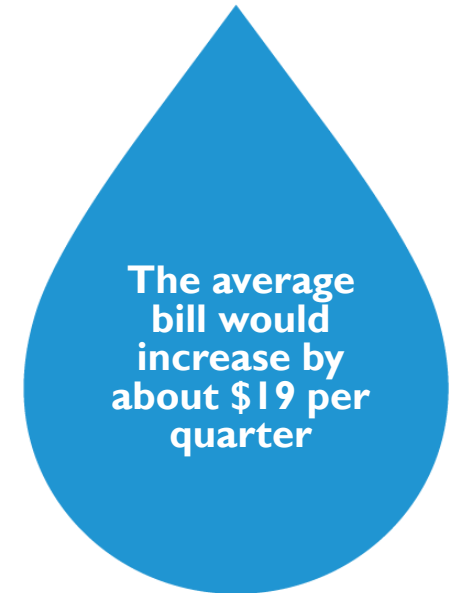
- The Budget Division received requests for \$37.2 million in funding as part of the FY 2023 additional and reinstated process
- The long-range financial plan for FY 2023 currently has only \$5.0 million of funding available for additional and reinstated requests
- Critical additional and reinstated requests include:
 - Positions and funding for training, initial start-up, and testing of the new Piscataway Bioenergy facility
 - Positions and funding to comply with new regulatory requirements as a result of a change to the Lead and Copper Rule
 - Funding to comply with new regulatory requirements for dam inspection/monitoring
 - Funding to address deferred maintenance for water storage tanks

Financial Impacts of Reducing the Rate Increase

- A 1.0% decrease to the proposed rate increase would require a \$7.8 million reduction to the operating budget
- Alternatively, a 1.0% rate reduction would require \$283.1 million in reductions or deferrals to the capital budget
- Other examples of how to achieve potential rate reductions:
 - 1.0%: \$6.4 million in operating reductions and \$50.0 million in capital deferrals
 - 2.0%: \$10.1 million in operating reductions and \$200.0 million in capital deferrals

Customer Impacts

- The long-range financial plan increases both volumetric and RTS charges by 8.0%
 - RTS charges have not increased since FY 2017
 - An 8.0% increase to volumetric and RTS charges will generate approximately the same revenue as an 8.8% rate increase to volumetric only



Quarterly Bill	FY 22 Approved	FY 23 (8.0% Volumetric & RTS)
Volumetric Charges	\$ 213.04	\$ 230.07
Ready-to-Serve Charges	28.00	30.24
Total Quarterly Bill	241.04	260.31
FY 23 Quarterly Bill Increase		19.27

*The average WSSC Water bill is based on a 3-person household using 55 gallons of water per person per day

Customer Impacts

- Customers enrolled in the Customer Assistance Program (CAP) would not be impacted by an increase to the RTS charges since they receive a bill credit to cover them
- For CAP customers, the average bill increase would be about \$17 per quarter

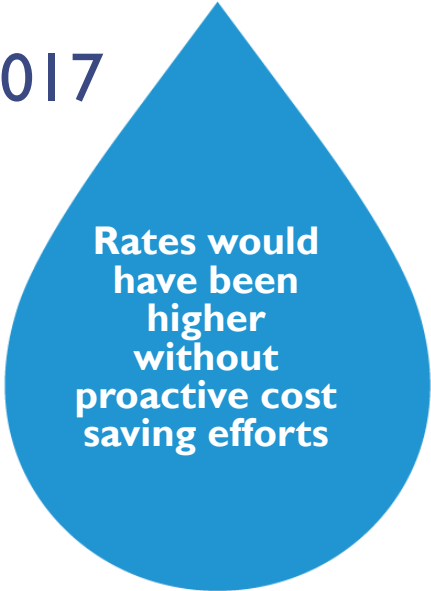


Quarterly Bill	CAP Customers		
	FY 22 Approved	FY 23 (8.0% Volumetric & RTS)	FY 23 (8.8% Volumetric)
Volumetric Charges	\$ 213.04	\$ 230.07	\$ 231.73
Ready-to-Serve Charges	-	-	-
Total Quarterly Bill	213.04	230.07	231.73
FY 23 Quarterly Bill Increase		17.03	18.69

*The average WSSC Water bill is based on a 3-person household using 55 gallons of water per person per day

Fiscal Savings Actions

- Supply Chain Management Transformation reductions and avoidance savings since FY 2013
 - Operating savings of \$26.1 million
 - Capital savings of \$54.0 million
- Group insurance plan revision savings of \$5.7 million since FY 2017
- 47 frozen positions
- Reduced overtime expenses of \$7.9 million since FY 2017
- Cost savings plans to offset COVID-19 impacts
 - FY 2020: \$61.1 million
 - FY 2021: \$72.7 million



Rates would have been higher without proactive cost saving efforts

Fiscal Savings Actions

- Prestressed Concrete Cylinder Pipe Condition Assessment Program
 - \$24.0 million invested to date in acoustic fiber optic monitoring (AFO)
 - \$90.0 million in savings from 45 averted failures
- Capital Savings
 - Water main reconstruction program goal of replacing 37 miles in FY 2023 remains below target level of 55 miles
 - Potomac submerged channel intake will remain deferred beyond FY 2028
- Maintain AAA Bond Rating
 - Increase PAYGO from \$31 million in FY 2021 to \$100 million in FY 2028 to manage debt service ratios
 - Implement level principal payments beginning FY 2025

WSSC Water Innovation Update

- Networks

- Optimize sewer preventive maintenance
- Adopt a fire hydrant – smart phone app for customers
- Transient pressure monitoring pilot – help reduce breaks and extend pipe life
- New high pressure pull-through liners pilot – low impact and lower cost for hard to repair water mains
- Advanced technologies for water/sewer inspections – robots, floating platforms, 3D scanning

- Plants

- Parkway enhanced biological phosphorus removal – average 40% alum reduction
- Technologies to reduce chemical use and improve nitrogen and phosphorus removal at various WRRFs

Fostering an
innovative
culture



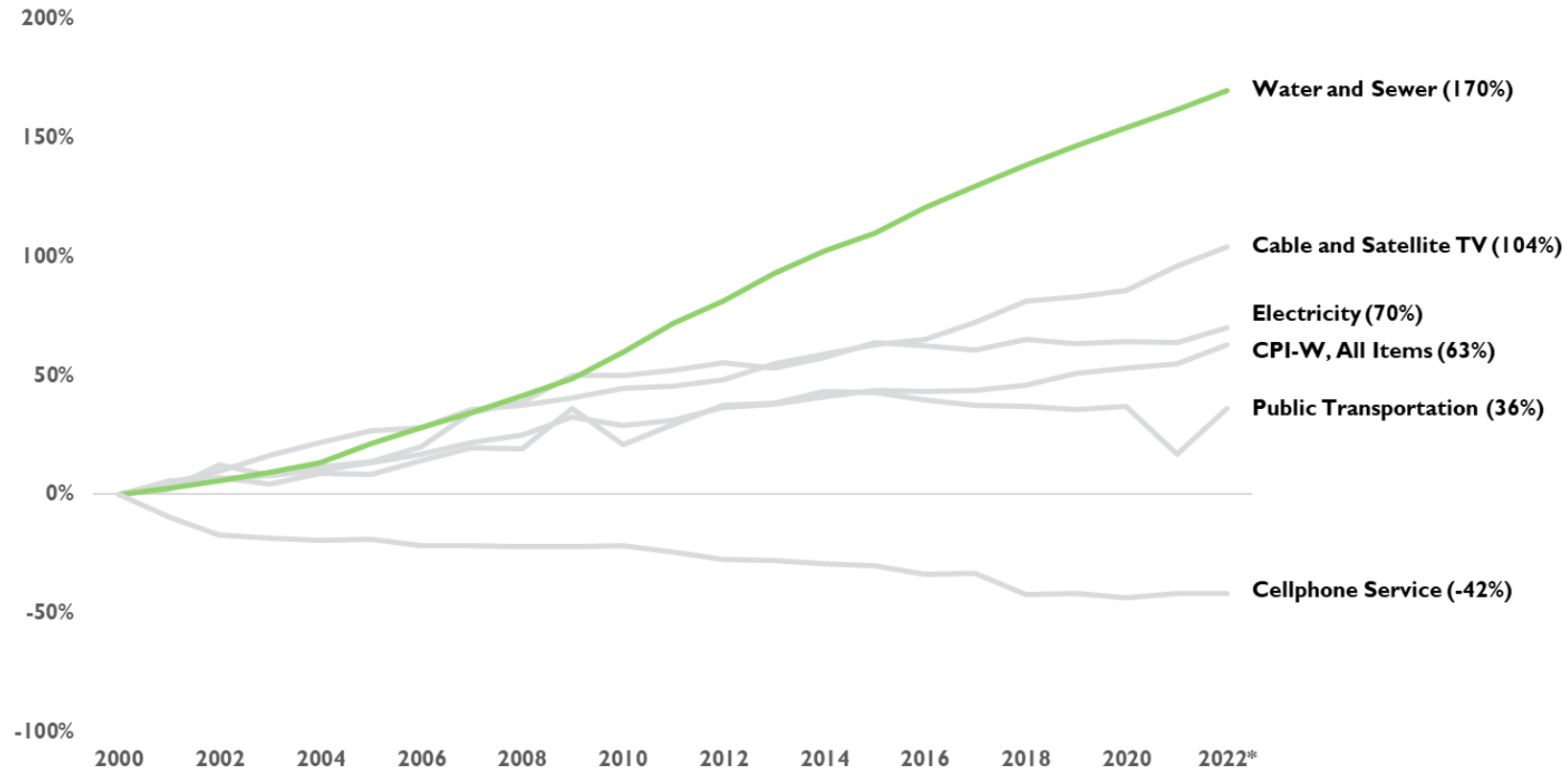
WSSC Water Innovation Update

- Product Development
 - Valve monitoring device – remote monitoring of critical valves in the water network
- Business Development
 - Contacting manufacturing and distribution companies to license fire hydrant tool
 - Water main replacement optimization tool – received 2021 Smart 50 Award and a source of non-rate revenue
- Program Management
 - Developing internal training classes for innovation and change management

Fostering an
innovative
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Inflationary Rates of Various Sectors

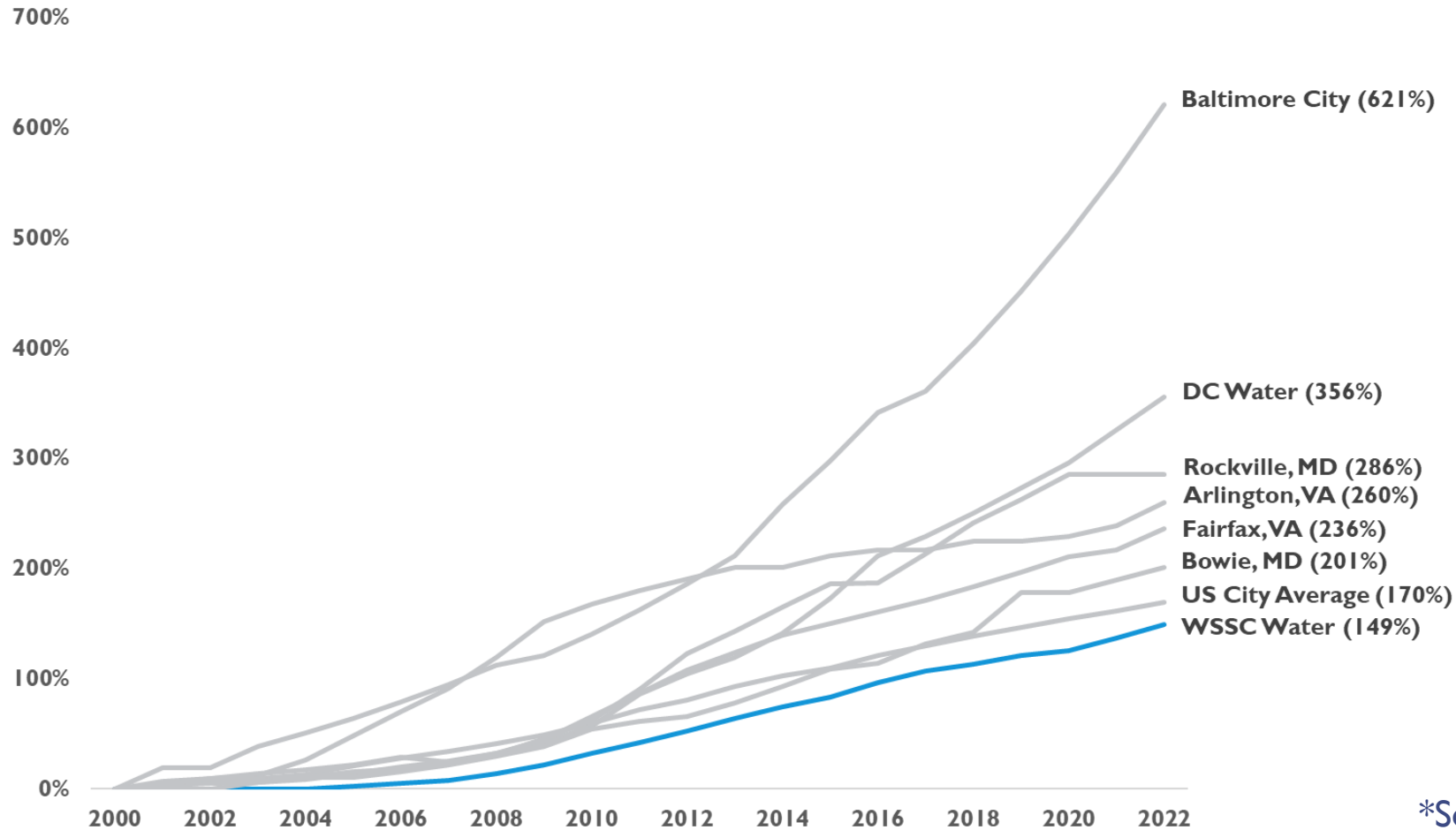


Water and sewer costs have been increasing at above average inflation rates nationally

*FY 2022 data is preliminary.
Source: Bureau of Labor Statistics

WSSC Water Compared to Peers

FY 2000 to FY 2022 Bill Increase @ 165 Gallons per Day



WSSC Water's cumulative bill increase since FY 2000 is well below the US City Average and those of its regional peers

*Some FY 2022 data is preliminary.

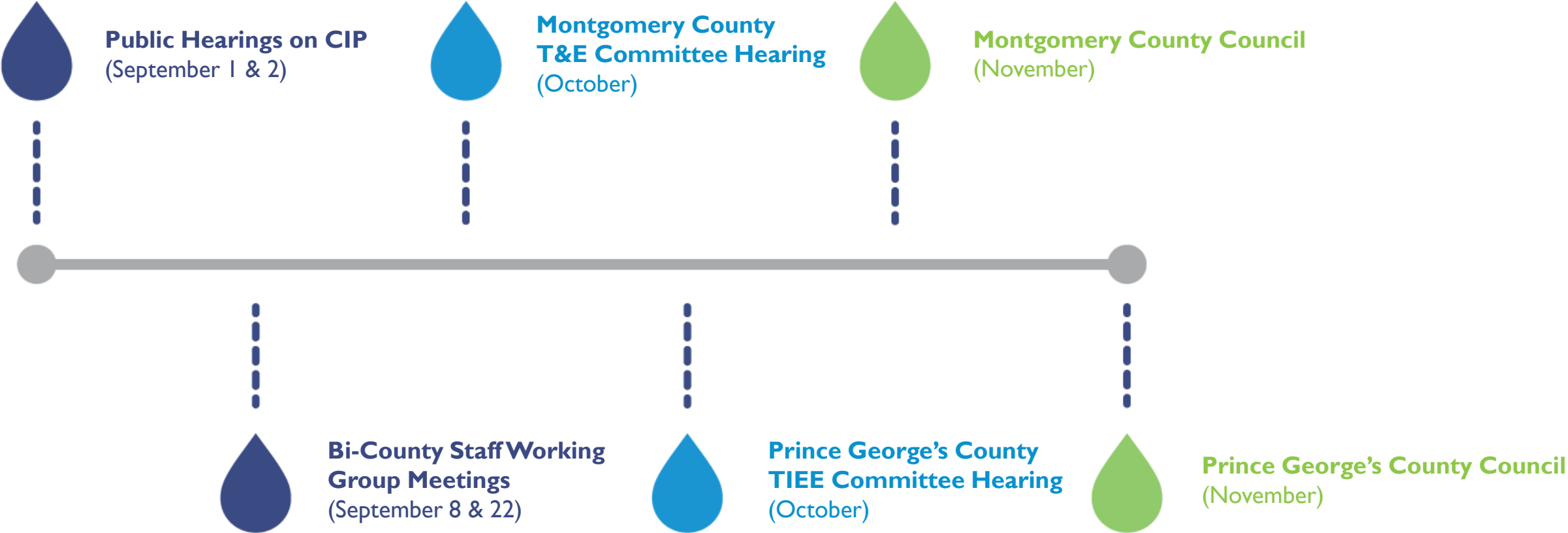
WSSC Water Compared to Peers

Approved and Planned Rate Increases

Agency	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
WSSC Water								
Water + Wastewater (volumetric)	6.0%	5.9%	8.0%	8.0%	7.0%	6.5%	6.0%	6.0%
Water + Wastewater (fixed fee for 5/8" meter)	0.0%	0.0%	8.0%	8.0%	7.0%	6.5%	6.0%	6.0%
DC Water								
Residential Water + Sewer (volumetric)	9.9%	7.8%	8.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Customer Metering Fee (5/8" meter)	28.5%	56.3%						
Clean Rivers Impervious Area Charge (per Equivalent Residential Unit)	-6.8%	-5.7%	6.4%	22.9%	-4.2%	3.3%	3.1%	4.4%
Water System Replacement Fee (5/8" meter)	0.0%	0.0%						
City of Baltimore								
Water (volumetric and fixed charges)	9.9%	9.9%	9.9%	9.9%	9.9%	6.0%	3.3%	3.3%
Wastewater (volumetric and fixed charges)	9.0%	9.0%	6.0%	6.0%	5.0%	3.3%	3.3%	3.3%
Fairfax, VA								
Fairfax Water + Sewer (volumetric)	1.3%	5.4%						
Fairfax Water + Sewer (fixed fee for 5/8" meter)	4.9%	8.6%						

WSSC Water's recent and forecasted rate increases compare favorably to those of its regional peers

FY 2023 SAG Calendar



Message to Stakeholders

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

