

# Long-Range Comprehensive Financial Plan

Office of the Chief Financial Officer

June 1, 2026, Update

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## Executive Summary

### Overview

As the utility providing critical water and wastewater services to 1.9 million residents in Montgomery and Prince George’s County, Maryland, WSSC Water is pleased to provide an update to our Long-Range Comprehensive Financial Plan, which was originally finalized November 1, 2025. With a service area of nearly 1,000 square miles, WSSC Water ranks among the largest water and wastewater utilities in the country.

We are proud to have a longstanding history of strong financial performance and creditworthiness that has earned WSSC Water the highest credit ratings of AAA, Aaa, AAA by *S&P Global Ratings*, *Moody’s Investor Service* and *Fitch Ratings*, respectively. Maintaining these ratings is important as WSSC Water continues to make the system investments required for the ongoing delivery of safe, reliable, resilient and secure water and wastewater services to our valued customers and the communities we are privileged to serve. These investments are capital-intensive, and accessing capital to operate our vast system is more cost effective when our financial standing is of the highest rating.

Currently, like many water and wastewater utilities nationwide that align with our service territory, operations and customer interests, WSSC Water is confronting workforce competition, climate change, aging infrastructure and affordability pressures while always striving to maintain affordability for its valued customers. To navigate this landscape, WSSC Water developed a three-year Strategic Plan and remains committed to sound long-term financial practices, guided by prudent policies and best practices.

As WSSC Water developed its financial plan, four key factors were considered that will be addressed throughout this document:

- Operations and Maintenance Requirements
- Capital Planning Requirements
- Spending Affordability and Rate Management
- Operational Efficiency and Cost Control

The financial plan is framed through the following principles and goals, which include:

- Maintaining Low-Cost Capital and Financial Flexibility
- Strengthening Strategic Planning and Fiscal Discipline
- Enhancing Financial Resiliency and Risk Preparedness

### Financial Strength Built on Strategic Planning

In 2024, WSSC Water released its 2025–2027 Strategic Plan, “Our North Star,” to guide the transition to a “Smart One Water” utility. The plan aligns investments, innovation, and workforce development with financial sustainability and customer value, reinforcing the Commission’s long-term vision. With clear financial objectives outlined in the Strategic Plan, WSSC Water has a framework to provide safe, reliable, resilient and secure water and wastewater services to our valued customers.

## **Long-Range Comprehensive Financial Plan and Stress Testing**

WSSC Water, with the support of its Financial Advisor, prepared an initial Long-Range Comprehensive Financial Plan dated November 1, 2025 (2025 LRCP). The current plan builds upon WSSC Water's longstanding financial planning practices, and summarizes its financial management policies, best practices and objectives.

Our comprehensive long-term planning process includes development of a financial plan that allows WSSC Water to assess the impact of its financial policies, debt and liquidity metrics and resource allocation, to ensure sound financial management and balanced budgets. WSSC Water has further enhanced its long-term planning processes by introducing formal stress testing under different assumptions for various economic conditions impacting: (1) Operating Revenues, (2) Operating Expenditures, (3) Affordability, (4) Interest Rates, and (5) Water Usage. These tests model potential adverse scenarios and assess how external and internal pressures could affect financial performance, liquidity, and compliance with key metrics.

The results of these analyses inform rate setting, debt management, and policy decisions, ensuring the Commission can proactively mitigate financial risks while maintaining affordability and service reliability.

## **Financial Management Policies, Best Practices and Objectives**

WSSC Water manages its system in accordance with formal financial management policies, fiscal guidelines, and nationally recognized best practices. These policies collectively promote accountability, ensure compliance with state law, and reinforce confidence among customers, credit rating agencies, and capital market participants.

WSSC Water engaged its Financial Advisor to review its financial management framework for compliance with rating agency criteria and peer best practices. We view this as a common practice for evaluating recommendations and providing updates to its financial management policies and practices, as required. These recommendations will be incorporated in subsequent financial plans, based on this review.

## **Credit Ratings**

WSSC Water maintains the highest possible triple-A ratings by all three rating agencies. This is laudable, in that all credit rating agencies have rated WSSC Water with the highest rating. WSSC Water recognizes that maintaining these ratings requires strong financials and feasible plans that are implementable, with positive deliverables aligned with balanced planned spending and the required revenue to achieve them. Each agency assigns WSSC Water a rating based on its published water and sewer utility rating criteria and scorecards. While the rating agencies highlight several credit positives of WSSC Water, including its strong management team, liquidity levels, utility fundamentals, and the ability to levy ad valorem property taxes, if needed, they also identify challenges including below-median financial metrics relative to peers and significant long-term capital needs. WSSC Water works closely with its Financial Advisor on strategies to maintain its credit ratings.

## **Rate Setting and Cost of Service**

WSSC Water determines rates annually and takes great care to ensure they are determined with equity, cost of service, fairness and financial stability in mind. WSSC Water has established priorities to guide its rate setting process, including: (1) cost-based rates, (2) revenue stability, (3) rate stability, (4) affordability, (5) initiatives and programs to minimize customer impacts, (6) conservation, (7) ease of understanding the bill and rates, and (8) ease of implementation. Every three to five years, WSSC Water conducts a “cost of service” study to ensure that costs are allocated fairly to different customer classes and ascertain data-driven insights for rate design. Additionally, each year, WSSC Water and Montgomery and Prince George’s counties engage in the Spending Affordability Guidelines process (SAG), which focuses on balancing affordability considerations with the need for revenue enhancements and use of resources required to serve existing customers, meet environmental mandates, and maintain the budget and debt service at prudent and sustainable levels.

## **Capital Improvements Program**

WSSC Water’s FY 2026–FY 2031 Capital Improvements Program (CIP) invests approximately \$4.87 billion over six years to modernize, renew and strengthen essential water and wastewater infrastructure. Averaging about \$813 million annually, the CIP advances system reliability, regulatory compliance and sustainability through more than 500 active projects, including rehabilitation of aging water mains, upgrades at the Potomac and Patuxent Water Filtration Plants, and continued expansion of Advanced Metering Infrastructure (AMI) and smart-asset technologies to enhance services to our customers.

The program is funded through a balanced financial strategy that combines general obligation bonds, Pay-As-You-Go (PAYGO) funding and low-cost state loans and grants, including support from the Maryland Water Infrastructure Financing Administration (MWIFA) and the Infrastructure Investment and Jobs Act (IIJA). In FY 2026, WSSC Water also issued \$28 million in Green Bonds to finance projects that will improve both energy efficiency and environmental performance. Through disciplined planning and sound financial management, the FY 2026–FY 2031 CIP ensures WSSC Water can meet regulatory mandates, preserve its AAA credit ratings, and deliver affordable, resilient and sustainable service for decades to come.

## **WSSC Water’s Debt**

WSSC Water has a significant debt portfolio and adheres to conservative debt policy and prudent debt management practices. These practices maintain investor confidence, support market access and help to safeguard WSSC Water’s exceptional credit standing. Our debt policies and metrics are detailed in this report and provide focus for the Finance Team to achieve WSSC Water’s short-term, medium-term and long-term financial goals.

## **FY2025 Operating Performance and FY2026 Approved Budget**

WSSC Water continued its strong operating budget performance in FY 2025, with actual operating revenues exceeding the budget by \$34 million, or 3.4 percent. WSSC Water experienced underspending in operations and maintenance, mainly in professional services and lower workers’ compensation claims. This overall performance reflects WSSC Water’s continued commitment to operational efficiency, fiscal

discipline and proactive financial management to maintain budgetary balance and long-term sustainability.

WSSC Water's FY 2026 Approved Budget is supported by a 9.5 percent rate revenue enhancement. The FY 2026 Approved Budget total of \$1,130.5 million is approximately 12.4 percent higher than the FY 2025 Actual. The net increase is primarily due to an increase in PAYGO associated with WSSC Water's capital improvement program, used to moderate total debt principal growth over time, as well as an increase in salaries and wages, and an adjustment to the operations and maintenance budget. The FY 2026 approved operation expenses increase of 10.0 percent is primarily due to increases in compensation, regional sewage disposal, utilities, and small equipment costs.

### **FY2027 Proposed Budget**

Our FY 2027 Proposed Budget is supported by a 6.0 percent revenue enhancement, 5.0 percent of which is comprised of a volumetric and fixed fees rate increase with the remaining 1.0 percent achieved through the use of one-time revenue from interest income as a means of lessening the impact on customers. The FY 2027 Proposed Budget of \$1.97 billion is approximately 7.5 percent higher than the FY 2026 Approved Budget.

### **Affordability and Customer Assistance Programs**

Like many public utilities nationwide, WSSC Water continues to balance increasing infrastructure and operational costs with the need to preserve affordability for its customers. Although the average cost of clean, reliable drinking water and wastewater services remains competitive compared to other household utilities, an increasing number of customers are experiencing financial hardship amid broader economic pressures. Nevertheless, WSSC Water remains committed to full cost recovery to ensure the safe and sustainable delivery of essential water services, while simultaneously expanding and strengthening assistance programs to support its most vulnerable and income-challenged customers.

As part of WSSC Water's customer assistance programs, the Commission implemented the Get Current 2.0 program in July 2025 to provide billing relief to income-constrained customers, with an enhancement in December 2025 to include customers impacted by the federal government's temporary closure. WSSC Water also added an Emergency Customer Relief Fund (ECRF) in December 2025.

WSSC Water's affordability strategy integrates proactive rate management, targeted customer assistance, and stakeholder engagement to ensure equitable access, while engaging our customers and maintaining the public trust.

### **Transparency**

WSSC Water prioritizes open and transparent communications with our customers, government and community stakeholders and partners, rating agencies, and the broader community. We take great effort to ensure that our information is publicly accessible, that we are available to answer questions and to receive feedback, and that we institute forums to facilitate ongoing engagement and input.

While we have adopted practices, tools, and processes to engage, WSSC Water also follows the Government Finance Officers Association (GFOA)'s best practices for the transparent provision of information, including:

- Website Posting of Financial Documents: Providing financial information of the highest quality that is readily accessible to citizens and other interested parties demonstrates accountability and transparency.
- Communicating Capital Improvement Strategies: WSSC Water maintains a public communication plan to support participation and stakeholder involvement in the planning and execution of its Capital Improvements Program (CIP).
- In 2018, GFOA published "Transparency: A Means to Improving Citizen Trust in Government," which outlines areas in which government entities could further improve their transparency. GFOA views transparency as more than just making data available, but also making it understandable - a principle reflected in WSSC Water's communications and reporting practices.
- Open Data Access: WSSC Water provides open access to financial information through online tools such as the "Payment Lookup Tool," comparable to GFOA's "open checkbook" model, which enables the public to conduct independent reviews of Commission expenditures.
- Digital Dashboards: Interactive dashboards and visualization tools enhance understanding and accessibility of complex financial and operational data.
- Decision Support Transparency: WSSC Water provides clear explanations of data and analysis used in decision-making, ensuring the public understands key decisions, processes, and associated challenges. Consistent with GFOA's best practices for transparency and peer issuers, WSSC Water posts financial information and credit rating information on its websites and in public documents. The Commission also maintains open databases that enhance public insight into our operations, including searchable payment and refund records. The Refund Hearings and Dispute Resolution Dashboard displays open cases by tier, status, and age category, offering trending and detailed case data to demonstrate operational accountability.

Beyond information disclosure, WSSC Water views transparency as an ongoing dialogue with its customers and stakeholders. WSSC Water's website informs the public and other stakeholders about how to stay informed and share feedback on CIP projects, including meeting times and places, as well as associated presentations. Similarly, WSSC Water has a webpage for the public to follow the rate-setting design process and information on how to stay involved, including meeting times, presentations, and recorded broadcasts.

## Chapter I: Overview of WSSC Water

### Summary of WSSC Water

WSSC Water is an anchor institution central to the well-being of the communities it serves. However, challenges such as workforce competition, climate instability, aging infrastructure and affordability

pressures are reshaping the future of the water sector. As issues of this scale affect utilities worldwide, the need for a clear strategic plan to guide operational planning and decision-making has never been greater.

As stated in the Executive Summary, in 2024, WSSC Water launched its three-year Strategic Plan (FY 2025–2027), titled “*Our North Star—Affirming our commitment to innovation, equity, and performance excellence.*” The plan underscores WSSC Water’s journey toward becoming a Smart One Water utility, one that optimizes every aspect of operations for the benefit of both the organization and the community it serves.

Structurally and operationally, WSSC Water operates as a standalone entity, not-for-profit cost recovery organization, dedicated to delivering essential water and sewer services on a financially sustainable basis. A primary strategic priority is to ensure long-term financial stability by recovering operating and capital costs through prudent financial management, while balancing customer affordability. WSSC Water does not generate profits nor distribute returns to shareholders. All revenues are reinvested to maintain reliable service, renew aging infrastructure, and invest in innovative capital projects that advance its smart one water mission.

## **Governance & Leadership Team**

### **Commissioners**

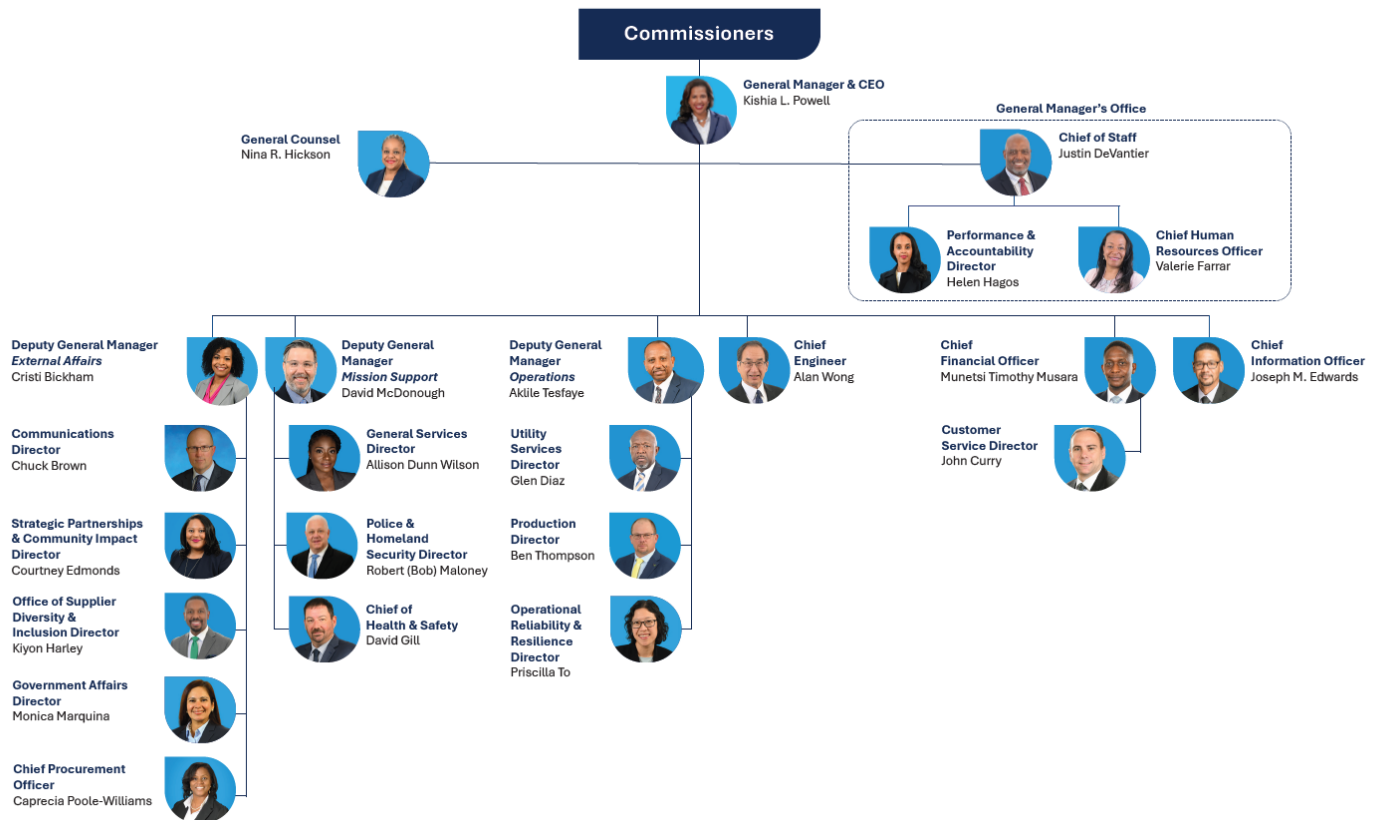
WSSC Water is governed by and is under the jurisdiction of a commission of six members (Commissioners). The Maryland Code governs the appointment process. Five Commissioners (three from Prince George’s County and two from Montgomery County) are appointed by their respective county executives and confirmed by their county councils. One is the Director of the Montgomery County Department of Environmental Protection, or the Director’s designee. Each Commissioner serves a four-year term, with staggered expiration dates to ensure continuity of leadership and oversight.

### **Management Team**

The roles and responsibilities of WSSC Water’s Management Team are outlined in the Maryland Code through the Public Utilities Article.

The **General Manager & Chief Executive Officer (CEO)** oversees the daily operations of WSSC Water. The General Manager’s Office works in close collaboration with the Commissioners and stakeholders to provide leadership, strategic guidance and organizational direction.

The General Manager is supported by a **senior leadership team**, which includes the **Chief Financial Officer (CFO)**, who reports directly to the General Manager. The CFO oversees the **Finance Department** and its five divisions: **Accounting, Budget, Disbursements, Retirement and Revenue**. The CFO and Budget Division develop WSSC Water’s long-range financial plan, with the support of a Financial Advisor; forecast revenues and expenditures; and advise leadership on financial policy. They also manage the operating and capital budgets and recommend strategies to strengthen WSSC Water’s financial position.



The CFO and the Budget Division, in collaboration with the Commission’s Financial Advisor, prepared this Long-Range Comprehensive Financial Plan (2026 LRCP). The 2026 LRCP builds upon WSSC Water’s established financial planning framework and incorporates the Commission’s financial management policies, best practices, and strategic objectives, as further discussed in *Chapter II: Overview and Importance of Long-Range Financial Planning*.

### Recent Accomplishments and Strategic Initiatives

WSSC Water continues to demonstrate strong financial stewardship, operational excellence, and commitment to sustainability through a series of strategic accomplishments.

#### Financial Strength and Leadership

WSSC Water maintained its AAA/Aaa/AAA bond ratings for the 25th consecutive year, reaffirmed in January 2026. The Commission successfully completed a \$379.4 million bond sale, including \$28.5 million in Green Bonds, achieving a 4.08 percent borrowing cost and earning a Moody’s Sustainability Quality Score of 2 (Very Good). These achievements reflect prudent debt management, fiscal transparency, and sustained access to low-cost capital.

#### Strategic Direction and Smart One Water Vision

In 2024, WSSC Water launched its 2024–2027 Strategic Plan, “Our North Star,” to guide the transition to a Smart One Water utility. The plan aligns investments, innovation, and workforce development with

financial sustainability and customer value, reinforcing the Commission’s long-term vision of integrated, data-driven water management.

### Capital and Infrastructure Investments

The FY 2026–FY 2031 Capital Improvements Program invests \$4.9 billion to modernize and maintain essential infrastructure. Major programs include water and sewer reconstruction, large-diameter valve rehabilitation, and upgrades at water storage facilities and maintenance depots. These projects strengthen system reliability, support regulatory compliance, and enhance service delivery.

### Environmental Stewardship

Proceeds from Green Bonds are financing upgrades at the Potomac Water Filtration Plant and large-diameter distribution systems to improve energy efficiency and water quality. WSSC Water continues to advance lead service line replacements, PFAS monitoring, and compliance with EPA Lead and Copper Rule Revisions, reaffirming its leadership in sustainable water management.

### Affordability and Customer Support

WSSC Water expanded its Customer Assistance Program (CAP) to \$8.9 million in FY 2026, introduced the CAP Leak Repair Program and strengthened Promise Pay flexible payment options. Additional funding for the Water Fund and PipeER loan program ensures equitable access to essential water and sewer services for customers in need. As part of WSSC Water’s customer assistance program, we implemented the Get Current 2.0 program in July 2025 to provide billing relief to income-constrained customers, with an enhancement in December 2025 to include customers impacted by the federal government’s temporary closure. WSSC Water also added an Emergency Relief Fund (ERF) in December 2025. Additionally, a phased rollout of smart meter technology is in the planning stages for implementation following the Commission-approved Advanced Metering Infrastructure pilot as part of the Commission’s Meter Infrastructure Replacement Program.

### Operational Excellence and Accountability

WSSC Water maintains a focus on operational excellence and accountability. The Team H<sub>2</sub>O initiative furthers our commitment to enhancing workforce recruitment, retention, and compensation, while the Information Technology Strategic Plan advances system modernization and smart metering readiness. WSSC Water also earned its 30th consecutive GFOA Distinguished Budget Presentation Award and 27th consecutive unqualified audit opinion, underscoring its long-standing commitment to transparency, accountability and public trust.

## Chapter II: Overview and Importance of Long-term Financial Planning

WSSC Water develops and publishes an annual financial plan as part of its Proposed Budget every year by March 1 and the Adopted Budget every year by July 1. In addition, beginning June 1, 2026, and every five years thereafter, the Commission is required, by law, to submit to the Montgomery County Council and the Prince George’s County Council an updated version of the Long-Range Comprehensive Financial Plan and any updated Commission policies related to financial management.

The Financial Plan serves as both a strategic and analytical tool, articulating WSSC Water’s long-term financial intent while highlighting the cumulative effects of key decisions.

In developing its financial plan, WSSC Water considers four key factors:

### **1. Operations and Maintenance Requirements**

- WSSC Water’s Operations and Maintenance (O&M) budget must support the operations, maintenance and management of the Commission, including the Commission Office, the Office of the Inspector General and the departments under the General Manager’s purview.
- The O&M budget must include the cost of regional sewage disposal, regulatory compliance, debt service payments and funding for customer assistance programs.
- The operations, maintenance and management requirements of WSSC Water inform the cost-of-service studies.

### **2. Capital Planning Requirements**

- WSSC Water is mandated by the Annotated Code of Maryland to prepare an annual Six-Year Capital Improvements Program (CIP), which identifies major water and sewer infrastructure investments.
- A capital-intensive environment demands long-range financial coordination to align investment needs with gradual, predictable rate adjustments that preserve affordability for customers.

### **3. Spending Affordability and Rate Management**

- Rates are structured to cover debt service, operations, maintenance and labor costs—guided by oversight from the Montgomery and Prince George’s County Councils and WSSC Water’s Commissioners.
- Transparent rate setting through public hearings, combined with strategic use of Pay-As-You-Go (PAYGO) financing, helps manage debt service growth, reduce volatility and align with affordability guidelines

### **4. Operational Efficiency and Cost Control**

- WSSC Water prioritizes innovation and strategic investments to improve efficiency and control operating costs over the six-year planning horizon.
- The financial plan enables WSSC Water to forecast the long-term effects of resource allocation decisions, ensuring the delivery of safe, reliable, secure and sustainable water and wastewater services.

The financial plan is also predicated on the following principles and goals of WSSC Water.

## **A. Maintaining Low-Cost Capital and Financing Flexibility: WSSC Water strives to achieve the lowest cost of capital, while maintaining financing flexibility by maintaining WSSC Water’s AAA/Aaa/AAA**

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**credit ratings from S&P, Moody’s and Fitch, respectively, through adherence to financially prudent policies and practices:**

(i) maintaining a comprehensive debt policy consistent with best practices, credit rating methodologies and peer issuer standards;

(ii) ensuring accountability through measurable financial metrics and annual evaluations of performance against targets; leveraging PAYGO financing to reduce reliance on debt and lower debt service expenses; and

(iii) structuring bonds issued to provide future debt capacity and minimize long-term debt burden by seeking external financing sources and financing alternatives, such as short-term financial products, grants and subsidized loans.

**B. Strengthening Strategic Planning and Fiscal Discipline: WSSC Water prioritizes strategic planning and discipline by considering not only the impact on the current budgetary year but also the cumulative impact on the out years through:**

(i) continuing long-term planning efforts to inform budget development, strategic investments and ability to achieve WSSC Water’s long-term goals and objectives;

(ii) regularly reviewing and modernizing financial policies in alignment with industry best practices; and

(iii) enhancing transparency through timely communication of financial performance, metrics and outcomes to stakeholders.

**C. Enhancing Financial Resiliency and Risk Preparedness: WSSC Water continues to improve its financial resiliency by anticipating cost pressures and maintaining sufficient resources to respond to unforeseen events through:**

(i) ensuring sufficient levels of financial liquidity and reserves as a safeguard for revenue downturns and unexpected shocks;

(ii) preserving flexibility to access liquidity quickly for nonrecurring or emergency expenses; and

(iii) having comprehensive long-term planning processes including stress-testing scenarios to bolster WSSC Water’s risk mitigation efforts and enhance financial resilience.

WSSC Water’s policies, strategic priorities and financial guidance drive the development of its annual Financial Plan. Given the need to maintain critical infrastructure while navigating economic influences and an evolving regulatory and environmental landscape, WSSC Water continues to experience operating cost increases and growing capital borrowing requirements. Anticipating these needs is central to rate setting, maintaining AAA credit ratings and sustaining confidence among our customers, investors and other partners and stakeholders.

The most recent Financial Plan was published as part of the FY 2027 Proposed Budget on March 1, 2026. See Chapter VII: Long-term Planning for WSSC Water’s latest published financial plan and stress testing scenarios and results.

## Chapter III: Review of Policies, Practices and Goals

In addition to comprehensive long-term planning processes, WSSC Water manages its system in accordance with formal policies, fiscal guidelines, and nationally recognized best practices. These policies collectively promote accountability, ensure compliance with state law, and reinforce confidence among customers, credit rating agencies, and capital market participants.

WSSC Water requested its Financial Advisor to review its outstanding financial management policies and practices for compliance with rating agency criteria, best practices and peer utilities' approaches. The Commission is working with its Financial Advisor to evaluate the recommendations and update its financial management policies and practices; any such updates will be incorporated in subsequent financial plans.

### Financial Management Policies<sup>1</sup>

WSSC Water recognizes that sound financial management policies are fundamental to maintaining stakeholder confidence and supporting their standing in the capital markets. These policies include its Debt Policy (described below), as well as detailed procedures for accounts payable, property assessments (covering front-foot benefit charges), system development charge guidelines and investment policies and loan management protocols.

### Debt Policy<sup>1</sup>

WSSC Water's Debt Policy is **comprehensive** and serves the purpose of fostering the following financial policy goals:

- Provide parameters for issuing and managing debt;
- Improve the quality and transparency of financial decisions;
- Provide justification for the structure and purpose of each debt issuance;
- Demonstrate a commitment to long-term financial planning;
- Demonstrate to customers, stakeholders, credit rating agencies, and the capital markets that WSSC Water is well managed and meets its obligations in a timely manner; and
- Maintain AAA ratings.

WSSC Water's debt practices, as outlined in our Debt Policy, include:

- Provide for the retirement of debt that is equitable, spreading the cost of capital projects over their useful lives: limited to 40 years

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<sup>1</sup> WSSC Water's full debt policy effective June 2015 can be viewed at [Financial Policies on WSSC Water's website](#).

- Debt-eligible projects should:
  - Involve a long-term capital asset in accordance with generally accepted accounting principles (GAAP);
  - Have an average useful life at least approximately as long as the debt issued with which they are funded; and
  - Be ineligible for other potential repayment revenue sources within an appropriate time frame, such as WSSC Water’s system development charge, governmental aid, or private contributions.
- Debt is typically in the form of general obligation bonds and notes with substantially all debt service paid from revenues derived from consumption and fixed charges, fees, assessments and other available funds.
- Historically, WSSC Water had issued debt as 20-year and level principal prior to adopting 30-year amortization with level debt service; however, debt may be structured with level principal, equal payments or other amortization schedules which best meets WSSC Water’s financial plan.
- General Obligation Variable Rate Notes: WSSC Water can issue general obligation multi-modal bond anticipation notes (BANs) and historically utilize the weekly mode in terms of bearing interest.
- PAYGO funding is set aside in the operating budget for use in funding capital projects as opposed to bonds.
- Other Types of Funding that may be utilized: Maryland State Revolving Loan Fund, federal and state grants.

*Debt management.* The Debt Policy also addresses debt administration, including IRS-compliant arbitrage rebate reporting, management of accounts, investment of bond proceeds, and continuing disclosure. For refunding, WSSC Water requires a minimum 2 percent net present value savings on refunded principal to qualify as economically beneficial.

*Debt Considerations.* Paying principal and interest on debt is the first claim on WSSC Water’s revenues. Debt reduction strategies such as PAYGO financing and reduction or reprioritization of planned capital expenditures are balanced against affordability considerations and the demands for the resources necessary to serve existing customers, invest in the system’s infrastructure and meet environmental mandates.

*Debt Limitation.* In accordance with state law, the aggregate principal amount of bonds and notes issued by the agency must not exceed the legislated allowable level of the total assessable tax base for all property assessed for County tax purposes within the District. The amount of bonds and notes outstanding at any time may not exceed the sum of 3.8 percent of the total assessable base of all real property and 7.0 percent

of the total assessable personal and operating real property for County taxation purposes within the District.

### **Financial Management Metrics**

WSSC Water has six financial metrics by which it evaluates its debt and reserve levels:

- Debt Service Coverage Ratio (DSCR) - calculated as the funds available for debt service divided by total debt service,
- Days Cash-on-Hand (DCOH) - calculated as unrestricted cash and investments divided by total operating expenses (excluding depreciation, PAYGO and debt service payable) per day,
- Leverage Ratio (Leverage) - calculated as net adjusted debt (total debt outstanding less cash and cash equivalents) to adjusted funds available for debt service (operating revenues minus operating expenses excluding depreciation plus adjustments for miscellaneous revenues and expenses),
- Operating reserves as a percentage of revenues,
- PAYGO as a percentage of debt service, and
- Debt service as a percentage of expenditures.

DSCR, Leverage, operating reserves as a percentage of revenues, and debt service as a percentage of expenditures are all part of WSSC Water's fiscal guidelines as outlined in the annual budget. These metrics in addition to DCOH and PAYGO, as a percentage of debt service, are tracked by WSSC Water in its financial plan.

WSSC Water uses Fitch's method for calculating and monitoring DSCR, Leverage and DCOH. DSCR, Leverage, and DCOH are also closely monitored by the rating agencies, each of which have methodologies for how these metrics influence a utility's credit rating. In FY 2025, WSSC Water maintained its target for DSCR to greater than 1.5x and for Leverage to be below 8.0x in alignment with the credit rating agencies' expectations for AAA entities and financial metrics of other peer issuers.

According to WSSC Water's Fiscal Guidelines:

- WSSC Water seeks to maintain a combined unrestricted reserve from the water and sewer operating funds equal to at least 20 percent of the total water and sewer operating revenues to offset unanticipated variations in water and sewer services revenues that may occur in future years.
- The total debt service as a percentage of expenditures ratio target of less than 40 percent is designed to keep WSSC Water's fixed debt service costs manageable to allow for budgetary flexibility needed to adapt spending levels to respond to economic condition changes. This measure excludes expenditures in the General Bond Debt Service fund.

- WSSC Water budgets for PAYGO each fiscal year to reduce the amount of planned debt issued for capital projects. The current target for PAYGO is 25 percent of annual debt service payable. This target was established in 2014 when WSSC Water elected to issue 30-year versus 20-year debt. This change in debt amortization was accompanied with a plan to increase PAYGO funding to avoid overleveraging the system. However, during periods of budget pressures, PAYGO levels have been reduced or eliminated from the budget to achieve cost savings objectives.

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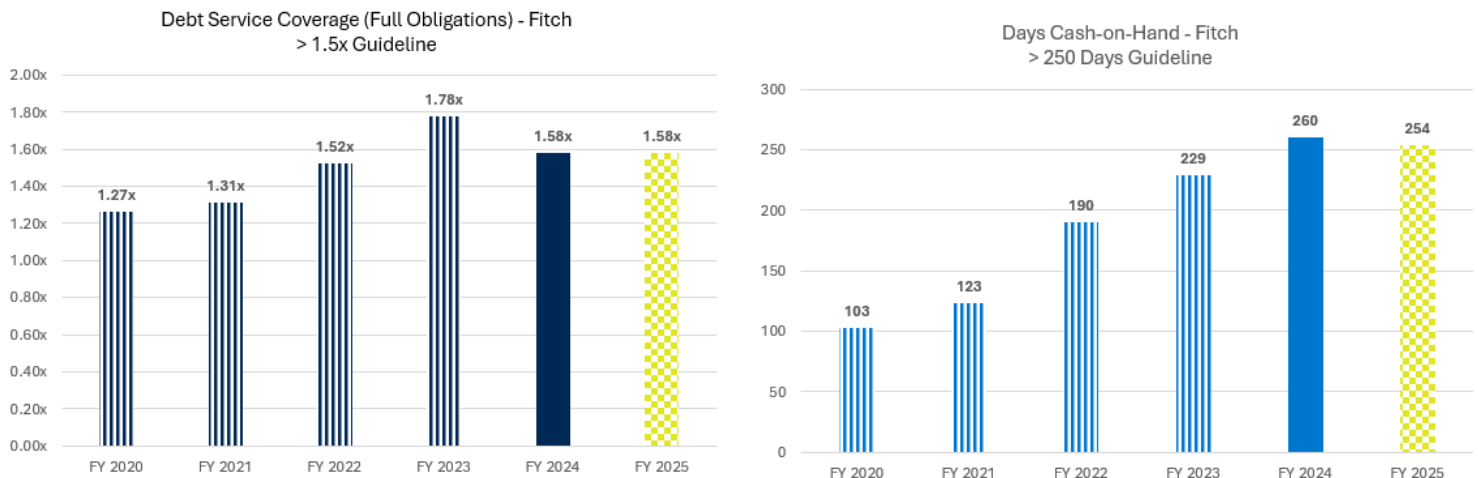
## Summary of Credit Rating and Financial Management Metrics with Policy Targets

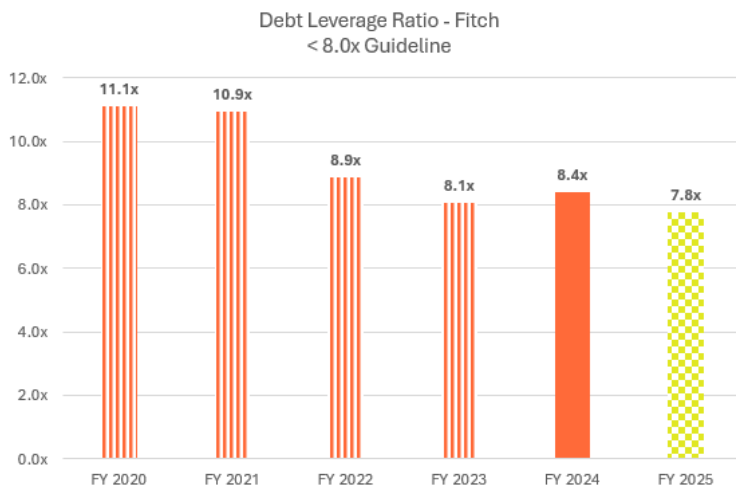
Metric	Guidelines
Assigned Credit Rating <i>as of January 2026</i>	AAA/Aaa/AAA Outlook "Stable"
Financial Management Metrics	
Debt Service Coverage	>1.5x
Days-Cash-On-Hand	250
Leverage	< 8.0x
Operating Reserve % Revenues	20%
Debt Service as % of Expenditure	< 40%
PAYGO	25% of Debt Service

WSSC Water actively monitors financial metrics as a matter of good governance and to maintain its AAA ratings.

- WSSC Water’s Debt Service Coverage rose from 1.27x in 2020 to 1.78x in FY 2023 and has remained steady at 1.58x in FY 2024 and FY 2025.
- WSSC Water’s DCOH has steadily risen from FY 2020 to 254 DCOH in 2025.
- WSSC Water’s Leverage Ratio (Net Adjusted Debt/Adjusted FADS) reflects a declining trend since FY 2020 to 7.8x in FY 2025 (for Leverage Ratio, lower numbers are more favorable).

The COVID-19 pandemic conveyed the impact of a real-world stress event, which had major implications. Without proper safeguards in place to respond, an organization can be highly vulnerable to credit and operational risks.





The stripe pattern represents the duration of the federal Public Health Emergency for COVID-19. Metric results from Fitch Ratings as of January 2025.

### Spending Affordability Guidelines (SAG)

On February 15, 1994, the Prince George's County Council adopted Resolution No. CR-12-1994 and on April 5, 1994, the Montgomery County Council adopted Resolution No. 12-1558 requiring WSSC Water, to the extent possible, to conform with the County Councils' established spending affordability limits in preparing the capital and operating budgets. If the two County Councils make decisions that require changes, WSSC Water may update the six-year CIP, capital and/or operating budgets prior to the adoption by WSSC Water.

Since 1994, WSSC Water has adopted spending affordability guidelines each year and has included recommended limits on the amount of water and sewer rate increases, operating budget expenditures, new debt issues and debt service that may be approved for the first year of the CIP.

Each year, the spending affordability process focuses on balancing affordability considerations with the need for revenue enhancements and use of resources necessary to serve existing customers, meet environmental mandates and maintain the budget and debt service at prudent and sustainable levels.

WSSC Water's annual financial plan incorporates the approved SAG limits to forecast outer year implications or potential problems which may impact WSSC Water's work program, and opportunities to improve its financial condition.

### Annual Financial Report

WSSC Water received the 27th unqualified audit opinion for the fiscal year ended June 30, 2025. The independent audit provides reasonable assurance that the Commission's financial statements are free of material misstatement, whether due to fraud or error, and affirms the integrity of WSSC Water's financial reporting.

### Capital Financing Practices

Under Section 23-304 of the Public Utilities Article of the Annotated Code of Maryland, WSSC Water is responsible for annually preparing a six-year CIP for major water and sanitary sewerage facilities and

transmitting it to the County Council and the County Executive of Montgomery County and the County Council and the County Executive of Prince George’s County by October 1st each year. WSSC Water, where final action on the program is required by the two County Councils, must revise the same and then adopt the CIP prior to the commencement of the first fiscal year of the six-year program.

WSSC Water seeks to use a combination of long-term bonds, PAYGO funds, and seeks external funding options to fund its CIP as more fully described in Chapter VI: Capital Improvement Plan. Without PAYGO financing, to partially fund WSSC Water’s CIP, WSSC Water would need to issue significantly more bonds to replace PAYGO, with long-term impacts of higher interest expense overtime and negative impact to financial metrics. For example, growing debt principal pushes up the Leverage ratio and decreases debt service coverage.

### Fund Balance / Reserve

As discussed in the financial metrics section of this chapter, WSSC Water maintains a combined unrestricted cash balance from the water and sewer operating funds equal to at least 20 percent of the total water and sewer operating revenues. Use of reserves is directed by WSSC Water management.

While WSSC Water maintains an unrestricted cash balance, any use of such balance after budget approval to address unforeseen budgetary expense pressures would require a supplemental appropriation to be proposed by the Commissioners to the County Executives and approved by both the County Councils.

### Unrestricted Cash and Investments Position

As of June 30, 2025, WSSC Water reported cash and investment balances of \$430.7 million, a \$47.1 million increase from the prior year. As detailed below, this resulted in a Days Cash-on-Hand of 254. [Over the next six years, unrestricted cash balances are projected to meet WSSC Water’s required reserve level of 250 days of operating expenses].

As of June 30th (\$ in Millions)	FY 2024	FY 2025
<b>Unrestricted Cash and Investments</b>	-	-
Total investments at fair value	\$571.48	\$594.31
Cash at end of year	33.48	38.44
Restricted for capital projects	(68.38)	(59.73)
Non-current cash	(153.02)	(142.32)
<b>Ending Cash Balance</b>	<b>\$383.57</b>	<b>\$430.70</b>
<b>250 Days Cash-on-Hand Undesignated Reserve</b>	-	-
<b>to Meet CFO Guideline - Minimum (days)</b>	<b>248.5</b>	<b>254.0</b>
Over/Under Guideline (days)	(1.5)	4.0

Notes:

1. Days cash-on-hand is based upon year-end operating expenses per audited financial statements. This does not include depreciation and amortization.
2. Days cash-on-hand of 250 days is based upon CFO guidelines and was confirmed by the financial advisor as an appropriate level.

## Ad Valorem Tax

While WSSC Water is addressing the concept of an ad valorem tax, an ad valorem tax is only exercised if WSSC Water is unable to fund debt service on bonds. This would represent an extraordinary case whereby revenues would be inadequate to service the debt repayments. State law provides for the levy of ad valorem taxes, annually, against all the assessable property within the District by the County Councils of Montgomery and Prince George’s counties, sufficient to pay principal and interest when due and payable.

While the credit rating agencies and investors view the ad valorem tax as a positive backup security feature of the Commission’s bonds which contributes to WSSC Water’s strong credit ratings, as demonstrated by the Fitch comments in Chapter XI: Overview of Credit Ratings, the credit rating agencies do not expect the Commission to rely on this security feature.

The Ad Valorem Tax is a property tax formulated “according to the value” of the property. Such taxes are levied on real and personal property according to the property’s assessed valuation and the tax rate.

WSSC Water’s debt typically takes the form of general obligation bonds and notes, with the pledge of the levy of an unlimited ad valorem tax upon the assessable property of the District for repayment. However, all debt service is paid from water consumption charges, sewer use charges, Ready-to-Serve Charges, Front Foot Benefit Charges, assessments and other available funds. WSSC Water has always paid general obligation debt from its own revenues and has never relied on an ad valorem tax levy to pay its debt service.

## Pension Obligations and Other Unfunded Liabilities

WSSC Water makes annual contributions toward unfunded pension and Other Post-Employment Benefits (OPEB) liabilities as part of its operating budget. While these liabilities will continue to persist over the long-term, WSSC Water’s management is committed to making substantial progress in addressing these liabilities as part of its financial plan, while balancing such need within the context of actuarial review, reasonableness, and affordability. If market and/or actuarial changes reflect a need for more strict and rapid progress in addressing these liabilities, WSSC Water management will consider appropriate action and make course changes, as necessary.

*Pensions* – Pension costs are impacted by fluctuations in the market affecting actual and projected investment income and related deferred outflows or inflows. Investment activities are reported as non-operating revenues; therefore, pension costs are allocated amongst operating and non-operating costs and/or revenues.

As of December 2024, the net funded position is 82.60 percent with a five-year average of 85.29 percent. Assets recovered significantly from 1Q CY 2020 pandemic sell-off resulted in an improved funded ratio in CY 2020 and CY 2021. Significant asset losses in CY 2022 drove a reduced funded ratio but rebounded in CY 2023 and CY 2024. Employer funding is 16.9 percent of Covered Payroll on an annual basis.

	2020	2021	2022	2023	2024	Five-year
(\$ in thousands)	December	December	December	December	December	Average

Assets Net Position	\$ 180,521	\$ 211,333	\$ 177,823	\$ 209,488	\$ 239,992	-	\$ 203,831
Total OPEB Liability	265,766	248,556	257,682	246,221	254,199	-	254,485
Net OPEB Liability	85,245	37,223	79,858	36,734	14,207	-	50,653
Fiduciary net position	67.92%	85.02%	69.01%	85.08%	94.41%	-	80.29%

Net OPEB Liability is shown at Current Discount Rate of 7.0%

*Retiree Other Post-Employment Benefits (OPEB)* - The contributions for health insurance are actuarially determined, and the contribution for life insurance is based on fixed rates per coverage amounts based on an employee's salary. Contribution rates are set based on various factors, including the fund balance in the Retiree OPEB Trust and claims cost experience.

As of December 2024, the net position is 94.41 percent with a five-year average of 80.29 percent.

(\$ in thousands)	2020	2021	2022	2023	2024	Five-year Average
	December	December	December	December	December	
Assets Net Position	\$ 897,605	\$ 1,012,092	\$ 828,595	\$ 902,939	\$ 940,726	- \$916,391
Total Pension Liability	1,019,218	1,036,773	1,082,195	1,106,445	1,139,309	- 1,076,788
Net Pension Liability	121,613	24,681	253,600	203,506	198,583	- 160,397
Fiduciary net position	88.07%	97.62%	76.57%	81.61%	82.57%	- 85.29%

Net Pension Liability is shown at Current Discount Rate of 7.0%

## Chapter IV: Rate Setting

### Customers Served

WSSC Water served 1.9 million residents through roughly 473,000 customer accounts in FY 2025. Residential customers represent 94.8 percent of these accounts and commercial, industry, government and other customers represent 5.2 percent.

Relative to household income levels, within its service area, and peer utilities nationwide, WSSC Water's rates remain comparatively affordable. However, WSSC Water recognizes that affordability continues to be a challenge for some of its customers. To further support customers with limited financial means, WSSC Water administers several affordability and customer assistance programs described in *Chapter X: Affordability and Customer Assistance Programs*.

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### Rate Setting Policy Priorities

## Rate Setting Objectives - In Priority Order

### 2024 Ranking

- 1 Cost-Based Rates
- 2 Revenue Stability
- 3 Rate Stability
- 4 Affordability & Minimize Customer Impacts
- 5 Conservation/ Demand Management
- 6 Ease of Understanding & Ease of Implementation

WSSC Water establishes rates annually, considering several variables. We take great care to ensure that rates are determined with equity, cost of service, fairness and financial stability foremost in the process. Rates are designed to ensure that all costs of service are fully recovered, including the cost to finance necessary infrastructure investments.

In 2023, following the COVID-19 pandemic's impact on consumption and revenues, and amid rising operating and capital costs, WSSC Water reprioritized its rate-setting policy framework. The updated policy emphasizes maintaining affordability, supporting infrastructure reinvestment, and improving key financial metrics. The graphic above summarizes the Commission's updated rate setting policy priorities to guide the selection of the best rate design option within the existing rate structure to adequately support and fund WSSC Water's operational needs going forward.

Each customer bill includes fixed charges known as Ready-to-Serve (RTS) charges, and variable charges, known as Water Consumption and Sewer User Charges (W&S Charges). The Annotated Code of Maryland authorizes a fixed ready-to-serve charge that represents the fixed costs of delivering service to customers, regardless of the volume of service they use. The ready-to-serve charge has two components: the Account Maintenance Fee (AMF) and the Infrastructure Investment Fee (IIF). These quarterly fees are prorated based on the number of days in the billing cycle.

### Cost of Service Study

It is the agency's practice to have a cost-of-service study performed every three to five years. The 2023 cost-of-service study (COS) reviewed the four components of WSSC Water's current rate structure with respect to achieving the revenue requirement necessary to support the FY 2025 budget and the corresponding financial plan. The COS resulted in a recommended 11.6 percent revenue enhancement and suggested that revenue from the fixed fees, the AMF and the IIF, should increase from 9.7 percent to 19.8 percent of total revenue for greater revenue stability, given declining consumption trends and other upward pressures on existing revenues, and the need for the Commission to recover the costs of providing services. The COS also suggested that revenue from the volumetric water rates should decrease from the level generated by the existing rates, while revenue from the volumetric sewer rates should increase from the current level. For FY 2025 [and FY 2026] rates, WSSC Water increased the fixed fees to ~15 percent as a proportion of water and sewer revenues to ensure revenue stability. It should be noted that the Commission's fixed fee percentage is set at a level below the COS recommended level with the goal of

balancing revenue stability with affordability considerations. Affordability for our customers is a consistent guiding principle for WSSC Water.

In FY 2026 and FY 2027, WSSC Water is conducting a COS update to be used for FY 2028 rate formulation.

### **Spending Affordability**

As discussed in Chapter III: Review of Policies, Practices and Goals, WSSC Water’s rate-setting process includes the Spending Affordability Guidelines (SAG) process jointly established by the Montgomery County and Prince George’s County Councils, as applied during the FY 1996 budget process. This approach to budgeting results in recommendations from each County Council and the County Executives for rate and debt guidelines meant to inform the budget for the forthcoming fiscal year prior to the final development of a proposed budget by WSSC Water Management. The recommendation includes new water and sewer debt, total water and sewer debt service, total water and sewer operating expenses, and the amount of the water and sewer bill increase.

### **History of Rates and Rate Adjustments**

WSSC Water has implemented periodic rate adjustments, as shown in the table to the right, to ensure full recovery of operating and capital costs necessary for safe, reliable, resilient and secure service. Additionally, the rating agencies view an ability and willingness to increase rates (and reduce expenditures) to maintain sufficient debt service coverage and liquidity as a credit positive. The FY 2026 Approved Budget has a combined 9.5 percent average increase in water and sewer volumetric rates and fixed rates under AMF and IIF.

The FY 2027 SAG rate increase recommended by Prince George’s County was 5.0 percent for both water and sewer volumetric and ready-to-serve charges and 6.0 percent by Montgomery County. WSSC Water proposed a 6.0 percent revenue enhancement, which is comprised of a 5.0 percent average water and sewer volumetric and fixed fees rate increase. The additional 1.0 percent is achieved using one-time revenue from interest income and a temporary rate stabilization fund. Proposed expenditures are within spending affordability guidelines.

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Since FY 2012, the average volumetric rate increase has been 5.9 percent.

### Fiscal Year Revenue Enhancement

FY 2027 Proposed- 5.00%

FY2026	-	9.50%
FY2025	-	8.50%
FY2024	-	7.00%
FY2023	-	6.50%
FY2022	-	5.90%
FY2021	-	6.00%
FY2020	-	5.00%
FY2019	-	4.50%
FY2018	-	3.50%
FY2017	<b>1</b>	3.00%
FY2016	<b>2</b>	1.00%
FY2015	-	5.50%
FY2014	-	7.25%
FY2013	-	7.50%
FY2012	-	8.50%

#### Notes:

1 FY 2017: The Infrastructure Investment Fee was fully phased in. Average bill increase with IFF was 6.5%.

2 FY 2016: The Infrastructure Investment Fee was partially phased in. Average bill increase with IFF was 6.0%.

## Chapter V: Review of Existing Debt and Debt Practices

### Bond(s) Issuance: Approach and Timing Considerations

WSSC Water issues general obligation bonds to provide funding for the construction or reconstruction of (i) water supply facilities, water supply lines and transmission mains (the Water Supply Bonds), (ii) sewage disposal facilities, sewer collection mains and trunk sewers (the Sewage Disposal Bonds), and (iii) any office or operating building necessary to administer or operate the water and sewer systems in the District (the General Construction Bonds). Pursuant to Section 19-101 of the Local Government Article of the Annotated Code of Maryland, as amended, the Water Supply Bonds, the Sewage Disposal Bonds and the General Construction Bonds may be consolidated as a single issue of bonds that are designated as the “Consolidated Public Improvement Bonds.” As of June 30, 2025, WSSC Water had \$3.92 billion of outstanding bonds through this program.

WSSC Water typically issues Consolidated Public Improvement Bonds that are general obligation bonds of the District, once annually, to fund a portion of its Capital Improvement Plan, with a general practice of spending the related bond proceeds within 10 months. The Commission’s spending of bond proceeds is rapid and WSSC Water ensures that it does not overborrow for projects, due to the tax-exempt framework and related tax-exempt compliance requirements. It is WSSC Water’s financial/fiscal practice to deposit bond proceeds into an established bank account when they are then secured further through low-risk

financial instruments such as certificates of deposit (CD), short-term investment funds, government and agency securities, and commercial paper.

As capital expenses are incurred, bond proceeds are then reallocated into accounts where funds can be quickly disbursed to address expenses. The timing of WSSC Water’s annual bond issuance may occur at a point where all or most bond proceeds have been expensed. Once bond proceeds are exhausted, WSSC Water typically utilizes general operating cash to fund capital expenditures until a bond sale is completed, and bond proceeds replenish the subject fund.

**Maryland Water Quality Revolving Loan Fund**

In addition to general obligation bonds, WSSC Water finances capital projects through low-interest loans from the Maryland Water Quality Revolving Loan Fund, administered by the Maryland Water Infrastructure Financing Administration.

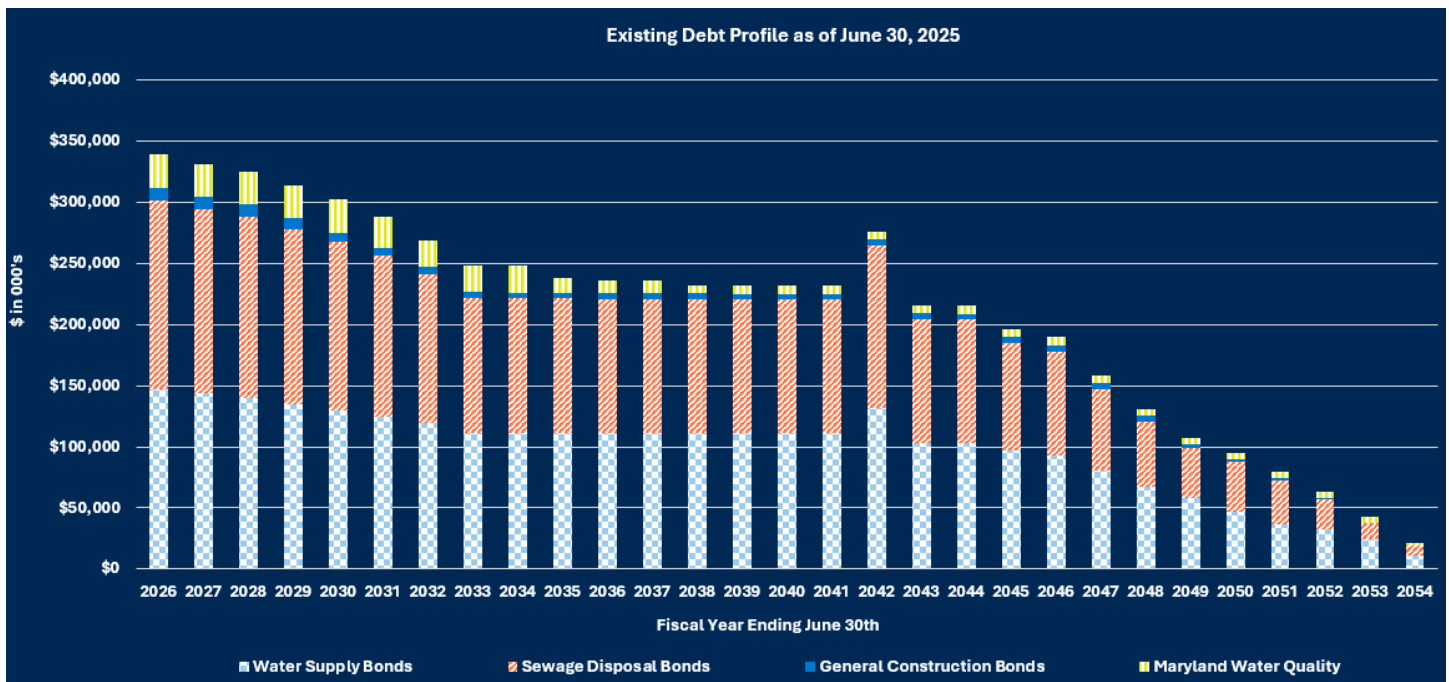
Loans are reimbursed after project completion and invoicing, providing cost-effective financing aligned with federal and state environmental objectives. As of June 30, 2025, WSSC Water had \$337.1 million of outstanding debt under this program. The source of repayment and security for such WSSC Water obligations is the same as that for WSSC Water’s Consolidated Public Improvement Bonds.

**Outstanding Debt Service**

The following table and chart outline WSSC Water’s outstanding debt service obligations by category and fiscal year, respectively, as of June 30, 2025. Given the Commission’s ongoing capital infrastructure needs, WSSC Water intends to issue general obligation debt on an annual basis as further discussed in Chapter VI: Capital Improvement Plan.

<b>Summary of Debt Service Outstanding by Types of Bonds Issued (as of June 30, 2025)</b>			
	<b>Interest</b>	<b>Principal</b>	<b>Total</b>
-			
WATER SUPPLY BONDS	\$920,518,456.16	\$1,905,343,954.40	\$2,825,862,410.56
SEWAGE DISPOSAL BONDS	851,774,837.07	1,915,779,433.13	2,767,554,270.20
GENERAL CONSTRUCTION BONDS	41,534,361.38	100,022,612.57	141,556,973.95
MARYLAND WATER QUALITY BONDS (1)	25,047,080.01	337,123,278.66	362,170,358.67
	<b>\$1,838,874,734.62</b>	<b>\$4,258,269,278.76</b>	<b>\$6,097,144,013.38</b>

(1) State of Maryland municipal bonds issued to provide funds for the design, construction, reconstruction, extension or enlargement of the water and sewerage systems of WSSC Water.

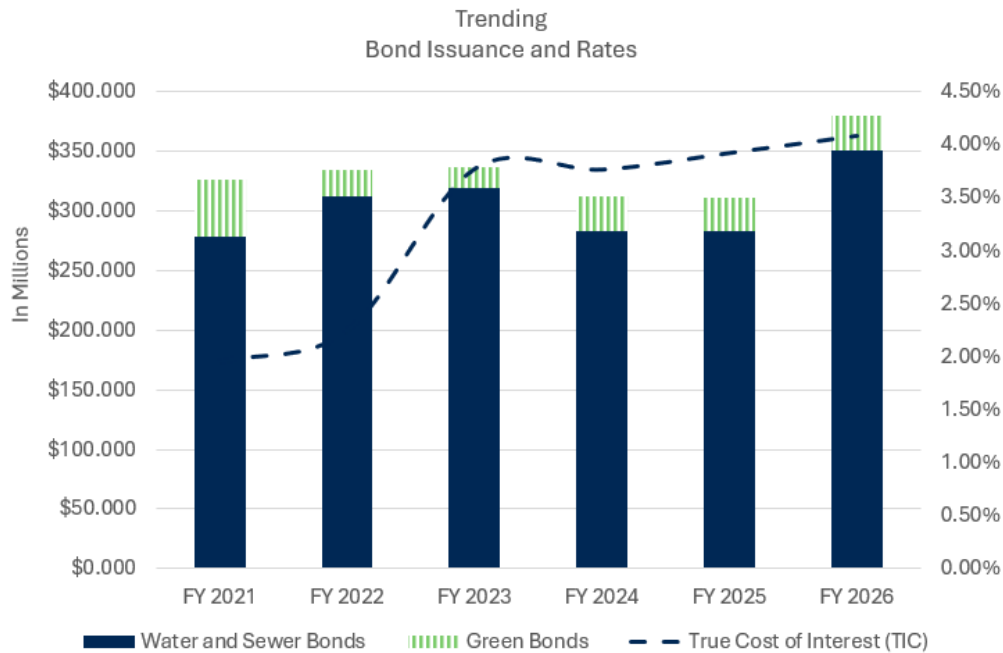


On February 5, 2026, WSSC Water completed the sale of \$379.4 million in Consolidated Public Improvement Bonds, which are general obligation bonds of the District. WSSC Water sold the bonds on a competitive basis receiving five bids from eligible underwriters for its bonds; Morgan Stanley & Co., LLC. provided the winning bid with the lowest true cost of interest. The bonds will be repaid over 30 years and confirmed with a borrowing cost of 4.08 percent. Despite municipal market rates being generally higher from the prior period that WSSC Water was in the market (February 2025), WSSC Water was able to sell its bonds with tight credit spreads, an indication of WSSC Water’s exceptionally high credit ratings and was able to achieve an attractive cost of borrowing on the bonds.

Proceeds from the bonds funded key capital projects, including:

- \$79.5 million for the Water Reconstruction Program
- \$54.6 million for the Large Diameter Water & Large Valve Rehabilitation Program
- \$51.6 million for the Sewer Reconstruction Program
- \$41.9 million for the Trunk Sewer Reconstruction Program
- \$35.0 million for Master Planning and Facilities Planning and Investments

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True Cost of Interest - a measure of the actual cost of borrowing that equates the present value of all future debt service payments (principal and interest) to the proceeds received from the bond issuance and includes fees and discounts.

**Green Bonds**

WSSC Water’s recent bond sales have included Green Bond series, with proceeds exclusively applied to finance eligible green projects, which is indicative of WSSC Water’s commitment to protecting the natural environment of Montgomery and Prince George’s Counties. WSSC Water’s Green Financing Framework establishes WSSC Water’s process for financing projects across eligible green categories. Moody’s assigned a Sustainability Quality Score 2 (very good) to WSSC Water’s Framework and identified WSSC Water as a “best practice” for clear eligible categories, environmental objectives, expected benefits and allocation and tracking of proceeds.

On February 5, 2026, WSSC Water completed the sale of \$28.5 million in Green Bonds. Proceeds from the sale of \$30.0 million in green bonds funded the following upgrades:

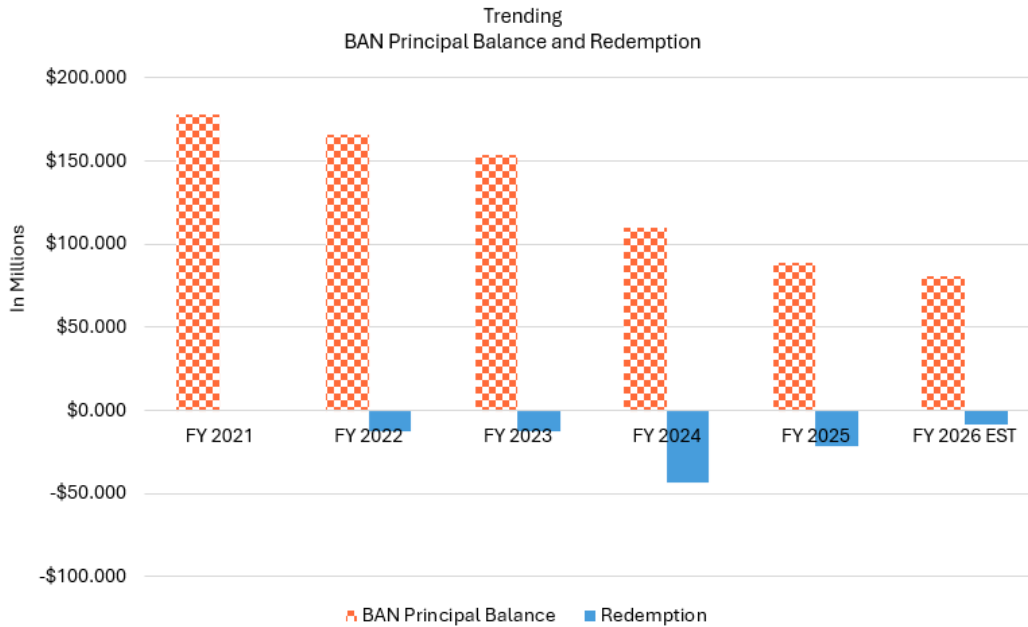
- \$20.0 million for Potomac Water Filtration Plant
- \$8.5 million for Large-diameter water distribution system

**General Obligation Multi-Modal Bond Anticipation Notes**

Periodically, WSSC Water has issued Multi-Modal Bond Anticipation Notes (BANs), paying variable rate interest as an interim financing tool, with the expectation that the notes would eventually be refinanced with long-term Consolidated Public Improvement Bonds. In June 2024, WSSC Water renewed the Program at a level of \$150,000,000 for a maximum of three years ending June 1, 2027. The Series A BANs are remarketed by Barclays Capital Inc., and the Series B BANs are remarketed by Loop Capital Markets LLC.

Both series have liquidity facilities, should the remarketing fail. TD Bank N.A. is the liquidity provider for the Standby Note Purchase Agreement which will expire on June 1, 2027.

WSSC Water has been aggressively redeeming its BANs to decrease its overall debt leverage and to minimize recent variable rate volatility. The FY 2024 redemption level was \$43.1 million, and the FY 2025 redemption level was \$21.2 million. The Commission currently has a total of \$89.1 million of Multi-Modal BANs outstanding with an estimated additional redemption in FY 2026 of \$8.2 million on June 30, 2026. There is a final maturity of June 1, 2036, in both series, with its variable rate reset each day (daily mode).



Note: In FY 2021, WSSC Water did not partially redeem BANs as part of the COVID-19 Savings Plan.

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## Chapter VI: Capital and Operating Budgets

### **Operating - Introduction**

Maryland state law requires that WSSC Water prepare an operating budget each fiscal year. The prepared budget outlines funding and staff requirements, organizational components, and program and funding sources. The 12-month period used to account for revenues and expenditures commences on July 1<sup>st</sup> of each year and ends on June 30<sup>th</sup> of the following year.

The operating budget is developed using a transparent outcome-focused approach to budgeting, ensuring alignment with our key priorities as outlined in WSSC Water's 2025-2027 Strategic Plan and required services for our customers. Risks are mitigated through a strategic allocation of resources across operating expenditures. Work programs and funding are aligned to achieve the desired outcomes and optimal service delivery levels. The budget incorporates strategies to meet required financial metrics while balancing affordability and investment of our resources.

### **Budget Accounting, Process, and Legislative Basis**

The budget for all operating funds are prepared on a modified accrual basis. Expenses are recognized when goods and services are received, and revenues are recognized when water is delivered to the system. WSSC Water's annual audited financial statements are prepared according to Generally Accepted Accounting Principles (GAAP), whereas both the budget and internal financial statements are prepared on a debt service basis. The debt service basis recognizes certain cash expenses not recognized under GAAP (such as principal payments on debt and pension contributions based on a level percentage of payroll). Similarly, certain non-cash expenditures included under GAAP are not recognized under the debt service basis (such as depreciation on capital assets and pension expenses as defined by Governmental Accounting Standards Board Statement 68 –Accounting & Finance Reporting for Pensions).

The budget process commences in July with submission of requests by all organizational units following the guidance provided by the General Manager. The guidance promotes departments to focus on cost containment and cost savings; provide justification for all new program funding requests; seek efficiency overhead count; and provide justification for budget enhancements. These initial submissions are used to develop the preliminary working projections and scenarios that are provided by the Commission for the executive and legislative branches of government in Montgomery County, Maryland and Prince George's County, Maryland to exercise their required due diligence and deliberation during the respective County Spending Affordability Guidelines discussions. This occurs prior to the initial county recommendations being formally presented in November of each year. The departmental requests are subject to an extensive review by management, across various divisions, prior to the General Manager and CFO presenting the recommendations to the Commissioners. The Commissioners review the budget and make recommendations before approving a preliminary proposed budget document for public hearings. A preliminary proposed budget document must be available to the public by January 15. Hearings on the WSSC Water budget are held in each county or virtually via livestream before February 15. The agency considers comments and testimony given at the public hearings, prior to the proposed budget being formally transmitted to the counties.

State law requires that WSSC Water transmit its proposed budget to the Counties by March 1 of each year. The County Councils, County Executives and their staff review the budget and make recommendations. Both counties must approve any amendments to the budget on or before June 1. Once the counties take formal action, the budget is presented to the Commissioners for their approval. The approved budget sets the levels for charges, fees and any taxes to finance proposed expenditures. The approved budget takes effect on July 1. Once the budget is adopted, total expenditures may not exceed the final total approved budget without an approved budget supplement. Budget supplements must be approved by the Montgomery and Prince George's County Councils and are transmitted to them through their respective County Executives.

### **Budget Integration**

Preparation of the operating budget requires integrating several other planning efforts with the budget formulation process. The annual spending affordability review, undertaken jointly with Montgomery and Prince George's Counties, uses a six-year financial model to examine the impacts and affordability of various scenarios involving WSSC Water's future capital and operating needs. This analysis results in the development of recommended maximum affordable levels for rate increases, operating expenditures, debt service and new debt in the budget year. These limits, which are formally adopted by the Montgomery and Prince George's County Councils, have a key role in guiding the annual budget process.

Capital needs, developed independently in planning for the six-year Capital Improvements Program (CIP), also shape the operating budget by helping to determine debt service requirements and the operating impacts of projects expected to be completed during the budget year (additional operating costs, if present, as well as any expected efficiencies). The annual debt service on outstanding bonds is paid from the agency's operating funds, primarily through water consumption and sewer use charges paid by customers. Thus, the size of the CIP affects the size of the water and sewer bond issues needed in the budget year, which in turn affects customer water and sewer bills.

The CIP is, in turn, driven in part by the development planning and authorization processes of Montgomery and Prince George's Counties, especially as manifested in the Counties' ten-year water and sewer plans. These plans, which guide development activity within the Counties, are updated annually. In addition, since WSSC Water must contribute to the capital and operating expenses of the Blue Plains Advanced Wastewater Treatment Plant (Blue Plains), budget planning by the District of Columbia Water and Sewer Authority (DC Water) - and the budget's subsequent review and approval by DC Water's multi-jurisdictional Board of Directors - can have important impacts on planning for WSSC Water's operating budget.

### **Operating Revenue Sources**

Volumetric charges and ready to serve fees account for 93 percent of WSSC Water's operating revenue. Miscellaneous revenue generated from Rockville sewer use, plumbing and inspection, miscellaneous fees, intergovernmental grants, natural gas sales, and interest income account for the remaining 7 percent.

### **Expense Allocation**

Strategic expense allocation is essential for ensuring that an organization can effectively balance its priorities while maintaining long-term financial sustainability. For the proposed FY2027 budget, operating

funds are distributed with 26 cents of each \$1 in revenue to personnel, 33 cents to operations and maintenance, and 41 cents to debt service and PAYGO financing. This approach reflects a deliberate and intentional focus on maintaining fiscal stability, while investing in WSSC Water’s human capital, ensuring operational excellence, and maintaining infrastructure. Allocating one-quarter of resources to people emphasizes the value of skilled employees, training and development, retention, and ensuring that the organization remains efficient and innovative. However, this proportional allocation also indicates a disciplined approach – containing personnel and benefit costs to safeguard budget flexibility, while protecting critical programs and services.

The investment in operations and maintenance demonstrates WSSC Water’s commitment to maintaining our infrastructure, equipment, and everyday services that directly support our customers. Operations and maintenance ensures that \$9 billion in assets are readily available and that costly repairs and replacements are minimized to ensure maximum productivity of assets throughout their lifecycle.

Debt service and PAYGO financing reflect WSSC Water’s commitment to capital investment while avoiding overreliance on borrowing. Together they represent a prudent strategy in long-term financial health.

### **Capital - Introduction**

The Capital Program and Financing section outlines how WSSC Water plans, funds, and manages long-term infrastructure investments that safeguard public health, ensure regulatory compliance, and maintain the reliability of regional water and wastewater systems. The program balances renewal of aging assets with system expansion and modernization, while maintaining affordability and financial sustainability. It reflects the Commission’s Smart One Water approach—integrating capital planning, operations, asset management, and fiscal discipline to achieve lasting resilience.

### **Program Structure and Legislative Basis**

WSSC Water’s CIP is prepared and adopted in accordance with Section 23-303 of the Public Utilities Article of the Annotated Code of Maryland, which governs capital planning for major public water and sewer facilities serving Montgomery and Prince George’s Counties. This statutory framework authorizes the Commission to plan, construct, and finance long-term infrastructure improvements and issue general obligation bonds backed by the full faith and credit of both counties. Qualifying projects include large-diameter mains, pumping and storage facilities, and other major utility assets essential for system reliability and environmental protection. In addition to the state mandated program, WSSC Water maintains an Information-Only Program that improves transparency by including projects not required under Section 23-303 but relevant for fiscal coordination. Together, these form the Combined Capital Program, which both county governments review annually as part of the Commission’s capital and operating budget approval process.

Together, these elements ensure that WSSC Water’s capital programming remains transparent, accountable, and fully aligned with statutory requirements and county oversight processes.

### **Overview of the FY 2026–FY 2031 CIP**

The Approved FY 2026–FY 2031 CIP totals approximately \$4.87 billion, averaging \$813 million per year. The FY 2026 capital budget of about \$715 million supports ongoing rehabilitation, capacity expansion,

efficiency and strategic initiatives. The CIP’s principal objective is to guide the six-year programming of planning, design, land acquisition, and construction activities for major water and sewerage infrastructure projects. These projects address system improvements for existing customers, compliance with federal and state environmental mandates, and new development consistent with the counties’ plans for orderly growth and development.

Investment priorities include:

- **Water System Rehabilitation & Expansion** – Replacement of aging transmission mains and treatment-plant improvements,
- **Wastewater System Rehabilitation** – Collection-system renewal, pumping upgrades, and nutrient removal,
- **Regulatory and Environmental Compliance** – PFAS mitigation, consent-decree work, and biosolids management,
- **Facilities and Operational Infrastructure** – Fleet, depot, and technology modernization, and
- **Strategic Technology and Innovation** – Advanced Metering Infrastructure (AMI), cybersecurity, and smart-asset tools.

**Approved FY 2026–FY 2031 CIP by Major Program Area**

Major Program Area	FY 2026–FY 2031 Total (\$ Millions)	Percent of Total CIP	Typical Scope / Purpose
Water Distribution & Treatment	1,183.8	24%	Rehabilitation and replacement of mains and pump stations; water treatment and storage facilities.
Wastewater Collection & Recovery	1,280.3	26%	Sewer system renewal and pump station improvements; Water Resource Recovery Facilities.
Regulatory & Environmental Programs	719.1	15%	PFAS mitigation, nutrient removal, biosolids, and consent decree compliance.
Facilities and General Infrastructure	441.2	9%	Fleet, depots, administrative and laboratory buildings.
Innovation & Investment Priorities	712.6	15%	Smart Water programs, AMI deployment, and climate action projects.

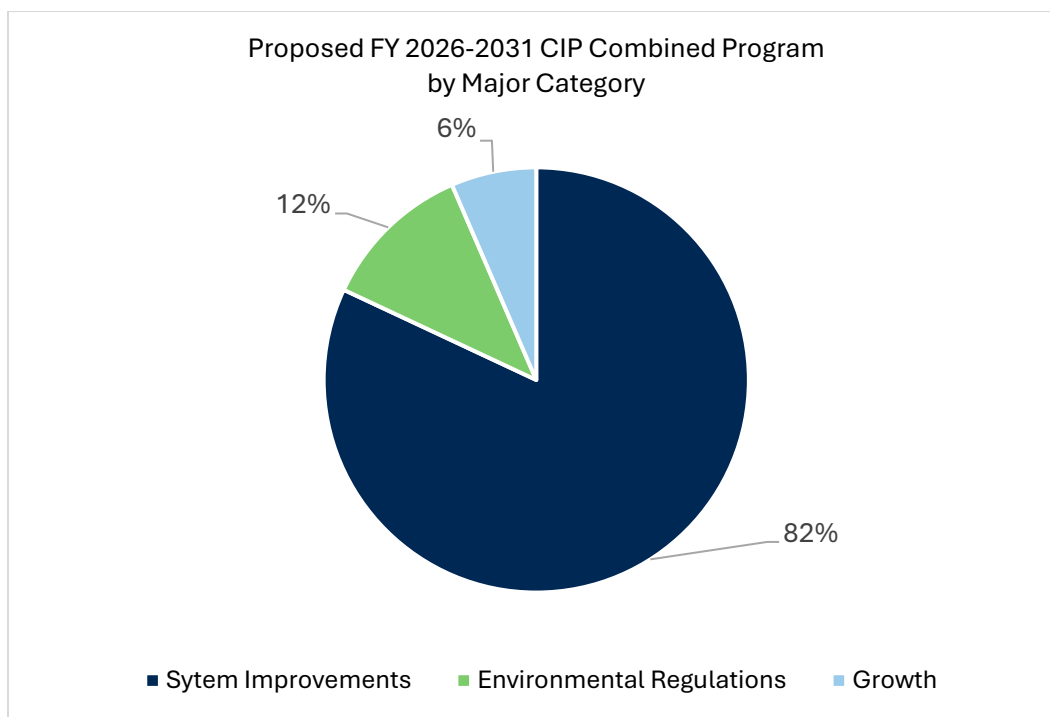
Miscellaneous and Mixed-Use Projects	243.0	5%	Land, beltway, and inter-jurisdictional agreements.
Total Six-Year Capital Program	4,870.0	100%	—

**Uses of Funds**

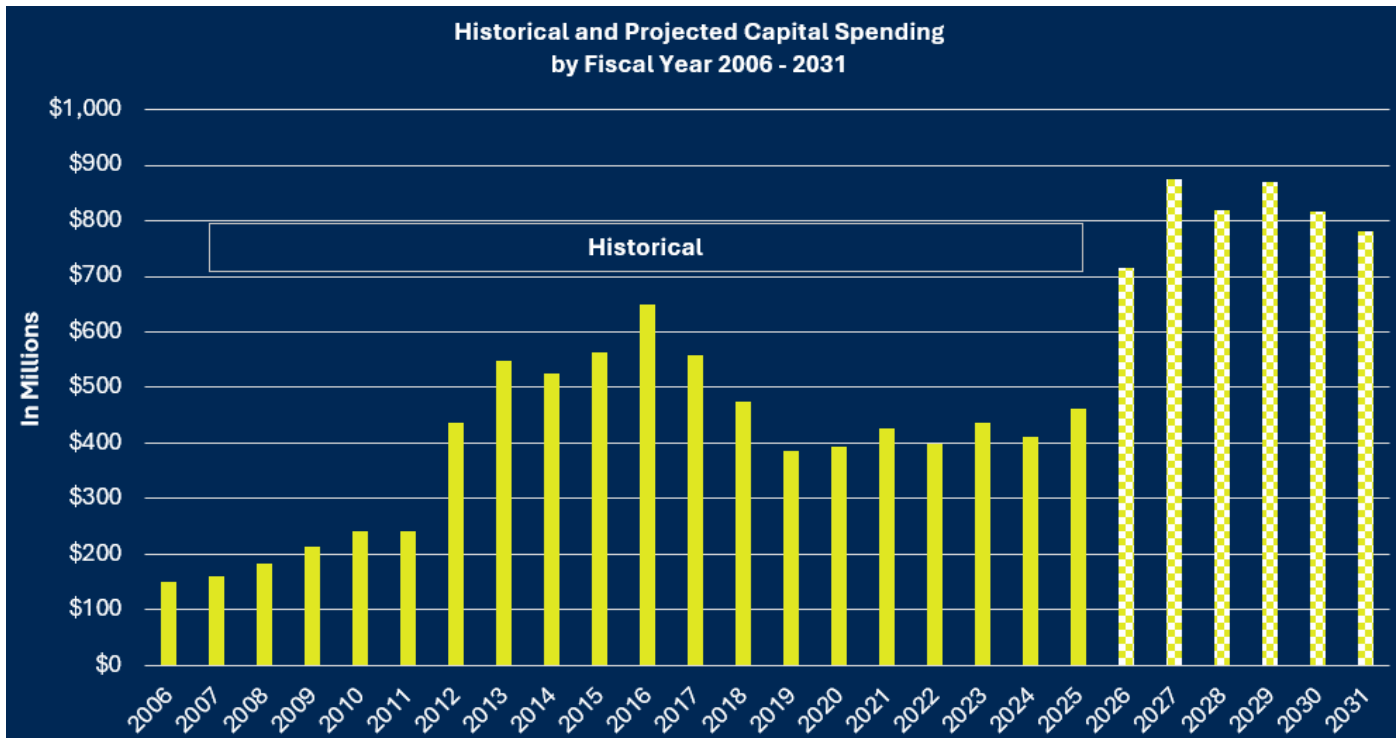
Approximately 82 percent of total capital expenditures in the FY 2026–FY 2031 CIP address system rehabilitation, replacement, and reliability improvements, including both water and wastewater infrastructure. Approximately 12 percent supports projects required for environmental and regulatory compliance, such as nutrient removal, PFAS mitigation, and biosolids management. The remaining 6 percent funds growth and innovation initiatives, including technology modernization, smart water infrastructure, and new service connections.

Projects are prioritized through a risk-based asset management framework that evaluates asset condition, age, criticality, and consequence of failure to ensure investment decisions promote reliability, resiliency, and intergenerational equity.

**Figure 1: Distribution of CIP Expenditures by Major Category**



Over the past 20 years, WSSC Water has invested \$7.85 billion in capital infrastructure—an average of \$392.8 million annually. Projected annual spending during the FY 2026–FY 2031 period ranges from \$715 million to \$875 million, averaging \$813 million per year.



The bars, with patterns, represent projected capital spending based on the FY 2026 to FY 2031 CIP.

### Sources of Funds

WSSC Water finances its six-year CIP through a diversified mix of long-term debt, PAYGO funding, and external support from state and federal programs.

This balanced approach provides stability, maintains affordability, and ensures intergenerational equity by matching long-lived assets with long-term financing.

The financing of WSSC Water’s capital program originates from four primary sources, as described in this section. The level of Maryland state funding is generally defined by annual appropriations and project approvals. The remainder of the CIP is mostly comprised of WSSC Water bonds, PAYGO, SDC & Other.

In 2024, WSSC Water developed a comprehensive strategic plan that focused on enhancing its financial strength by seeking additional external funds and diversifying the revenue streams to safeguard its “AAA” bond ratings for accessing low-interest capital.

FY 2026 - 2031 Water and Sewer Capital Improvements Program		
Sources of Funds (\$ in Millions)	Total 6 Years	% of Total
WSSC Bonds <sup>1</sup>	\$3,368.13	69.0%
PAYGO Financing	940.96	19.3%
SDC & Other	179.65	3.7%
State Grants and Loans	341.67	7.0%
Local Government Contributions	47.92	1.0%
<b>Total</b>	<b>\$4,878.33</b>	<b>100.0%</b>

Note:<sup>1</sup>Includes Green bond issuance of \$180 million.

The projects included in this Combined Program are funded primarily by the issuance of general obligation bonds.

To a lesser degree, projects may also be funded by the following:

- PAYGO Financing – Revenues generated from customer rates that are allocated directly to capital projects. Increasing PAYGO funding is a key component of WSSC Water’s strategy to moderate debt growth and preserve financial flexibility.
- Over the FY 2026–FY 2031 period, PAYGO funding is projected to increase modestly, reflecting WSSC Water’s continued effort to balance debt and cash financing. This blended approach supports sustainable rate management while preserving the Commission’s AAA credit standing and maintaining the capacity to invest in future infrastructure needs.
- SDC and Other – anticipated revenue from fees paid by developers for new connections and growth-related facilities (System Development Charge) and projects funded by applicants for growth projects where the County Councils have directed that no WSSC Water debt be used to pay for the project; State Grants and Loans – a share of the support provided on a local level. The State of Maryland provides funding under a separate grants program for enhanced nutrient removal at existing wastewater treatment plants (water resource recovery facilities) and for the rehabilitation of sewer mains as part of the Chesapeake Bay Program. In addition, WSSC Water periodically borrows funds from the Water Quality Revolving Loan Fund Program managed by the Maryland Department of the Environment’s Water Quality Financing Administration to fund major capital improvements that are needed to help maintain or improve water quality in the Chesapeake Bay.
- Federal Grants – Department of Energy grants related to the Energy Performance Program and Piscataway Bioenergy projects to promote and develop green energy sources.
- Local Government Contributions – payments to WSSC Water for co-use of regional facilities, or funding provided by County governments for projects they are sponsoring.

### System Development Charge (SDC)

The Maryland General Assembly, in 1993, first approved legislation authorizing Montgomery and Prince George’s County Councils to establish, and WSSC Water to impose, a System Development Charge. This

is a charge on new development to pay for that part of the CIP needed to accommodate growth in WSSC Water’s customer base.

WSSC Water estimated that there will be an overall growth funding shortfall of \$85.9 million over the FY 2025 - 2030 program period. If growth-related expenditures were to exceed the available SDC account balance in any given fiscal year, it is anticipated that new SDC-supported debt would be issued to cover this temporary gap. The debt will be repaid through future SDC collections, as allowed by state law.

To estimate the surplus or shortfall for an individual fiscal year, it is assumed that approximately 75 percent of the eligible expenditures will be expensed in a fiscal year due to scheduling and other delays. The projected surplus or shortfall is the difference between the eligible expenditures adjusted for completion and the sum of the various funding sources.

(In Millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	Total 6 Years
<b>CIP GROWTH EXPENDITURES</b>	\$ 27.2	\$ 24.9	\$ 31.9	\$ 36.9	\$ 29.7	\$ 16.1	\$ 166.6
Expenditures Adjusted for Completion	\$ 20.4	\$ 17.9	\$ 22.4	\$ 25.1	\$ 19.7	\$ 10.6	\$ 116.1
<b>FUNDING SOURCES</b>	-	-	-	-	-	-	-
Privately Funded Projects	\$ 6.2	\$ 4.4	\$ 3.8	\$ 1.0	\$ 1.1	\$ 0.5	\$ 17.0
Estimated SDC Revenue less Debt service	\$ 8.4	\$ 8.0	\$ 13.3	\$ 18.9	\$ 13.3	\$ 4.6	\$ 66.5
Less SDC Developer Credits	\$ (1.0)	\$ (1.0)	\$ (1.0)	\$ (1.0)	\$ (1.0)	\$ (1.0)	\$ (6.0)
Less SDC Exemptions <sup>1</sup>	\$ (1.0)	\$ (1.0)	\$ (1.0)	\$ (1.0)	\$ (1.0)	\$ (6.0)	\$ (6.0)
<b>Total Funding Sources</b>	\$ 12.6	\$ 10.4	\$ 15.1	\$ 17.9	\$ 12.4	\$ 3.1	\$ 71.5
<b>FUNDING SURPLUS/(SHORTFALL) ADJUSTED FOR COMPLETION</b>	\$ (7.8)	\$ (7.5)	\$ (7.3)	\$ (7.2)	\$ (7.3)	\$ (7.5)	\$ (44.6)
FUND BALANCE	\$ 29.2	\$ 21.7	\$ 14.4	\$ 7.2	\$ (0.1)	\$ (7.6)	<b>N/A</b>

Assumes a fund balance carryforward from December FY2026 \$37.0 million.

Note: <sup>1</sup>Each county may grant SDC exemptions, as identified in Appendix A, totaling up to \$500,000 per fiscal year as provided for in Maryland state law (Public Utilities Article, Section 25-403(b)). Unused exemption amounts are available for use in future fiscal years. Cumulative unused SDC exemptions totaled approximately \$9.1 million for Montgomery County and \$3.3 million for Prince George’s County through June 30, 2025.

WSSC Water’s capital financing strategy reflects a disciplined, forward-looking approach that integrates fiscal stewardship, sustainability, and affordability. Through diversified funding and rigorous asset-management practices, the Commission ensures that today’s investments build a resilient and financially sustainable system for generations to come.

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## Chapter VII: Long-Term Planning

### Overview of Practices

WSSC Water develops and publishes six-year projections of the operating and capital budgets (revenues and expenditures) that reflect the impacts of proposed water and sewer rate actions, operational resource changes, and capital investment in the context of emerging economic and regulatory conditions, as well as service demands.

The 2027-2032 long-term financial plan was included in WSSC Water's FY2027 Proposed Budget dated March 1, 2026.

### FY 2027 – 2032 Long-Term Financial Plan

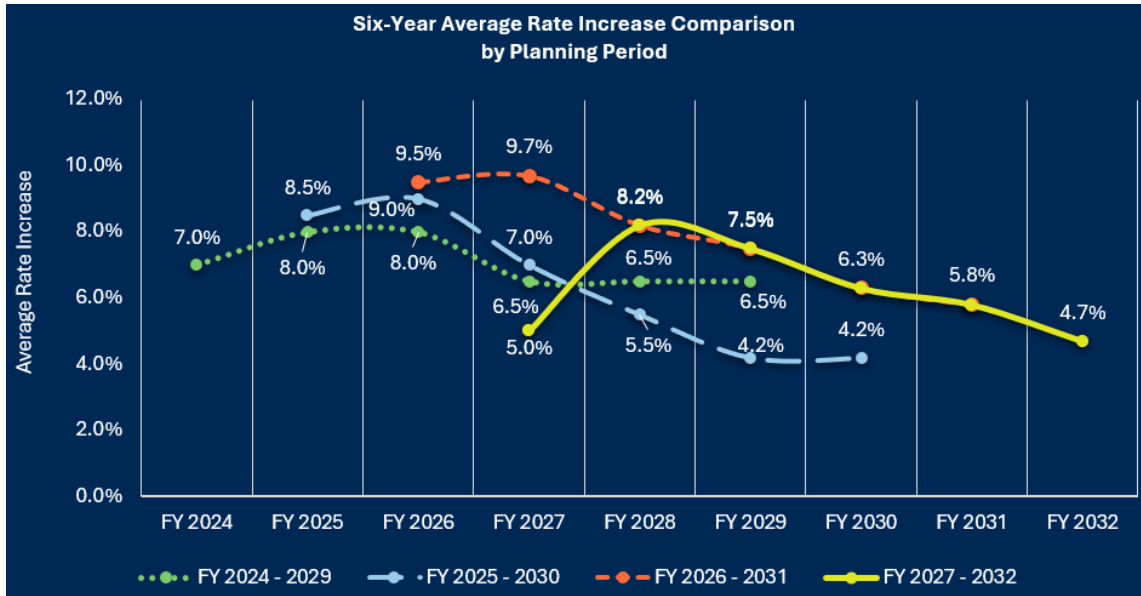
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
(In Thousands \$000s)	Approved	Proposed	Projected	Projected	Projected	Projected	Projected
Water and Sewer Combined Rate Increase (Avg.)	9.5%	5.0%	8.2%	7.5%	6.3%	5.8%	4.7%
<b>FINANCIAL PLAN – FUNDING</b>	-	-	-	-	-	-	-
Water and Sewer User Charges	\$ 892,540	\$ 937,167	\$ 1,019,697	\$ 1,096,175	\$ 1,165,234	\$ 1,232,817	\$ 1,290,459
Ready-to-Serve	155,275	161,028	174,232	187,300	199,100	210,647	220,495
Account Maintenance Fees	69,494	72,125	78,039	83,892	89,177	94,349	98,760
Infrastructure Investment Fee	85,782	88,904	96,194	103,408	109,923	116,298	121,735
Other Sources/Fees	65,876	66,157	67,223	69,075	70,187	71,277	72,395
Rockville Sewer Use	4,500	4,650	4,700	4,750	4,800	4,800	4,800
Plumbing and Inspection Fees	22,610	23,289	23,989	24,709	25,450	26,213	27,000
Intergovernmental/ Grants	3,171	2,500	2,500	2,500	2,500	2,500	2,500
Miscellaneous	27,800	29,730	30,047	30,366	30,687	31,013	31,345
Natural Gas Sales and Renewable Natural Gas	7,795	5,988	5,988	6,750	6,750	6,750	6,750
Interest Income	14,000	18,907	8,000	8,000	8,000	8,000	8,000
Uncollectible @ 0.5% of User Charges	(4,962)	(5,491)	(5,970)	(6,417)	(6,822)	(7,217)	(7,555)
<b>Operating Revenues</b>	<b>1,122,729</b>	<b>1,177,768</b>	<b>1,263,183</b>	<b>1,354,132</b>	<b>1,435,698</b>	<b>1,515,524</b>	<b>1,583,794</b>
OTHER TRANSFERS AND CREDITS	7,772	16,230	10,703	12,800	7,855	7,852	7,698
Use of Fund Balance	--	5,500	--	--	--	--	--
SDC Debt Service Offset	5,772	5,748	5,723	5,710	5,710	5,707	5,698
Underwriter's Discount Transfer	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Miscellaneous Offset	--	2,982	2,980	5,090	145	145	--
<b>Total Funds Available</b>	<b>\$ 1,130,501</b>	<b>\$ 1,193,998</b>	<b>\$ 1,273,886</b>	<b>\$ 1,366,932</b>	<b>\$ 1,443,553</b>	<b>\$ 1,523,376</b>	<b>\$ 1,591,492</b>
Salaries and Wages	\$ 199,283	\$ 212,946	\$ 222,039	\$ 232,030	\$ 242,472	\$ 253,383	\$ 264,785

Heat, Light, and Power	29,199	31,866	32,826	33,814	36,682	37,966	39,294
Regional Sewage Disposal	83,661	89,667	93,254	96,984	100,863	104,898	109,094
All Other	351,557	371,072	384,836	402,595	411,284	442,925	460,053
<b>Operating Expenses</b>	<b>\$ 663,700</b>	<b>\$ 705,551</b>	<b>\$ 732,954</b>	<b>\$ 765,424</b>	<b>\$ 791,300</b>	<b>\$ 839,172</b>	<b>\$ 873,226</b>
DEBT SERVICE	-	-	-	-	-	-	-
Bonds and Notes Principal and Interest	373,801	388,446	426,597	465,303	500,309	528,190	547,521
<b>Operating Expenses with Debt Service</b>	<b>1,037,501</b>	<b>1,093,998</b>	<b>1,159,550</b>	<b>1,230,727</b>	<b>1,291,609</b>	<b>1,367,362</b>	<b>1,420,747</b>
OTHER TRANSFERS AND ADJUSTMENTS	-	-	-	-	-	-	-
PAYGO (Contribution to bond fund)	93,000	100,000	114,336	136,205	151,945	156,015	170,745
<b>Total Expenditures</b>	<b>\$ 1,130,501</b>	<b>\$ 1,193,998</b>	<b>\$ 1,273,886</b>	<b>\$ 1,366,932</b>	<b>\$ 1,443,553</b>	<b>\$ 1,523,376</b>	<b>\$ 1,591,492</b>
<b>Net Revenue (Loss)</b>	<b>0</b>	<b>-0</b>	<b>-0</b>	<b>-0</b>	<b>0</b>	<b>0</b>	<b>-0</b>

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## Revenue Forecasting

Revenue projections for the variable portion of WSSC Water’s Revenues are based on water consumption, while fixed fees are charged to all customers based on meter size to offset costs of providing, reading and invoicing customers’ meters. Water Consumption and Sewer Use Revenues proposed in FY 2027 Proposed Budget are \$425.0 million and \$512.2 million, respectively. Revenue is derived from the sale of water by applying an increasing rate schedule per 1,000 gallons of use. The rate charged for each account is based upon the average daily water consumption during each billing period. For fixed fees, the Account Maintenance Fee is charged to all customers and is \$72.1 million in the FY 2027 Proposed Budget while the Infrastructure Investment Fee which funds a portion of debt service associated with the main reconstruction programs in the CIP totals \$88.9 million in the FY 2027 Proposed Budget.

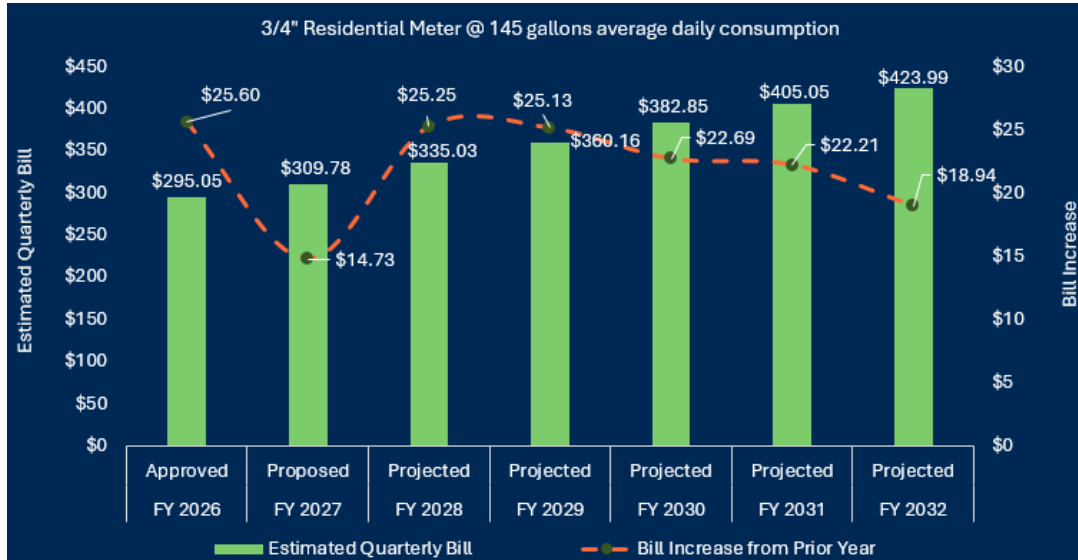


Due to ongoing and new initiatives, forward looking rate revenue enhancements from FY 2026 – FY 2031, WSSC Water’s water and sewer rate revenue increased from the projected FY 2027 of 9.7 percent to the proposed FY 2027 SAG of 5.0 percent as shown in the chart above (yellow colored marker is proposed rate). Cumulative rate increases total 37.4 percent over the six-year period compared to 47.0 percent projected in last year’s six-year plan (FY 2026 – FY 2031).

The FY 2025 Actual operating receipts projection totals \$1,063.7 million, an increase of \$49.7 million as compared to the FY 2025 Approved. The FY 2026 Approved operating receipts total \$1,130.5 million, an increase of \$66.8 million over the FY 2025 Actual budget receipts. The FY 2027 Proposed operating receipts total \$1,194.0 million, an increase of \$63.5 million over the FY 2026 Approved budget receipts.

The Billing Impact chart below assumes customer billing for a typical residential customer at 145 gallons of average daily consumption with a 3/4” meter. The chart reflects a customer bill increasing at the same level of revenue enhancement as identified in the FY 2027 to 2032 six-year plan as average rate increase. While actual impacts on a customer bill will vary, this chart serves to demonstrate the burden on our customers as rate increases projected are compounded year-over-year.

## Billing Impact Based Upon FY 2027 – FY 2032 Rate Revenue Enhancement



### Expenses

WSSC Water tracks operating expenses under four categories: salary and wages, heat light and power, regional disposal, and all other expenses.

The six-year financial plan reflects the following major expenditure assumptions:

- There is no assumption for higher water consumption over the six-year period as conservation efforts and technology continue to be a factor in growth.
- Salaries and Wages are projected to grow at an average annual rate of 4.9 percent, primarily due to regional competitiveness.
- Operations and maintenance expenditures increased on an average of 2.8 percent annually over a six-year period. The increase is primarily driven by projected increases in labor compensation, chemicals and supplies, utilities, and water purchases.
- Heat, light and power includes a 9.1percent increase in the FY 2027 Proposed Budget, due to continued elevation in energy services and volatility in fuel prices.
- Debt service expense growth averages about 6.9 percent during the plan period, with efforts to increase PAYGO annually to finance needed capital investment and less reliance on long-term debt financing.
- PAYGO continues to escalate as capital investment demands persist. Management is reviewing various guidelines in PAYGO allocation to alleviate and level the annual impact on ratepayer increases.
- Capital financing shifts to address the full budgetary needs as part of an effort by management to re-baseline the CIP to a 100 percent completion factor to better match annual financing needs (bonded debt issue and PAYGO) with expenses.

- The average interest rate on bond debt issuance is assumed at 4.5 percent and continuation of the highest credit rating.
- Enhanced community outreach has improved resource allocation decisions impacting program efforts in planning, as well as large investment programs such as pipeline reconstruction.

The financial plan can easily adjust for changed assumptions within these categories and WSSC Water annually looks annually at its forward-looking assumptions to decide whether changes are necessary including through stress testing. The financial plan assumes no water consumption growth over the six-year period as conservation efforts and technology continue to be a factor in growth.

### Long-Term Financial Plan Revenue, Expenditure and Interest Rate Base Case Assumptions Following FY2027 Proposed Budget

PLANNING DATA	PROJECTED					
	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
<b>REVENUE RATE INCREASE</b>	5.0%	8.2%	7.5%	6.3%	5.8%	4.7%
<b>-Water Consumption and Sewer Treatment</b>	-	-	-	-	-	-
Water consumption (Average MGD)	126.0	126.0	126.0	126.0	126.0	126.0
<b>Credits and Transfers (\$000's)</b>	-	-	-	-	-	-
Use of Fund Balance	\$ 5,500	\$ -0	\$ -0	\$ -0	\$ -0	\$ -0
SDC Debt Service Offset	\$ 5,748	\$ 5,723	\$ 5,710	\$ 5,710	\$ 5,707	\$ 5,698
<b>EXPENDITURE</b>						
<b>Operating (\$000's)</b>	-	-	-	-	-	-
Workyears	2,040.0	2,040.0	2,040.0	2,040.0	2,040.0	2,040.0
Salary and Wages Increase	6.9%	4.3%	4.5%	4.5%	4.5%	4.5%
Heat, Light, and Power Increase	9.1%	3.0%	3.0%	8.5%	3.5%	3.5%
All Other	4.2%	2.6%	2.5%	2.5%	2.6%	2.7%
Debt Service	\$388,446	\$426,597	\$465,303	\$500,309	\$528,190	\$547,521
Yearly Growth %	5.4%	9.8%	9.1%	7.5%	5.6%	3.7%
PAYGO	\$100,000	\$114,336	\$136,205	\$151,945	\$156,015	\$ 170,745
<b>Capital Expenditure Parameters</b>	-	-	-	-	-	-
Water and Sewer Completion Factor	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Information Only Completion Factor	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>BOND ISSUANCE</b>	-	-	-	-	-	-
Interest Rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%

### Base Case Assumptions

See full description and assumptions for Base Case in the prior section, Expenses.

## **Debt**

Deciding the mix of funding for WSSC Water's CIP depends on many factors, but central, among them, existing debt and potential effects of increasing obligations as measured by the tracked financial metrics. WSSC Water's forecast of debt issuances balances with expected PAYGO funding of projects and assumes longer term debt issuances are executed with equal principal structures (the same amount of principal due each year and a declining amount of interest each year), which increases the near-term cost of the debt but lowers the overall cost of debt. The new debt issuance for FY 2027 assumes \$491.1 in long-term general obligation bonds. The assumed bond amortization is for 30 years with an estimated 4.5 percent average interest rate.

## **Forecast Results**

The financial plan works in concert with the SAG process to help balance affordability, resilience and prudent financial management practices. Based on the FY 2027 Proposed Budget, projected increases in rates will moderate, annually, accounting for rising costs, efforts to decrease debt issuances over time, and increased operational efficiencies. All financial policies, accomplishments and targets are incorporated into the six-year long-term financial plan. The FY 2027 - FY 2032 financial plan includes the resources necessary to accomplish critical financial and operational goals over the coming years, as summarized below:

- **Outcome Based Budgeting Approach** – WSSC Water continues its transparent outcome-focused approach to budgeting, ensuring meticulous alignment with key priorities and required services for WSSC Water's customers. Risks are mitigated through WSSC Water's strategic allocation of resources across operating and capital expenditures. Work programs and funding are aligned to achieve the desired outcomes and optimal service delivery levels. The budget incorporates strategies to meet required financial metrics, while balancing affordability and investment in WSSC Water's resources.
- **Alignment of Budget Drivers with Strategic Priorities** – The FY 2027 budget drivers directly support the delineated strategic priorities. Rising debt service and PAYGO obligations, which require steady payments on past borrowing, aligns with Asset Management & Infrastructure Reliability and Sustainability & Resiliency - by ensuring continued investments to maintain and strengthen the water and sewer systems. Competitive wages reinforce focus on Workforce Development, as the budget incorporates newly negotiated Collective Bargaining Agreement increases and ensures livable, market-competitive pay compensation required to attract and retain skilled staff. Federal funding constraints highlight the importance of Affordability & Financial Viability, by adding pressure on rates, due to limited federal support relative to overall needs and the expiration of the Infrastructure Investment and Jobs Act (IIJA) funding after FY 2026. Additionally, rising costs, such as higher regional sewage disposal fees, increased employee health care expenses, and utility costs driven by inflation and tariffs, continue to add significant pressure to the budget underscoring the need to invest in Optimizing Operations and Digital Transformation to improve efficiency.

- **Cost Containment** – WSSC Water prioritized cost containment and operational efficiencies by asking departments to cut expenses 5 percent below their FY 2026 approved budgets. This effort resulted in \$27 million in savings from items classified as discretionary. Note that labeling these items as “discretionary” does not imply they lacked value. This classification is utilized when items are not regulatory requirements or externally mandated costs.
- **Revenue Enhancement** - During the spending affordability discussions, WSSC Water’s preliminary “same services” budget was presented with a 6.0 percent revenue enhancement to keep pace with rising costs and address deferred improvements that were a result of pandemic revenue downturn, keep wages competitive to retain and recruit talent to serve, and improve financial metrics to protect the AAA rating.
- **Commitment to Affordability and Customer Assistance Programs** – Similar to many utilities across the country, WSSC Water continues to confront the challenge of balancing increased costs for infrastructure and operations with affordability considerations for customers. While the average cost to ensure access to clean, safe drinking water and efficient wastewater treatment compares favorably to other household utilities and expenses, more residents are struggling to meet their monthly expenses. However, it is essential to price water at the cost of safely producing and delivering this essential resource and to offer assistance programs for WSSC Water’s most vulnerable customers. The total of all customer assistance program support in the FY 2027 Proposed Budget is \$10.6 million, an increase of 20 percent from FY 2026.
- **Funded Essential Programs, Initiatives, and Improvements** – The following essential programs, initiatives, and improvements are funded:
  - Safe Drinking Water Act and Clean Water Act compliance
  - Private Side (customer) lead water service line replacement
  - EPA Lead and Copper Rule regulatory compliance
  - Comprehensive Per- and Polyfluoroalkyl Substances (PFAS) management strategy
  - Operations and maintenance of \$9 billion in critical infrastructure assets to support WSSC Water’s core mission
  - Debt service to support the \$4.8 billion capital improvements program
  - Reduced reliance on bonds through increases to the PAYGO allocation
  - Adherence to financial metrics to retain WSSC Water’s AAA bond ratings
  - Inspection of large diameter pipes and valve exercising
  - Investments to ensure operational reliability and resilience by:
    - Upgrading Water Filtration and Water Resource Recovery Facilities to drive operational cost savings and maintain compliance
    - Upgrading aging pumping stations and force mains
    - Modernizing WSSC Water’s meter infrastructure

- Proactive investment to safeguard the environment
- **Team H2O** - Carry forward compensation improvements made in FY 2025 for Team H2O to address stagnant wages below market, establish a living minimum wage, and improve recruitment and retention of workforce.
- **Facilities Reliability** – The implementation of comprehensive water and wastewater facilities condition assessment and improvement planning. The goals of Water and Wastewater Facilities Plans are to provide a long-term infrastructure roadmap.
- **Infrastructure Reliability** - The rehabilitation of smaller water mains (<16 inches in diameter), as WSSC Water begins to ramp back up towards WSSC Water’s asset management plan goal of 32 miles per year.
- **Information Technology Strategic Plan** - Information Technology is committed to providing a safe and reliable computing infrastructure that effectively meets the current and future needs of WSSC Water. Funding invests in system upgrades and replacements, and personnel.

### **Stress Testing Scenarios**

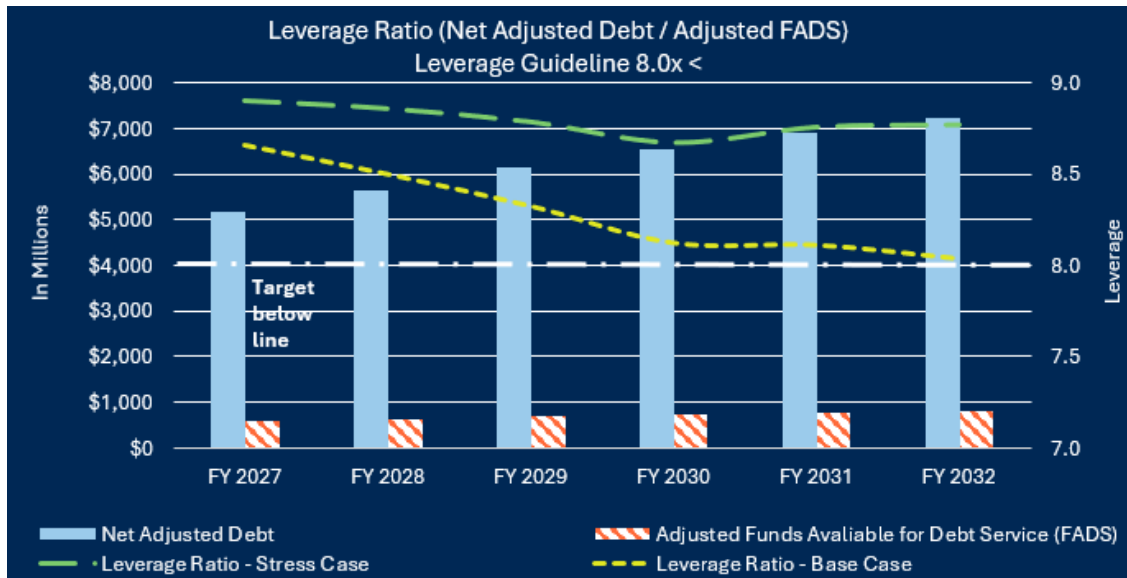
Vital to WSSC Water’s long-term financial planning process is testing potential stress scenarios that could impact the Commission’s operations. Below we detail the stress testing process and results of tests based on assumptions from the Proposed FY2027 Budget.

As part of the SAG process, WSSC Water prepares multiple long-term plan alternative scenarios based on varying assumed rate increases. The long-term financial plan also includes a stress scenario that considers the impact to financial management metrics from an assumed 10 percent increase in capital expenditures (Capital Stress Test). The following charts reflect critical financial metrics that are evaluated each fiscal year by the three credit rating agencies. Each chart includes a financial metric calculation, existing target, and results from both the Base Case and Capital Stress Case during the six-year period.

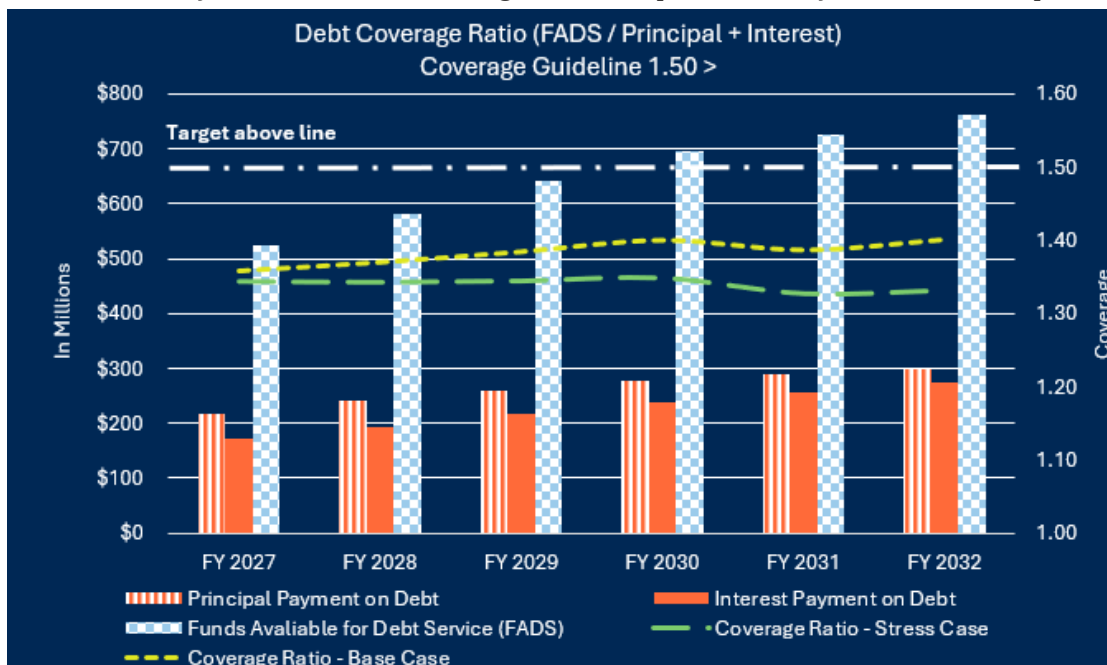
As referenced prior, the COVID-19 pandemic provided the actual impact of a real-world stress event which had major implications. Again, without proper safeguards to react, an organization can be left vulnerable to credit and operational risks. The use of stress testing, within the long-term plan, helps inform management as to potential financial risks. The use of a “Capital Stress Case” as part of the financial planning process provides this view. For the Capital Stress Case performed for each metric, the annual capital expense in the CIP was increased by 10 percent. This provides a view for management, relative to how each metric would be impacted if an event/shock were to occur, forcing expenses to increase while holding rate revenue at planned levels.

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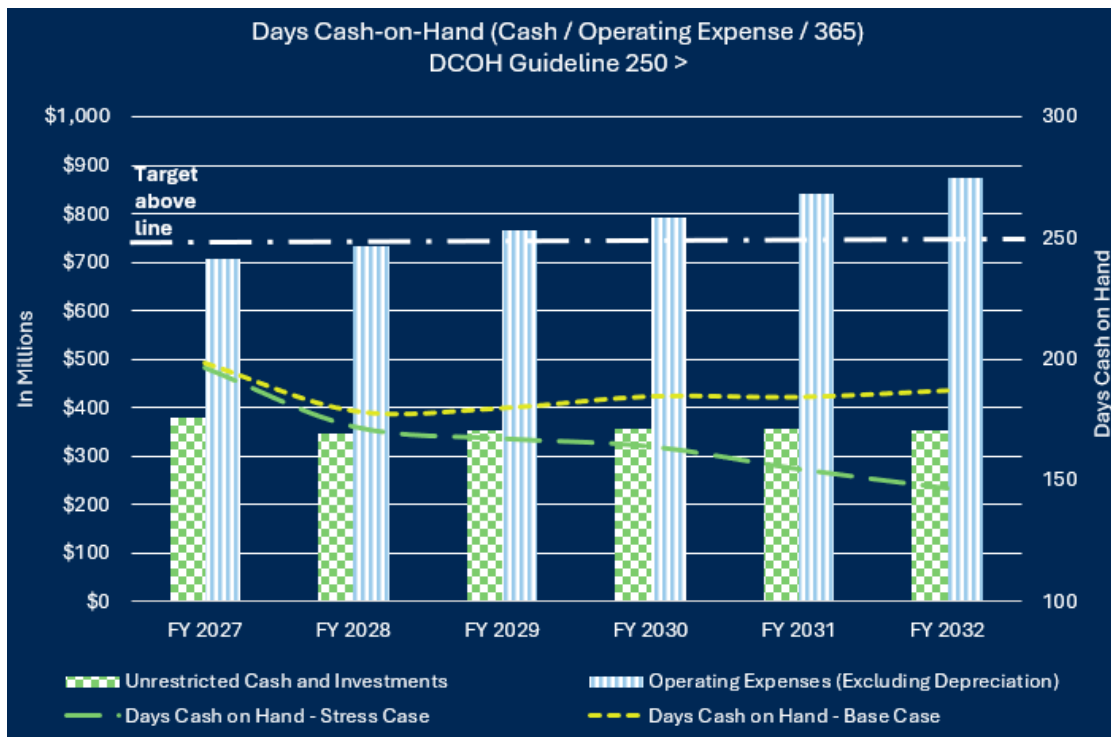
For simplification, WSSC Water uses the Fitch Ratings' methodology for calculating the following metrics.



- Although expected to rise above 8.0x over the six-year period, leverage has been over 10x in recent history. While the Capital Stress Case reflects some vulnerability, management will continue to monitor this closely to ensure that leverage remains [comfortably at or near 8.0x].



- WSSC Water's guideline is to target coverage at 1.50x. The combined coverage for FY 2027 through FY 2032 ranges from 1.36 to 1.40 for the Base Case and 1.33 to 1.35 for the Capital Stress Case.



- DCOH, which is an important measure of short- and long-term liquidity, typically exceeds 250 days of cash throughout the fiscal year. WSSC Water’s guideline requires a minimum of 250 days of cash on hand. Results against targets are calculated using year-end financial data. This can distort the liquidity position. During FY 2026, WSSC Water will be reviewing the current DCOH target, as well as initiating a rate stabilization fund policy.

### Additional Stress Testing Scenarios

WSSC Water performed additional stress testing scenarios consistent with recommendations from WSSC Water’s Financial Advisor. Each of the additional stress testing scenarios below reflect the impacts on the Statement of Activities and resulting impact on WSSC Water’s financial metrics including Coverage Ratio, Leverage and DCOH. These stress tests are separate and supplemental to the Capital Stress Test included in WSSC Water’s 2026 Budget and Financial Plan.

The current economic situation has changed since the 2025 LRCP was filed on November 1, 2025. WSSC Water and other municipal utilities nationwide are currently operating in an environment of heightened economic uncertainty due in part to the Iran-United States conflict and the related increase in oil prices and inflationary pressures. Since the start of the conflict, markets have experienced significant volatility driven by concerns that elevated energy prices could reignite inflation and force central banks to keep rates higher for longer. In April 2026, the Federal Open Market Committee (FOMC) voted to leave rates unchanged during its third meeting, leaving investors no longer anticipating Federal Reserve rate cuts later in 2026 which is a notable shift from expectations in 2025 at the time the 2025 LRCP was completed. Recent U.S. inflation releases indicate that inflation has risen notably in recent months, primarily driven by surging energy prices. At this time, it is not clear if these economic pressures will be short-lived or if they will have a longer-term impact on the Commission’s operations.

The Commission also continues to experience growth in salaries and benefits to remain competitive in attracting and retaining talent regionally. These pressures are incorporated into the following stress test scenarios. Summarized below are the stress test scenarios prepared by WSSC Water, with the support of its Financial Advisor:

**Stress Test 1: Economic Conditions** - For general economic conditions, operating revenue is stressed by reducing projected rate increases by 20 percent each year of the plan after the proposed FY2027 rate level.

**Stress Test 2: Operating Performance** - For operating performance, operating expenditures are stressed by increasing salaries and wages by 10 percent in FY2027 (instead of 4.5 percent in the base case) followed by 5.2 percent increase in FY2028-FY2031 each year (which is the 10-year average of WSSC Water's actual salary and wage increases), increasing benefits once by 10 percent in FY2027, regional sewer costs once by 20 percent in FY2027, and all other non-wage costs including Heat, Light and Power once by 2 percent in FY2026.

**Stress Test 3: Unemployment Rate** - For unemployment rates, affordability programs are stressed by a one-time 20 percent increase, and an increase in rate revenue deemed uncollectible from 0.5 percent to 2.7 percent of user-charge revenues (i.e., elevated delinquencies).

**Stress Test 4: Interest Rates** - For interest rates, debt service costs are stressed through an increase in assumed borrowing cost by 1 percent for each annual issuance to an all-in rate of 5.5 percent.

**Stress Test 5: Water Usage** - For water usage, consumption is stressed by decreasing volumetric consumption by 0.5 percent year over year on a compounding basis through the 6-year period.

Each stress testing scenario is then compared to the long-term financial plan in the Commission's Proposed FY2027 Budget as a base case for measuring the impact of each type of variance. As stress testing occurs in future financial plans, scenarios and assumptions will undergo re-evaluation by WSSC Water and its Financial Advisor based on various economic and market conditions, the financial condition of WSSC Water, and the assumptions in the 6-year long-term financial plan at the time. WSSC Water and its Financial Advisory will work to adjust stress test criteria on an as-needed basis.

### Stress Test 1: Economic Conditions

This stress test evaluates the impact of reduced projected rate increases from the potential of deteriorating general economic conditions and the impact on the Commission's long-term financial plan and financial metrics.

WSSC Water's revenue has grown each year over the past decade. The FY 2027 proposed rate level is 5.0 percent, and this stress scenario adjusts outyear assumed rate increases for FY2028-FY2032. For each year, FY2028-FY2032, the assumed rate increase was adjusted down by 20 percent. The average rate increase from years FY2028-FY2032 in the base case is 6.5 percent and decreases to an average rate increase of 5.2 percent in this stress scenario.

This stress scenario demonstrates the potential negative impact to WSSC Water’s financial performance from lower future rate increases. The results violate the Commission’s financial metric targets which likely would necessitate management action.

**Assumptions**

- Annual reduction of 20 percent in assumed rate increases from FY2028-FY2032.
- All other baseline operating assumptions are unchanged.

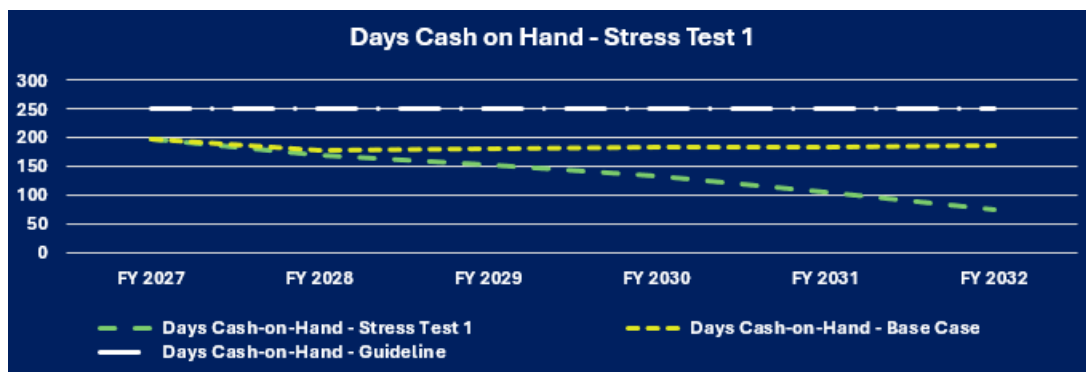
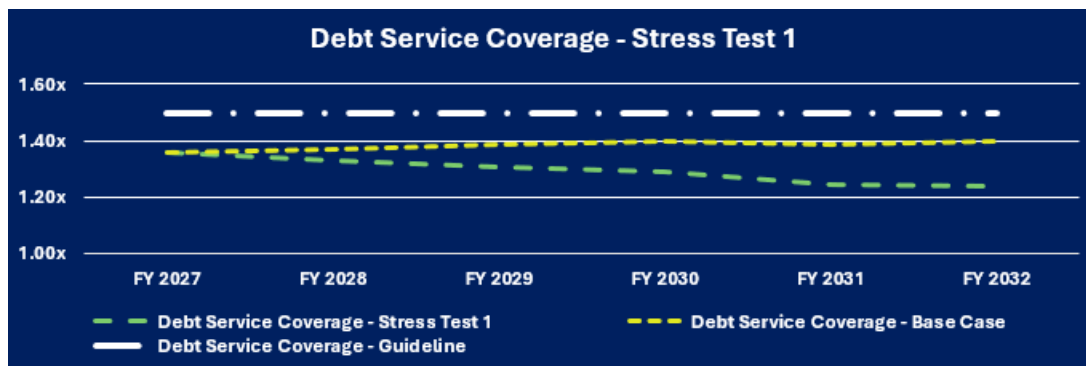
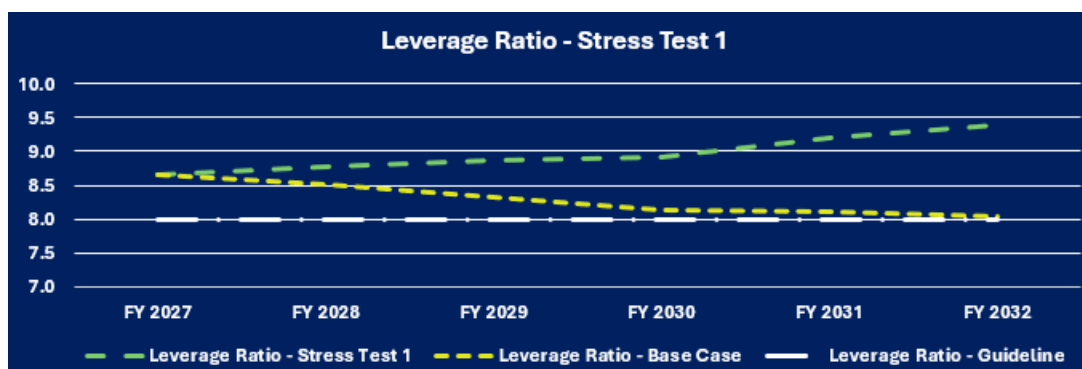
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<b>STRESS TEST 1 - 20% Revenue Growth Reduction</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>	<b>FY 2031</b>	<b>FY 2032</b>
<b>(In Thousands \$000s)</b>	<b>Proposed</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
New Water and Sewer Debt Issues	\$ 491,102	\$ 610,388	\$ 647,047	\$ 604,514	\$ 556,242	\$ 527,538
Total Water and Sewer Debt Service	388,446	426,597	465,303	500,309	528,190	547,521
Total Water and Sewer Expenditures	1,193,998	1,273,886	1,366,932	1,443,553	1,523,376	1,591,492
Water and Sewer Combined Rate Increase (Avg.)	5.0%	6.5%	6.0%	5.0%	4.6%	3.7%
Difference vs. Base Case	0.0%	-1.6%	-1.5%	-1.2%	-1.1%	-0.9%
<b>Operating Revenues</b>						
Water Consumption Charges	405,380	426,273	453,938	481,055	505,199	528,548
Sewer Use Charges	487,161	516,577	550,390	583,533	613,043	641,581
Revenue Increase Adjustments	44,627	61,478	60,260	53,655	51,886	43,768
Ready-to-Serve	161,028	171,591	181,887	191,054	199,919	207,396
Other Sources/Fees	66,157	67,223	69,075	70,187	71,277	72,395
Interest Income	18,907	8,000	8,000	8,000	8,000	8,000
Uncollectible at 0.5% of User Charges	(5,491)	(5,880)	(6,232)	(6,546)	(6,850)	(7,106)
<b>Operating Revenues</b>	<b>1,177,768</b>	<b>1,245,263</b>	<b>1,317,317</b>	<b>1,380,937</b>	<b>1,442,475</b>	<b>1,494,582</b>
OTHER TRANSFERS AND CREDITS	16,230	10,703	12,800	7,855	7,852	7,698
<b>Total Funds Available</b>	<b>\$ 1,193,998</b>	<b>\$ 1,255,966</b>	<b>\$ 1,330,117</b>	<b>\$ 1,388,792</b>	<b>\$ 1,450,327</b>	<b>\$ 1,502,280</b>
<b>Operating Expenses</b>	<b>\$ 705,551</b>	<b>\$ 732,954</b>	<b>\$ 765,424</b>	<b>\$ 791,300</b>	<b>\$ 839,172</b>	<b>\$ 873,226</b>
<b>Total Expenditures</b>	<b>\$ 1,193,998</b>	<b>\$ 1,273,886</b>	<b>\$ 1,366,932</b>	<b>\$ 1,443,553</b>	<b>\$ 1,523,376</b>	<b>\$ 1,591,492</b>
<b>Net Revenue (Loss)</b>	<b>-0</b>	<b>(17,920)</b>	<b>(36,815)</b>	<b>(54,761)</b>	<b>(73,049)</b>	<b>(89,212)</b>
<b>STRESS CASE - RETAIN FY 2026 AND REDUCE RATE INCREASE BY 20 PERCENT ANNUALLY</b>						
Leverage Ratio - Stress Test 1	8.7	8.8	8.9	8.9	9.2	9.4
Debt Service Coverage - Stress Test 1	1.4	1.3	1.3	1.3	1.2	1.2
Days Cash-on-Hand - Stress Test 1	198.6	169.7	153.7	134.3	105.2	73.8
<b>GUIDELINES</b>						
Leverage Ratio – Guideline	8.0	8.0	8.0	8.0	8.0	8.0
Debt Service Coverage – Guideline	1.5	1.5	1.5	1.5	1.5	1.5
Days Cash-on-Hand – Guideline	250.0	250.0	250.0	250.0	250.0	250.0
<b>VARIANCE VS. GUIDELINES</b>						
Leverage Ratio - Variance vs. Guideline	0.7	0.8	0.9	0.9	1.2	1.4
Debt Service Coverage - Variance vs. Guideline	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3
Days Cash-on-Hand - Variance vs. Guideline	-51.4	-80.3	-96.3	-115.7	-144.8	-176.2
<b>BASE CASE</b>						
Financial Profile:	-	-	-	-	-	-
Leverage Ratio - Base Case	8.7	8.5	8.3	8.1	8.1	8.0
Debt Service Coverage - Base Case	1.4	1.4	1.4	1.4	1.4	1.4
Days Cash-on-Hand - Base Case	198.6	178.6	179.7	184.7	184.3	187.1

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## Stress Test 2: Operating Performance

This stress test evaluates the impact of increased operating expenditures on the Commission’s long-term financial plan and financial metrics.

Following a review of WSSC Water’s historical financial data, operating expenditures increased in most years of the past decade, averaging about 4 percent with instances of significant cost increases for regional disposal costs. The Commission has also recently experienced salary and wage growth from the FY2025 Approved Budget to the FY2026 Approved Budget of \$41.1 million or 26 percent to remain regionally competitive and expand the workforce. This increase also reflects the impact of collective bargaining agreements. This stress scenario assumes salary and wage increases by 10 percent from FY2026 to FY2027, with increases each subsequent year from FY2028-FY2032 by 5.2 percent, consistent with WSSC Water’s year-over-year salary and wage increase over the past decade (comparative to the 4.5 percent year-over-year growth assumption in the Base Case). The scenario also assumes a one-time increase in

FY2027 of employee benefits by 10 percent, regional sewage disposal costs by 20 percent, and all other non-benefits costs by 2 percent.

While the Commission increased utility costs (heat, light and power) from FY2026-2027, this stress test further increased these costs to 11.4 percent, considerate of current geopolitical events and the impact on fuel prices and energy services inflation. This stress test scenario demonstrates the potential negative impact on WSSC Water's financial performance from continued spending pressures. The results violate the Commission's financial metric targets which likely would necessitate management action.

### **Assumptions**

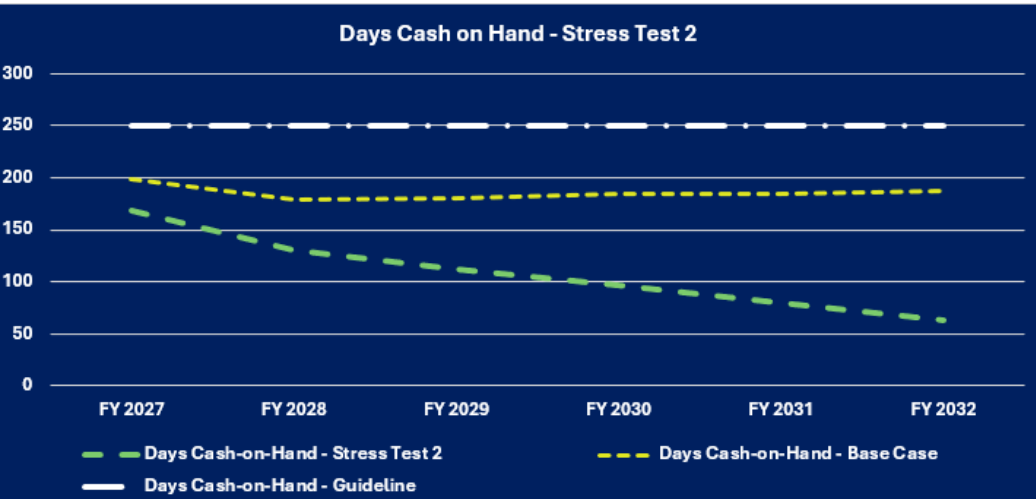
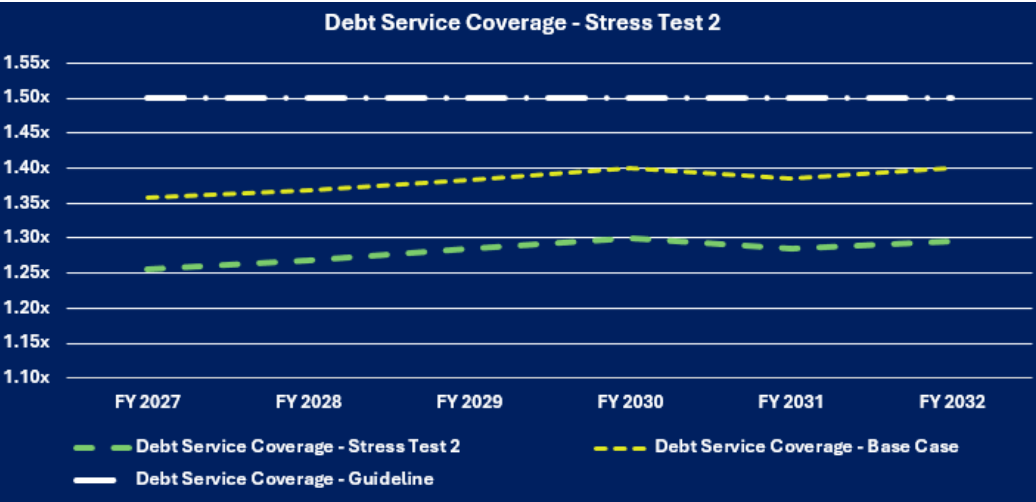
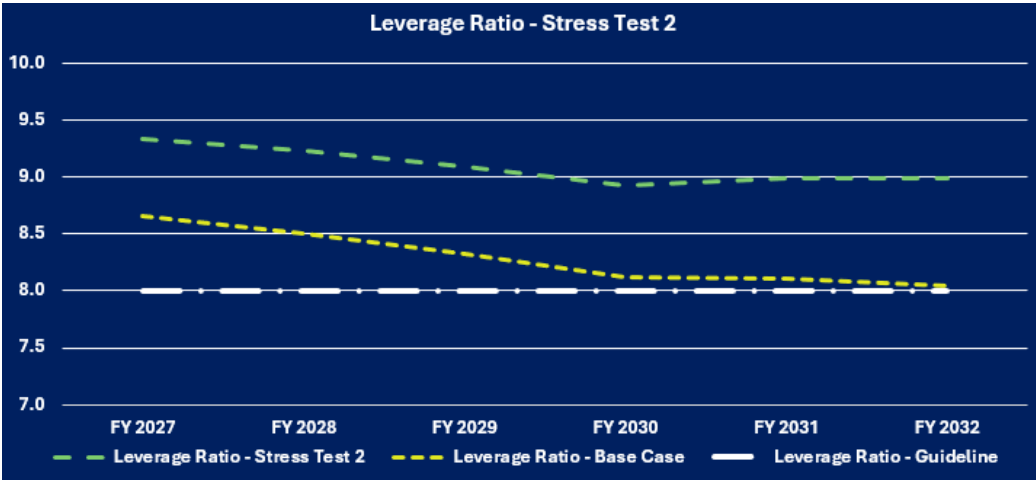
- A one-time increase of 10 percent in salary and wage costs in FY2027 and 5.2 percent increase in FY2028-FY2032 (instead of 4.5 percent in the Base Case).
- A one-time increase in FY2027 of employee benefits by 10 percent, regional sewage disposal costs by 20 percent, all other non-benefits costs by 2 percent, and an additional 2 percent increase in utility costs (heat, light, and power) in FY2027. These operating expenditures were re-baselined to this higher initial FY2027 stress level.
- All other baseline operating assumptions are not modified.

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<b>STRESS TEST 2 - Operating Expenditures Increase</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>	<b>FY 2031</b>	<b>FY 2032</b>
<b>(In Thousands \$000s)</b>	<b>Proposed</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
New Water and Sewer Debt Issues	\$ 491,102	\$ 610,388	\$ 647,047	\$ 604,514	\$ 556,242	\$ 527,538
Total Water and Sewer Debt Service	388,446	426,597	465,303	500,309	528,190	547,521
Total Water and Sewer Expenditures	1,233,489	1,316,795	1,412,978	1,492,999	1,576,424	1,648,395
Water and Sewer Combined Rate Increase (Avg.)	5.0%	8.2%	7.5%	6.3%	5.8%	4.7%
<b>Operating Revenues</b>						
	<b>1,177,768</b>	<b>1,263,183</b>	<b>1,354,132</b>	<b>1,435,698</b>	<b>1,515,524</b>	<b>1,583,794</b>
OTHER TRANSFERS AND CREDITS	16,230	10,703	12,800	7,855	7,852	7,698
<b>Total Funds Available</b>	<b>\$ 1,193,998</b>	<b>\$ 1,273,886</b>	<b>\$ 1,366,932</b>	<b>\$ 1,443,553</b>	<b>\$ 1,523,376</b>	<b>\$ 1,591,492</b>
Salaries and Wages	\$ 219,211	\$ 230,610	\$ 242,602	\$ 255,217	\$ 268,488	\$ 282,450
Heat, Light, and Power	\$ 32,526	\$ 33,505	\$ 34,514	\$ 37,441	\$ 38,752	\$ 40,108
Regional Sewage Disposal	\$ 107,600	\$ 111,904	\$ 116,381	\$ 121,036	\$ 125,877	\$ 130,912
All Other	\$ 385,705	\$ 399,842	\$ 417,973	\$ 427,052	\$ 459,102	\$ 476,659
<b>Operating Expenses</b>	<b>\$ 1,133,489</b>	<b>\$ 1,202,459</b>	<b>\$ 1,276,773</b>	<b>\$ 1,341,055</b>	<b>\$ 1,420,409</b>	<b>\$ 1,477,650</b>
<b>Total Expenditures</b>	<b>\$ 1,233,489</b>	<b>\$ 1,316,795</b>	<b>\$ 1,412,978</b>	<b>\$ 1,492,999</b>	<b>\$ 1,576,424</b>	<b>\$ 1,648,395</b>
<b>Net Revenue (Loss)</b>	<b>(39,491)</b>	<b>(42,909)</b>	<b>(46,046)</b>	<b>(49,446)</b>	<b>(53,047)</b>	<b>(56,902)</b>
<b>STRESS CASE - INCREASES OF 10% SALARY IN FY27, 5.2% AFTER, 10% BENEFIT, 20% REGIONAL SEWER, 2% OTHER OPERATING, ADDITIONAL 2% HEAT LIGHT AND POWER</b>						
Leverage Ratio - Stress Test 2	9.3	9.2	9.1	8.9	9.0	9.0
Debt Service Coverage - Stress Test 2	1.3	1.3	1.3	1.3	1.3	1.3
Days Cash-on-Hand - Stress Test 2	168.8	130.0	111.9	96.8	79.2	63.0
<b>GUIDELINES</b>						
Debt Service Coverage - Guideline	1.5	1.5	1.5	1.5	1.5	1.5
Days Cash-on-Hand - Guideline	250.0	250.0	250.0	250.0	250.0	250.0
<b>VARIANCE VS. GUIDELINES</b>						
Leverage Ratio - Variance vs. Guideline	1.3	1.2	1.1	0.9	1.0	1.0
Debt Service Coverage - Variance vs. Guideline	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Days Cash-on-Hand - Variance vs. Guideline	-81.2	-120.0	-138.1	-153.2	-170.8	-187.0
<b>BASE CASE</b>						
Leverage Ratio - Base Case	8.7	8.5	8.3	8.1	8.1	8.0
Debt Service Coverage - Base Case	1.4	1.4	1.4	1.4	1.4	1.4
Days Cash-on-Hand - Base Case	198.6	178.6	179.7	184.7	184.3	187.1

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### Stress Test 3: Unemployment Rate

This stress test evaluates WSSC Water’s financial resilience under employment-related economic stress.

Historically, WSSC Water has maintained strong collection performance, with write-offs averaging approximately 0.5 percent of user-charge revenues (approx. \$7.9 million in FY2025). Pre-COVID-19 financial statements (FY2018–FY2019) confirm this is a consistent trend, with net receivables representing 4–5 percent of annual revenues and with minimal volatility.

During the COVID-19 economic downturn, regional unemployment rose from about 3.5 percent to over 6 percent, and a temporary moratorium on service terminations and late fees was enacted. As a result, the allowance for uncollectible accounts increased by \$10.4 million in FY 2020 and another \$29.3 million in FY 2021. The write-off ratio temporarily rose to about 4 percent of user charges—roughly five times the baseline—and receivables increased nearly 60 percent, from \$118 million to \$190 million. This provides an empirical precedent for modeling a severe but realistic economic shock.

This stress test scenario demonstrates the potential negative impact to WSSC Water’s financial performance from heightened unemployment levels and related increased deficiencies. The results violate the Commission’s financial metric targets which likely would necessitate management action.

#### **Assumptions**

- 20 percent increase in affordability program participation (increased customer assistance costs).
- Increase from 0.5 percent to 2.7 percent of rate revenue deemed uncollectible (elevated delinquencies).
- Economic disruption in FY2027–FY2028, normalizing by FY2029.
- No structural changes to rate design or major expense growth.

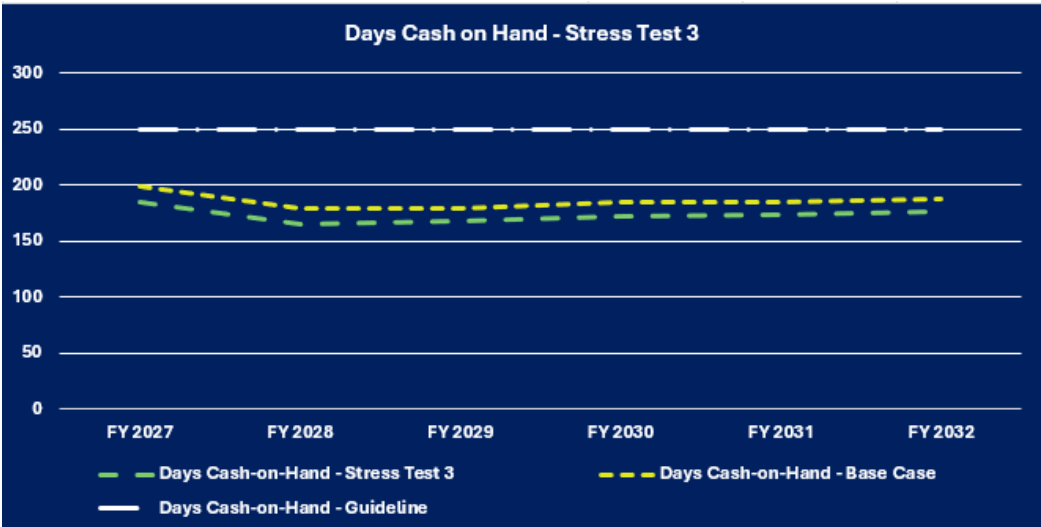
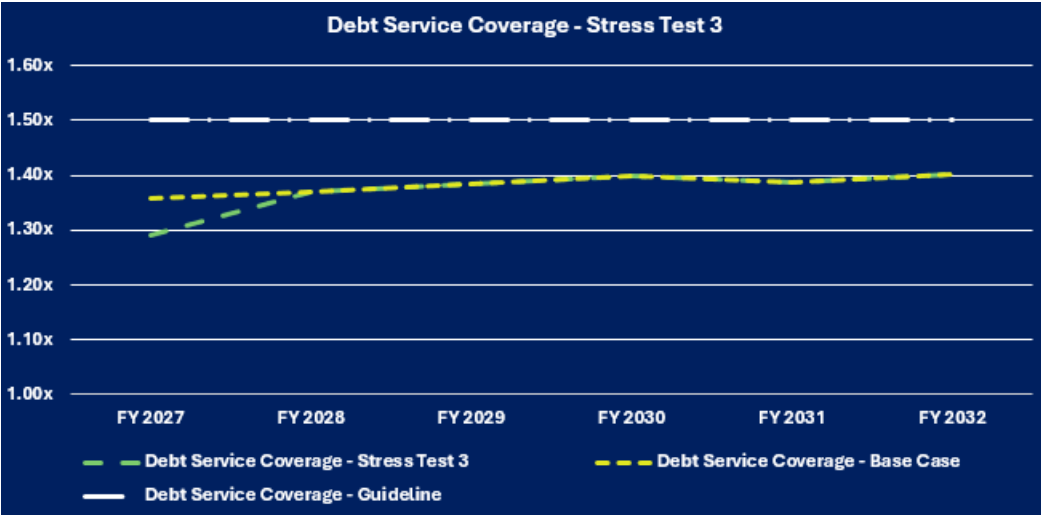
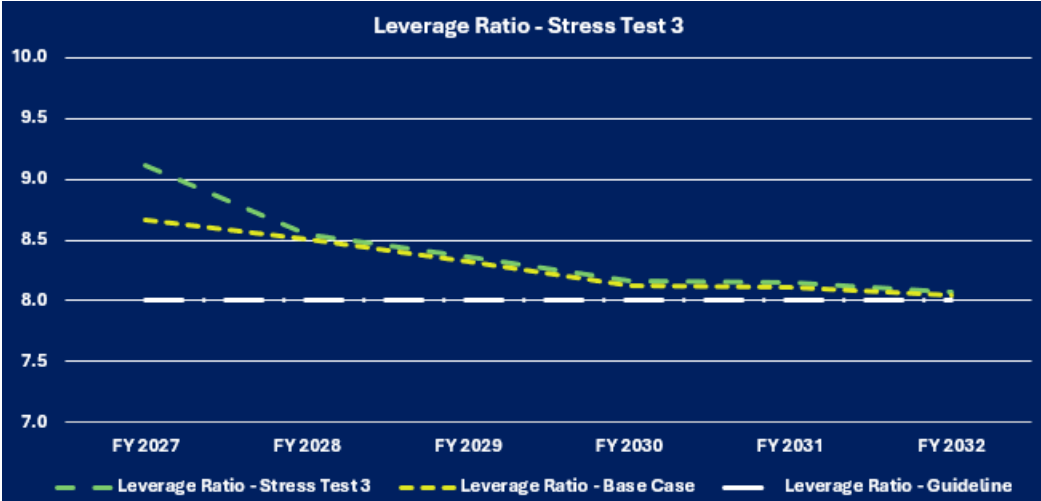
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<b>VARIANCE VS. GUIDELINES</b>	-	-	-	-	-	-
Leverage Ratio - Variance vs. Guideline	1.1	0.5	0.4	0.2	0.1	0.1
Debt Service Coverage - Variance vs. Guideline	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Days Cash-on-Hand - Variance vs. Guideline	-65.5	-84.5	-82.8	-77.4	-77.1	-73.9
<b>BASE CASE</b>	-	-	-	-	-	-
Leverage Ratio - Base Case	8.7	8.5	8.3	8.1	8.1	8.0
Debt Service Coverage - Base Case	1.4	1.4	1.4	1.4	1.4	1.4
Days Cash-on-Hand - Base Case	198.6	178.6	179.7	184.7	184.3	187.1

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#### Stress Test 4: Interest Rates

This stress test evaluates the impact of higher long-term borrowing rates on WSSC Water’s financial performance and financial metrics.

The baseline assumption in the long-term financial plan is a conservative 4.50 percent interest rate assumption which is stress tested in this scenario by increasing this assumption 100 basis points or 1 percent for an assumed borrowing cost of 5.50 percent for all planned debt issuances in FY2027-2032. This assumption is 142 basis points higher than the borrowing cost of 4.08 percent on the Commission’s most recent 2026 bond issue. This scenario demonstrates WSSC Water’s resiliency to a market dislocation and demonstrates how WSSC Water could maintain financial stability under higher rate environments.

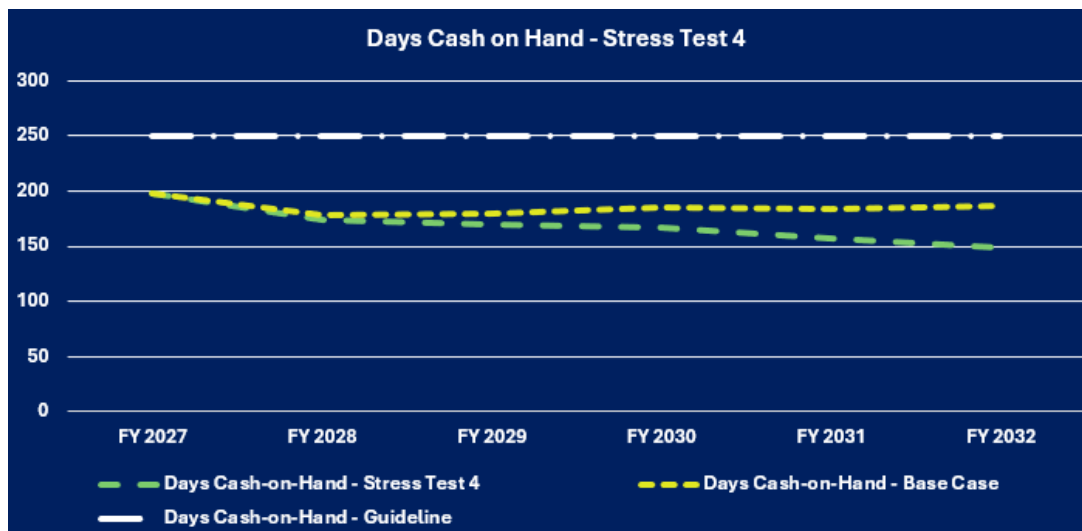
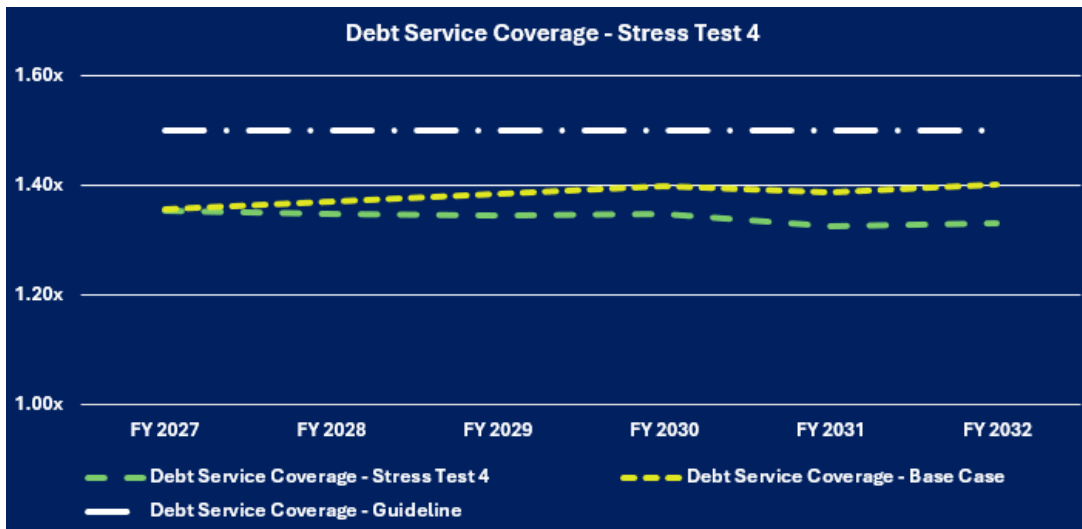
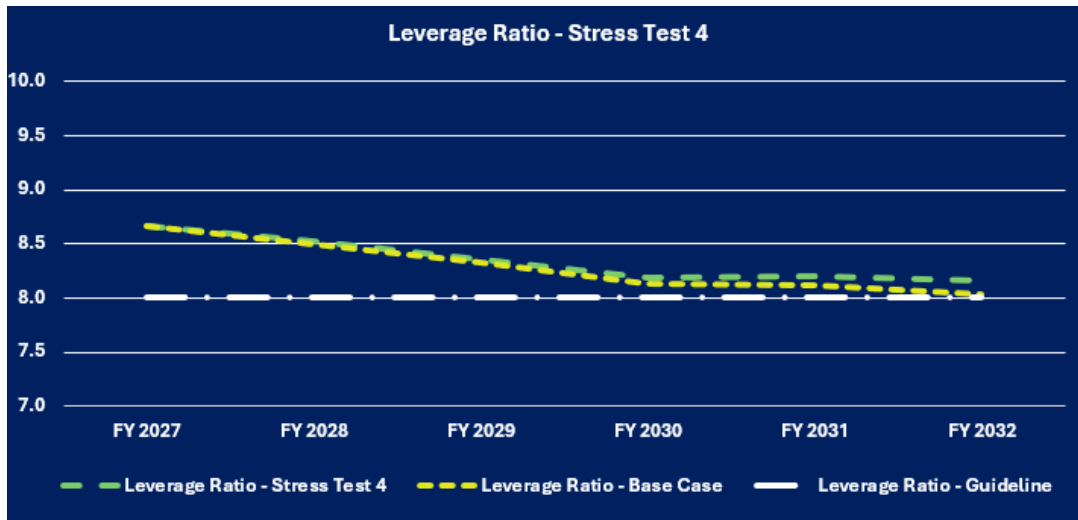
#### **Assumptions**

- 1 percent increase in annual debt service interest rates.
- Increase in long-term borrowing rate impacts each year’s bond sales.
- No structural changes to rate design or major expense growth.

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<b>STRESS TEST 4 - Interest Rate Increase</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>	<b>FY 2031</b>	<b>FY 2032</b>
<b>(In Thousands \$000s)</b>	<b>Proposed</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
New Water and Sewer Debt Issues	\$ 491,102	\$ 610,388	\$ 647,047	\$ 604,514	\$ 556,242	\$ 527,538
Total Water and Sewer Debt Service	389,659	433,290	478,080	518,924	551,988	575,932
Total Water and Sewer Expenditures	1,195,211	1,280,579	1,379,708	1,462,168	1,547,175	1,619,904
Water and Sewer Combined Rate Increase (Avg.)	5.0%	8.2%	7.5%	6.3%	5.8%	4.7%
<b>Operating Revenues</b>	<b>1,177,768</b>	<b>1,263,183</b>	<b>1,354,132</b>	<b>1,435,698</b>	<b>1,515,524</b>	<b>1,583,794</b>
OTHER TRANSFERS AND CREDITS	16,230	10,703	12,800	7,855	7,852	7,698
<b>Total Funds Available</b>	<b>\$ 1,193,998</b>	<b>\$ 1,273,886</b>	<b>\$ 1,366,932</b>	<b>\$ 1,443,553</b>	<b>\$ 1,523,376</b>	<b>\$ 1,591,492</b>
<b>Operating Expenses</b>	<b>\$ 705,551</b>	<b>\$ 732,954</b>	<b>\$ 765,424</b>	<b>\$ 791,300</b>	<b>\$ 839,172</b>	<b>\$ 873,226</b>
Bonds and Notes Principal and Interest	389,659	433,290	478,080	518,924	551,988	575,932
<b>Total Expenditures</b>	<b>\$ 1,195,211</b>	<b>\$ 1,280,579</b>	<b>\$ 1,379,708</b>	<b>\$ 1,462,168</b>	<b>\$ 1,547,175</b>	<b>\$ 1,619,904</b>
<b>Net Revenue (Loss)</b>	<b>(1,213)</b>	<b>(6,693)</b>	<b>(12,777)</b>	<b>(18,615)</b>	<b>(23,798)</b>	<b>(28,411)</b>
<b>STRESS CASE - MAINTAIN PAYGO 100% AND INCREASE BORROWING COSTS 1% ANNUALLY</b>	-	-	-	-	-	-
Leverage Ratio - Stress Test 4	8.7	8.5	8.4	8.2	8.2	8.2
Debt Service Coverage - Stress Test 4	1.4	1.3	1.3	1.3	1.3	1.3
Days Cash-on-Hand - Stress Test 4	198.0	174.6	169.9	166.6	157.0	148.9
<b>GUIDELINES</b>	-	-	-	-	-	-
Leverage Ratio – Guideline	8.0	8.0	8.0	8.0	8.0	8.0
Debt Service Coverage – Guideline	1.5	1.5	1.5	1.5	1.5	1.5
Days Cash-on-Hand – Guideline	250.0	250.0	250.0	250.0	250.0	250.0
<b>VARIANCE VS. GUIDELINES</b>	-	-	-	-	-	-
Leverage Ratio - Variance vs. Guideline	0.7	0.5	0.4	0.2	0.2	0.2
Debt Service Coverage - Variance vs. Guideline	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Days Cash-on-Hand - Variance vs. Guideline	-52.0	-75.4	-80.1	-83.4	-93.0	-101.1
<b>BASE CASE</b>	-	-	-	-	-	-
Leverage Ratio - Base Case	8.7	8.5	8.3	8.1	8.1	8.0
Debt Service Coverage - Base Case	1.4	1.4	1.4	1.4	1.4	1.4
Days Cash-on-Hand - Base Case	198.6	178.6	179.7	184.7	184.3	187.1

Areas of change are within dotted lines.



## Stress Test 5: Water Usage

This stress test evaluates the impact of reduced customer water consumption on financial performance.

A review of WSSC Water’s historical consumption data indicates that total system demand has remained largely stable over the past decade with minimal year-to-year variation. Unlike other regional utilities that have experienced sustained annual usage declines (e.g., DC Water with roughly 1.2 percent per year or Fairfax Water with roughly 0.7 percent per year), WSSC Water’s data show a relatively flat trend with no significant structural declines in total billed volumes. Accordingly, the assumed 0.5 percent annual reduction in consumption compounding year-over-year demonstrates a modest efficiency-driven type decline consistent with broader industry trends, while still reflecting WSSC Water’s historically stable demand profile.

This stress scenario demonstrates the potential negative impact to WSSC Water’s financial performance from declining water usage. The results violate the Commission’s financial metric targets which likely would necessitate management action.

### **Assumptions**

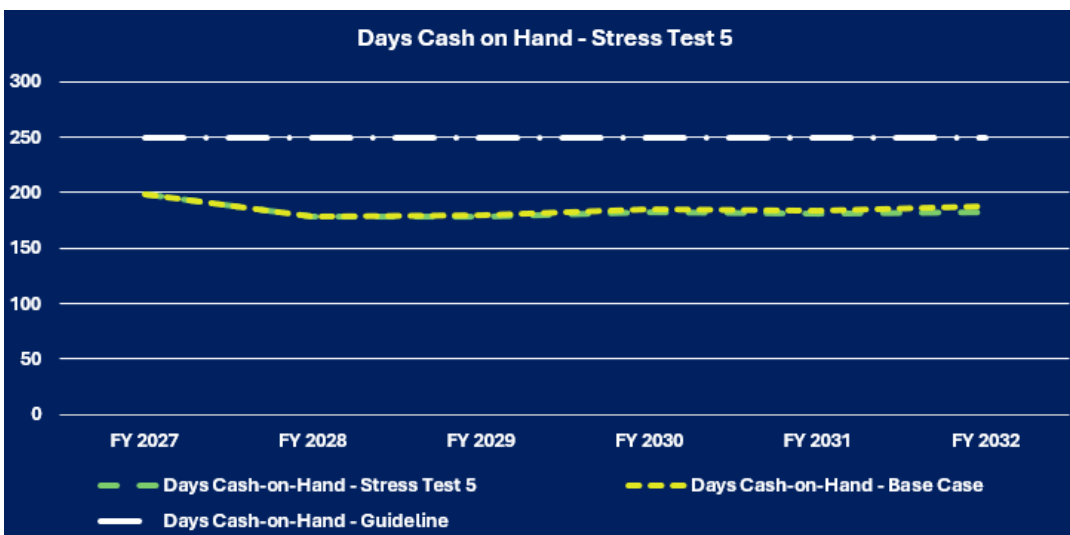
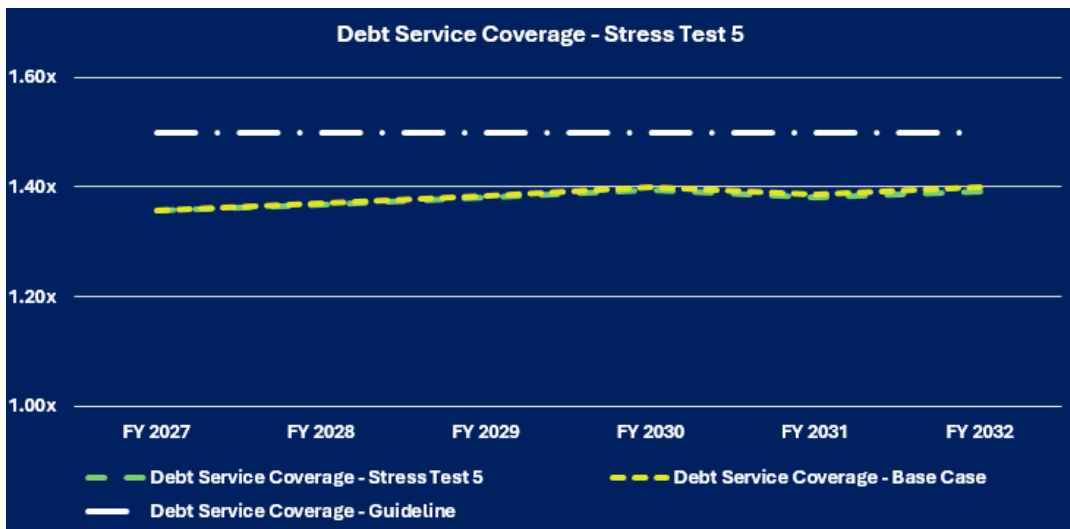
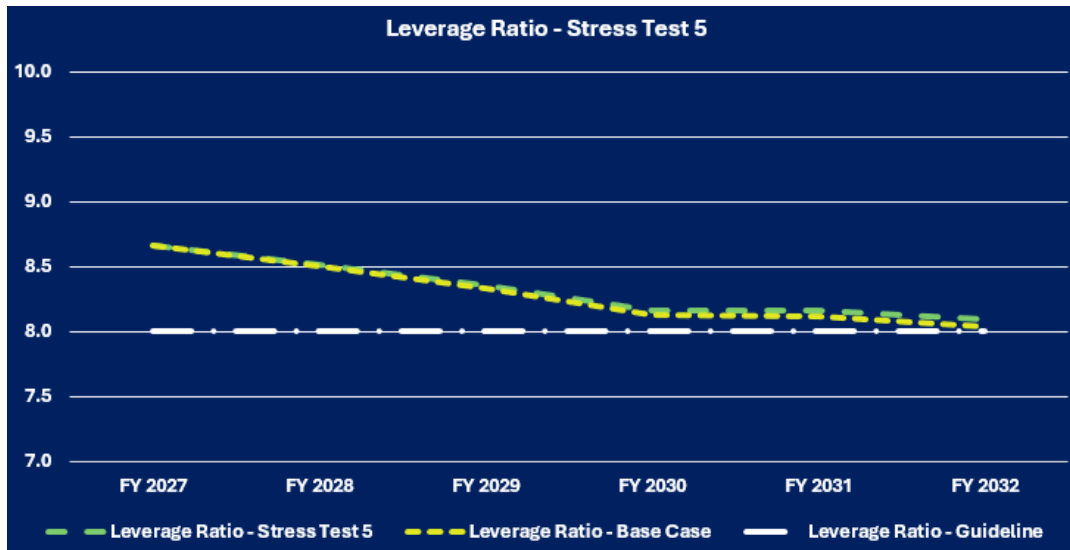
- 0.5 percent annual decline in billed consumption from FY2027–FY2032.
- Cumulative reduction of just over 3 percent in volumetric revenue through FY2032.
- Modeled after efficiency and conservation-driven type impacts.
- All other baseline operating assumptions unchanged.

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Days Cash-on-Hand - Variance vs. Guideline	-51.5	-72.0	-71.6	-67.7	-69.4	-68.2
<b>BASE CASE</b>	-	-	-	-	-	-
Leverage Ratio - Base Case	8.7	8.5	8.3	8.1	8.1	8.0
Debt Service Coverage - Base Case	1.4	1.4	1.4	1.4	1.4	1.4
Days Cash-on-Hand - Base Case	198.6	178.6	179.7	184.7	184.3	187.1

Areas of change are within dotted lines.



## Chapter VIII: FY 2025 Budget and Financial Performance

The FY 2025 Budget to actuals showed both operating revenue exceeding and operating expenses below budget. Conservative budgeting, active management reporting, and revenue forecasting has resulted in annual operating surpluses and increased net income margins above Budget.

(\$ In Millions)	FY 2023		FY 2024		FY 2025	
	Budget	Actual	Budget	Actual	Budget	Actual
Operating Revenues	\$855.14	\$879.80	\$915.63	\$944.28	\$997.43	\$1,031.37
Operating Expenses	503.09	491.49	551.89	531.38	601.49	603.27
Net Income	\$352.06	\$388.31	\$363.74	\$412.90	\$395.94	\$428.10
Net Income Margin	41.2%	44.1%	39.7%	43.7%	39.7%	41.5%
Non-Operating Expenses	352.86	331.11	372.47	370.83	412.57	402.16
Other Transfer and Credits	17.07	25.20	16.97	15.75	16.63	32.34
Result Over/ Under	\$16.27	\$82.40	\$8.25	\$57.82	\$0.00	\$58.28

Notes:

Non-operating expenses include debt service and PAYGO

In FY 2023 and FY 2024, WSSC Water revenues exceeded expenditures in order to improve the Leverage Ratio and Days Cash-on-Hand metrics per advice from financial advisor.

### FY 2025 Operating Budget

The Government Finance Officers Association (GFOA) of the United States and Canada presented an award of Distinguished Budget Presentation to WSSC Water for its annual budget for the fiscal year beginning July 1, 2024. This is the 30th consecutive year that WSSC Water has received this award from the GFOA.

WSSC Water continued its strong operating budget performance in FY 2025 – actual operating revenues for FY 2025 were higher than the budget by \$34 million, or 3.4 percent.

WSSC Water experienced an underspending in operations and maintenance, mainly in professional services and lower workers' compensation claims. Additionally, there is a higher level of spending on insurance premiums, due to current market conditions.

### Debt Service

Debt service expense is based upon paying the FY 2025 principal and interest payments on outstanding principal debt and interest as of June 30, 2025. Debt issuance is a critical component of financing and is necessary to implement WSSC Water's CIP.

The debt service expenses are funded by WSSC Water customers through water consumption and sewer use charges and the Infrastructure Investment Fee. Actual debt service expenses in FY 2025 was 3.9 percent higher than in FY 2024. While debt service expenses are a considerable portion of the budget, WSSC Water management minimizes debt expenses through project prioritization, facility planning, and active project management.

(\$ In Millions)	FY 2023		FY 2024		FY 2025	
	Budget	Actual	Budget	Actual	Budget	Actual
Debt Service Payable	\$321.84	\$300.09	\$328.47	\$338.33	\$361.97	\$351.56
Actual Growth \$		\$19.84		\$38.23		\$13.24
Actual Growth %		7.1%		12.7%		3.9%

## PAYGO

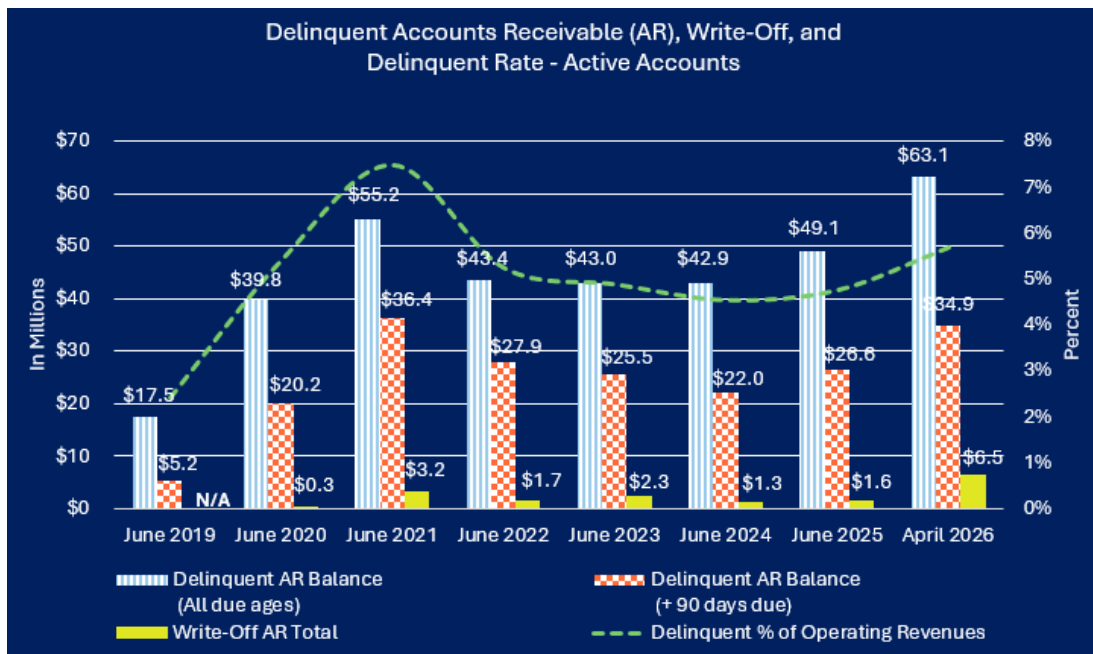
The PAYGO budget for FY 2025 was \$50.6 million. By funding a portion of its CIP with annual PAYGO funds, WSSC Water can continue to reduce its issuance of long-term bonds, and related debt service, and improve its financial metrics.

(\$ In Millions)	FY 2023	FY 2024	FY 2025
PAYGO Allocation	\$31.016	\$44.000	\$50.601
Growth \$	\$3.431	\$12.984	\$6.601
Growth %	12.4%	41.9%	15.0%

## Delinquent Accounts Receivable Balance

WSSC Water, as a matter of practice, tracks delinquent accounts receivable (AR), along with write-offs, and delinquent AR as a percentage of operating revenues overtime. In FY2025, the Commission saw a continued upward trend in its delinquent accounts receivable. See Chapter X: Affordability and Customer Assistance Programs for additional information on WSSC Water’s expansion of these programs.

The graph below summarizes this information from June 2019 through June 2025. Figures reflect values used to reconcile audited financial statements.



The delinquent accounts receivable balance increased by \$37.7 million from \$17.5 million in June 2019 to \$55.2 million in June 2021, due to suspension in regular collection activity and disconnection of delinquent accounts. These actions were following the on-set of the coronavirus public health emergency in March of 2020 and in anticipation of the second wave of COVID-19. However, WSSC Water resumed disconnection for non-residential categories effective from August 2021 and residential September 2021. The resumption of charging late fees and disconnections was expected to result in a decrease in delinquencies. However, the delinquencies have not subsided since the return of collection efforts and discontinuation of service. Since June 2022 delinquent amounts have been above \$40 million with the most recent June 2025 figure nearing \$50 million.

For the delinquent AR balance, related to accounts greater than 90 days due, the overall trending continues to fall within \$25 million on average from June 2022 through June 2025. Furthermore, the percentage of all due ages, “+90 days due” has improved from a high of 64.2 percent in June 2022 to 54.1 percent in June 2025. The delinquent AR balance, as a percentage of operating revenues for year-end actuals, persist at about 5 percent.

WSSC Water has experienced a trend of higher delinquencies in FY 2026, commencing with the temporary federal government closure in Q2 and progressing with higher unemployment rates due to the loss of federal government jobs. Progress is being made in addressing delinquencies with optimism from both counties on closing the fiscal year with FY 2025 results.

## Chapter IX: FY2026 Approved Budget

Budget planning continues to be shaped by the challenges of balancing increasing costs for infrastructure and operations with affordability considerations for our valued customers. While the average cost to ensure access to clean, safe drinking water and efficient wastewater remain low, when compared to other household utilities and expenses, there are still residents who struggle to meet their monthly expenses. WSSC Water remains committed to offering financial assistance to our customers through a variety of programs which are delineated in this plan.

Additional factors and events that shaped the FY 2026 budget environment included:

- Flat water consumption
- Compliance with consent decrees
- Aging infrastructure
- Past due accounts
- Uncertainty regarding potential changes in environmental regulations
- Improving financial metrics to maintain AAA bond rating
- Supply chain disruptions and inflationary pressures
- Investing in our workforce

### **Comparative Revenues: Water and Sewer**

The FY 2025 Actual total revenue of \$1,063.7 million, an increase of \$49.7 million as compared to the FY 2025 Approved Budget. The FY 2026 Approved total revenue of \$1,130.5 million, is an increase of \$66.8 million over the FY 2025 Actual total revenue.

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Comparative Revenues Water and Sewer (\$ In Millions)	v. FY 2025 Actual						
	FY 2025 Approved	FY 2025 Actual	Increase (Decrease)	Percent Change	FY 2026 Approved	Increase (Decrease)	Percent Change
<b>Water and Sewer User Charges</b>	-	-	-	-	-	-	-
Water Consumption Charges	\$363.66	\$371.91	\$8.25	2.3%	\$405.38	\$33.47	9.0%
Sewer Use Charges	445.44	461.58	16.13	3.6%	487.16	25.58	5.5%
<b>Ready-to-Serve Fixed Charges</b>	-	-	-	-	-	-	-
Account Maintenance Fee	59.96	62.73	2.77	4.6%	69.49	6.76	10.8%
Infrastructure Investment Fee	74.84	77.33	2.49	3.3%	85.78	8.46	10.9%
<b>Other Sources/ Fees</b>	-	-	-	-	-	-	-
Rockville Sewer Use	3.30	4.64	1.34	40.7%	4.50	(0.14)	-3.1%
Plumbing and Inspection Fees	21.36	20.74	(0.62)	-2.9%	22.61	1.87	9.0%
Intergovernmental/ Grants	2.50	2.56	0.06	2.5%	3.17	0.61	23.7%
Miscellaneous	27.25	29.88	2.63	9.7%	27.80	(2.08)	-7.0%
Natural Gas Sales and Renewable Natural Gas	7.01	0.00	(7.01)	100.0%	7.80	7.80	-
<b>Uncollectible User Charges Billing</b>	(7.90)	n/a	n/a	n/a	(4.96)	n/a	n/a
<b>Total Operating Revenue</b>	<b>\$997.43</b>	<b>\$1,031.37</b>	<b>\$33.94</b>	<b>3.4%</b>	<b>\$1,108.73</b>	<b>\$77.36</b>	<b>7.5%</b>
Interest Income	8.86	24.57	15.71	177.3%	14.00	(10.57)	-43.0%
SDC Debt Service Offset	5.77	5.77	0.00	0.0%	5.77	0.00	0.0%
Underwriter's Discount Transfer	2.00	2.00	0.00	0.0%	2.00	0.00	0.0%
<b>Total Other Transfers and Adjustments</b>	<b>\$16.63</b>	<b>\$32.34</b>	<b>\$15.71</b>	<b>94.5%</b>	<b>\$21.77</b>	<b>(\$10.57)</b>	<b>-32.7%</b>
<b>Total Revenues</b>	<b>\$1,014.06</b>	<b>\$1,063.71</b>	<b>\$49.65</b>	<b>97.9%</b>	<b>\$1,130.50</b>	<b>\$66.79</b>	<b>-25.2%</b>

Dotted line represents FY 2025 data.

Major assumptions underlying the revenue projections contained in the FY 2026 Approved budget include:

- Water Consumption and Sewer Use Revenues – With a 9.5 percent rate increase, the FY 2026 revenues from water consumption and sewer use charges are \$405.4 million and \$487.2 million, respectively. Water production is assumed to be 162.0 million gallons per day (MGD) in FY 2026 and water consumption is projected at 126.0 MGD.
  - Revenue is derived from the sale of water by applying an increasing rate schedule per 1,000 gallons of use. The rate charged for each account is based upon the average daily water consumption during each billing period.
- The Account Maintenance Fee is charged to all customers, based on meter size, to address the cost of providing and reading a meter and rendering a water and/or sewer bill. For FY 2026, the rate was increased by the SAG approved rate of 9.5 percent.
- The Infrastructure Investment Fee is a fixed fee that funds a portion of the debt service associated with the agency’s water and sewer main reconstruction programs in the approved CIP. For FY 2026, the rate was increased by the SAG approved rate of 9.5 percent.
- Based on the current interest rate environment, interest projections are conservatively assumed at a 3.0 percent earnings rate in the FY 2026 Approved Budget.

### **Comparative Expenditures Water and Sewer**

Actual debt service expense has slowed, accounting for a 2.9 percent decrease over the FY 2025 Budget, while Salaries and Wages is now one of the fastest-growing expenditures because of WSSC Water’s focus on Team H<sub>2</sub>O, with a 3.4 percent over the FY 2025 Budget. The Regional Sewage Disposal expense growth hit a high of 4.6 percent over the FY 2025 Actual Budget. All other operating expenses increased to 0.3 percent.

The following chart provides a detailed comparison of the FY 2025 Approved budget to the FY 2025 Actual spend and FY 2026 Approved Budget to FY 2025 Actual operating budgets.

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Comparative Expenditures Water and Sewer (\$ In Millions)					v. FY 2025 Actual		
	FY 2025 Approved	FY 2025 Actual	Increase (Decrease)	Percent Change	FY 2026 Approved	Increase (Decrease)	Percent Change
Salaries and Wages	\$158.15	\$163.59	\$5.45	3.4%	\$199.28	\$35.69	21.8%
Heat, Light, and Power	27.28	24.43	(2.85)	-10.4%	29.20	4.77	19.5%
Regional Sewage Disposal	76.91	80.41	3.50	4.6%	83.66	3.25	4.0%
All Other	339.16	335.03	(4.13)	-1.2%	351.56	16.53	4.9%
<b>Total Operating Expenses</b>	<b>\$601.49</b>	<b>\$603.46</b>	<b>\$1.97</b>	<b>0.3%</b>	<b>\$663.70</b>	<b>\$60.24</b>	<b>10.0%</b>
Bonds and Notes Principal and Interest	361.97	351.56	(10.41)	-2.9%	373.80	22.24	6.3%
<b>Total Debt Service</b>	<b>\$361.97</b>	<b>\$351.56</b>	<b>(\$10.41)</b>	<b>-2.9%</b>	<b>\$373.80</b>	<b>\$22.24</b>	<b>6.3%</b>
PAYGO (Contribution to bond fund)	50.60	50.60	0.00	0.0%	93.00	42.40	83.8%
<b>Total Other Transfers and Adjustments</b>	<b>\$50.60</b>	<b>\$50.60</b>	<b>\$0.00</b>	<b>0.0%</b>	<b>\$93.00</b>	<b>\$42.40</b>	<b>83.8%</b>
<b>Total Expenditures</b>	<b>\$1,014.06</b>	<b>\$1,005.63</b>	<b>(\$8.43)</b>	<b>-0.8%</b>	<b>\$1,130.50</b>	<b>\$124.87</b>	<b>12.4%</b>

Dotted line represents FY 2025 data.

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The FY 2026 Approved Budget total of \$1,130.5 million is approximately 12.4 percent higher than the FY 2025 Actual. The net increase is primarily due to an increase in PAYGO associated with WSSC Water's capital improvement program, as well as an increase in salaries and wages, and the operations and maintenance budget. The FY 2026 approved operation expenses increase of 10.0 percent is primarily due to increases in personnel services, regional sewage disposal, utilities, and small equipment.

A description of the major issues/changes in each major expenditure category are as follows:

- Salaries and Wages – 77 additional authorized work years are included, as noted below:
  - 29 (supporting regulatory requirements)
  - 20 (supporting and enhancing operations)
  - 28 are budget neutral - conversion of contract positions to permanent
  - A marker is included for salary enhancements in the FY 2026 Approved Budget.
- Heat, Light and Power increased by \$1.9 million or 7.0 percent based upon rising energy costs.
- Regional Sewage Disposal represents WSSC Water's share of the maintenance and operating costs of the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant. Under recent wholesale plans approved, WSSC Water has seen an 8.7 percent budget increase in charges for FY 2026.
- All Other increases, totaling \$12.4 million from the FY 2025 Budget, includes employee benefits – social security and health care - \$5.9 million, fleet asset renewal - \$4.9 million, and chemicals for water treatment - \$1.0 million.
- New Debt Issuance – The debt issuance for FY 2026 assumes \$284.4 million in Water Supply bonds and \$210.0 million in Sewage Disposal bonds. The water and sewer bond amortization will be for 30 years with an estimated 4.5 percent average interest rate.

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## Chapter X: FY2027 Proposed Budget

The proposed budget for FY 2027, for all operating and capital funds, total \$1.97 billion or \$136.95 million (7.5 percent) more than the FY 2026 Approved Budget. The Proposed Operating Budget of \$1.2 billion represents an increase of \$63.5 million (5.6 percent) over the FY 2026 Approved Operating Budget of \$1.1 billion. Additionally, the Proposed Capital Budget of \$770.2 million represents an increase of \$73.4 million (10.5 percent) over the FY 2026 Approved Capital Budget of \$696.8 million. The non-discretionary debt service and payments to the District of Columbia Water and Sewer Authority's Blue Plains Advanced Wastewater Treatment Plant for the operating and Regional Sewage Disposal costs are 40 percent of the FY 2027 Proposed Operating Budget. These payments, along with PAYGO financing of capital projects, chemicals for treatment, increased healthcare costs, and rising energy costs represent 56 percent of the total operating increases.

### **Additional Expenditures Requiring WSSC Absorption**

The FY 2027 Preliminary Proposed Budget included \$89.7 million in operating expenses for WSSC Water's share of wastewater treatment costs at the Blue Plains Advanced Wastewater Treatment Plant. The updated projections from DC Water show an increase of \$2.2 million, which WSSC Water must absorb through reductions in other areas of the operating budget.

The FY 2027 Proposed Budget of \$1.97 billion, is \$28.64 million more than the FY 2027 Preliminary Proposed Budget that was transmitted on January 12, 2026. The year one (FY 2027) increase totals \$28.64 million in capital funds across four CIP programs (four Blue Plains Wastewater Treatment Plants (WWTP) Programs). Revisions are required for the Blue Plains WWTP projects to reflect updated expenditure schedules from DC Water. Changes to the four Blue Plains WWTP Programs reflect a pull forward of programmed expenditures. This capital increase will add \$1.2 million to annual debt service, a cost that WSSC Water must absorb.

### **Revenue Enhancement**

During the spending affordability discussions, WSSC Water's preliminary "same services" budget was presented with a 6.0 percent revenue enhancement to keep pace with rising costs and address deferred improvements that were a result of pandemic revenue downturn, keeping wages competitive to retain and recruit talent to serve, and improve financial metrics to protect the AAA rating.

The Proposed FY 2027 Budget is supported, overall, by a 6.0 percent revenue enhancement comprised of a 5.0 percent average water and sewer volumetric and fixed fees rate increase. The additional 1.0 percent is achieved using one-time revenue from interest income and a temporary rate stabilization fund. WSSC Water understands the difficulties associated with a revenue enhancement in the current economic climate. WSSC Water believes that this approach addresses the concerns of all stakeholders in the spending affordability process, while at the same time recognizing the support for the required investments.

WSSC Water continues to experience inflation throughout the supply chain, as well as substantial increases in Blue Plains Regional Sewage Disposal and healthcare costs that are much higher than

inflation. Additionally, water and wastewater operations are energy intensive. Escalating energy costs directly impact the costs of our operations. These challenges make the rate increase vital to fulfilling our mission to provide safe, clean, reliable and secure water, life's most precious resource, to our customers. This proposed budget does not propose any new positions.

### **Commitment to Affordability and Customer Assistance Programs**

WSSC Water rates remain competitive and continue to compare favorably to many other comparable, regional water and sewer utilities. The average residential bill is approximately 1.0 percent of the median household income.

Similar to many utilities across the country, WSSC Water continues to confront the challenge of balancing increasing costs for infrastructure and operations with affordability considerations for our valued customers. While the average cost to ensure access to clean, safe drinking water, and efficient wastewater treatment compares favorably to other household utilities and expenses, we understand more residents may have difficulty meeting their monthly expenses during these unprecedented and uncertain times. However, it is essential to price water at the cost of safely producing and delivering this essential resource and to offer assistance programs for our most vulnerable customers. The total of all customer assistance program support in the FY 2027 Budget is \$10.6 million, an increase of 20 percent from the prior fiscal year. This proposed increase is important in ensuring that the assistance needed by our valued customers is available and provided.

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## Chapter XI: Affordability and Customer Assistance Programs

### **Affordability Measures**

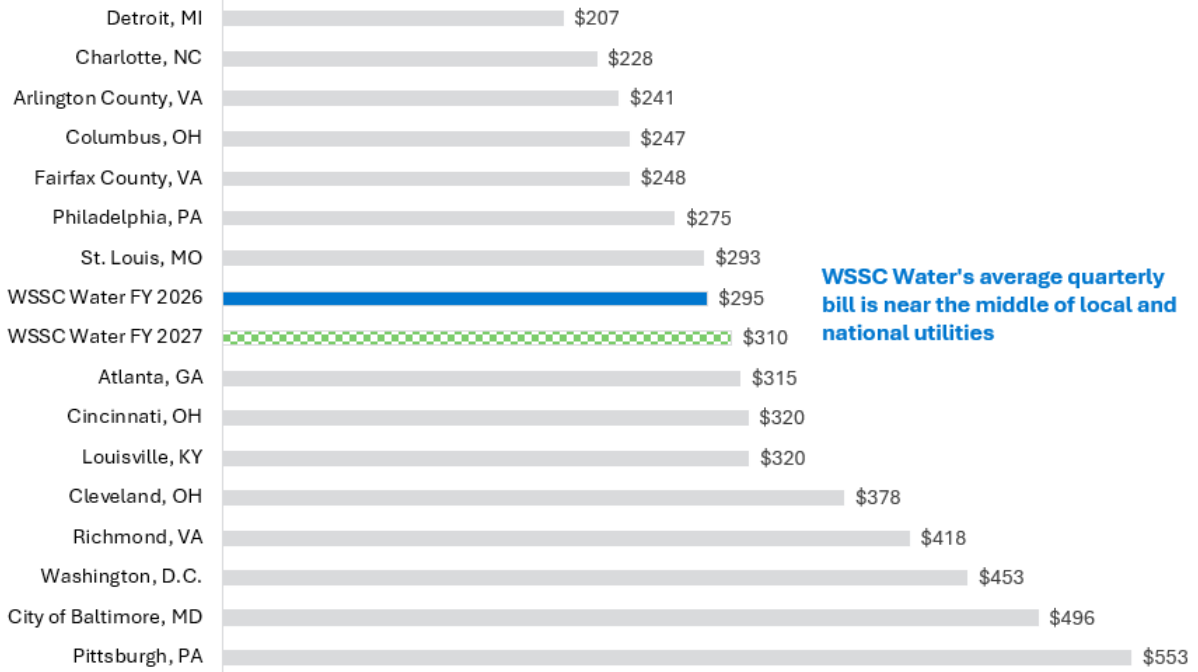
WSSC Water is committed to making water and sewer bills affordable for our customers. While the average cost to ensure access to clean, safe drinking water, and efficient wastewater treatment compares favorably to other household utilities and expenses, more residents are struggling to meet their monthly expenses during these unprecedented and uncertain times.

WSSC Water's four objectives for its Affordability and Financial Viability strategic priority are to: (1) increase financial stability; (2) optimize operational efficiencies; (3) increase transparency and efficiency within the total Operating and Capital Budget; and (4) ensure availability of customer assistance programs. WSSC Water is committed to making water and sewer bills affordable for its customers, which is why the Commission offers a multitude of financial assistance programs that are designed to address common affordability issues faced by its customers.

Presented below is a comparison of WSSC Water's average quarterly residential bill for water and sewer services at 145 gallons per day to the equivalent bill from 15 other cities and communities, both locally and nationally. The consumption level of 145 gallons per day represents the average household in WSSC Water's service area, a 3-person household using 48.3 gallons of water per-person, per-day. The chart includes WSSC Water bills in FY 2026 approved, and FY 2027 proposed rates. As shown in the chart, the quarterly bills in the other communities range from a low of \$207 in Detroit, Michigan to a high of \$553 in Pittsburgh, Pennsylvania. WSSC Water ranks near the middle of the local and national utilities, with quarterly bills of \$295 in FY 2026 and \$310 in FY 2027. This reflects that WSSC Water's rates and fees are competitive both locally and nationally. Notwithstanding, WSSC Water continues to understand the affordability issues confronting our customers.

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Residential Quarterly Water/Sewer Bill  
Comparison to Local and National Utilities  
(145 Gallons per Day)



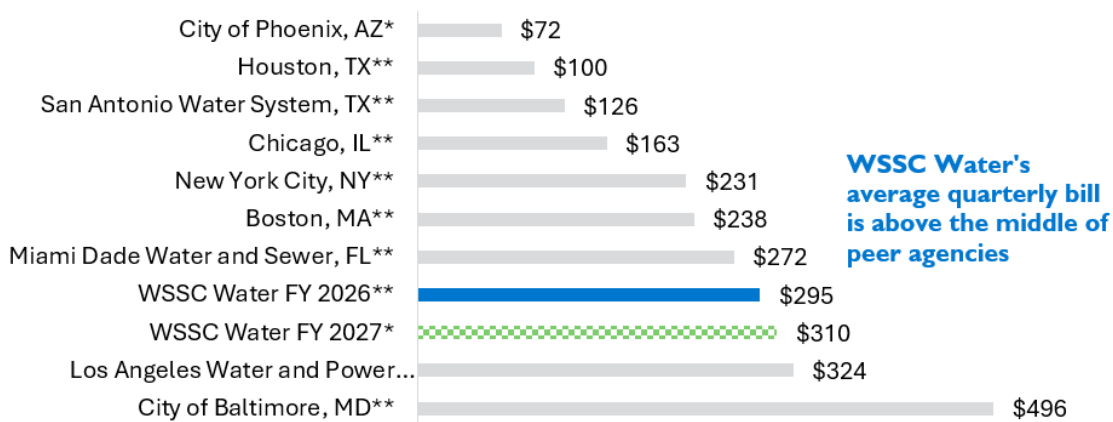
The rates and fees used for peer comparison were in effect as of December 2026.

A comparison of WSSC Water’s average quarterly residential bill for water and sewer services at 145 gallons per day to the equivalent bill from 9 other peer utilities that are similar in scope and size of WSSC Water’s operations is also presented. The rates and fees used in this comparison were either FY 2026 Approved or FY 2027 Proposed, as noted, based on available data.

WSSC Water ranks above the middle of the peer utilities, with quarterly bills of \$295 in FY 2026 and \$310 in FY 2027 Proposed.

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Residential Quarterly Water/Sewer Bill Comparison to Peer Utilities  
(145 Gallons per Day)



\*Data based upon the FY 2027 Proposed Budget.

\*\*Data based upon the FY 2026 Approved Budget.

### Customer Assistance Programs

WSSC Water is committed to making water and sewer bills affordable for our customers. Therefore, we offer a multitude of financial assistance programs that are designed to address common affordability issues our customers confront. Since FY2021, WSSC Water has added over \$5.6 million to these programs.

The FY 2027 Proposed Budget for CAP is \$10.6 million, an increase of 20 percent from the FY 2026 Approved Budget. The Programs include:

- (1) **Customer Assistance Program (CAP)** - Created in FY 2016 to assist economically challenged customers by providing financial assistance for their water and sewer bills. Eligibility for CAP is determined based on enrollment in the Maryland Office of Home Energy Programs' (OHEP) energy assistance program. If a customer is enrolled in this state program, then they also qualify for WSSC Water's CAP. The CAP will continue in FY 2027, and the approved budget estimates the revenue offset at \$2.2 million.
- (2) **The Water Fund** – Supplemental program that provides assistance to eligible customers in need. Customers can make multiple requests for assistance with water and sewer bills up to \$500 per year. For FY 2027, \$750,000 is included in the Water Fund. Prior to FY 2025, the Water Fund was funded through donations.
  - An additional \$525,000 is set aside for potential allocation to the Water Fund, based on current year trends, or for the establishment of a new customer assistance program.
- (3) **PipeER or Connection Pipe Emergency Replacement Loan Program** - This program is also known as the Connection Pipe Emergency Replacement Loan Program. Eligible residential

customers can receive loans to finance the replacement of their water service line, which is located on their property and connects WSSC Water’s main line to the home. The Maryland General Assembly passed, and the Governor signed, legislation that enabled WSSC Water to create the PipeER Program in 2018. WSSC Water established the PipeER Program in FY 2020, and it provides affordable financing of up to \$10,000 per eligible customer. The budget for this program is currently \$200,000.

- (4) Bill Adjustments (High Bill Adjustments)** – These adjustments are made when it has been determined that a leak occurs, due to issues with the plumbing system within a building or from the underground service line. This occurrence can result in higher water bills, which can cause financial hardship for the property owner. While property owners are responsible for maintaining their plumbing systems and service lines, WSSC Water does make bill adjustments available under certain circumstances to relieve the financial hardship caused by an undetected leak.
  
- (5) CAP Leak Repair Program** - Those customers that are enrolled in CAPs, and impacted by an on-property leak, will be eligible to participate in this program. CAP Leak Repair was rolled out in fall 2024 and is administered by Habitat for Humanity Metro Maryland. The program budget has doubled to \$700,000 for FY 2027. Repairs must be made by a WSSC Water licensed registered plumber, and the total cost of services provided to any CAP customer cannot exceed \$9,000.
  
- (6) The Water Fund** was established in 1994 by WSSC Water employees to assist residential customers in financial need pay their water and sewer bills. Eligible customers may receive up to \$500 in financial assistance, per year, toward their water and sewer bills. A third party non-profit administers the Water Fund and is responsible for determining customer eligibility. The eligibility criteria are primarily based on household income and size.
  
- (7) Flexible Payment Options/ Promise Pay.** WSSC Water offers flexible payment options, such as extended due dates and payment plans, to assist customers with unexpected financial hardships, causing them to have challenges paying their water and sewer bills. Customers that have been approved for CAPs may also be eligible for a payment plan lasting up to 48 months.

WSSC Water launched a partnership with Promise Pay in September 2023. Promise Pay allows residential and commercial customers with past-due bills to establish affordable, flexible and interest-free payment plans. All residential and commercial customers with a past-due balance of \$50 or more are eligible. By establishing a payment plan for past-due water and sewer bills, and staying current with the plan, customers will avoid late fees and possible water service turnoffs. This financial assistance program allows residential and commercial customers payment plan options. The FY 2027 Proposed Budget includes \$3.6 million for Promise Pay.

WSSC Water has increased the budget for Assistance Programs by \$7.1 million since FY 2023, as well as expanded bill relief offerings to customers.

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Promise Pay Contract	\$0	\$0	\$3,300,000	\$3,630,000	\$3,630,000
Customer Assistance Program	\$2,200,000	\$2,200,000	\$2,200,000	\$2,200,000	\$2,200,000
Bill Adjustments	\$1,212,000	\$1,212,000	\$1,212,000	\$1,212,000	\$1,212,000
Water Fund Donation	\$0	\$0	\$500,000	\$750,000	\$750,000
CAP Leak Repair Program	\$0	\$0	\$350,000	\$350,000	\$700,000
PipeER Program	\$100,000	\$100,000	\$200,000	\$200,000	\$200,000
New Program TBD	\$0	\$0	\$0	\$525,000	\$1,948,400
<b>Total Budget for Assistance Programs</b>	<b>\$3,512,000</b>	<b>\$3,512,000</b>	<b>\$7,762,000</b>	<b>\$8,867,000</b>	<b>\$10,640,400</b>

To address the continued impacts of customer delinquency, WSSC Water instituted Get Current 2.0 in July 2025 to provide billing relief to lower income customers. The Get Current 2.0 provided balance forgiveness with payments, or enrollment in a payment plan. The program was extended in December 2025, due to the temporary closure of the federal government, which ended January 31, 2026.

In December 2025, WSSC Water added a limited Emergency Customer Relief Fund (ECRF). In partnership with United Way of the National Capital Area, the ECRF provides one-time assistance up to \$750 for eligible customers struggling to pay past-due water/sewer bills. Eligible customers are encouraged to act as the \$2.4 million fund is on a first-come, first-serve basis.



WSSC Water has developed and commenced the implementation of a comprehensive action plan in direct response to the findings of the May 2025 independent review, focusing on strengthening billing accuracy, operational reliability, and customer confidence. This plan includes a phased rollout of smart meter technology, supported by the launch of a Commission-approved AMI pilot and the creation of the “Smart Meter” Infrastructure Replacement Program to modernize aging assets and enhance the availability and precision of meter readings. It also establishes a re-evaluated meter inventory strategy and new procurement actions to ensure uninterrupted availability of meters and

reduce billing disruptions.

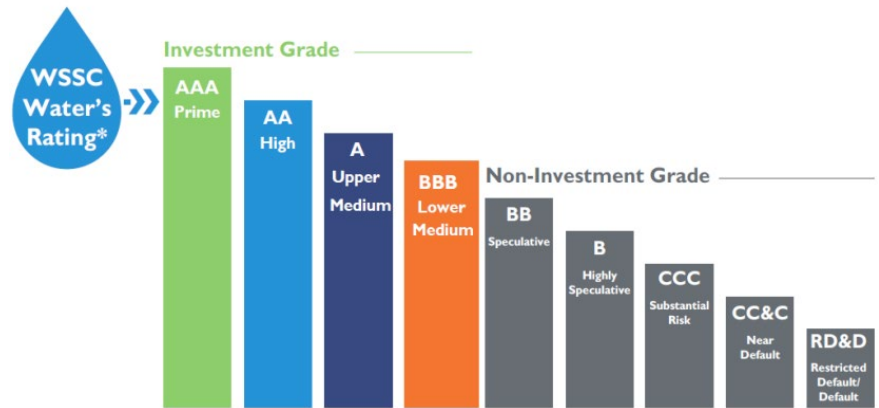
Customer-facing improvements include direct outreach to individuals receiving high-bill notifications, clearer itemization of bill adjustments to enhance transparency, and ongoing enhancements to the readability of billing statements. Operational reforms include updated training for field staff on accurate skip-code entry, expanded use of data analytics to identify and address common field barriers, strengthened dashboard visibility to monitor chronically estimated accounts, and a new monthly review cycle to inform operational planning. These coordinated actions demonstrate a structured,

multi-departmental approach to enhancing customer experience, stabilizing revenue patterns, and reinforcing long-term financial resilience.

## Chapter XII: Overview of Credit Ratings

### WSSC Water Credit Ratings

WSSC Water has maintained the highest bond ratings from S&P Global Ratings (AAA), Moody’s Ratings (Aaa), and Fitch Ratings (AAA) for the 25th consecutive year.



In February 2026, WSSC Water received the highest possible credit rating (AAA) for its \$379.4 million bond sale, reflecting strong financial health and a stable outlook. The proceeds will fund capital projects, including water and sewer infrastructure upgrades, with \$28.5 million allocated to green initiatives. This AAA rating ensures a lower cost of borrowing, benefiting customers and communities.

In Fitch Ratings most recent report dated January 26, 2026, the firm noted, “The ‘AAA’ rating considers [WSSC Water’s] ‘Very Strong’ financial profile” in the context of the service area’s resource base, very low operating cost burden and moderate investment needs. The ratings firm also stated the rating outlook continues to be stable.

Fitch Ratings went on to note “the system’s operating cost burden is considered very low, measuring \$6,313 per million gallons (mg) in fiscal 2025, consistent with the operating risk assessment. The life cycle ratio<sup>2</sup> was very low at 32 percent in fiscal 2025. Annual capital spending to depreciation is strong, averaging 194 percent over the last five fiscal years from 2021 to 2025. “Planned capital spending for the next five years should generally outpace historical depreciation, supporting a continued very low life cycle ratio.”

In its most recent report dated January 26, 2026, Moody’s Ratings affirmed WSSC Water’s Aaa rating with stable outlook and highlighted, WSSC Water’s financial position as “...steady given solid annual revenue growth and ongoing expenditure control.” Further, Moody’s noted WSSC Water’s significant debt issuance over the next five years to address needed capital improvements. WSSC Water received positive sentiment by balancing debt with “...increase[d] efforts to fund improvements through pay go funding in order to offset debt growth.”

<sup>2</sup> Life cycle ratio measures the status of a utility’s life cycle calculated as age of the plant divided by the sum of age of the plant plus remaining useful life. Age of plant is calculated as accumulated depreciation divided by annual depreciation expense, while remaining useful life is calculated as net capital assets divided by annual depreciation expense. Low life cycle ratio generally indicates low investment needs. Typically, a utility with a life cycle ratio of 45% or less is considered to have moderate investment needs.

S&P Global Ratings in their report issued January 27, 2026, assigned WSSC Water its ‘AAA’ rating with a stable outlook. S&P stated, “We consider the financial metrics supportive of the ‘AAA’ rating, with all-in coverage being strong, but with extremely strong liquidity levels in the past three fiscal years.”

### Review of Credit Rating Methodologies

*Moody’s Investors Service (Moody’s).* Moody’s utilizes its *Rating Methodology: US Municipal Utility Revenue Debt*, dated March 7, 2024, to rate WSSC Water. As illustrated in the Scorecard Overview below,

Exhibit 1 US Municipal Utility Revenue Debt Scorecard Overview			
Factor	Factor Weighting	Sub-factor	Sub-factor Weighting
System Characteristics	30%	Asset Condition (Remaining Useful Life)	10%
		System Size (O&M)	7.5%
		Service Area Wealth (Median Family Income)	12.5%
Financial Strength	40%	Annual Debt Service Coverage	15%
		Days Cash on Hand	15%
		Debt to Operating Revenues	10%
Management	20%	Rate Management	10%
		Regulatory Compliance and Capital Planning	10%
Legal Provisions	10%	Rate Covenant	5%
		Debt Service Reserve Requirement	5%
Total	100%	Total	100%

Source: Moody’s Investors Service

Moody’s reviews four main factors to determine a scorecard indicated outcome, which may not match their final assigned rating due to adjustments and notching factors. For example, WSSC Water’s scorecard indicated outcome as of the January 26, 2026 Moody’s rating report is Aa2; however, the current assigned rating is two notches above that at Aaa.

*S&P Global Ratings (S&P).* S&P utilizes its *U.S. Municipal Water, Sewer, And Solid Waste Utilities: Methodology and Assumptions*, dated April 14, 2022, to rate WSSC Water. S&P creates an Economic Risk Profile score and a Financial Risk Profile score, then applies those scores to a matrix, as seen to the left, to

Determining The Anchor						
Enterprise risk profile	Financial risk profile					
	1	2	3	4	5	6
	Extremely strong	Very strong	Strong	Adequate	Vulnerable	Highly vulnerable
1 Extremely strong	aaa	aa+	aa-	a	bbb+/bbb	bb+/bb
2 Very strong	aa+	aa/aa-	a+	a-	bbb/bbb-	bb/bb-
3 Strong	aa-	a+	a	bbb+/bbb	bbb-/bb+	bb-
4 Adequate	a	a/a-	a-/bbb+	bbb/bbb-	bb	b+
5 Vulnerable	bbb+	bbb/bbb-	bbb-/bb+	bb	bb-	b
6 Highly vulnerable	bbb-	bb	bb-	b+	b	b-

determine the scorecard indicated outcome or the “Anchor” score prior to applying any modifiers or caps to the rating.

The Enterprise Risk Profile consists of the following subfactors:

- Economic fundamentals (45 percent) measures the strength of the utility’s service area economy, including the utility’s demographics; trends related to the customer base; and how crucial the utility’s principal customers are to operating revenues.
- Industry Risk (20 percent) aims to evaluate the external environment in which municipal utilities operate and its relevant characteristics, including cyclical, competitive risk, and growth environment. This subfactor is typically rated as a ‘1’ for water / sewer utilities.
- Market Position (25 percent) - measures the relative affordability of utility rates given the income indicators and relative poverty of the service area, as well as comparability of rates with those of peers in the region or state.
- Operational Management Assessment (10 percent) evaluates S&P’s view of the effectiveness of utility management in ensuring that there is alignment of operational, environmental, strategic, and financial goals to support the system’s success.

The Financial Risk Profile consists of the following subfactors:

- The All-in Coverage (40 percent) analysis includes examination of historical and preferably generally accepted accounting principles (GAAP)-based results, the current financial condition of the utility, and projected scenarios for the next one to three fiscal years. The focus is on total financial capacity versus total revenue requirements.
- Liquidity and Reserves (40 percent) incorporates all lawfully available cash reserves and external working capital or liquidity sources, including bank lines in force within the life of any short-term obligations.
- Debt and Liabilities (10 percent) incorporates mainly quantitative, but also qualitative, analyses about not just the absolute measure of the utility’s indebtedness but also the capacity to incur and support additional debt, especially in relation to maintaining any minimum financial metrics as covenanted to bondholders. Measurable liabilities such as pension and OPEB can lead to adjustments of this factor.
- Financial Management Assessment (10 percent) is an evaluation of ongoing management practices and policies that can be supportive of financial performance and continuity, as well as internal controls and reporting. Examples include establishing a minimum level of acceptable working capital, predictability of cash transfers from the utility system, and creating and perpetually updating a long-term financial forecast.

*Fitch Ratings (Fitch)*. Fitch utilizes its *U.S. Water and Sewer Rating Criteria*, dated February 24, 2025, to rate WSSC Water. The four Key Rating Drivers have no standard formula to link them to an exact rating. In general, if a material factor is significantly weaker or stronger than the others, it tends to attract greater emphasis in the overall analysis.

- Revenue Defensibility entails an assessment of a utility’s exposure to demand volatility and the flexibility within its rate-setting framework to recover cost(s) of service and maintain operating profitability.
- Operating Risk entails an assessment of a utility system’s operating cost burden and operating cost flexibility, as well as its current capital spending and future capital requirements.
- Financial Profile includes metrics used to evaluate the utility’s leverage and liquidity profiles in the context of its overall risk profile. These metrics are evaluated on both a historical and forward-looking basis, which considers the utility’s overall financial flexibility to withstand stress scenarios.
- Asymmetric Additive Risk Considerations are risk factors, such as debt structure, management and governance, legal and regulatory, and information quality. These risk factors are also considered but not scaled, and only weaker-than-standard characteristics affect the final rating.

### **History of WSSC Water’s Credit Ratings**

WSSC Water has had a long history of triple-A ratings from each of the three ratings agencies. One reason for such a strong and consistent rating history is that the rating agencies view the ability to seek ad valorem tax revenues to pay debt service as a credit positive. This security feature sets WSSC Water apart from many of its peers and provides the rating agencies the confidence to continue to assign an AAA rating even when certain rating scorecard metrics may not meet the same levels as some other AAA rated entities.

However, Fitch notes that the authority to levy ad valorem taxes is “subject to a process that, while serving to prevent default, limits the benefit of this additional resource at the current rating level. The District’s access to the broader economic base may not support the current rating if total personal income growth lags the district’s long-term liabilities. Combined with the current leverage trend, access to the broader economic resource base provides only modest headroom at the current rating level.”

In September 2021, Fitch placed WSSC Water’s AAA rating on Negative Outlook due to a sharp weakening in the FY 2020 financial performance that they expected to be followed by a slow and uncertain recovery. They were notably concerned about the escalated leverage of 11.1x in FY 2020, up from 8.4x the prior year. WSSC Water remained on Negative Outlook until January 2024, due to the concern that the leverage ratio would return to an amount exceeding 10.0x. In January 2024, Fitch returned WSSC Water to a Stable Outlook after continued improvement in the leverage ratio. In the most recent rating reports of January of 2025 and 2026, Fitch indicates that they, in continuing to monitor WSSC Water’s leverage ratio, could lower the rating and/or the outlook should leverage fail to remain below 10.0x.

To date, WSSC Water has not sought ad valorem tax revenues from either county to pay debt service on any of its outstanding bonds or notes and does not anticipate the need to do so.

	FY 2023		FY 2024		FY 2025		FY 2026	
S&P Global Ratings	AAA	Stable	AAA	Stable	AAA	Stable	AAA	Stable
Moody's Ratings	Aaa	Stable	Aaa	Stable	Aaa	Stable	Aaa	Stable
Fitch Ratings	AAA	Negative	AAA	Stable	AAA	Stable	AAA	Stable

## Review of Perceived Credit Strength and Challenges

In their reports, each of the rating agencies include discussions on WSSC Water’s credit strengths and challenges, as seen below. The agencies agree that the service area is large, robust and mostly affluent, leading to affordable rates for the vast majority of the population. Moody’s and S&P both view the additional security from the ability to leverage ad valorem taxes as a credit positive. While Fitch acknowledges this additional layer of security, the analysts hold the view that the authority to levy taxes to prevent default is subject to a process that limits the benefit at the current rating level. Each of the rating agencies note that WSSC Water’s substantial capital needs and elevated leverage are a credit challenge. Rating reports commonly include a section discussing factors that could lead to a downgrade. It does not necessarily mean that the analysts believe these factors to be imminent. In the case of WSSC Water, Moody’s would consider a potential downgrade to WSSC Water’s rating if structural balance is not maintained while also addressing the system’s capital needs and maintaining certain levels of debt metrics as outlined below. S&P and Fitch would consider a potential downgrade to the ratings if WSSC Water is unable to secure the rate increases necessary to address capital needs while maintaining reserves and not increasing leverage.

Moody’s	S&P	Fitch
<b>Credit Strengths</b>		
<ul style="list-style-type: none"> <li>• Dynamic and robust service area</li> <li>• Satisfactory reserve level with ongoing annual rate increases to support operations</li> <li>• Secured by unlimited ad valorem taxing authority</li> </ul>	<ul style="list-style-type: none"> <li>• Large, diverse and mostly affluent service area</li> <li>• Extremely strong liquidity levels</li> <li>• Extremely strong management team</li> <li>• Ability to levy unlimited ad valorem property taxes should district operating levels decline</li> <li>• Increased fixed charges provide increased revenue stability</li> </ul>	<ul style="list-style-type: none"> <li>• Very strong financial profile, revenue defensibility profile and operating risk profile</li> <li>• Affordable rates for vast majority of population</li> <li>• Very low operating cost burden</li> <li>• Leverage continuing to decline</li> </ul>
<b>Credit Challenges</b>		
<ul style="list-style-type: none"> <li>• Ongoing capital needs that will require annual debt increases</li> <li>• Elevated leverage due to sizeable capital needs</li> </ul>	<ul style="list-style-type: none"> <li>• Debt service coverage is narrow relative to AAA rated peers</li> <li>• Substantial capital needs</li> </ul>	<ul style="list-style-type: none"> <li>• Although expected to decline, leverage was over 10x in recent history, will continue to monitor</li> </ul>

Moody's	S&P	Fitch
<ul style="list-style-type: none"> <li>Metrics somewhat lag similarly rated peers</li> </ul>		<ul style="list-style-type: none"> <li>The incremental benefit of the Authority to levy taxes would be unlikely to support current rating if the trend of declining leverage is interrupted or reversed.</li> </ul>

**Factors that Could Lead to a Downgrade**


<ul style="list-style-type: none"> <li>Inability to maintain balanced operations while addressing capital spending</li> </ul>	<ul style="list-style-type: none"> <li>If management is unable to effectuate necessary rate increases or certain costs, which results in a reduction in reserves or failure to meet forecast projections.</li> </ul>	<ul style="list-style-type: none"> <li>Failure to maintain leverage comfortably below 10x</li> </ul>
<ul style="list-style-type: none"> <li>Decline in liquidity to below 125 DCOH</li> </ul>	<ul style="list-style-type: none"> <li>If political pressures or economic weakness results in unwillingness to implement necessary rate increases</li> </ul>	<ul style="list-style-type: none"> <li>Failure to secure rate increases that satisfactorily support operations, continued capital investment</li> </ul>
<ul style="list-style-type: none"> <li>Debt to revenues increasing to above 5.5x</li> </ul>		<ul style="list-style-type: none"> <li>A long-term liability burden measure in the context of the resource base that no longer supports an enhancement to the rating</li> </ul>

Source: Most recent Moody's report (1/26/2026), most recent S&P report (1/27/2026), most recent Fitch Ratings report (1/230/2026).

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## Current Rating Scorecards

Moody's rating scorecard as of their most recent rating reports dated January 26, 2026:

	Weight	Statistics	Score	Weighted Score
<b>System Characteristics (30%)</b>				
Asset Condition (Remaining Useful Life)	10%	44	Aa	0.20
System Size (O&M)	7.5%	\$620,484	Aaa	0.08
Service Area Wealth (Median Family Income)	12.5%	163%	Aaa	0.13
<b>Financial Strength (40%)</b>				
Annual Debt Service Coverage	15%	1.3x	A	0.45
Days Cash on Hand	15%	288	Aaa	0.15
Debt to Operating Revenues	10%	4.14x	A	0.30
<b>Management (20%)</b>				
Rate Management	10%	Aaa	Aaa	0.10
Regulatory Compliance and Capital Planning	10%	Aa	Aa	0.20
<b>Legal Provisions (10%)</b>				
Rate Covenant	5%	1.00x	Ba	0.25
Debt Service Reserve Requirement	5%	Baa	Baa	0.20
<b>Total Score</b>	100%			2.05
<b>Unadjusted Indicated Rating</b>				<b>Aa2</b>
<b>Current Rating</b>				<b>Aaa</b>
<b>Outlook</b>				Stable

Sources: Most recent Moody's reports (1/26/2026) and (1/23/2025), Moody's US Municipal Utility Revenue Debt Methodology (3/7/2024).

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S&P's rating scorecard as of their most recent rating report dated January 27, 2026:

<b>S&amp;P Global Ratings</b>					
<b>Enterprise Risk Profile</b>	<b>Weight</b>	<b>Metric</b>	<b>Statistic</b>	<b>Score</b>	<b>Weighted Score</b>
Economic fundamentals	45%	MHHEBI   GDP Rate	131.7%   within 1% of U.S.	1	0.45
Industry risk	20%	Macro Factors	Very Low	1	0.20
Market position	25%	Avg. Bill/MHHEBI   Poverty Rate	1.8%   9.0%	1	0.25
Operational management assessment	10%	Management Review	Good	2	0.20
<b>Total</b>	<b>100%</b>				<b>1.10</b>
<b>Financial Risk Profile</b>					
All-in coverage	40%	All-in Coverage	1.54x	2	0.80
Liquidity and reserves	40%	Reserves   DCOH	\$490 MM   289 days	1	0.40
Debt and liabilities	10%	Debt to Capitalization	45%	3	0.30
Financial management assessment	10%	Financial Performance	Strong	1	0.10
<b>Total</b>	<b>100%</b>				<b>1.60</b>
<b>Current Rating</b>					<b>AAA</b>

Source: Most recent S&P report (1/27/2026) S&P's U.S. Municipal Water, Sewer, and Solid Waste Utilities: Methodologies and Assumptions (4/14/2022).

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Fitch does not utilize a scorecard in the same manner as Moody’s and S&P. Included below is a summary of WSSC Water’s scores for each of the Key Rating Drivers’ and subfactors from the most recent report dated January 30, 2026:

<b>FitchRatings</b>		
<b>Revenue Defensibility (aa)</b>	Description	Score
Revenue Source Characteristics	Very Strong. Independent ability to raise revenues enhanced by the authority to levy ad valorem taxes for debt service	aa
Service Area Characteristics	Very Favorable. WSSD serves as an expansive service area that encompasses parts of two counties	aa
Rate Flexibility / Affordability	Independent legal ability to increase service rates without external approval	aa
	Utility costs are affordable for the majority of the population	aa
<b>Operating Risk (aa)</b>		
Operating Cost Burden	Very low operating cost burden	aa
Capital Planning and Management	Moderate life cycle investment needs	aa
<b>Financial Profile (aa)</b>		
Leverage Profile	Leverage ratio of 7.8x in FY 2025, down from peak of 11.1x in FY 2020, expected to raise to 9.6x in FY 2027.	aa
<b>Current Rating</b>		<b>AAA</b>
Outlook		Stable

Source: Most recent Fitch report (1/30/2026) and Fitch Ratings' U.S. Water and Sewer Rating Criteria (2/24/2025)

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