



THE PRINCE GEORGE'S COUNTY GOVERNMENT

(301) 952-3700

County Council

April 14, 2022

TO: Rodney C. Streeter, Chair
Transportation, Infrastructure, Energy and Environment (TIEE)
Committee

FROM: Lavinia A. Baxter, Legislative Budget and Policy Analyst
Office of Audits and Investigations *LAB*

THRU: Robert J. Williams *R.J.W.*
Council Administrator

RE: **WSSC Water FY 2023 Operating, Capital and Capital Improvement Program (CIP) Proposed Budgets Executive Summary**

The Washington Suburban Sanitary Commission (WSSC Water) FY 2023 Proposed Operating, Capital and Capital Improvement Program (CIP) budgets are described herein. This executive summary provides the Prince George's County Councilmembers with a brief highlight of relevant information to support staff recommendations. A full and detailed report is attached for reference.

FY 2023 Proposed Operating and Capital Budgets

The proposed total budget for FY 2023 for all operating and capital funds totals \$1.48 billion or \$76.1 million less (4.9%) less than the Approved FY 2022 budget. In order to meet prescribed fiscal guidelines \$133 million in cuts and deferrals have been made. This is described in the detailed staff report attached.

Operating Funds

The Proposed Operating Budget of \$873.5 million represents an increase of \$21.4 million (2.5%) over the FY 2022 Approved Operating Budget of \$852 million. When controlling for non-discretionary increases in debt service and regional sewage disposal expenses, the FY 2023 is only 1.1% over the FY 2022 Approved Budget. Reductions totaling \$23.1 million were made to various line items including emergency response,

acoustic fiber optic monitoring, the purchase of chemicals and materials, maintenance and repair and the Piscataway Rehabilitation program.

Capital Funds

The FY 2023 Proposed Capital Budget of \$606.2 million represents a decrease of \$97.5 million (13.9%) from the FY 2022 Approved Capital Budget of \$703.7 million. This decrease is primarily due to reductions to the Proposed Capital Budget and to respond to concerns raised by the bond rating agencies. The agency has made reductions to align with the proposed increase of 7%.

Spending Affordability

The budget as proposed calls for a combined 7.0% increase in water and sewer consumption revenue. This proposed increase exceeds the 6.5% Spending Affordability Guidelines recommended by Prince George's and Montgomery Counties. The principal drivers of this proposed budget are:

- I. Fund Balance – At the end of FY 2022, accumulated net revenues for water and sewer operating funds can be expected to total \$169.3 million. For FY 2023, approximately \$130.3 million will be held in accumulated net revenues in adherence to the WSSC Water's 15% reserve policy. Budgeted accumulated net revenue of \$187.6 million exceeds the reserve target and is 21.6% of the total operating revenues. However, the days operating reserves on hand metric is projected to be just 126.7 which is the low end of the target range. The remaining fund balance is necessary to meet reserves on hand in accordance with key fiscal metrics to maintain the AAA bond rating.
- II. Revenues – The estimated FY 2023 revenues for water consumption and sewer use charges are \$341.5 million and \$415.5 million respectively. This is a \$39.1 million increase, or 5.5% over the Approved Budget of FY 2022, primarily attributed to an increase in water and sewer and ready to serve charges. Water production is expected to be approximately 163.0 million gallons per day which is unchanged from FY 2022. Water consumption is projected to decrease from 125.5 MGD in FY 2022 to 124.5 MGD in FY 2023. A 7.0% average rate increase has been incorporated to pay for debt service, maintenance, and infrastructure renewal.
- III. Capital Improvement Program (CIP) and the Capital Budget – The Capital Budget includes expenditure in the FY 2023 Budget of \$606.2 million.
- IV. Debt Service – The debt service estimate of \$330.8 million for FY 2023 concludes that \$155.2 million in water supply bonds and \$203.7 million in sewer bonds will be issued in FY 2023, in addition to repayment of existing

debt. The WSSC Water's water and sewer bond issues will be 30-year bonds with an estimated 4.0% net interest rate. Projected Debt Service Coverage ratio is 1.11 which is just slightly over the 1.10 target.

- V. Reconstruction Debt Service Offset (REDO) – For FY 2023, \$4.0 million will be transferred from the General Bond Debt Service to the Water and Sewer Operating Fund. The transfer is made to defray the debt service on funds borrowed to finance water and sewer systems reconstruction activities.
- VI. Workforce and Compensation – For FY 2023, 1,796 work years have been funded which includes ten newly authorized work years. A marker is included for salary enhancements. Total compensation is budgeted at \$165,291,708 with \$8,376,281 in salary lapse. Funding for employee salary enhancements in a manner consistent with the Counties is included in the budget.

Expenditures

The FY 2023 Proposed budget includes the following expenditures as compared to previous budget years. The table below indicates Comparative Expenditures by Major Expense Category.

COMPARATIVE EXPENSES BY MAJOR EXPENSE CATEGORY

(\$ in Thousands)	FY 2021			FY 2022			FY 2023		
	Capital	Actual Operating	Total	Capital	Approved Operating	Total	Capital	Proposed Operating	Total
Expense Categories									
Salaries & Wages	\$25,991	\$131,799	\$157,710	\$27,449	\$133,370	\$161,179	\$28,172	\$137,120	\$165,292
Heat, Light & Power	-	18,234	18,234	222	18,501	18,723	230	18,829	19,059
Regional Sewage	-	58,658	58,658	-	59,160	59,160	-	60,343	60,343
Contract Work	217,590	-	217,590	444,405	21,337	465,742	351,478	-	351,478
Consulting Engineers	42,349	-	42,349	79,614	19,890	99,504	72,122	-	72,122
Debt Service	-	291,980	291,980	-	316,827	316,827	-	330,823	330,823
All Other	141,043	389,002	389,002	152,055	282,648	434,703	154,241	326,413	480,654
Grand Total	\$426,893	\$748,630	\$1,175,523	\$703,745	\$852,093	\$1,555,838	\$606,243	\$873,528	\$1,479,771

Key Provisions of the FY 2023 Proposed Budget (See full report for all key provisions)

- Implementing the first year of the FY 2023-2028 Capital Improvement Program (CIP)

- Providing \$3.5 million for customers in the Consumer Assistance Program;
- Funding for maintenance and repairs at critical facilities;
- Providing staffing and support for the Piscataway Bio-Energy Plant;
- Replacing 25 miles of small diameter and 6.5 miles of large diameter water mains, a reduction of 13 miles in FY 2022;
- Funding for ten new authorized positions and limited compensation enhancements consistent with tentative agreement with AFSCME Local 2898, which are primarily tied to the County's salary enhancements;
- Paying debt service of \$330.8 million

Capital Improvement Program (CIP)

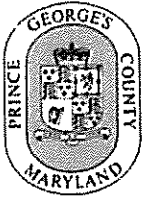
The total Capital Improvement Budget for FY 2023 is \$606.2 million. This is comprised of \$413.5 million in CIP projects, \$212.0 million in Information Only projects and an adjustment of \$19.3 million to account for expenditures funded via developer contributions for projects with a signed System Extension Permit (SEP). The FY 2023 CIP Budget is \$97.5 million lower than the FY 2022 Approved Capital Budget. The reductions are due to:

- Reductions of approximately \$27.7 million to the Water Reconstruction Program;
- Reductions of approximately \$18.6 million to the Large Diameter Water Pipe & Large Valve Rehabilitation Program;
- Deferral of 2 water supply projects in Prince George's County for one year totaling approximately \$37.0 million;
- Deferral of 7 Wastewater Pumping Stations & FM, 3 Wastewater Pumping Station and Force Main (WWPS & FM) and projects in Prince George's County for one year totaling \$691 thousand;
- Deferral of the Septage Discharge Facility Planning & Implementation project for one year totaling approximately \$13 million;
- Reductions of approximately \$5.7 million to the Engineering Support Program in FY 2023;
- Reductions of approximately \$5.2 million to the Other Capital Programs in FY 2023;
- Deferral of the Anacostia Depot Reconfiguration project for one year, totaling approximately \$1.3 million.

Staff Recommendations

- Concur with the Spending Affordability Guidelines to increase combined water and sewer rates, not to exceed 6.5% for FY 2023.
- Concur with Spending Affordability Guidelines for:

- New Water and Sewer Debt at \$430.1 million; and
 - Total Water and Sewer Debt Service at \$328.4 million.
- Concur with WSSC Water to maintain System Development Charge (SDC) fees at current levels but increase the maximum ceiling on this charge as is consistent with State Law.
- Concur with WSSC Water FY 2023 – FY 2028 CIP projects and as reflected in the Mid-Cycle Update on February 17, 2022.




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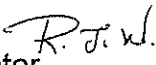
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FROM: Lavinia A. Baxter, Legislative Budget and Policy Analyst 
Office of Audits and Investigations

THRU: Robert J. Williams 
Council Administrator

RE: ***WSSC Water FY 2023 Operating, Capital and Capital Improvement Program (CIP) Budget Report***

This report contains a detailed summary of the Washington Suburban Sanitary Commission (WSSC Water) FY 2023 Proposed Operating, Capital and Capital Improvement Program (CIP) budgets, including an overview of revenues and expenditures, updates and highlights of major projects, discussion points of key performance indicators, and staff's recommendation. The purpose of this report is to provide the Prince George's County Councilmembers with relevant information to support a staff recommendation which allows for a WSSC Water rate increase to meet the County's system demands. This report is the result of collaboration with County staff represented by the Office of the County Executive, Office of Finance, and Audits and Investigations, along with the WSSC Water management team.

Committee Report Outline

- Section 1: WSSC Water Goals and Budget Overview
- Section 2: Proposed Rates, Fees and Charges
- Section 3: Spending Affordability Guidelines (SAG)
- Section 4: Revenues
- Section 5: Expenditures
- Section 6: Debt Service
- Section 7: Performance Metrics
- Section 8: Capital Improvement Program (CIP)

Section 9:	Customer Impacts/Budget Summary
Section 10:	Staff Recommendation
Section 11:	Attachments

Section 1: WSSC Water Goals and Budget Overview

The Washington Suburban Sanitary Commission (WSSC Water/Commission) provides water and sewer services to approximately 1.9 million residents of Prince George's and Montgomery Counties. To fulfill its primary mission of providing safe and reliable water and returning clean water to the environment, WSSC Water operates and maintains an extensive array of highly automated facilities. The WSSC Water's two water filtration plants (WFP), drawing raw water from the Potomac and Patuxent Rivers, are projected to produce an average of 163 million gallons of water per day in FY 2023, and deliver that water to homes and businesses in the region through a system of 6000 miles of water mains. To ensure a reliable water supply, WSSC Water operates three reservoirs with a total capacity exceeding 14 billion gallons.

Sewage treatment is provided by six water resource recovery facilities (WRRF) and the Blue Plains Advanced Wastewater Treatment Plant (Blue Plains) operated by the DC Water and Sewer Authority (DC Water). In FY 2023, it is projected that an average of 196.9 million gallons of wastewater per day will move to these facilities through over 5,700 miles of sewer lines maintained by WSSC Water. The six WRRFs owned by the WSSC Water have a combined capacity of 95 million gallons per day (MGD). It should be noted that WSSC Water pays a proportionate share of the Blue Plains' operating and capital expenses. All but one of these facilities (Hyattstown plant) go beyond the conventional wastewater treatment to provide advanced treatment processes which ensures that the quality of the treated wastewater is better than the quality of the natural water to which it is returned.

FY 2023 Revised Strategic Roadmap

- I. Enhance Customer Experience
 - Continue to exceed U.S. Environmental Protection Agency water quality requirements and implement actions to ensure compliance with future regulations such as the Lead and Copper Rule Revisions, Unregulated Containment Monitoring Rule and Polyfluoroalkyl Substances (PFAS) proposed regulations
 - Begin implementation of Advanced Metering Infrastructure (AMI) to provide accurate monthly billing and near real-time water usage data that increases revenues and allows customers to monitor usage and avoid high bills due to leaks
 - Enhance and expand WSSC Water's financial assistance programs and educate the public on the value of WSSC Water's services and how to access our programs

- II. Spend Customer Dollars Wisely
 - Maintain AAA bond rating through strong financial policies and planning.
 - Improve contract lifecycle management to ensure deliverables and materials are provided on-time, on-budget and within scope.
 - Identify opportunities to reduce costs across WSSC Water
- III. Optimize Infrastructure
 - Continually implement the Capital Improvements Program (CIP)
 - Continue to invest in innovative technology, processes and ideas
 - Prioritize Investments to improve the condition of facilities and seek opportunities for public private partnership
- IV. Protect Resources
 - Assess and adapt to the impacts of climate change on WSSC Water infrastructure and continue to invest in projects that reduce greenhouse gas
 - Develop and implement the biosolids/water residuals master plan and business plan
 - Enhance WSSC Water's comprehensive cybersecurity framework to ensure protection of critical assets
 - Ensure resiliency of WSSC Water's water supply and delivery
- V. Transform Employee Engagement
 - Develop and implement workforce strategies to plan for current and future workforce needs, including acquiring and developing talent
 - Evaluate Human Resources management policies, procedures and practices to retain a high quality and diverse workforce
 - Advance achievement of WSSC Water's Strategic Plan by facilitating organizational development activities to enable data and risk informed decisions that optimize business processes.

FY 2023 Proposed Operating and Capital Budgets

The proposed total budget for FY 2023 for all operating and capital funds totals \$1.48 billion or \$76.1 million decrease, which is 4.9% less than the Approved FY 2022 budget and based on an assumed 7.0% average rate increase. When controlling for the non-discretionary increases in debt service and regional sewage disposal expenses, the FY 2023 operating budget is only 1.1% over the FY 2022 Approved Operating Budget. To accommodate this budget, over \$133 million in deferrals and cuts were made to the operating and capital budgets.

Comparative Expenditure By Fund						
(\$ in Thousands)	FY 2020 Actual	FY 2021 Actual	FY 2022 Approved	FY 2023 Proposed	FY 2023 Over/(Under) FY 2022	% Change
Operating Fund						
Water	\$ 338,471	\$ 335,324	\$380,565	385,037	\$ 4,472	1.2%
Sewer	413,421	401,300	461,734	479,791	18,057	3.9%
General Bond Debt Service	14,292	12,006	9,794	8,700	(1,094)	-11.2%
Total Operating	766,184	748,630	852,093	873,528	21,435	2.5%
Capital Fund						
Water Supply	\$ 162,378	\$ 142,441	291,667	239,776	\$ (51,891)	-17.8%
Sewage Disposal	211,729	265,865	384,600	343,508	(41,092)	-10.7%
General Construction	20,278	18,587	27,478	22,959	(4,519)	-16.4%
Total Capital	394,385	426,893	703,745	606,243	(97,502)	-13.9%
Grand Total	1,160,569	\$ 1,175,523	1,555,838	1,479,771	(76,067)	-4.9%

Operating Funds

The Proposed Operating Budget of \$873.5 million represents an increase of \$21.4 million (2.5%) over the FY 2022 Approved Operating Budget of \$852.1 million. This is basically a reduced service budget with modest increases to fund essential improvements, including:

- Much needed repairs to WSSC facilities
- Six new positions added to support training, initial start-up, of the new Bio-solids Management division;
- Positions (2) and funding to comply with the new regulatory requirements due to change in the Lead and Copper Rule;
- Little Seneca Reservoir Forebay sediment removal project;
- Compliance with Regulator requirements for dam inspection; and
- Call Center Optimization Project to enhance customer experience.

As proposed, the budget calls for operating reductions of \$23.1 million. These reductions will impact emergency response, acoustic monitoring for pipe leak detection, maintenance/repair and chemical and materials purchase. The largest impact is deferral of the Piscataway Rehabilitation Program (\$2.6M) designed to rehabilitate sewer assets in the Piscataway sewer basin.

Capital Funds

The Proposed Capital Budget of \$606.2 million represents a decrease of \$97.5 million (13.9%) from the FY 2022 Approved Capital Budget of \$703.7 million. This decrease is due to reductions to the Proposed Capital Budget because of budget constraints and to respond to the concerns raised by the bond rating agencies. The agency has made reductions and deferrals totaling \$110.5 million to align the budget with the proposed 7% rate increase. District-wide reductions include:

- Reductions of approximately \$27.7 million to the Water Reconstruction Program in FY 2023
- Reductions of approximately \$18.6 million to the Large Diameter Water Pipe & Large Valve Rehabilitation Program in FY 2023
- Reductions of approximately \$5.7 million to the Engineering Support Program in FY 2023
- Reductions of approximately \$5.2 million to the Other Capital Program in FY 2023
- Deferral of the Septage Discharge Facility Planning & Implementation project for one year, totaling approximately \$13.0 million in reductions
- Deferral of the Anacostia Depot Reconfiguration project for one year, totaling approximately \$1.3 million in reductions

There are five Prince Georges projects totaling \$37,653,000 that have been deferred for one year. They include:

- Carondale WWPS & FM (\$345K)
- Colmar Manor WWPS & FM (\$173K)
- Forest Heights WWPS & FM (\$173K)
- Prince George's County 450A Zone Water Main (\$14.4M)
- South Potomac Supply Improvement Phase, 2 (\$22.6M)

*These capital impacts have been broken down according to districts in the budget on pages I-46 to I-50 of the FY 2023 Proposed Budget book.

While there have been cuts, it is important to note that WSSC Water's budget is capital intensive and driven by changes in the construction market, commodity prices and tariffs. It is not driven by the Consumer Price Index (CPI). Many of these costs are legally mandated and not easily deferred or reduced. Other investments which drive the WSSC Water capital budget, include:

Compliance with Sanitary Sewer Overflow (SSO) Consent Decree

- Compliance with Potomac Plant Consent Decree
- Environmental regulations directives
- Maintaining security of the water infrastructure
- Security of staff and field personnel
- Information Technology improvements

Financial Assistance Programs

With more residents struggling to meet their monthly expenses during these unprecedented and uncertain times, WSSC has increased its financial assistance and provided relief to thousands of customers. Programs include the following:

- Customer Assistance Program (CAP)
- Water Fund
- PipeER Program (also know as the Connection Pipe Emergency

- Replacement Loan Program)
- Bay Restoration Fund Exemption Program
- Bill adjustments
- Flexible payment options

WSSC has increased funding levels for these various financial assistance programs by approximately 86% over the last several years from \$1.9 million in FY 2021 to over \$3.5 million in FY 2023. In FY 2023, the CAP is proposed to increase by \$2.2 million from the FY 2021 budgeted revenue offset of \$2.1 million. There are 5,410 delinquent CAP customers in Prince George's County. To date approximately 15,500 customers have been assisted district wide.

Section 2: Proposed Rates, Fees and Charges

The FY 2023 proposed budget calls for a combined 7.0% average rate increase for water consumption, sewer revenue, AMF and IIF. This proposed increase exceeds the 6.5% Spending Affordability Guidelines, recommended by Prince George's and Montgomery Counties. The budget will be funded by the following proposed variable and fixed fees rates and charges.

I. Infrastructure Investment Fee

The Infrastructure Investment Fee (IIF) funds a portion of the debt service associated with the Commission's water and sewer pipe reconstruction programs. The IIF is expected to generate approximately \$41.5 million, which includes a 7% rate increase, in FY 2023 as compared to the \$38.8 million in FY 2022. This is a fixed fee which has not increased since 2017.

II. Account Maintenance Fee

The Account Maintenance Fee (AMF) recoups servicing costs associated with the maintenance of customers' accounts. The AMF is expected to generate \$34.1 million, which includes a 7% rate increase in FY 2023 as compared to \$31.9 million in FY 2022. The AMF, which is a fixed fee, has not increased since 2016. (For more details, please see the FY 2023 Proposed Budget book page 6-9).

III. System Development Charge

No increase is proposed for the System Development Charge (SDC) for FY 2023 in any category. State law provides for SDC to new applicants for WSSC Water service which is intended to recover growth costs, may be adjusted annually by the change in the Consumer Price Index (CPI) for the Washington, DC area. (For more details see, FY 2023 Proposed Budget, page 2-6).

IV. Miscellaneous Fees

WSSC Water provides a number of services for which separate fees or charges have been established. A recent review by WSSC Water was conducted of fees and charges and thus has proposed various changes to align service costs with the fees charged for some of these services. Fees are increasing across the board including inspection fees, licenses and permits, discharge and protection, meters and related services fire hydrants and other fees and charges. (For more details see, FY 2023 Proposed Budget pages 2-7 through 2-16).

V. Other Revenues

Other revenues include the Reconstruction Debt Service Offset (REDO). This was established in FY 1983 and uses surplus funds in the General Bond Debt Service account to offset a portion of the debt service costs of the Systems Reconstruction Program, thereby benefiting all ratepayers. The Offset, a transfer of funds from the General Bond Debt Service to the Water and Sewer Operating Funds, is set at \$4.0 million in FY 2023. The REDO for FY 2022 was approved at \$6.0 million. When the unallocated balance in the General Bond Debt Service Fund is exhausted, the associated expenses will have to be incorporated into the rate structure.

Combined Water/Sewer Operating Funds FY 2023 Proposed Rate Impact

7.0% Average Water and Sewer Rate Increase

Funding Sources	FY 2022 Approved (\$ in thousands)	FY 2023 Proposed (\$ in thousands)
Revenues		
Consumption Charges	\$ 677,812	\$ 707,460
Account Maintenance Fee	31,866	31,838
Infrastructure Investment Fee	38,808	38,794
Uncollectable		(6,000)
Miscellaneous Revenues	40,050	42,315
Subtotal	788,536	814,407
Use of Fund Balance		
Reconstruction Debt Service Offset	6,000	4,000
System Development Charge Debt Off	5,772	5,772
Premium Transfer		2,500
Underwriters Discount Transfer	2,000	2,000
Miscellaneous Offset		
Total Funding Sources	802,308	828,679
Expenditures		
Operating, Maintenance & Support Services E	505,669	509,669
Debt service	309,045	324,144
Debt Reduction (PAYGO)	27,585	31,016
Additional Cash Balance Reserve		18,317
Total Expenditures	842,299	883,146
Shortfall to be Covered by Rate Increase	\$ (39,991)	\$ (54,467)

Section 3: Spending Affordability

In May 1993, the Prince George's and Montgomery County Councils created the Bi-County Working Group on WSSC Spending Controls to review WSSC Water's finances and recommend spending control limits. The Working Group recommended the Counties set annual ceilings on WSSC's rates and debt (bonded indebtedness and debt service), and then place corresponding limits on the size of the capital and operating budgets.

Each year, the spending affordability process focuses on balancing these considerations against resources to serve existing customers, meet environmental mandates, and maintain budgets and debt service at prudent and sustainable levels.

The agency has submitted an annual budget which generally conforms to the Spending Affordability Guidelines (SAG) established by both County governments every year since 1994.

For the 2023 fiscal year, the County Executives of Montgomery and Prince George's Counties recommend a 7.0% SAG limit, while the Councils of each County established a 6.5% SAG limit. *WSSC Water's proposed budget is based on a 7.0% rate increase.*

WSSC WATER FY 2023 PROPOSED BUDGET VS. SPENDING AFFORDABILITY LIMITS (\$ in Millions)

	<u>FY 2023 Proposed Budget</u>	<u>Prince George's County Limit</u>	<u>Montgomery County Limit</u>
New Water and Sewer Debt	\$358.8	\$430.1	\$430.1
Total Water and Sewer Debt Service	\$324.1	\$328.4	\$328.4
Total Water/Sewer Operating Expenses	\$864.8	\$859.4	\$859.4
Water/Sewer Rate Revenue Increase	7.0%	6.5%	6.5%

The 7.0% Proposed Budget provides for:

- Implementing the first year of the FYs 2023-2028 Capital Improvement Program (CIP);
- Paying WSSC Water's share of operating (\$60 million in FY 2022) and capital costs (\$69 million in FY 2023, \$543 million in FYs 2023-2028) for the District of Columbia Water and Sewer Authority's (DC Water) Blue Plains Wastewater Treatment Plant;
- 7.0% Water & Sewer Average Rate increase (Volumetric and Fixed);
- Ten new positions added to support Production, Engineering & Construction, and the Office of Supplier Diversity & Inclusion;
- Capital Budget decrease of 13.9%;
- Operating Budget increase of 2.5%;

- Controlling for non-discretionary increase in debt service and regional sewage disposal, operating budget increase is only 1.1%;
- Paying debt service of \$330.8 million; and
- Operating and capital funds totals of \$1.480 billion or 4.9% below FY 2022.

Additionally, the budget pays for essential improvements which include:

- Expanding repair work at our facilities; water tank painting to prevent metal corrosion; and continuation of cyber security enhancements to protect customer data and system security;
- Initiating staffing and support for the Piscataway Bio-Energy Plant;
- Supporting compliance with amendments to the Federal Lead and Copper Rule as well as dam inspection and monitoring requirements;
- Removing sediment from the Little Seneca Forebay;
- Funding \$3.5 million for Customer Assistance;
- Funding the first year of the six-year Capital Improvements Program; and
- Optimizing the Call Center to improve responsiveness and resolution of customer billing and service issues.

Major Assumptions and Workload Summary

Below is a summary of the budget outcomes from the FY 2023 SAG process:

- I. Fund Balance – At the end of FY 2022, accumulated net revenues for water and sewer operating funds may total \$169.3 million. For FY 2023, at least \$130.3 million will be held in accumulated net revenues in adherence to the WSSC Water’s 15% reserve policy. Budgeted accumulated net revenue of \$187.6 million exceeds the reserve target and is 21.6% of the total operating revenues. However, the days operating reserves on hand metric is projected to be just 126.7 which is the low end of the target range.
- II. Revenues – The estimated FY 2023 revenues for water consumption and sewer use charges are \$341.5 million and \$415.5 million respectively. Water production is assumed to be 163.0 million gallons per day and is projected to decrease from 125.5 MGD in FY 2022 to 124.5 MGD in FY 2023.
- III. Capital Budget – The Capital Budget includes expenditure estimates for all projects for which work is reasonably expected to be accomplished. This provides management with maximum flexibility to proceed on the many and diverse projects approved each year in the budget. The FY 2023 Capital Budget is \$606.2 million.
- IV. Debt Service – The debt service estimates for FY 2023 assumes that \$155.2 million in water bonds and \$201.2 million in sewer bonds will be issued in FY 2023, in addition to repayment of existing debt. The WSSC

Water's water and sewer issues will be 30-year bonds with an estimated 4.0% net interest rate. Projected Debt Service Coverage ratio is only 1.11 which is just slightly over the 1.10 target.

- V. Reconstruction Debt Service Offset (REDO) – For FY 2023, \$4.0 million will be transferred from the General Bond Debt Service to the Water and Sewer Operating Fund. The transfer is made to defray the debt service on funds borrowed to finance water and sewer systems reconstruction activities.
- VI. Workforce and Compensation – For FY 2023, 1,796 work years have been funded which includes ten authorized work years from the prior year. A marker is included for salary enhancements. Total compensation is budgeted at \$165,291,708 with \$8,376,281 in salary lapse.

Section 4. Revenues

Water consumption and sewer usage rates are the primary sources of revenue for the Water and Sewer Operating Funds. Revenue for the General Bond Debt Service Fund is primarily derived from front foot benefit and house connection charges. Revenues from the Water and Sewer Operating Funds are estimated at \$868.9 million in FY 2023. This is a \$40.3 million increase, or about 4.9% over the Approved Budget of FY 2022.

The FY 2023 proposed total revenues for Water and Sewer Operating Funds are \$890.1 million, including transfers and credits that amount to \$14.3 million. WSSC Water proposes to use \$304.1 million (34.7%) in the category of operations and maintenance and \$330.8 million (37.9%) for debt service in FY 2023.

Water and Sewer Operating Funds

The Water Operating Fund pays for water treatment and distribution, and the Sewer Operating Fund pays for sewage collection and treatment. The General Bond Debt Service Fund receives front foot benefit payments to underwrite the debt service on smaller lateral water and sewer lines

Operating Fund	Major Purpose	Major Revenue Source
Water Operating	Operate and maintain water facilities and pay debt service on Water Supply Bonds.	Customer Water Bills
Sewer Operating	Operate and maintain sewerage facilities and pay debt service on Sewage Disposal Bonds.	Customer Sewer Bills

General Bond Debt Service	Pay debt service on General Construction Bonds.	Front Foot Benefit Charges and Deferred House Connections Charges
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It is projected in the FY 2023 operating budget that \$717.8 million in revenues (excluding offsets and use of fund balance) will come from water and sewer consumption charges. Revenues are assumed based on a water production level of 163 MGD.

Fund Balance

As shown below, The Proposed FY 2023 ending fund balance is higher than the projected FY 2022 ending balance for the combined Water and Sewer Operating Funds by 10.8% or 18.3 million. The increase is primarily due to an effort to build up cash reserves and improve the financial metrics.

Additionally, the General Bond Debt Service Fund as proposed by the FY 2023 ending fund balance is 17.1% lower than the projected FY 2022 ending balance. Revenues for this fund are derived from the front foot benefit charge and the house connection fees. Developers now build these types of mains and this is expected to continue in the future which will continue to decrease this fund. The revenues that are currently collected are from prior assessments that are paid over multi-year periods. Surplus funds that have accumulated in the General Bond Debt Service Fund are transferred to the Water and Sewer Operating Funds to benefit all rate payers.

PROJECTED CHANGE IN FUND BALANCE

Fund (\$ in thousands)	Fund Balance - July 1st	Operating Revenues	Operating Expenses	Other Credits and Transfers	Adjust.	Fund Balance - June 30th	Fund Balance	
							Increase/ (Decrease)	% Chg
Water Operating								
FY 2022	\$ 37,547	\$ 373,864	\$ (380,565)	\$ 6,701	\$ 214	\$ 37,761	\$ 214	0.6 %
FY 2023	37,761	397,008	(385,037)	6,346	-	56,078	18,317	48.5 %
Sewer Operating								
FY 2022	131,350	454,663	(461,734)	7,071	206	131,556	206	0.2 %
FY 2023	131,556	471,865	(479,791)	7,926	-	131,556	-	- %
General Bond Debt Service								
FY 2022	11,185	8,558	(9,794)	-	-	9,949	(1,236)	(11.1) %
FY 2023	9,949	6,994	(8,700)	-	-	8,243	(1,706)	(17.1) %

Operating expenses include debt service.

Population Served and Customer Accounts

WSSC Water's population projected to be served in FY 2023 is expected to increase by 0.3%. As of June, FY 2023, WSSC Water is estimated to have 475,000 active

customer accounts. The majority of accounts are residential at 95.4%, followed by commercial and industry at 3.7% and government and other at 0.9%.

System Development Charge

State law provides that the System Development Charge (SDC), a charge to new applicants for WSSC Water service which is intended to recover growth costs, may be adjusted annually by the change in the November Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the Washington, DC metropolitan area. Historically, WSSC Water has adjusted the maximum allowable charge and intends to again this year. The proposed SDC funding for capital projects for FY 2023 is \$29.6 million, or \$1.7 million lower than funds provided in FY 2022 at \$31.3 million. For the FY 2023 Proposed Budget, the SDC offset is programmed at \$5.7 million.

Section 5: Expenditures

Comparative Expenses by Major Expense Category

(\$ in thousands)	FY 2021 Actual			FY 2022 Approved			FY 2023 Proposed		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Expense Categories									
Salaries & Wages	\$ 25,911	\$ 131,799	\$ 157,710	\$ 27,449	\$ 133,730	\$ 161,179	\$ 28,172	\$ 137,120	\$ 165,292
Heat, Light & Power	-	18,234	18,234	222	18,501	18,723	230	18,829	19,059
Regional Sewage Disposal	-	58,658	58,658	-	59,160	59,160	-	60,343	60,343
Contract Work	217,590	-	217,590	444,405	21,337	465,742	351,478	-	351,478
Consulting Engineers	42,349	-	42,349	79,614	19,890	99,504	72,122	-	72,122
Debt Service	-	291,980	291,980	-	316,827	316,827	-	330,823	330,823
All Other	141,043	247,959	389,002	152,055	282,648	434,703	154,241	326,413	480,654
Grand Total	\$ 426,893	\$ 748,630	\$ 1,175,523	\$ 703,745	\$ 852,093	\$ 1,555,838	\$ 606,243	\$ 873,528	\$ 1,479,771

Salaries and Wages

Salary and wages represent 15.7% or \$137 million of gross operating costs and show no significant increase from the Adopted Budget of FY 2022. This year ten positions have been added, six positions to the Piscataway Bioenergy project; two positions to comply with the new regulatory requirements due to a change to the Lead and Copper Rule; one position for the plumbing inspections; and one position to the Office of Supplier Diversity & Inclusion.

Section 6: Debt Service

The proposed debt service expense is based upon paying the FY 2023 principal and interest payments on current outstanding debt as of June 30, 2021, as well as budgeted new debt issues approved in FY 2023 and the proposed issuance of

\$359.4 million in new debt for FY 2023. The new debt for FY 2023 includes the following:

- \$155.2 million for water;
- \$203.7 million for sewer; and
- \$0.6 million for general construction

The proposed debt service expense for FY 2023 is \$330.8 million, an increase of \$14 million or 4.4% more than the Approved FY 2022 Budget of \$316.8 million. The increase is primarily due to estimated expenditures associated with the Potomac Water Filtration Plant Consent Decree, eight new WSSC Water-built projects and the ramp-up of the Blue Plains' projects.

Capital projects are financed primarily with long-term debt through the sale of bonds. WSSC Water bonds are issued to finance major water treatment, storage and transmission facilities. These bonds are repaid to bond holders over a 30-year period by annual principle and interest payments. The annual debt service on outstanding bonds are paid from the Commission's operating funds. The primary funding source for the repayment of debt is the revenue generated by water consumption and sewer use charges. Thus, the initial high cost of capital improvements is spread over time and paid for by future customers who will benefit from the facilities, as well as current customers. It is through this capital project financing process that the size of the CIP impacts the size of the water and sewer bond issues, which in turn impacts customers' water and sewer bills.

The WSSC Water's debt is repaid from water consumption and sewer use charges and front foot benefit charges.

Obtaining funding from other sources and through the use of PAYGO lowers WSSC Water's borrowing requirements, which in turn lowers the debt service requirements and ultimately the customer's bills. Other funding sources include:

- Payments from New Service Applications;
- System Development Charges;
- Payments from Local Jurisdictions; and
- State and Federal Grants.

The amount of new debt is calculated by adjusting for other funding sources and incorporating an expected construction completion rate.

Per Fiscal guidelines, WSSC Water will allocate at least \$31.0 million in PAYGO each fiscal year through FY 2023 to reduce the amount of planned debt issued for capital projects.

Capital Budget Expenditure Summary				
(\$ in Thousands)	FY 2022 Approved	FY 2022 Proposed	\$ Change	% Change
Capital Improvement Program				
Montgomery County Water	\$ 2,864	\$ 2,621	\$ (243)	-8.5%
Prince George's County Water	62,481	26,925	(35,556)	-56.9%
Bi-County Water	87,972	104,105	16,133	18.3%
Montgomery County Sewer	\$ 8,512	\$ 4,242	\$ (4,270)	-50.2%
Prince George's County Sewer	70,103	57,000	(13,103)	-18.7%
Bi-County Sewer	234,947	218,559	(16,388)	-7.0%
Total Capital Improvement Program	466,879	413,452	(53,427)	-11.4%
Total Information Only	244,984	212,043	(32,941)	-13.4%
Total Capital Expenditures	711,863	625,495	(86,368)	-12.1%

Section 7: Performance Metrics

- Treating and delivering 163 MGD of water to over 475,000 customer accounts in a manner that meets or exceeds the Safe Drinking Water Act standards;
- Treating nearly 197 MGD of wastewater and responsibly managing up to 1,000 tons of bio-solids per day in a manner that meets or exceeds federal and state permit requirements and regulations;
- Operating and maintaining a system of 3 water reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 6 water resource recovery facilities, 5,600 miles of water mains, and 5,700 miles of sewer mains, 24 hours a day, 7 days a week;
- Accounts Billed On-Time (FY 21) – 99.98%
- Past Due Accounts – Accounts more than 30 days (FY 21) – 88,765
- Past Due Account more than 30 days – (FY 21) – \$63.8M

Cost Saving Measures

The FY 2023 budget reflects the Commission's commitment to maintaining affordability through the active pursuit and implementation of cost saving measures. In addition to reductions in the operating and capital budgets, the Commission has deployed several ongoing strategies to identify more cost-effective ways of providing clean water to customers. WSSC Water's Innovation Program has identified multiple opportunities that will result in cost savings. Below are some initiatives that are in progress:

Network

- Evaluation of Smart Pig as a tool to assess pipes condition effectively and economically. Approximate 75% cost reduction compared to utilizing more expensive competitors.
- Pressure Transient Pilot is expected to see 50% reduction in water main breaks. Savings expected to be around \$8,000 per water main break. The pilot is expected to complete in spring 2023.

Plants

- Seneca Smart Nitrogen and Phosphorus Removal pilot will result in reduction of aeration and elimination of carbon chemical usage for the entire plant. Sensors will be used to control and reduce aeration and change recycle flows to reduce chemical use. This initiative will result in savings of approximately \$525K per year and the pilot at Seneca will save about \$107K.
- University of Maryland Enhanced Biological Phosphorus Removal Research project is to test different carbon sources to identify benefits on Enhanced Biological Phosphorus Removal (EBPR) performance. WSSC Water may want to implement EBPR for all WRRFs and needs additional research that UMD is assisting with. By implementing EBPR, the Commission will have substantial reduction in chemical cost, improve feedstock sent to Piscataway for Bio-energy processing, open the opportunity to extract and recover a phosphorus fertilizer product and other innovative processed at the WRRFs such as densification or granular sludge to enhance settling would require EBPR as a prerequisite. The pilot is expected to complete in winter 2023.

Product Development

- Temporary Connection Backflow Preventer will be a portable device to provide backflow protection while establishing temporary service connections. This product will prevent water backflow and reduce non-revenue water resulting in lost revenue.
- Large Main Utility Robot will be remotely operated to avoid pipeline confined space hazards and reduce digging and trenching for bypass pumping. This will avoid sending humans into large mains and alleviate costly bypass digging and trenching.

Water and Sewer Infrastructure Reliability

The proposed budget includes the rehabilitation of 25 miles of smaller water mains (<16 inches in diameter). This is a reduction of 12 miles. For large diameter water mains, the PCCP Program provides for the ongoing AFO monitoring of over 100 miles of pipe,

ongoing inspection, and rehabilitation and replacement of large diameter pipes. Inspection, rehabilitation and replacement of large valves continues at two per year. The PCCP program will continue building toward a goal of replacing up to two miles per year, with several projects in the planning and design phases. Replacement of ferrous pipes, originally projected at six miles, has been reduced to five miles. Funding is also included for the continued compliance with all requirements of the WSSC Water Sanitary Sewer Overflow and Potomac Water Filtration Plant Consent Decrees. Several of these programs will be impacted by the reductions to the annual capital budget necessary to fit within funding constraints. Reductions have been made to the AFO monitoring, PCCP inspection and condition assessment and many other programs and there are risks associated with these cuts.

WSSC Water Information Technology (IT) Strategic Plan

Unfortunately, cyber threats continue to be an issue nationwide. We must remain vigilant in guarding against attacks targeting our infrastructure, customers, and employees. Although we had to make very deep reductions, the FY 2023 budget invests in our organizational infrastructure. Funding is included to continue enhancing our cybersecurity program to efficiently and effectively mitigate cybersecurity risks by ensuring our electronic data, computer systems and networks are protected from theft, attack, or unauthorized access. Cybersecurity program initiatives include artificial intelligence threat detection, new end-user security awareness training and risk reduction of identity theft through two-step authentication.

Regulatory Compliance

WSSC Water is heavily impacted by both current and emerging regulations. The agency is committed to protecting the natural environment of Prince George's and Montgomery Counties as it carries out its mandate to provide sanitary sewer and drinking water services. This commitment focuses on those unique natural and manmade features (waterways, woodlands and wetlands, as well as parklands, historical sites and residential areas) that have been indicated by federal, state and local environmental protection laws and regulations. Specific impact information is included in the evaluation of alternatives by the agency's Asset Management Program, if the environment features will be affected by the proposed construction of a project.

These protections have been funded by the approximately \$146.3 million included in the Proposed Budget FY 2023 which is attributable to meeting the environmental regulations. These projects are mandated by the US EPA under the Clean Water Act through the State of Maryland Department of the Environment in response to pollution control in the form of more stringent state discharge permit requirements and to meet WSSC Water's commitment to the environment. These capital projects are listed as follows:

Project Number	Project Name	Phase	Proposed FY 2023 Budget (\$ in Thousands)
S-1.01	Sewer Reconstruction Program	Ongoing	\$50,540
S-22.11	Blue Plains WWTP: Pipeline & Appurtenances	Ongoing	13,714
S-170.9	Trunk Sewer Reconstruction Program	Ongoing	56,891
W-73.33	Potomac WFP Consent Decree	Design	25,200
Total Water Quality Projects			\$146,345

Section 8: Capital Improvement Program (CIP)

CIP Overview

The approved Capital Budget incorporates spending for the first fiscal year of the six-year Capital Improvements Program, including those projects in the Information Only Section which are not required to be in the CIP; however, are included to provide a more comprehensive review on important programs or projects. Budget year expenditures in connection with relocations, house connections, new water meters, and similar items are now included in the Information Only section projects.

The WSSC Water Capital Budget is comprised of two main expenditure categories: Capital Improvements Program (CIP) and Information Only projects.

- The projects included in the CIP represent a multi-year plan to design and construct the capital facilities required to protect the health and safety of the residents of the County by protecting their water source, providing an adequate supply of safe drinking water, meeting fire-fighting requirements, and collecting and treating wastewater before it is returned to the waters of the State.
- The Information Only projects are not required to be in the CIP but may be included for comprehensive fiscal planning and provide additional information to customers.

Capital needs, developed independently in planning for the six-year CIP, also shapes the operating budget by helping to determine debt service requirements and the operating impacts of projects expected to be completed during the budget year. The

annual debt service on outstanding bonds is paid from the Commission'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 water and sewer bills.

The CIP is driven in part by the development planning and authorization processes of the Counties, especially as manifested in the Counties' ten-year water and sewer plans. In addition, since the WSSC Water must contribute to the capital and operating expenses of the Blue Plains Advanced Wastewater Treatment Plant this can have important impacts on planning for the WSSC Water's Capital and Operating Budgets.

The Capital Budget is comprised of three separate funds:

- Water Supply Bond;
- Sewage Disposal Bond; and
- General Construction Bond.

Capital Fund	Major Purpose	Major Revenue Source
Water Supply Bond	Construct major water supply treatment and transmission facilities; Reconstruct water distribution system; including: dams, reservoirs, water filtration plants, water pumping stations, water storage facilities and water supply lines	Water Supply Bonds and System Development Charge (SDC)
Sewage Disposal Bond	Construct major sewage treatment and transmission facilities; Reconstruct sewerage collection systems	Sewage Disposal Bonds, SDC, and Grants
General Construction Bond	Construct minor water and sewer lines and support facilities	General Construction Bonds and House Connection Charges

The Proposed FYs 2023-2028 Combined Program includes 62 CIP and 11 Information Only projects for a grand total of \$4.17 billion over the six-year planning period. The six-year total of \$4.17 billion represents an increase of 9.6% compared to the Adopted FYs 2022-2027 program due primarily to the addition of 13 new projects,

including \$182.6 million for the pipe relocations necessitated by the State of Maryland's plans to expand I-495 and I-270. This program is mostly bond funded with \$3.21 billion in bonds and another \$400.00 million is funded by PAYGO. Of the total six-year amount, mandated projects are \$1.29 billion or 31%.

A mid-cycle update that reduces the FY 2023 capital spending by \$110.5 million was transmitted to the Counties on February 17th, 2022. Through FY 2022, projects were reduced or deferred totaling \$272 million. The total Capital Budget for FY 2023 is \$606.2 million. This is comprised of \$413.5 million in CIP projects, \$212.0 million in Information Only projects and an adjustment of \$19.3 million to account for expenditures funded via developer contributions for projects with a signed SEP. The FY 2023 Capital Budget is \$97.5 million lower than the FY 2022 Approved Capital Budget of \$703.7 million. Changes due to budget constraints will result in 11 deferred projects and permanent cuts in FY 2023 to 4 ongoing programs.

Capital Budget Funding Sources				
(\$ in Thousands)	FY 2022 Approved	FY 2023 Proposed	\$ Change	% Change
Capital Improvement Program				
Bonds	\$ 383,072	390,733	\$ 7,661	2.0%
PAYGO	27,585	31,016	3,431	12.4%
Federal Grants	4,120	4,285	165	4.0%
State Grants	351	351	0	0.0%
Local Government Contribution	3,343	5,486	2,143	64.1%
System Development Charge	31,329	29,606	(1,723)	-5.5%
Contribution/Other	17,079	32,975	15,896	93.1%
Total Capital Improvement Program	\$ 466,879	\$ 494,452	27,573	5.9%
Information Only				
Bonds	224,694	191,145	(33,549)	-14.9%
State grants	20,000	20,608	608	N/A
Contribution/Other	290	290	-	0.0%
Total Information Only	\$ 244,984	\$ 212,043	(32,941)	-13.4%
Total Capital Funding	\$ 711,863	\$ 706,495	(5,368)	-0.8%

Summary of Key Changes - \$110M in Program Reductions

- Reductions of approximately \$27.7 million to the Water Reconstruction Program in FY 2023
- Reductions of approximately \$18.6 million to the Large Diameter Water Pipe and Large Valve Rehabilitation program in FY 2023

- Deferral of 2 water supply projects in Prince George's County for one year, totaling \$37.0 million in reductions
- Deferral of the Septage Discharge Facility Planning & Implementation project for one year, totaling approximately \$13.0 million in reductions
- Reductions of approximately \$5.7 million to the Engineering Support Program in FY 2023
- Reductions of approximately \$5.2 million to the Other Capital Programs in FY 2023
- Deferral of 7 wastewater pumping stations (WWPS) and force main (FM) projects for one year, totaling approximately \$2.0 million in reductions
- Deferral of the Anacostia Depot Reconfiguration project for one year, totaling approximately \$1.3 million in reductions

Budget Provisions

The \$413.5 million in CIP projects for FY 2023 includes the rehabilitation of 25 miles of water distribution mains, replacement of 5 miles of ferrous transmission mains, and continued compliance with all requirements of the WSSC Water Sanitary Sewer Overflow and Potomac Water Filtration Plan Consent Decrees.

The Water Reconstruction Programs totaling \$117.3 million provides:

- 25 miles of distribution less than 16" rehabilitated (a reduction of 12 miles)
- 5 miles of ferrous transmission mains replaced (a reduction of 1 mile)
- 2 large valves rehabilitated/replaced

The Sewer Reconstruction Programs totaling \$107.4 million funds provides:

- 41.6 miles of sewer rehabilitation, including replacement and lining, including replacement and lining
- Compliance with the Sanitary Sewer Overflow Consent Decree

Key Projects in FY 2023

- Potomac Water Filtration Consent Program, \$25.2 million
- Patuxent Raw Water Pipeline, \$8.1 million
- Piscataway Bioenergy, \$74.7 million

FY 2023 CIP expenditures are estimated at \$413.5 million, or \$ 53.4 million less than the funding level approved for FY 2022. This decrease is due to mid-cycle reductions related to budget constraints and bond rating agency concerns. FY 2023 Information Only expenditures are estimated at 212.0 million, or \$32.9 million less than the funding level approved for FY 2022. This decrease is also due to the mid-cycle reductions.

Of the \$625.5 million for CIP and Information Only Projects, WSSC Water plans:

- \$133.7 million for the Water Program
- \$279.8 million for the Sewerage Program
- \$212.0 million for Information Only projects

There are currently 31 CIP projects in the County, as well as four projects that are associated with the Blue Plains Advanced Wastewater Treatment Plant (Blue Plains), which are owned and operated by DC Water. The total \$602.2 million Capital Budget is comprised of \$500.9 million in bonds, \$31.0 million in PAYGO, and \$74.3 million in grants, contributions, and other funding sources. Key changes leading to the decrease in bond funding are the deferrals and reductions made as part of the mid-cycle update to the CIP.

Funding Growth

The portion of CIP needed to accommodate growth is approximately \$208.8 million, which equals 5% of the six-year total expenditures, and \$44.3.4 million or 7% of the FY'2023 budget. The major funding sources for this part of the program are System Development Charge (SDC) revenues and payments by Applicants. In the event that growth costs are greater than the income generated by growth funding sources, either SDC supported or rate-supported water/sewer bonds may be used to close any gap. SDC rates could also be increased to address any gap.

It is estimated that there will be an overall growth funding shortfall of \$58.8 million over the six-year program period. The surplus or shortfall between growth funding sources (SDC, developer contributions, and Applicant payments under System Extension Permits) and the estimated growth-related expenditures vary over the six-year 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. Further, it is currently anticipated that no significant additional growth projects will evolve in the later years of the six-year period.

Bi-County Projects

I. Water

There are eight (8) Bi-County Water Projects (plus one (1) project pending close-out) with a total cost of about \$1.2 billion. The Regional Water Supply Resiliency will be funded by federal aid.

- Potomac Water Filtration Plant (WFP) Projects** (Work at the WFP consists of 4 separate CIP projects: a) Prefilter Chlorination & Scour Improvements (on the close out list), b) Submerged Channel Intake, c) Main Zone Pipeline and d) Consent Decree). The Consent Decree project

provides for the planning, design and construction of short- and long-term capital improvements at the Potomac WFP to allow WSSC Water to meet the new discharge limitations identified in the consent decree. The objective of the consent decree is to reduce the amount of solids discharged from the plant to the Potomac River on a daily basis. Preliminary planning work for the Potomac WFP Consent Decree began in 2016. Short-term operational and capital improvements are required to be completed by April 1, 2020. The deadline for completion of the long-term capital improvements is January 1, 2026. A portion of this project is financed by Green bonds. The FY 2023 - 2028 Potomac WFP combined projects estimated costs \$408.2 million.

Green bonds are any type of bond instrument where the proceeds will be exclusively applied to finance eligible green projects.

The following new project is 100% funded with State contributions.

- b. I-495/I 270 Traffic Relief Plan Pipeline Relocations.** This project provides for planning, design and construction of water and sewer pipe relocations necessitated by the State of Maryland's plans to expand I-495 and I-270. Preliminary plans indicate that the proposed MDOT SHA project will impact water and sewer assets owned by WSSC Water. The Commission has an existing memorandum of understanding (MOU) agreement with MDOT SHA to review and coordinate potential impacts. The estimated scope has a cost of \$182.6 million with anticipated expenditures of \$18.6 million in fiscal year 2023. This project is funded by the State of Maryland.
- c. Regional Water Supply Resiliency.** This project is being undertaken on behalf of WSSC Water and the Interstate Commission for the Potomac River Basin (ICPRB) partners. The project includes the planning, preliminary engineering, community outreach and coordination with elected officials for a new regional raw water supply reservoir and raw water conveyance system to serve the long-range water supply needs of the Washington metropolitan region. A new regional reservoir is needed to mitigate against drought and contamination events in the Potomac River, which could curtail or halt withdrawal from the river for several days or even months. The justification for this project is based in part on 2 independent studies which both concluded that additional off-river raw water reservoir capacity was needed for resiliency purposes. The total costs for expenditures is about \$15.9 million, with planned expenditures of \$4.3 million planned in FY 2023.

Additionally, the following projects are system improvements and 100% funded with WSSC Water bonds:

- d. **Large Diameter Water Pipe and Large Valve Rehabilitation Program.** This project will rehabilitate or replace large diameter water transmission mains and valves. The FY 2023 - 2028 total costs \$576.4 million with expenditures of \$45.7 million planned in FY 2023.
- e. **Patuxent Water Filtration Plant Projects – Raw Water Pipeline.** This project provides for the construction of approximately 2.5 miles of 48-inch diameter raw water pipeline from the Rocky Gorge pumping station to the Patuxent Water Filtration Plant; cleaning of the existing water lines; and, the replacement of valves. These improvements will give the plant a firm capacity of 72 million gallons per day (MGD), with an emergency capacity of 110 MGD. The total project costs are \$30.8 million with expenditures of \$8.1 million planned in FY 2023. Currently, the Rocky Gorge valve replacement and the cleaning of the existing raw water pipelines are 100% complete. The new raw water pipeline is currently in construction. The project has been delayed due to a lengthy permit and right-of-way acquisition process. Restoration includes paving impacted roads in accordance with PGC Policy and Specifications for Utility Installation and Maintenance Manual (Section 4.7.2).
- f. **Land & Rights of Way Acquisition.** This project is a consolidated estimate of land and right of way purchases for previously approved capital projects. The total costs is \$10.5 million with expenditures of \$1.1 million planned in FY 2023.

II. Sewer

There are nine (9) Bi-County Sewer Projects (plus one (1) project pending close-out) with a total cost of \$2.0 billion. Key projects include:

- a. **Piscataway Water Resource Recovery Facility (WRRF) Bio-Energy Project.** A comprehensive program for the engineering, design, construction, maintenance, monitoring and verification necessary to add sustainable energy equipment and systems to produce biogas and electricity at Piscataway WRRF. It will provide a reduction in costs associated with operations, maintenance, chemicals, biosolid transportation and biosolids disposal. It will also enhance existing operating conditions and reliability while continuing to meet all permit requirements and ensure a continued commitment to environmental stewardship. This project is funded by both WSSC Water Bonds at \$323.2 million and State & Federal Aid at \$3.8 million. A portion of this project will be financed by low-interest loans through the MDE's Water Quality Financing Administration – Revolving Loan Fund Program. The FY 2023 - 2028 total project costs is \$337.2 million with expenditures of \$74.7 million planned in FY 2023.

- b. Blue Plains Wastewater Treatment Plant Projects.** This group of 5 projects represents one of the largest group of expenditures in the proposed CIP at 22% of the six-year CIP program. This project provides for WSSC Water's share of funding for the upgrade, expansion and enhancement of wastewater treatment and solids handling at the Regional Blue Plains WWTP located in Washington, DC. The FY 2023 – 2028 proposed total costs is approximately \$542.6 billion with expenditure of 1.2B in the adopted FY 2022 budget.
- c. Septage Discharge Facility Planning and Implementation.** This project is 100% WSSC Water bond funded and provides for the planning, design and construction of a new septage and fats, oil and grease (FOG) discharge facility at the abandoned Rock Creek WWTP, as well as a new septage discharge facility at Anacostia WPPS No. 2 and the Piscataway WRRF. The estimated cost of construction of the three (3) facilities has increased slightly based upon a revised cost estimate for the Piscataway Septage Facility. The FY 2023 - 2028 total costs is \$41.9 million with expenditures of \$13 million planned in FY 2023.
- d. Trunk Sewer Reconstruction Program.** This project is 100% WSSC Water bond funded. This project provides for the inspection, evaluation, planning, design, and construction required for the rehabilitation of sewer mains and their associated manholes in environmentally sensitive areas. This includes both trunk sewers 15-inches in diameter and greater, along with associated smaller diameter pipes less than 15-inch. The FY 2023 - 2028 total cost is \$344.4 million with expenditures of \$56.9 million planned in FY 2023.
- e. Land & Rights of Way Acquisition – Bi County Sewer.** This project provides for a consolidated estimate of funding for the acquisition of land and rights-of-ways for sewer projects. This project is funded by WSSC Water Bonds at approximately \$1.9 million and SDC at \$544 thousand. The FY 2023 - 2028 total costs is \$2.5 million with expenditures of \$995 thousand planned in FY 2023.

Prince George's County Projects

I. Water

There are eleven (11) Prince George's County water projects, (plus one (1) project pending close-out) at a total cost of \$63 million in FY 2023. Key projects include:

- a. Prince George's County HG415 Zone Water Main.** This project is 100% WSSC Water bond funded and provides for 1,990 feet of 24-inch diameter water main construction and new isolation valves, pressure relief valves with flow control capability which will system reliability by improving the

flexibility of the delivery system. The FY 2023 - 2028 total cost is \$4.1 million with expenditures of \$2.4 million planned in FY 2023.

- b. Old Branch Avenue Water Main.** This project is 50% WSSC Water bond funded and 50% SDC funded. It provides for the planning, design and construction of approximately 16,000 feet of 30-inch diameter water main and a new flow control valve along Old Branch Ave. from Allentown Road to Piscataway Road. This project will provide the needed redundancy to a large area of Prince George's County. The FY 2023 - 2028 total cost is \$22.9 million with expenditures of \$5.8 million planned in FY 2023. Five properties have been acquired.
- c. Branch Avenue Water Transmission Improvements.** This project is 100% SDC funded. This project provides for the planning, design and construction of approximately 18,565 feet of 42-inch, 2,600 feet of 36-inch diameter and 5,590 feet of 30-inch diameter water transmission main along Branch Avenue and Surratt Road in the Clinton area. The new water main will serve as a primary feed for the new Brandywine tank. The FY 2023 - 2028 total cost is \$44.7 million with expenditures of \$14.6 million planned in FY 2023.
- d. Marlboro Zone Reinforcement Main.** This project is funded through 100% WSSC Water bonds. This project provides for the planning, design and construction of approximately 4,000 feet of 16-inch diameter transmission main and flow control valve along Old Marlboro Pike in the Clinton area. This water main will provide system reliability and redundancy by connecting the 365 B and 280A pressure zones. The FY 2023 - 2028 total cost is \$4.4 million with expenditures of \$2 million planned in FY 2023.
- e. Rosaryville Water Storage Facility.** This system is funded through 100% SDC. This project provides for the design and construction of approximately 2.0 million gallons (MG) of water storage to serve the Rosaryville area in the Clinton Pressure Zone. This project was split from the Clinton Zone Water Storage Facility Implementation which will be completed and placed in service in 2019. The project scope was developed in the FY 2021 CIP budget and no WSSC Water rate supported debt will be used for this project. The FY 2023 - 2028 total cost is \$9.1 million with no expenditures programmed in FY 2023.
- f. Smith Home Farms Water Main.** This project is funded through 100% developer contributions. This project provides for the planning, design and construction of 7,600 feet of 16-inch diameter main to serve the Smith Home Farms Subdivision. The FY 2023 - 2028 total cost is \$3.8 million with expenditures of \$449 thousand planned in FY 2023.

- g. Westphalia Town Center Water Main.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 4,700 feet of 16-inch diameter main to serve the Westphalia Town Center and vicinity. The FY 2023 - 2028 total cost is \$1.8 million with expenditures of \$373 thousand planned in FY 2023.
- h. Konterra Town Center East Water Main.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 9,200 feet of 16-inch diameter water main to serve the Konterra Town Center East. No WSSC Water rate supported debt will be used for this project. The FY 2023 - 2028 total cost is \$2.5 million with expenditures of \$788,000 planned in FY 2023.
- i. Marlton Section 18 Water Main, Lake Marlton Avenue.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 5,400 feet of 16-inch diameter water main to serve East Marlton along Heathermore Blvd. and Lake Marlton Ave. The FY 2023 - 2028 total cost is \$2.9 million with expenditures of \$460,000 thousand planned in FY 2023.

Projects to be Deferred for One Year

- j. Prince George's County 450A Zone Water Main.** This project is 100% WSSC Water bond funded and provides for capacity and alignment study, design and construction of approximately 3.8 miles of new 48-inch redundant transmission main for Prince Georges High Pressure Zone HG450A. WSSC Water anticipates that portions of the transmission main that currently serves the HG450A and HG290B Pressure Zones will be out of service almost every year to meet the goals of the PCCP inspection program. A redundant transmission main is required to continue to provide service to customers while the existing transmission main is out of service and to provide service in case the existing main fails. The FY 2023 - 2028 total cost is \$50 million with expenditures of \$14.4 million planned in FY 2023 to be deferred for one year.
- k. South Potomac Supply Improvement, Phase 2.** This project is 67% WSSC Water bond funded and 33% SDC funded. This project provides for the design and construction of 4.4 miles of 42-inch diameter ductile iron transmission water main and 6.0 miles of distribution mains, and a new flow control valve and vault. The project replaces the 3.5 mile of existing 42-inch diameter PCCP transmission main located within the Hanson Creek corridor and will replace parallel aged distribution infrastructure. The FY 2023 - 2028 total cost is \$71.1 million. Expenditures of \$22.5 million will be deferred for one year.

II. Sewer

There are twenty (20) Prince George's County sewer projects, including five (5) new projects (plus two (2) projects pending close-out) at a total cost of \$57.6 million in FY 2023. Key projects include:

- a. **Western Branch WRRF Process Train Improvements.** This project is 100% WSSC Water bond funded. This project provides for the planning, design and construction improvements at the Western Branch WRRF required to rehabilitate aging infrastructures within the process treatment trains. The FY 2023 - 2028 total estimated cost is \$72.7 million of which \$10.4 million is planned to be expensed in FY 2023.
- b. **Westphalia Town Center Sewer Main.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 4,500 feet of 15-, 18- and 21-inch diameter sanitary sewer main to serve the Westphalia Town Center. The FY 2023 - 2028 total cost is \$1.8 million with expenditures of \$373,000 planned in FY 2023.
- c. **Konterra Town Center East Sewer.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 14,000 feet of 15- to 24-inch diameter sewer main; 240 feet of 24-inch diameter steel sleeve for a 16-inch water main; and, 240 feet of 48-inch diameter steel sleeve for a 24-inch diameter sewer. This project serves the Konterra Town Center East development. The FY 2023 - 2028 total cost is \$6.8 million with expenditures of \$788,000 planned in FY 2023.
- d. **Landover Mall Redevelopment.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 2,500 feet of 27-inch diameter sewer main; 300 feet of 24-inch and a 16-inch water main; and 1,450 feet of 18-inch diameter sewer mains to provide service for the Landover Mall Redevelopment. The FY 2023 - 2028 total cost is \$1.4 million with expenditures of \$668,000 planned in FY 2023.
- e. **Mattawoman WWTP Upgrades.** This project is 100% WSSC Water bond funded. This project provides for WSSC Water's share of the evaluation, design and construction of capital projects to upgrade and repair Charles County's Mattawoman interceptor and WWTP. The FY 2023 - 2028 total cost is \$20.8 million with expenditures of \$4.0 million planned in FY 2023.
- f. **Southlake Subdivision Sewer.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 970 feet of 15- and 20-inch diameter sewer main to serve

the Southlake Subdivision. The FY 2023 - 2028 total cost is \$843,000 with expenditures of \$10,000 thousand planned in FY 2023.

- g. Piscataway WRRF Facility Upgrades.** This project is 100% WSSC Water bond funded. This project provides for the planning, design and construction of improvements at the Piscataway WRRF required to prevent plant overflows or permit violations which can occur during significant rainfall events. The work will remove bottlenecks within the plant process trains, address the physical capacity of the system and rehabilitate existing equipment that has reached its expected service life ensuring the ability of the plant to achieve its permit required level of service. The FY 2023 - 2028 total cost is \$172.4 million with expenditures of \$22.9 million planned in FY 2023.
- h. Pleasant Valley Sewer Main, Part 2.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 2,750 feet of 21-inch diameter sewer main to serve the Estates of Pleasant Valley and the Ridges 3 Subdivision. The FY 2023 - 2028 total cost is \$1 million with expenditures of \$87,000 thousand planned in FY 2023.
- i. Pleasant Valley Sewer Main, Part 1.** This project is funded through 100% Contributions. This project provides for the planning, design and construction of 10,000 feet of 15- and 18-inch diameter sewer main to serve the Estates of Pleasant Valley Subdivision. The FY 2023 - 2028 total cost is \$1.96 million with expenditures of \$1.1 million planned in FY 2023.

VI. New Projects. The FY 2023 – 2028 Program includes five new projects, three will be deferred due to budget constraints shown on the table below:

Agency #	Project Name	Project Cost*	Budget Year Cost*	
S-28.02	Carsondale WWPS & FM	\$5,645	\$345	Deferred for one year
S-75.23	Brandywine Woods WWPS & FM	3,515	1,237	
S-87.20	Freeway Airport WWPS & FM	3,533	1,237	
S-89.26	Colmar Manor WWPS & FM	6,567	473	Deferred for one year
S-113.13	Forest Heights WWPS & FM	8,958	473	Deferred for one year
	Totals	\$28,218	\$2,474	

*All figures in thousands

Section 9: Customer Impacts and Budget Summary

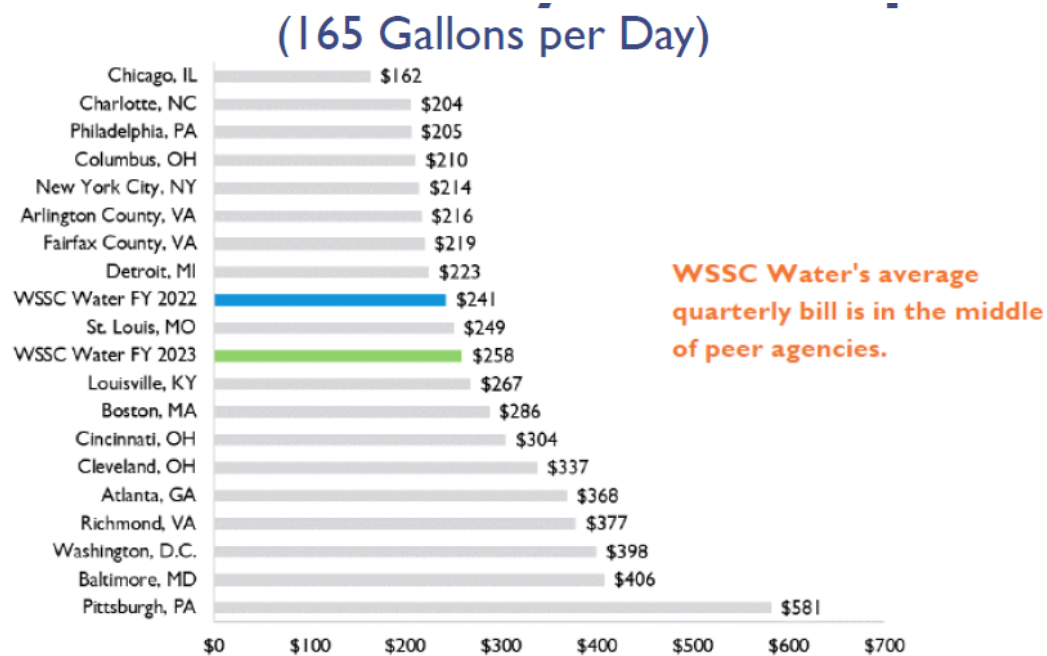
Below is a historical table showing bill impacts from FY 2019 through FY 2023 (at the proposed 7.0 percent increase):

Meter Size	Average Daily Consumption (Gallons Per Quarter)	Approved FY 2019	Approved FY 2020	Approved FY 2021	Approved FY 2022	Proposed FY 2023	Percent Change
3/4" Residential Meter	100 (9,125 gal/qtr)	\$ 127.01	\$ 138.94	\$ 145.58	\$ 152.48	\$ 163.18	7.0%
3/4" Residential Meter	165 (15,056 gal/qtr)	213.95	217.83	229.21	241.04	257.96	7.0%
3/4" Residential Meter	500 (45,625 gal/qtr)	851.99	794.66	840.78	888.79	950.95	7.0%
2" Meter	1,000 (91,250 gal/qtr)	1,952.14	1,903.02	2,004.81	2,110.76	2,258.47	7.0%
3" Meter	5,000 (456,250 gal/qtr)	9,552.44	9,736.92	10,284.01	10,853.51	11,612.57	7.0%
6" Meter	10,000 (912,500 gal/qtr)	19,878.88	19,748.55	20,852.26	22,001.19	23,539.69	7.0%

Below is a comparison of the customer bill impacts at the proposed 7.0% rate increase and the SAG limit of 6.5%:

Meter Size	Average Daily Consumption Gallons Per Quarter	7.0% Proposed FY 2023	6.5% Revised FY 2023	\$ Change	% Change
3/4" Residential Meter	100 (9,125 gal/qtr)	\$ 163.18	\$ 162.42	\$ (0.76)	-0.5%
3/4" Residential Meter	165 (15,056 gal/qtr)	257.96	256.72	(1.24)	-0.5%
3/4" Residential Meter	500 (45,625 gal/qtr)	950.95	946.56	(4.39)	-0.5%
2" Meter	1,000 (91,250 gal/qtr)	2,258.47	2,248.01	(10.46)	-0.5%
3" Meter	5,000 (456,250 gal/qtr)	11,612.57	11,559.50	(53.07)	-0.5%
6" Meter	10,000 (912,500 gal/qtr)	23,539.69	23,432.35	(107.34)	-0.5%

WSSC's Water Averages quarterly bill is in the middle of peer agencies



Proposed Budget Summary at a 7.0% rate Increase

FY 2023 WSSC Water's proposed budget includes the following:

- Controls for non-discretionary items, the Proposed Operating Budget is 1.1%
- 4.2% of the 7.0% rate increase address revenue declines
- Proposed Budget reflects \$133 million in reductions to meet 7.0%
- Past due account decreased 10.7% since the beginning of FY 22
- Expanded affordability programs and budgeted amount is proposed at \$3.5 million
- Consent decree projects on time and on budget
- Capital Improvement Program provides for critical infrastructure investments

In order to meet the 6.5% ceiling set by the County Councils, the following additional reductions of approximately \$3.9 million may be needed (amendments subject to approval by the Commissioners):

- Cornerstone Information Technology Reductions of \$2.3 million
- Cornerstone Strategy & Innovation Office Reductions \$1.5 million

Section 10: Staff Recommendations

- Concur with the Spending Affordability Guidelines to increase combined water and sewer rates, not to exceed 6.5% for FY 2023.
- Concur with Spending Affordability Guidelines for:
 - New Water and Sewer Debt at \$430.1 million
 - Total Water and Sewer Debt Service at \$328.4 million
- Concur with WSSC Water to maintain System Development Charge (SDC) fees at current levels but increase the maximum ceiling on this charge as is consistent with State Law.
- Concur with WSSC Water FY 2023 – FY 2028 CIP projects as reflected in the Mid-Cycle Update on February 17.

Section 11: Attachments

- FY 2023 Proposed Budget Chairman's Transmittal Letter
- FY 2023 Proposed Budget & FY 2023-2028 Capital Improvements Program Briefing to COW, March 24, 2022
- February 17 Mid-Cycle Update