



**MINUTES OF THE MEETING
RETAIL WATER AND SEWER RATES COMMITTEE
JANUARY 23, 2024
(Via Microsoft Teams)**

COMMITTEE MEMBERS PRESENT

1. Howard Gibbs, Chair
2. Rachna Bhatt, Principal
3. Anthony Giancola, Principal
4. Jed Ross, Alternative

DC WATER STAFF

1. David L. Gadis, CEO and General Manager
2. Matthew T. Brown, CFO & EVP, Finance
3. Wayne Griffin, CAO and EVP
4. Jeff Thompson, COO and EVP
5. Michelle Rhodd, Board Secretary

CONSULTANT

1. John Davis, Raftelis

The DC Retail Water and Sewer Rates Committee meeting was called to order by Howard Gibbs, Chairperson, at 9:31 AM. Board Secretary Michelle Rhodd called the roll.

I. MONTHLY REPORT TO THE DC RETAIL WATER AND SEWER RATES COMMITTEE

Matthew Brown, Chief Finance Officer and EVP presented the Monthly Report as of December 31, 2023. The revenues were favorable to budget with positive variances in the Residential, Commercial, and Multi-Family category due to higher consumption as compared to budget. All other categories were also favorable except for the Other Revenue Category, which was 25.7% lower than the year-to-date budget. This is partly due to lower revenue from the Developer Fees, System Availability Fee, and the Washington Aqueduct Backwash. Overall, the revenue is slightly ahead of the budget by

3.5% or about \$7 million. Total Delinquent accounts were up in dollar amount as well as in number of accounts. Over half of the delinquent amounts were in the Multi-Family Category. Information on the Developer Deposits was also included in the packet.

Mr. Gibbs requested a report on the steps being taken to bring down the number of delinquent accounts at a future meeting.

II. DC WATER CARES PROGRAM EXPANSION

Meisha Thomas, Director of Customer Care, presented information on the proposed expansion of the DC Water Cares assistance programs that is part of the Proposed FY 2025 Budget. Currently, DC Water offers a variety of customer assistance programs including CAP, CAP2, CAP3, and CRIAC, as well as Residential Assistance, Homeowners' Assistance Fund, and Low-Income Household Water Assistance programs.

DC Water is participating in four of the five categories of EPA assistance programs. Meisha discussed an initiative to add a Leak Assessment Program. Additionally, she described the DC Water proposal to expand the programs:

- CAP+ would begin FY25 with a proposed budget of \$500,000 to provide all the current CAP benefits plus an additional credit of 2 CCF to customers at 20% or less MHI. This would provide an additional \$35.00 in credit on the monthly bill for customers who used six Ccfs of water and sewer services.
- A proposal for a Leak Assessment Program would also begin FY25 with a proposed budget of \$500,000, offering resources to assess and identify leaks for CAP, CAP2, and CAP+ customers who have a potential leak on their property.
- A proposal for retroactive enrollment for CAP, CAP2, and CAP+ customers would backdate customer enrollment date up to three months, with the latest enrollment date being October 1st. This will account for time to process applications and the enrollment. The proposed budget for retroactive enrollment is \$1 million.
- The Plan Incentive Program would begin on June 1, 2024, and end on September 30, 2025, with a proposed budget of \$4 million, \$2 million each year from the Rate Stabilization Fund. This program would bridge the expiration of the Residential Assistance Program by reducing past-due balances for residential customers with balances aged 60 days or greater and a total balance of \$500 or higher. DC Water would apply a credit equal to 40% of a customer's payments to the past due balance if a customer adhered to their payment plan for three months. Customers will forfeit their adjustment if they default on the payment plan before three months of payments.

Ms. Thomas requested that the committee recommend the program expansion to the Board for the February meeting.

III. REVIEW OF RATE SETTING POLICIES

Mr. Brown reviewed Board Policy #1-10 that approved rate settings. DC Water had proposed a two-year rate package that would be presented to the Board on March 7, 2024. The Board Policies were presented, and Mr. Brown confirmed that DC Water was following these policies.

IV. COST OF SERVICE STUDY OVERVIEW

John Davis of Raftelis presented an overview of the Cost-of-Service Study. This study is conducted every two years simultaneously with the rate setting process. The study strives to identify if rate revenue can cover expenditures, if rates equitably cover the cost of service, and if there are alternative rate structures to help DC Water meet its priority objectives.

The Revenue Sufficiency Analysis took into consideration the CAP expansion, the increased capital budget, the stabilized water consumption data post-COVID, and the Operation and Maintenance (O&M) budget increase for FY25. The Revenue Sufficiency Analysis found that the revenues from the proposed rates would cover expenditures forecasted for FY25-26, reserve funds can be maintained, debt service coverage was adequate, and the rate increase was in accordance with the Board's objective to increase the days cash on hand to 350 days. In comparing the FY25 projected revenues and expenses for the Financial Plan vs. the Raftelis Model, there was a slight positive delta of about \$29,000. In FY26, the projected revenues and expenses were expected to have a net delta of \$1.69 million.

The Cost-of-Service Analysis considered equity in comparison with affordability, assumed that service-based charges were not taxes but cost recovery for providing water and sewer service, and costs were distributed solely based on the demands they place on the water and wastewater systems. 37% of the costs associated with the Clean Rivers Impervious Area Charge (CRIAC) was reallocated to the Sewer Volumetric Rate based on Engineering assessment. The Clean Rivers allocation of capital costs was implemented so that CRIAC recovered stormwater contribution and the sewer rate recovered wastewater contribution. The revenue collected from the ongoing Water System Replacement Fee funds the annual costs of 1% of DC Water's water renewal and replacement program and offsets costs recovered through the water volumetric rates.

Mr. Davis presented the proposed rates, charges and fees and explained the rate impact for Residential regular and CAP customers for FY25 and FY26. Mr. Davis stated that the cost of recovery shifted slightly from sewer to water from FY24 to FY25 due to the

proposed capital spending. The meter and WSRF remained the same whereas the CRIAC charge decreased from FY25 due to changes in debt assumptions for bond refinancing. The Cost of Service study updated the Groundwater Charge and the Washington Aqueduct Discharge Rate for FY25 and FY26.

Interim Board Chair, Rachna Bhatt, asked what debt assumptions had been considered. John Davis stated that it had previously been projected to increase debt in FY23 and FY24, but DC Water deferred issuance of debt and refinanced their debt which impacted the payments for FY25-26.

Mr. Davis presented a standard residential customer bill as an example of allocated fees per customer. The price is expected to increase 4.8% in FY25 and 6.5% in FY26 which is less than seen in other calculations. A standard CAP residential customer bill was presented as another example. The price in this case is expected to increase 4.7% in FY25 and 5.8% in FY26.

The overall bill increases for FY25 and FY26 are primarily driven by increases in water volumetric rates. The metering fee and the water system replacement fee remain constant. The PILOT and ROW district charges are increasing slightly in FY26. Average customer usage remains at 5.42 Ccf/month.

Alternative Rate Structures with respect to stormwater were presented to the committee. The responsibilities of DC Water and the District were reviewed. It was suggested that the proposal should be deferred until the assessment of capital and operating costs for stormwater are completed.

Next steps include rate proposal to the Board on March 7, 2024, public hearings will be held in May, and the COS study report will be submitted to the Mayor and Council and posted on the DC Water's website on March 4, 2024.

V. WATER AND SEWER RATES COMMITTEE WORKPLAN

Mr. Brown stated he would primarily focus on the rate setting process. The committee will be asked to recommend approval of the rates for the rate-setting process to the Board in March. The committee will also be asked to recommend the approval of the Customer Service expansions. At the next committee meeting in February, a Independent Rate Consultant will present a review of the rates as well. Town halls will be held in April, both in person and online. The public hearing will be held on May 9, 2024, and the public hearing record will close on May 16, 2024. From May 16 to May 31, the DC Water staff will be busy responding to public comments. The committee will be presented with a final proposal on June 25, 2024, and requested to recommend the proposal for Board approval on July 3, 2024.

Mr. Giancola stated at the last Board meeting he had requested information on the impact of increasing investment in the small-diameter water and sewer lines, which could impact rates. He also expressed concern about the 100% growth in the CIP program from FY23 to FY26, as DC Water might not be able to meet such an aggressive goal. He requested an update on how decreasing that growth could impact the budget. Mr. Brown stated that staff are working on addressing these questions among others and including additional information in the presentations. Ms. Oyeyemi stated the responses would be finalized by the end of the week.

VI. AGENDA FOR MARCH 26, 2024 COMMITTEE MEETING

The Agenda for the next committee meeting was presented.

VII. ADJOURNMENT

Chairperson Howard Gibbs adjourned the meeting at 10:19 am.