



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

RETAIL COMMITTEE MEMBERS PRESENT

1. Howard Gibbs, Chair
2. Rachna Bhatt, Principal
3. Anthony Giancola, Principal

FINANCE COMMITTEE MEMBERS PRESENT

1. Anthony Giancola, Chair

DC WATER STAFF

1. David L. Gadis, CEO and General Manager
2. Matthew Brown, Chief Finance Officer & EVP
3. Marc Battle, Chief Legal Officer & EVP
4. Wayne Griffin, Chief Administration Officer & EVP
5. Jeff Thompson, Chief Operating Officer & EVP
6. Michelle Rhodd, Board Secretary

The DC Water Joint Meeting with the DC Retail Water and Sewer Rates Committee and the Finance and Budget Committee meeting was called to order by Howard Gibbs, DC Retail Water and Sewer Rates Committee Chairperson at 10:30 AM. Board Secretary Michelle Rhodd called the roll.

I. PROPOSED FY 2025 BUDGET

Matthew Brown, Chief Finance Officer, presented the proposed FY 2025 Budget and two-year rates. This proposal will be discussed again at the February committee meetings. The Board will approve the budget at the March 7, 2024, Board meeting. The proposed FY 2025 Operating Budget is \$788.2 million, which is an increase of \$50.7 million over the current fiscal year. The proposed Ten-Year Capital Improvement Program (CIP) is \$7.74 billion, which is an increase of \$792 million over the current CIP. The proposed rate

increase is 4.8 percent for FY 2025 and 6.5 percent for FY 2026 for the average household.

The EPA recognizes five categories of customer assistance programs, and DC Water offers four of these. DC Water is proposing a leak assessment so that it will have programs in all five categories. Mr. Brown discussed the proposed expansion of customer programs, including the leak assessment program,

Next, Mr. Brown went on to review the proposed FY 2025 Budget's sources and uses of funds totaling \$926.3 million. The sources and uses of the Ten-Year CIP totaled \$7.74 billion of which 43.0 percent is financed by debt.

Lola Oyeyemi, Vice President of Budget, provided details of the Proposed Revised FY 2024 Operating Budget of \$737.6 million and Proposed FY 2025 Operating Budget of \$788.2 million, highlighting that debt service is one of the fastest-growing components of the overall budget and is driven by the ten-year Capital Improvement Program (CIP). She explained that the historical trends for the operations and maintenance (O&M) costs have grown in average by 3.2 percent per year from FY 2019 to FY 2022. In FY 2023 the O&M grew by 10.2 percent due to the chemical and energy cost pressures. The Revised FY 2024 budget would remain at the Board-approved level of \$737.6 million and reflects a reprogramming of \$10.3 million from debt service to Cash Financed Capital Improvements (CFCI) that will reduce borrowing and future debt service costs.

Next, Ms. Oyeyemi reviewed the Proposed FY 2025 Operating Budget cost categories. This includes an increase of \$7.8 million in personnel costs for salaries and wages, employee health benefits, and funds the apprenticeship and summer internship programs. She stated that the current union agreement expired on September 30, 2023 and any changes negotiated could impact the budget. Vacancies were budgeted at seven percent.

Anthony Giancola, Finance and Budget Committee Chairperson inquired about the overtime budget and if it was exceeded in the last three years. Ms. Oyeyemi stated in FY 2020, 84 percent of the budget was spent. In FY 2021, 94 percent of the budget was spent. In FY 2022, 114 percent of the budget was spent, and in FY 2023, \$8.2 million was budgeted for overtime, but \$9.8 million was spent; there were \$1.6 million in additional costs due to ERP stabilization, weather events, etc. The FY 2025 budget includes \$9.1 million for overtime with the intention to reduce the vacancy rate and decrease the need for overtime.

Mr. Giancola expressed concern about budgeting seven percent for vacancies when, historically, DC Water has had a higher rate of vacancies. Ms. Oyeyemi responded she is optimistic that DC Water would achieve closer to the budgeted vacancy rate FY 2025 due to the active recruitment efforts by People and Talent.

Ms. Oyeyemi reported that 45 new positions were requested through the budget process but only 11 positions were deemed critical and recommended for the Board's consideration. To meet the current authorized headcount of 1325, departments were directed to provide justifications for 55 vacant positions which were vacant for over 180 days. Eleven of those positions were not being actively recruited and were repurposed to other areas of the Authority.

Mr. Giancola stated that the analysis looked good, but DC Water had a history of vacancies. He suggested including a nine percent vacancy rate in the budget and adjusting the rates accordingly over time.

Ms. Oyeyemi went on to review the chemicals and supplies budget which includes an increase of \$1.0 million and the utility budget includes an increase of \$1.1 million mainly for water usage, electricity and telecommunications. Ms. Oyeyemi discussed details of contractual services, highlighting the areas of increases for existing and new programs including rising cost in various professional services, insurance premiums, maintenance of operational facilities, critical equipment, and operating software system needs.

Water purchases are budgeted at \$45.3 million, an increase of \$1.3 million based on DC Water's share of the Washington Aqueduct's budget which includes funding for the McMillan Sewer backwash system. Small equipment was budgeted at \$1.4 million and did not significantly increase from the previous approved budget.

Ms. Oyeyemi reviewed the non-O&M cost categories of the operating budget which includes debt service, Cash Financed Capital Improvements (CFCI) and payments to the District for Payment In Lieu of Taxes (PILOT) and Right of Way (ROW) fees. She reported that \$3.3 billion is anticipated to be borrowed to fund the capital program over the ten-year period, with debt service costs projected to grow from \$221.6 million in FY 2024 to \$462.9 million by FY 2033.

Ms. Oyeyemi concluded with potential budget risks, which included personnel, union agreements, chemicals, utilities, equipment & facilities, and litigation & insurance.

Mr. Brown presented information on the jurisdictional cost shares. The costs for direct departments and indirect costs are allocated according to the Intermunicipal Agreement (IMA). Mr. Brown provided additional information for the Blue Plains Operating & Maintenance cost share allocation and billing cycle as well as the Wholesale Customer capital cost shares.

The Proposed FY 2024 – FY 2033 CIP of \$7.74 billion is an increase of \$792 million over the current Board-approved CIP. The CIP funds major programs like the mandated Clean Rivers program and the Lead-Free DC program to remove all lead service lines in the District. Mr. Brown noted multiple capital budget scenarios were considered when preparing the Ten-Year CIP. The proposed rate changes will cover a 1.5 percent annual

replacement rate for small-diameter water mains and a 1 percent increase in sewer rehabilitation. Additional investments were also considered but ultimately not included in the recommended Capital Budget. Additionally, the CIP allocates \$1.3 billion for major rehabilitation and upgrades at Blue Plains and continues the ramp up investments in our aging water and sewer system infrastructure with \$3.5 billion. The CIP includes \$357.5 million for capital projects at Washington Aqueduct and \$347.4 million for capital equipment projects which includes Information Technology projects and purchase of fleet vehicles.

Mr. Giancola asked how additional investment in water and sewer lines would impact the rate schedule. Mr. Brown responded that the increased investment would not affect rates in FY 2025 FY 2026, but the higher increases would occur beginning in FY 2027.

Next, Mr. Giancola inquired if there were any vacancies still in the Engineering department. Jeffery Thompson, COO & EVP replied that there were, but there are contracts with consultants that would be leveraged to complete this work. He continued that the organization is working to increase the rate of spend on the capital program. Mr. Giancola stated he appreciated the work but will keep an eye on the progress.

Mr. Brown provided additional details on the projected spending for the 10-Year CIP explaining that DC Water would continue to invest in water and sewer projects, the Lead-Free DC program, and the Clean Rivers program, among others. The Capital Equipment budget remains significantly the same as the current CIP, and \$31.5 million is budgeted for FY 2025. Debt Service will make up a large portion of the Operating Budget and will be a driver of future rate increases.

Mr. Brown provided details of the Proposed Revised FY 2024 Revenues of \$890.6 million and Proposed FY 2025 Revenues of \$926.3 million, highlighting the diverse sources of revenue. The FY 2025 and FY 2026 proposed rates are slightly lower than previously estimated in part because of higher consumption and because of the current plans regarding the issuance of debt. In FY 2027 and beyond, forecasted rates are slightly higher than previously estimated due to higher CIP costs, including the Clean Rivers Program. The average residential customer bill and the average Customer Assistance Program (CAP) customer bills were presented for the Committee's consideration. Projections for the average bill over the ten-year period were also presented.

DC Water uses the ten-year financial plan to monitor its financial progress and to maintain strong finances. The financial plan focuses on compliance with Board financial policies, maintaining a high credit rating which reduces borrowing costs, and a predictable annual increase in customer rates. The ten-year financial plan assumptions include maintaining debt service rate that is equal to or less than 33 percent of total revenue, maintaining combined coverage of at least 160 percent, increasing cash on hand from 250 days to

350 days, and tracking overall trends with consumption and debt. Details of the ten-year plan were included. Currently, DC Water has 267 days of cash on hand.

Mr. Brown discussed the Intent to Reimburse Capital Expenditures, which is a requirement in the Master Indenture that requires Board approval to allow DC Water to reimburse itself for capital expenditures with debt proceeds. The combined amount requested for FY 2024 and FY 2025 is \$325.0 million. He explained that due to reductions in capital spending, DC Water may delay entering the bond market until Winter 2025 and borrowing for FY 2024 and FY 2025 combined.

Mr. Brown reiterated the importance of public communication and the need to be as transparent as possible with our ratepayers, the Office of People's Counsel and other stakeholders about DC water, the proposed budget and how rate revenue is spent. As customer rates will impact customers information about the proposed rate increases and other relevant materials are available on the DC Water website. Communication with the public will be ongoing as they move forward, including town hall meetings.

In closing, Mr. Brown reminded the Committee of the respective recommendations and actions from the various Committees that will occur in February with final budget adoption by the full Board on March 7, 2024.

II. ADJOURNMENT

There were no other matters to come to the Committee, Mr. Gibbs adjourned the meeting at 11:30 am.