

**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

DC Retail Water and Sewer Rates Committee

## Tuesday, November 17, 2015

9:30 a.m.

MEETING MINUTES

**Committee Members in Attendance**

**DC Water Staff**

Alan Roth, Chairperson

Matthew Brown

Rachna Butani

Howard Gibbs

George Hawkins, General Manager

Mark Kim, Chief Financial Officer

Randy Hayman, General Counsel

Linda Manley, Board Secretary

**Call to Order**

Chairman Roth called the DC Retail Water and Sewer Rates Committee meeting to order at 9:37 a.m.

**FY 2017 & FY 2018 Proposed Rates, Charges & Fees** (Attachment A)

Mr. Kim briefly updated the Committee on the status of rate redesign implementation. He stated that DC Water has engaged our Internal Auditors to conduct a post implementation audit to be completed in January 2016 with the results of the final report to be presented to the Committee.

Mr. Kim then presented the multi-year FY 2017 and FY 2018 rate proposal to the Committee for its review and approval. He highlighted potential benefits and potential risks of a multi-year rate structure, which not only offers greater certainty over revenue streams but also provides greater budget discipline. It facilitates better alignment of expenditures with revenues and helps to achieve favorable credit rating agency treatment. Potential risks/considerations include reduced financial flexibility, limited ability to modify approved rate increases, if necessary, and conservatism in financial projections.

Mr. Kim exhibited the slide showing the utilities with single and multi-year rates. A number of utilities adopted rates ranging from two to five years. Chairman Roth commented that the utilities slide did not show complete information like financial condition and credit ratings, which are crucial to determine the success of the multi-year rate approach. Mr. Hawkins noted that five to ten years is a long period to make accurate projections. He emphasized that two to three years has multiple benefits and is more advisable.

Mr. Kim presented a high-level breakdown of the proposed multi-year rates. DC Water retail rates for Water and Sewer would increase 5 percent each for FY 2017 and FY 2018. There is a proposed 2 percent increase per year in PILOT fee, whereas the ROW fee remains same for FY 2017 but would increase by 1 percent in FY 2018. The largest rate increases are for Clean Rivers IAC – 9.6% and 13.2% proposed, respectively, for FY 2017 and FY 2018. There are no proposed increases in the customer metering fee or Water System Replacement Fee (WSRF). Mr. Gibbs asked who set the stormwater/infrastructure fee. Mr. Hawkins replied that the fee was set by District legislation. The stormwater fee will remain the same at $2.67 per ERU, both for FY 2017 and FY 2018.

Mr. Kim compared the average monthly bill of the residential customer with the low income CAP customer. He explained that the average monthly bill of single-family residential customer would increase under the rate proposal from $96.53 to $101.46 in FY 2017 and $107.65 in FY 2018. The low income CAP customer’s average monthly bill would increase from $53.59 to $56.80 in FY 2017 and $61.11 in FY 2018. This represents a CAP customer discount of 44% in FY 2017 and 43% in FY 2018. The CAP customers receive a discount up to 4 Ccf of water, sewer, PILOT and ROW and 100 percent of the WSRF.

Mr. Roth noted that with declining consumption over recent years, 6.69 Ccf used for average monthly consumption for single-family residential customers may no longer represent accurate average usage. Mr. Hawkins mentioned that the current average consumption is 6.20 Ccf, which would reduce the average monthly bill below $100 for FY 2017. Mr. Roth suggested consideration of a revised display for the spring town halls that would present a more current picture of average monthly consumption and what a typical consumer might expect to see in his or her bill.

Mr. Kim gave a brief overview of the following financial plan objectives:

* DC Water ten-year financial plan serves as the fiscal roadmap to achieve the Board’s strategic plan
* It is one of management’s key tools to monitor progress in meeting financial goals and targets
* It also ensures meeting or exceeding all debt-related legal and policy requirements, as well as maintaining sufficient liquidity to meet all current financial obligations
* DC Water’s financial plan objectives focus on:
* minimizing rate increases while meeting all financial obligations;
* satisfying all indenture requirements and Board policies; and
* maintaining the DC Water’s current credit ratings of AA+/Aa2/AA

Mr. Kim explained the ten-year Capital Improvement Plan (CIP) and mentioned that the proposed ten- year total CIP of $3.66 billion is less than the $3.8 billion CIP Board adopted last year. Capital spending is projected to peak in FY 2016, with annual declines through FY 2024.

Mr. Kim updated the Committee on Mr. Roth’s follow-up question on the Federal consumption trends. He explained that water consumption billed to federal accounts has shown a significant reduction compared to prior years, and the Authority has revised its future forecasts for federal revenue primarily due to four factors:

* Executive Order (EO) 13514 signed by the President created a requirement for federal agencies to reduce potable water and landscaping use water by 2 percent annually through conservation measures until 2020; Authority conversations and investigations with federal property managers show that significant progress is being made toward this goal through plumbing fixtures replacement.
* In the District, the Telework Enhancement Act (the “Telework Act”) has resulted in a significant shift to employees working from home, reducing water used at the workplace, and, pursuant to the Telework Act, GSA has strategically reduced the number of buildings it owns and operates in the District in favor of placing employees in shared rental spaces. In the latter case, the water reduction observed in federal buildings is partially made up in the commercial customer billing of DC Water.
* There have been significant adjustments made to federal bills as a result of property sales and transfers between the federal and District governments.
* The Authority accelerated a testing and calibration program on large capacity meters installed at federal properties and observed that some of the meters had degraded and were measuring less water than was actually being consumed. Where possible, the Authority is retroactively billing for the difference in consumption.

Mr. Kim updated the Committee on the Authority’s 10-year financial plan and noted that the Authority can manage a 5 percent annual rate increase through the next ten years. Mr. Kim also noted that last year’s financial plan projected the need for rate increases of 6.5 percent in FY 2017 and 6.0 percent in FY 2018. Due to the restructuring of the rates and implementation of the new fixed Water System Replacement Fee (WSRF), management is more confident that revenues are sufficient to justify lowering of rate increases going forward. This is a significant improvement over all prior long range projections.

Mr. Brown asked how this two year rate proposal would translate in the spring with respect to the public hearing process. Mr. Hawkins responded that the process in the spring would look exactly like prior years except that the proposal would have two years. Chairperson Roth inquired whether we would have the flexibility to pull back the second year and move forward with a one-year rate proposal if there is a strong negative reaction against the two year approach during the public hearing process in the spring. Mr. Hawkins replied in the affirmative. Mr. Hayman stated that both rate proposals will be published separately and if there is a change, we would be able to adjust each proposal.

Chairman Roth asked whether the Rate Stabilization Fund (RSF) should be drawn down to give rate payers relief. Mr. Kim stated that since 2008, the Authority has drawn down over $114 million from the RSF (while only contributing $78 million over that same period), leaving a current balance of approximately $32 million at the end of FY 2015. Today, given the Authority’s improved financial projections, management is striving to replenish the RSF to the $100 million level, which is reasonable for an organization spending approximately $1.0 billion a year.

Mr. Hawkins stated that the percentage of joint use CIP is decreasing due to the completion of large joint use projects like ENR and Digesters. Mr. Brown asked how much of water and sewer charges were mandated and if that can be shown separately on the chart. Chairman Roth elaborated on Mr. Brown’s request and seconded his request for a chart.

**Action Items** (Attachment B)

Mr. Kim referred the Committee to the following action items.

**Action Item #1:**

Proposal of FY 2017 & FY 2018 Retail Rates, Charges and Fees.

* 5 percent increase in FY 2017 & FY 2018

The Committee approved (Action Item #1)

**Action Item #2:**

Proposal of Ten Year Financial Plan FY 2016 – FY 2025

* Ten-year CIP disbursement budget
* Projected water and sewer rate increases

The Committee approved (Action Item #2)

**FY 2015 Net Income – Budget vs. Actual** (Attachment C)

Mr. Kim reviewed and explained the changes for Board approved FY 2015 financial plan against FY 2015 actual (subject to change, preliminary unaudited year-end projections). The expenses were lower than projected due primarily to higher digesters savings than projected and due to the non-issuance of debt in FY 2015. We ended the year with approximately $60.0 million net income, $17.50 million of which was transferred to RSF, $22.28 million was moved to Pay-go for capital expenditures, and the remaining balance of $20.05 million was added to operating cash reserves.

Mr. Roth complimented Mr. Kim on the excellent presentation and thanked staff for their efforts.

**Blue Horizon 2020 Strategic Plan** (Attachment D)

The Committee agreed to move the Blue Horizon 2020 Strategic Plan to the December committee meeting.

**DC Retail Water and Sewer Rates Committee Workplan**

FY 2016 Proposed DC Retail Rates Committee Workplan (Attachment F)

Mr. Kim briefly updated the Committee on the FY 2016 Proposed DC Retail Rates Committee Workplan and stated that the Workplan is currently on schedule.

**Executive Session**

No executive session

**Agenda for December 18, 2015 Committee Meeting** (Attachment G)

Mr. Kim briefly updated the Committee on the December meeting.

**Adjournment**

The meeting was adjourned at 11:25 a.m.

**FOLLOW-UP ITEMS – DC Retail Water and Sewer Rates Committee Meeting (November 17, 2015)**

There were no follow-up items