



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

DC Retail Water and Sewer Rates Committee

Thursday June 9, 2016

9:30am

- 1. **Call to Order** Rachna Butani, Vice Chairperson
- 2. **FY 2017 & FY 2018 Rate Proposal (Attachment A)**..... Mark Kim
- 3. **Adjournment**

FOLLOW-UP-ITEMS – DC Retail Water and Sewer Rates Committee Meeting (April 26, 2016)

There were no follow-up items from the April 26, 2016 committee meeting

* The DC Water Board of Directors may go into executive session at this meeting pursuant to the District of Columbia Open Meetings Act of 2010, if such action is approved by a majority vote of the Board members who constitute a quorum to discuss: matters prohibited from public disclosure pursuant to a court order or law under D.C. Official Code § 2-575(b)(1); contract negotiations under D.C. Official Code § 2-575(b)(1); legal, confidential or privileged matters under D.C. Official Code § 2-575(b)(4); collective bargaining negotiations under D.C. Official Code § 2-575(b)(5); facility security under D.C. Official Code § 2-575(b)(8); disciplinary matters under D.C. Official Code § 2-575(b)(9); personnel matters under D.C. Official Code § 2-575(b)(10);proprietary matters under D.C. Official Code § 2-575(b)(11); decision in an adjudication action under D.C. Official Code § 2-575(b)(13); civil or criminal matters where disclosure to the public may harm the investigation under D.C. Official Code § 2-575(b)(14), and other matters provided in the Act.



DC Retail Water and Sewer Rates Committee

FY2017 & FY2018 Rate Proposal

June 9, 2016

Agenda

- **Review of Key Fund Balances and Requirements**
 - Operating Reserve Fund Requirements
 - Debt Service Coverage Ratio Requirements
 - Rate Stabilization Fund (RSF) Balances
- **Review of Capital Budget**
 - Capital Improvement Plan (CIP) Disbursements
 - FY2016 CIP Disbursement Update
 - Preliminary FY2017 – FY2026 CIP
 - Financial Plan – Sources of Funds for CIP
- **Review of Operating Budget**
 - FY2017 Operating Budget – Key Assumptions / Risks
 - FY2013 – FY2015 Historical Net Cash Surplus
 - FY2016 Projected Net Cash Surplus
 - Fiscal Analysis of Projected FY2016 Projected Net Cash Surplus
- **Proposed FY2017 & FY2018 Rates**
- **Next Steps**

Operating Reserve Fund Requirements

- DC Water’s operating reserve fund requirements are established by our Master Indenture and Board policy
 - Indenture requirement of maintaining 60 days O&M
 - Board policy of maintaining 120 days O&M or \$125.5 million

- Management targets maintaining a minimum of \$140 million in the operating reserve in order to satisfy Board policy

(\$ in thousands, FYE 9/30)	Actual	Projected		
	FY 2015	FY 2016	FY 2017	FY 2018
Renewal & Replacement Balance	\$35,000	\$35,000	\$35,000	\$35,000
O&M Reserve Per Indenture	46,366	45,581	50,576	49,912
Undesignated Reserve Balance	78,689	72,865	54,424	55,088
Ending Reserve Balance	\$160,055	\$153,446	\$140,000	\$140,000
O&M Reserve per Board Policy	125,500	125,500	125,500	125,500
Excess Liquidity (Cash)	\$34,555	\$27,946	\$14,500	\$14,500

Source: DC Water’s approved FY 2016 – FY 2025 Financial Plan, all figures are shown on a cash accounting basis and may differ from CAFR; FY2016 projections as of March 31, 2016

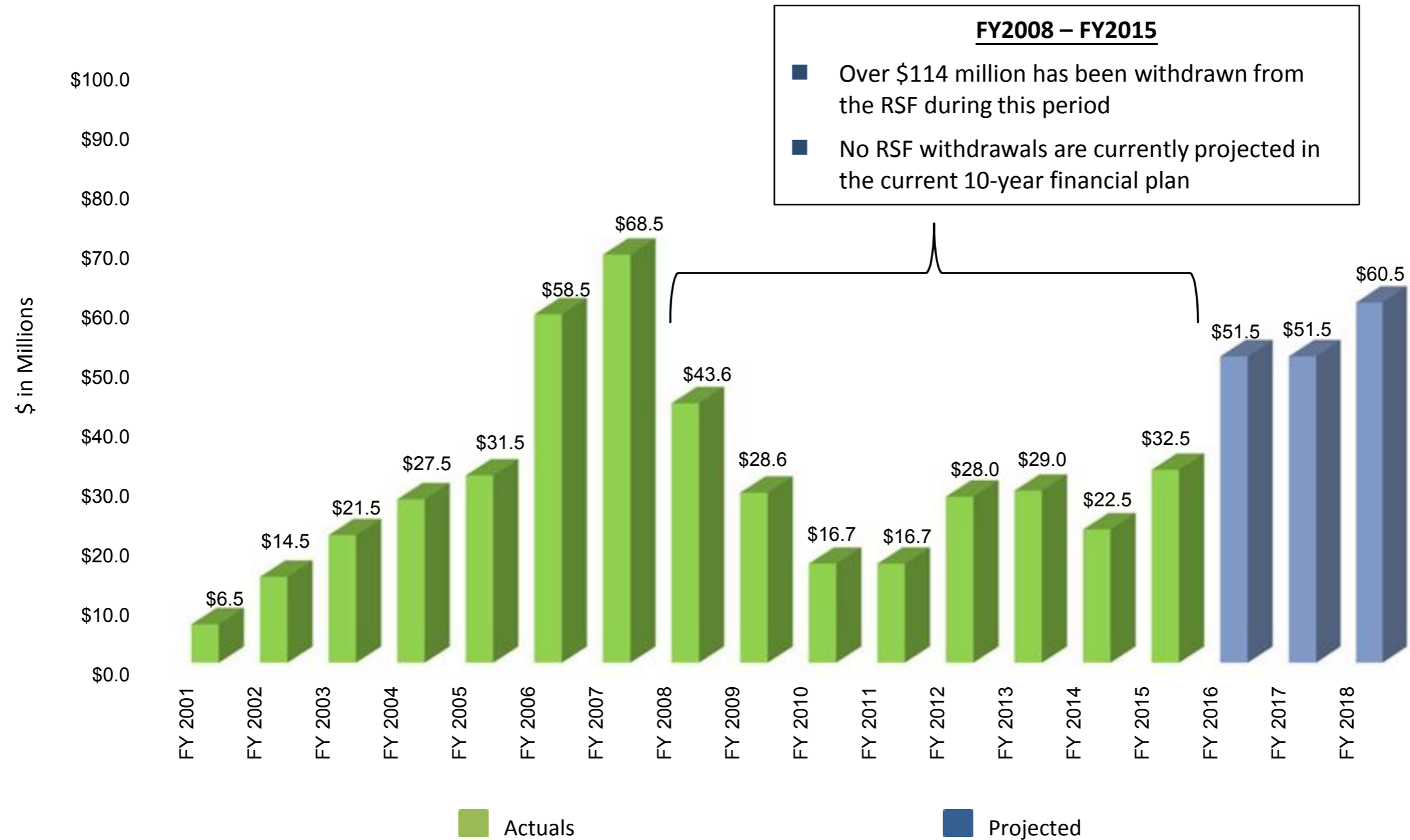
Debt Service Coverage Ratio Requirements

- Indenture rate covenant requires 1.2x senior and 1.0x subordinate debt service coverage
- Board policies exceed Indenture-required coverage ratios
 - Minimum 1.4x senior lien debt service coverage
 - Minimum 1.2x combined coverage of senior and subordinate debt
- Management targets a combined debt service coverage ratio of 1.5x and rating agencies expect DC Water to sustain this level of cash flow in order to maintain our credit ratings

(\$ in thousands, FYE 9/30)	Projected				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues					
Net Revenues	\$544,335	\$568,602	\$604,934	\$644,914	\$677,123
Operating Expenses	303,458	299,474	308,458	320,712	330,333
Net Revenues Available for Debt Service	\$240,877	\$269,128	\$296,475	\$324,202	\$346,790
Payment Obligations^{1,2}					
Total Senior Debt Service	\$52,122	\$62,527	\$72,983	\$73,351	\$75,471
Total Subordinate Debt Service	105,518	106,820	115,391	131,046	146,894
Total Outstanding and Projected Debt Service	\$157,640	\$169,346	\$188,374	\$204,397	\$222,365
Debt Service Coverage					
Senior Debt Service Coverage	4.62x	4.30x	4.06x	4.42x	4.60x
Subordinate Debt Service Coverage	1.79x	1.93x	1.94x	1.91x	1.85x
Combined Debt Service Coverage	1.53x	1.59x	1.57x	1.59x	1.56x

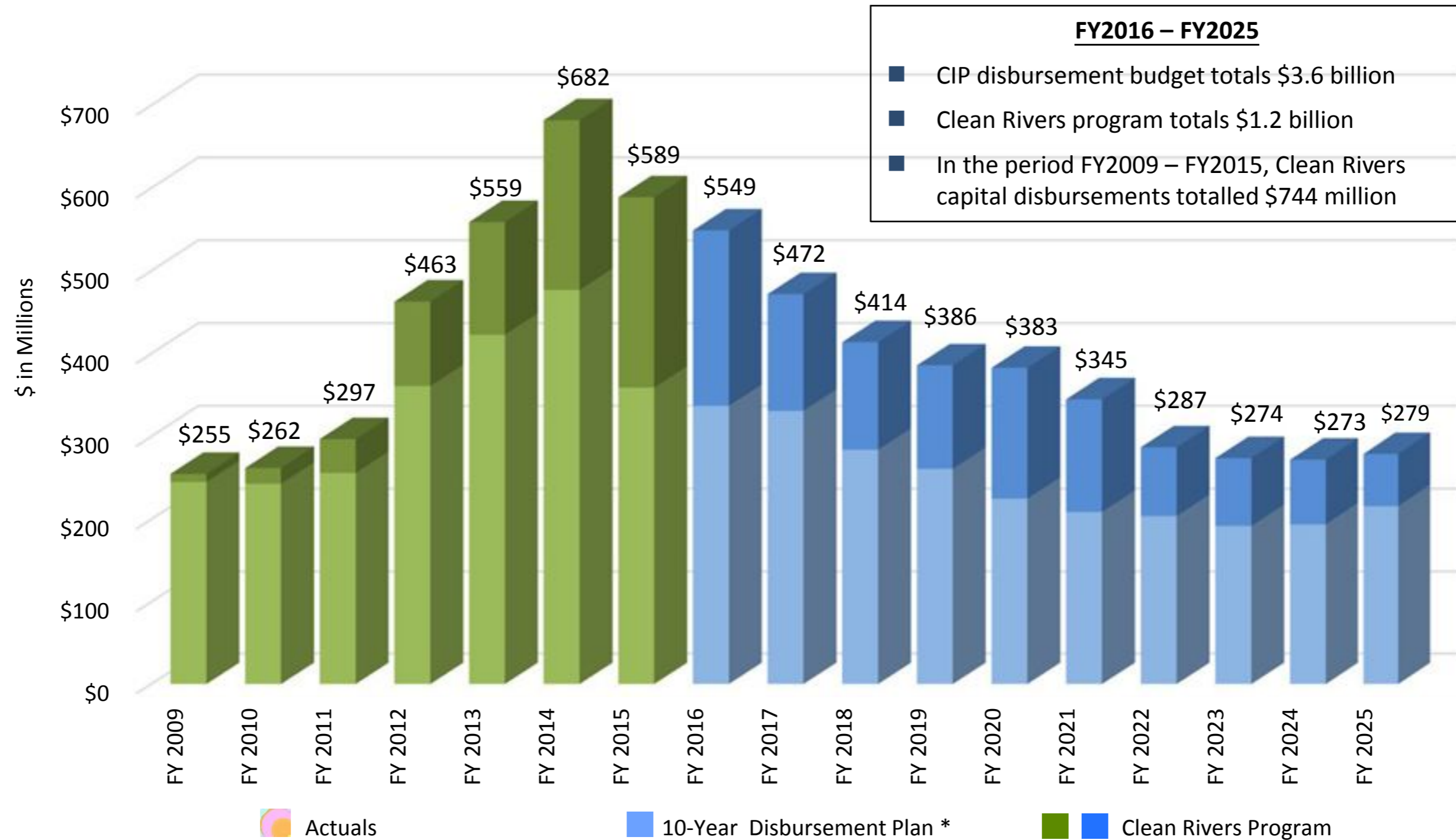
Source: DC Water's approved FY 2016 – FY 2025 Financial Plan, all figures are shown on a cash accounting basis and may differ from CAFR

Rate Stabilization Fund (RSF) Balances



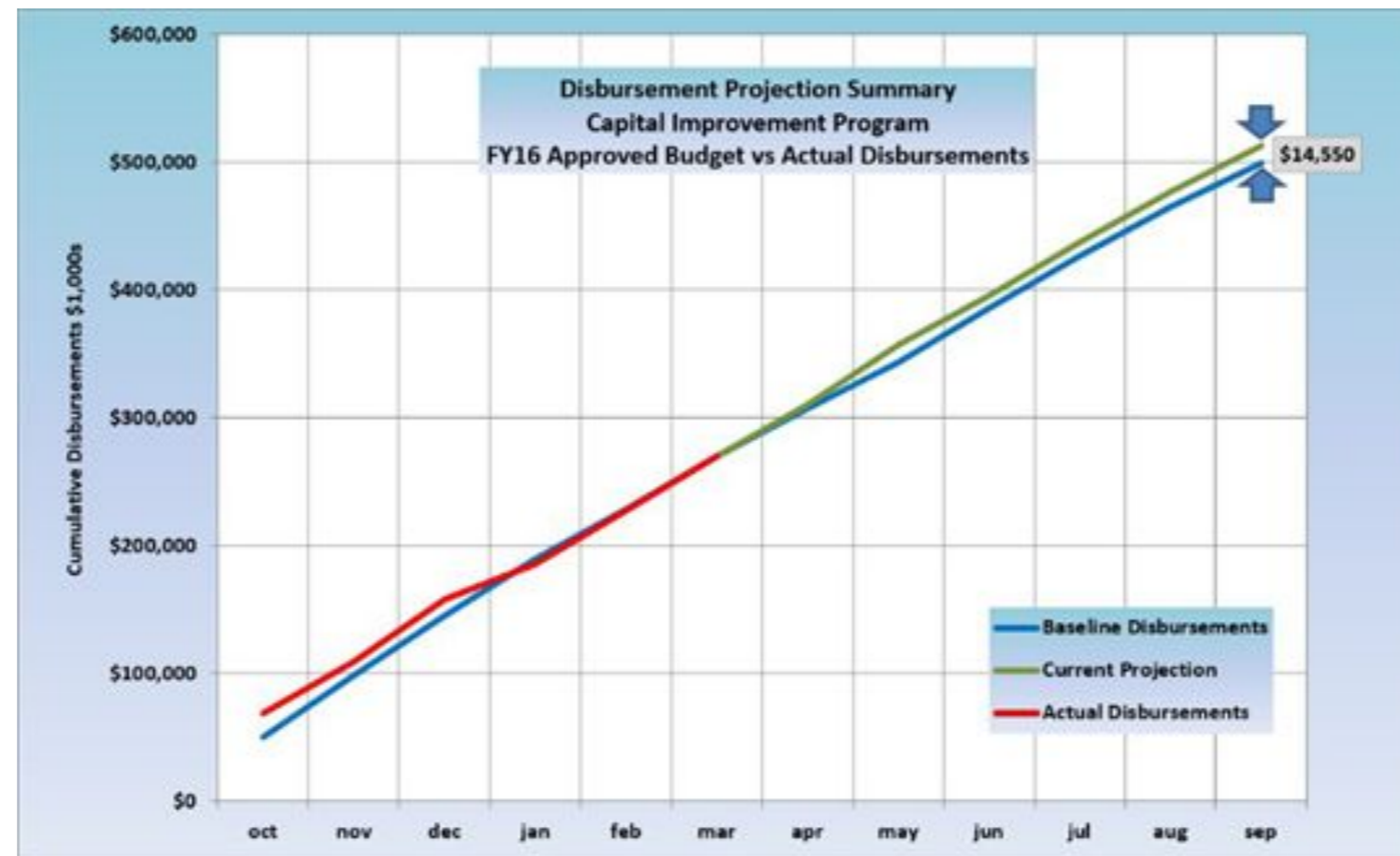
Source: DC Water's approved Financial Plans for FY2001 – FY2015

Capital Improvement Program (CIP) Disbursements



Source: DC Water's approved FY 2016 – FY 2025 Capital Improvement Program (CIP) disbursement budget

FY2016 CIP Disbursement Update



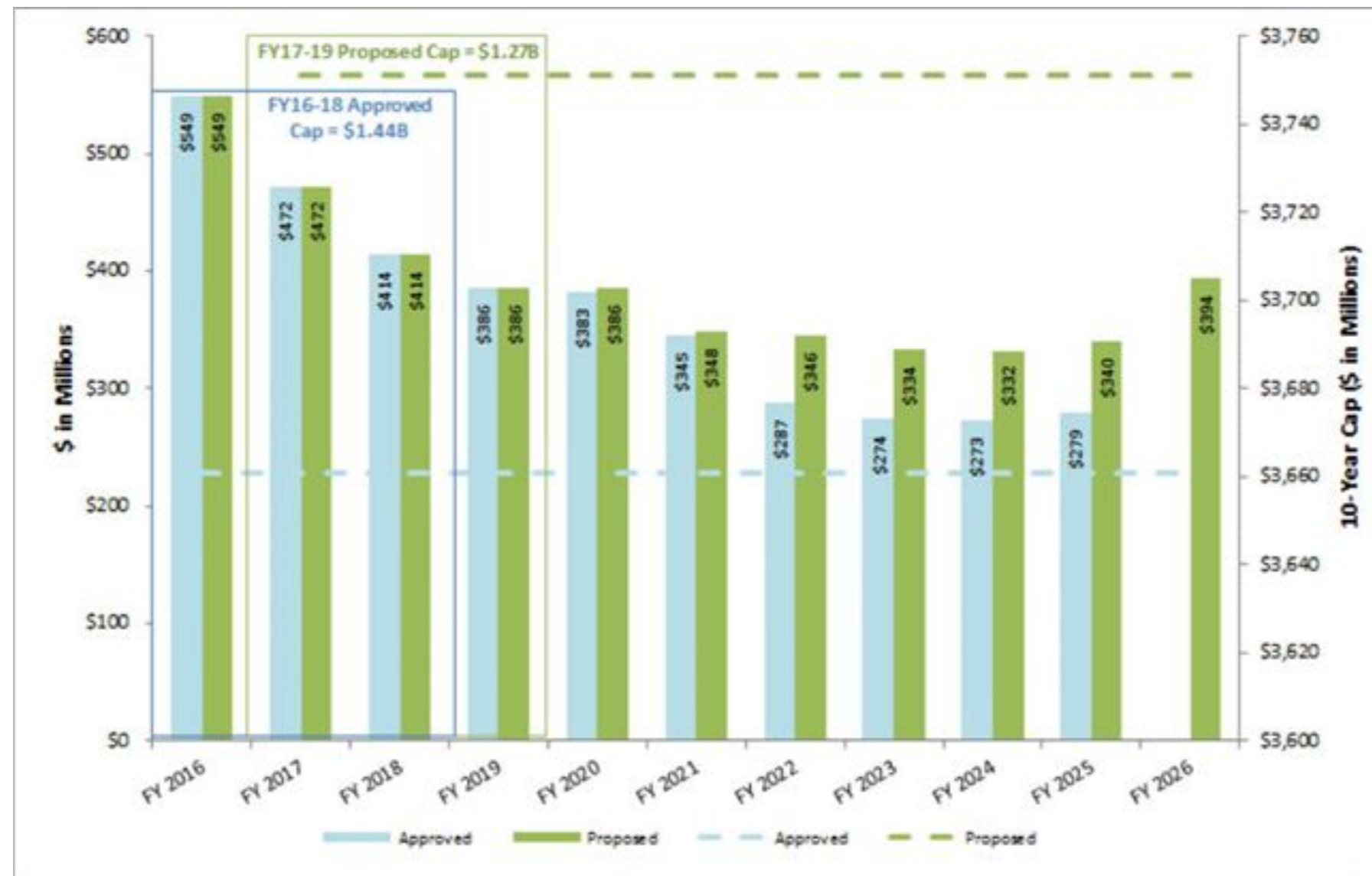
- **For FY2016, total CIP disbursements are projected to be 1.5% under the approved budget of \$549 million based upon the first 6 months of the current fiscal year**
 - Capital projects are projected to be 2.9% (or \$14.5 million) over the approved budget of \$499 million
 - Additional capital programs for capital equipment are projected to be \$22.9 million under the approved budget of \$50.0 million, potentially offsetting higher projected disbursements in capital projects
 - Clean Rivers program does not project any significant variances from its approved budget of \$223 million

Source: DETS, CIP Report dated May 2016. Figures as of March 31, 2016

Preliminary FY2017 – FY2026 CIP

■ Preliminary CIP disbursement estimates for FY 2017 – FY 2026

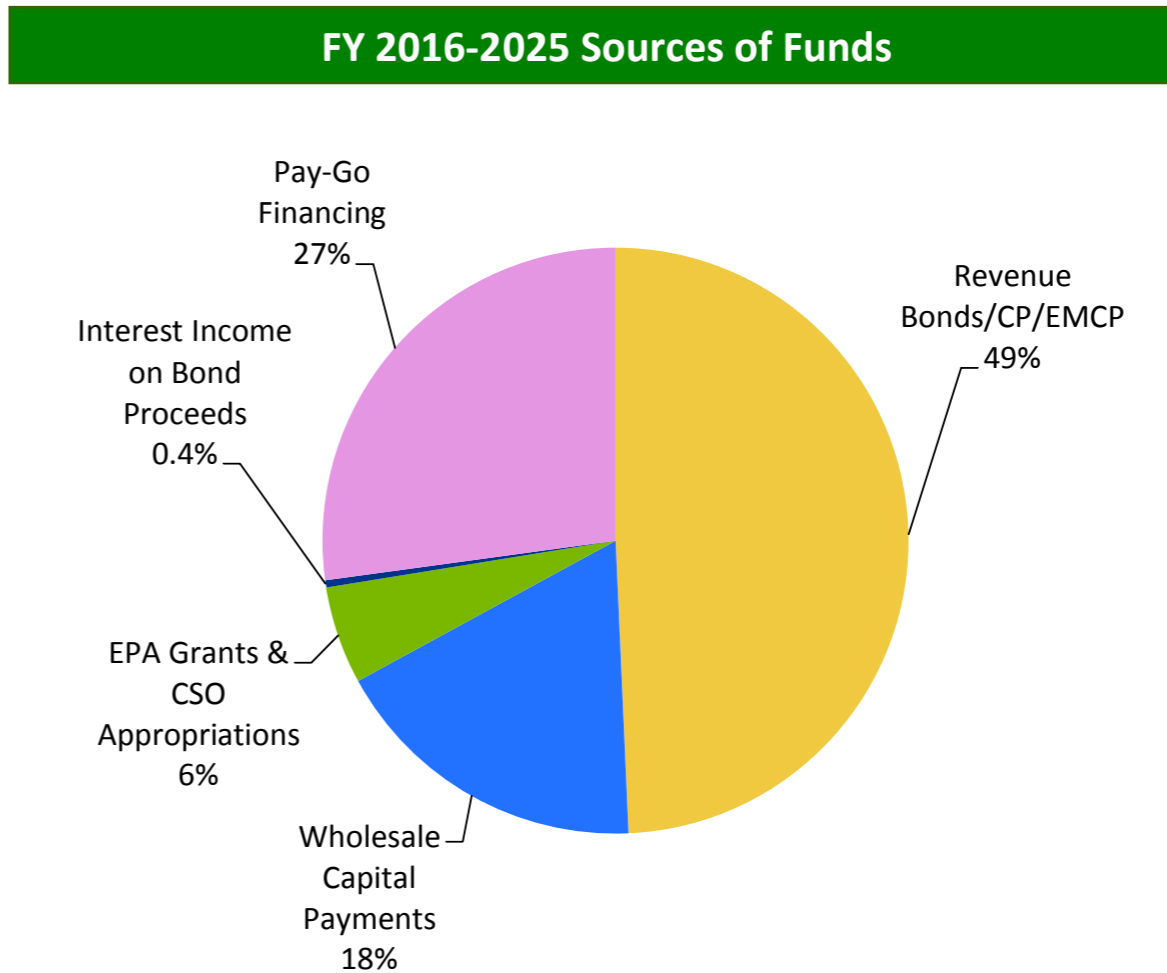
- \$1.27 billion in FY2017 – FY2019 (three-year disbursement budget)
- \$3.75 billion in FY2017 – FY2026 (ten-year disbursement budget)



Note: Budget figures reflect preliminary CIP estimates presented on 05/16/2016 at the General Manager’s FY2018 Budget Kickoff and will be finalized during Summer/Fall 2016 for Board review

Financial Plan – Sources of Funds for CIP

- DC Water plans to issue approximately \$1.8 billion of new money debt through FY2025 to fund the \$3.6 billion CIP
- Pay-Go (cash) financing of capital is projected to be approximately 27% or \$995 million
- Federal grants and appropriations (cash)
 - EPA grants included in financial plan when awarded
 - CSO appropriations are included in financial plan when received
- IMA capital contributions (cash) are projected to be approximately 18% of total CIP funding
- System Availability Fee (SAF) revenue is budgeted and will be incorporated into the financial plan starting in FY2018



Source: DC Water's approved FY 2016 – FY 2025 Financial Plan, all figures are shown on a cash accounting basis and may differ from CAFR. Percentage figures may not sum to 100% due to rounding

FY2017 Operating Budget – Key Assumptions / Risks

■ **Regulatory / Operating Permit**

- NPDES permit (expired FY2015)
- Lead service lines

■ **Personnel Services**

- Vacancy rate (7-10% target)
- Fringe benefits, particularly health care costs rising faster than proposed rate increases
- Collective Bargaining Agreement (expired FY2015)

■ **Non-Personnel Services**

- New process facilities and related O&M
- Insurance premiums for excess liability and property due to increased asset portfolio
- Legal claims and litigation expenses

FY2017 Operating Budget – Key Assumptions / Risks (cont'd)

■ Debt Service

- Interest rate assumptions
 - FY2017 = 5.75%
 - FY2018 – FY2026 = 6.50%
- Fixed versus floating rate debt (15-20% target)

■ Other

- AMR/AMI replacement program
- Customer information system (Vertex) upgrade or replacement
- Financial system (Lawson) upgrade or replacement
- Capital project management system (Primavera P-6) upgrade or replacement

FY2017 Operating Budget – Key Assumptions / Risks (cont'd)

Wastewater Treatment O&M / Digester-Related Savings

	FY 2016 Approved Budget	FY 2017 Approved Budget	FY 2017 Projections ⁽³⁾	Variance (\$)
Budget Development Timelines	CY 2014 Fall/Winter	CY 2015 Fall	CY 2016 Spring	CY 2016 Spring
Total Expenditure Budget – WWT O&M	\$86,972	\$80,466	\$78,202	\$2,264
Chemicals ⁽¹⁾	\$27,688	\$25,895	\$25,895	-
Electricity Cost ⁽¹⁾ - Average Usage ⁽²⁾ (MW)	\$22,599 <i>29MW</i>	\$17,089 <i>23MW</i>	\$15,630 <i>21MW</i>	\$1,459 <i>2MW</i>
CHP O&M Fee	\$4,000	\$4,000	\$4,000	-
Hauling Cost - Average Wet Tons/Day	\$10,783 <i>600</i>	\$9,600 <i>500</i>	\$8,795 <i>484</i>	\$805 <i>16</i>
Subtotal	\$65,070	\$56,584	\$54,320	\$2,264

(1) This represents the total chemical and electricity costs for operations of the various WWT facilities, inclusive of the Digesters

(2) FY 2017 usage assumes net on-site generation of 7.2MW from the CHP and additional 1.6MW for the FTF coming online in FY 2017. The 2MW proposed reduction is based on current experience

(3) Subject to performance of the CHP which is undergoing acceptance testing with anticipated completion during Summer/Fall 2016

FY2013 – FY2015 Historical Net Cash Surplus

	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>
Total Revenue	460,957,832	484,492,468	546,095,590
Total Expense	377,542,895	414,497,813	434,594,969
CFCI	-	-	20,058,317
Operating Income	83,414,937	69,994,655	91,442,304
Other Transfers/Credits	(22,103,592)	(28,845,618)	(7,535,721)
Net Income	61,311,345	41,149,037	83,906,583
Beginning Cash Balance over Target	14,750,634	1,518,206	17,642,005
Transfer to CIP (Pay-Go)	(24,543,206)	(23,748,975)	(41,710,266)
Transfer to RSF	(4,100,000)	-	-
Net Cash Surplus	47,418,773	18,918,268	59,838,322
Recommendation:			
Additional Transfer to RSF	(3,400,000)	-	(17,500,000)
Additional Transfer to Pay-Go	(28,000,567)	(1,276,262)	(22,283,565)
Additional Cash Balance over Target	(16,018,206)	(17,642,006)	(20,054,757)

Source: DC Water's approved Financial Plans for FY2013 – FY2015

FY2016 Projected Net Cash Surplus

	Board Approved FY2016 Financial Plan	FY 2016 Projection*	Variance Positive/((Negative))
Total Revenue	580,514,226	579,082,477	(1,431,749)
Total Expense	481,842,248	454,910,976	26,931,272
CFCI	23,475,181	23,475,181	-
Operating Income	75,196,797	100,696,320	25,499,523
Other Debits/Credits	(17,179,027)	(29,232,584)	(12,053,557)
Net Income	58,017,770	71,463,736	13,445,966
Beginning Cash Balance over Target	20,054,757	20,054,757	-
Transfer to CIP	(59,072,527)	(59,072,527)	-
Transfer to RSF	(19,000,000)	(19,000,000)	-
Projected Net Cash Surplus	-	13,445,966	13,445,966

Recommendation:

Additional Transfer to RSF

-

Additional Transfer to PAYGO

-

Additional Cash Balance over Target

(13,445,966)

* Preliminary unaudited year-end projections, subject to change

Fiscal Analysis of FY2016 Projected Net Cash Surplus

- **The projected net cash surplus for FY2016 will have a modest impact on rates if used to make an additional transfer to the RSF or for Pay-Go**
 - A 1% reduction in retail water and sewer rates would equate to approximately a \$3 million annual reduction in operating income or a \$30 million revenue loss over the 10-year financial plan
 - Accordingly, if used to make an additional transfer to the RSF for use in FY2017, the projected net cash surplus of approximately \$13.4 million would equate to a one-time reduction in the proposed rate by 0.45% (or from 5.0% to 4.55% for FY2017) to account for lost revenue over the next 10-year period while holding future rate increases at current projected levels
 - Alternatively, a 1% reduction in retail water and sewer rates would equate to an approximately \$40 million reduction in debt issuance capacity on a one-time basis
 - Accordingly, if used to make an additional transfer for Pay-Go for use in FY2017, the projected net cash surplus of approximately \$13.4 million would equate to a one-time reduction in the proposed rate by 0.33% (or from 5.0% to 4.66% for FY2017)
- **Management recommends holding the projected net cash surplus as additional cash over the target ending balance in order to provide operational flexibility to address any contingencies in FY2017**

Proposed FY2017 & FY2018 Rates

■ Management Recommendation

- Board approved a new multi-year rate proposal for public notice and comment covering both FY 2017 and FY 2018, providing added revenue certainty and reducing volatility in financial projections
- Management initially recommended a 5% increase in the retail water and sewer rates in each of FY2017 and FY2018, which already represented a decrease from the prior year's approved financial plan projections of 6.5% in FY2017 and 6.0% in FY2018
- In consideration of both the projected net cash surplus in FY2016 and significant operational uncertainties in the FY2017 budget, management is revising its rate proposal to recommend a **4.75% increase in FY2017** and a **5% increase in FY2018** together with its recommendation to hold any net cash surplus as additional cash over the target ending balance in FY2016

Next Steps

- **06/28/16 – Retail Rates Committee Meeting (TBD)**
- **07/07/16 – Board of Directors Meeting**
 - Board action on Resolution establishing FY2017/FY2018 water and sewer rate increases
 - Board action on Resolution authorizing use of projected net cash surplus
- **10/01/16 – FY2017 water and sewer rates go into effect**
- **FY2017 Town Halls and Public Hearing**
 - A public hearing is not required to (re-establish) FY2018 rates as long as the required rates are no higher than originally proposed and adopted
 - Accordingly, DC Water is not required to hold town hall meetings in FY2017 for the purpose of establishing FY2018 rates but may elect to hold similar public outreach forums
 - A public hearing will be required in FY2018 to establish the FY2019/FY2020 rates

Appendix

DC Water's Projected Average Residential Customer Bill

	Units	Current FY 2016	Proposed 4.75% FY 2017	Proposed 5.0% FY 2018
DC Water and Sewer Retail Rates ⁽¹⁾	Ccf	\$ 54.56	\$ 57.17	\$ 60.05
DC Water Clean Rivers IAC	ERU	20.30	22.24	25.18
DC Water Customer Metering Fee	5/8"	3.86	3.86	3.86
DC Water Water System Replacement Fee ⁽³⁾	5/8"	6.30	6.30	6.30
Subtotal DC Water Rates & Charges		\$ 85.02	\$ 89.57	\$ 95.39
Increase / Decrease		\$ 10.97	\$ 4.55	\$ 5.82
District of Columbia PILOT ⁽¹⁾	Ccf	\$ 2.91	\$ 2.98	\$ 3.04
District of Columbia Right-of-Way Fee ⁽¹⁾	Ccf	1.05	1.05	1.12
District of Columbia Stormwater Fee ⁽²⁾	ERU	2.67	2.67	2.67
Subtotal District of Columbia Charges		\$ 6.63	\$ 6.70	\$ 6.83
Total Amount Appearing on DC Water Bill		\$ 91.65	\$ 96.27	\$ 102.22
Increase / Decrease Over Prior Year		\$ 11.03	\$ 4.62	\$ 5.95
Percent Increase in Total Bill		13.7%	5.0%	6.2%

(1) Assumes average monthly consumption of 6.20 Ccf, or (4,638 gallons)

(2) District Department of the Environment stormwater fee of \$2.67 effective November 1, 2010

(3) DC Water "Water System Replacement Fee" of \$6.30 for 5/8" meter size effective October 1, 2015

DC Water's Projected Average CAP Customer Bill

	Units	Current FY 2016	Proposed 4.75% FY 2017	Proposed 5.0% FY 2018
DC Water and Sewer Retail Rates ⁽¹⁾	Ccf	\$ 54.56	\$ 57.17	\$ 60.05
DC Water Clean Rivers IAC	ERU	20.30	22.24	25.18
DC Water Customer Metering Fee	5/8"	3.86	3.86	3.86
DC Water Water System Replacement Fee	5/8"	6.30	6.30	6.30
Subtotal DC Water Rates & Charges		\$ 85.02	\$ 89.57	\$ 95.39
Increase / Decrease		\$ 10.97	\$ 4.55	\$ 5.82
District of Columbia PILOT ⁽¹⁾	Ccf	\$ 2.91	\$ 2.98	\$ 3.04
District of Columbia Right-of-Way Fee ⁽¹⁾	Ccf	1.05	1.05	1.12
District of Columbia Stormwater Fee ⁽⁴⁾	ERU	2.67	2.67	2.67
Subtotal District of Columbia Charges		\$ 6.63	\$ 6.70	\$ 6.83
Total Amount		\$ 91.65	\$ 96.27	\$ 102.22
Increase / Decrease Over Prior Year		\$ 11.03	\$ 4.62	\$ 5.95
Percent Increase in Total Bill		13.7%	5.0%	6.2%
Less: CAP Discount (4 Ccf per month) ^{(1), (2)}		\$ (36.64)	\$ (38.32)	\$ (40.20)
Water System Replacement Fee (WSRF) ⁽³⁾		\$ (6.30)	\$ (6.30)	\$ (6.30)
Total Amount Appearing on DC Water Bill		\$ 48.71	\$ 51.65	\$ 55.72
Increase / Decrease Over Prior Year		\$ 5.09	\$ 2.94	\$ 4.07
CAP Customer Discount as a Percent of Total Bill		-46.9%	-46.4%	-45.5%

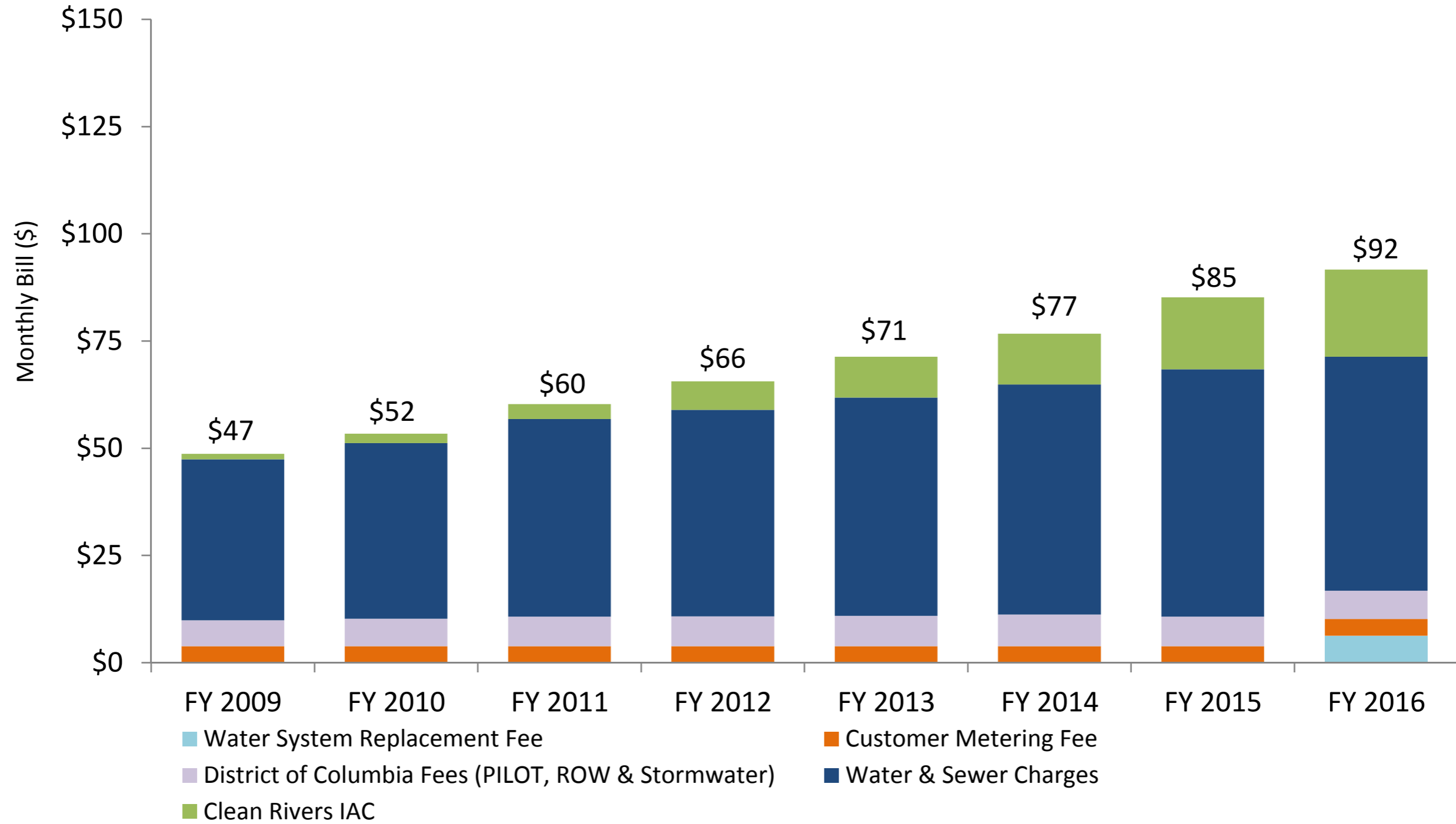
(1) Assumes average monthly consumption of 6.20 Ccf, or (4,638 gallons)

(2) Extension of CAP program in FY 2011 to first 4 Ccf of PILOT and ROW

(3) Assumes 100 percent discount for Water System Replacement Fee (WSRF) to CAP customers

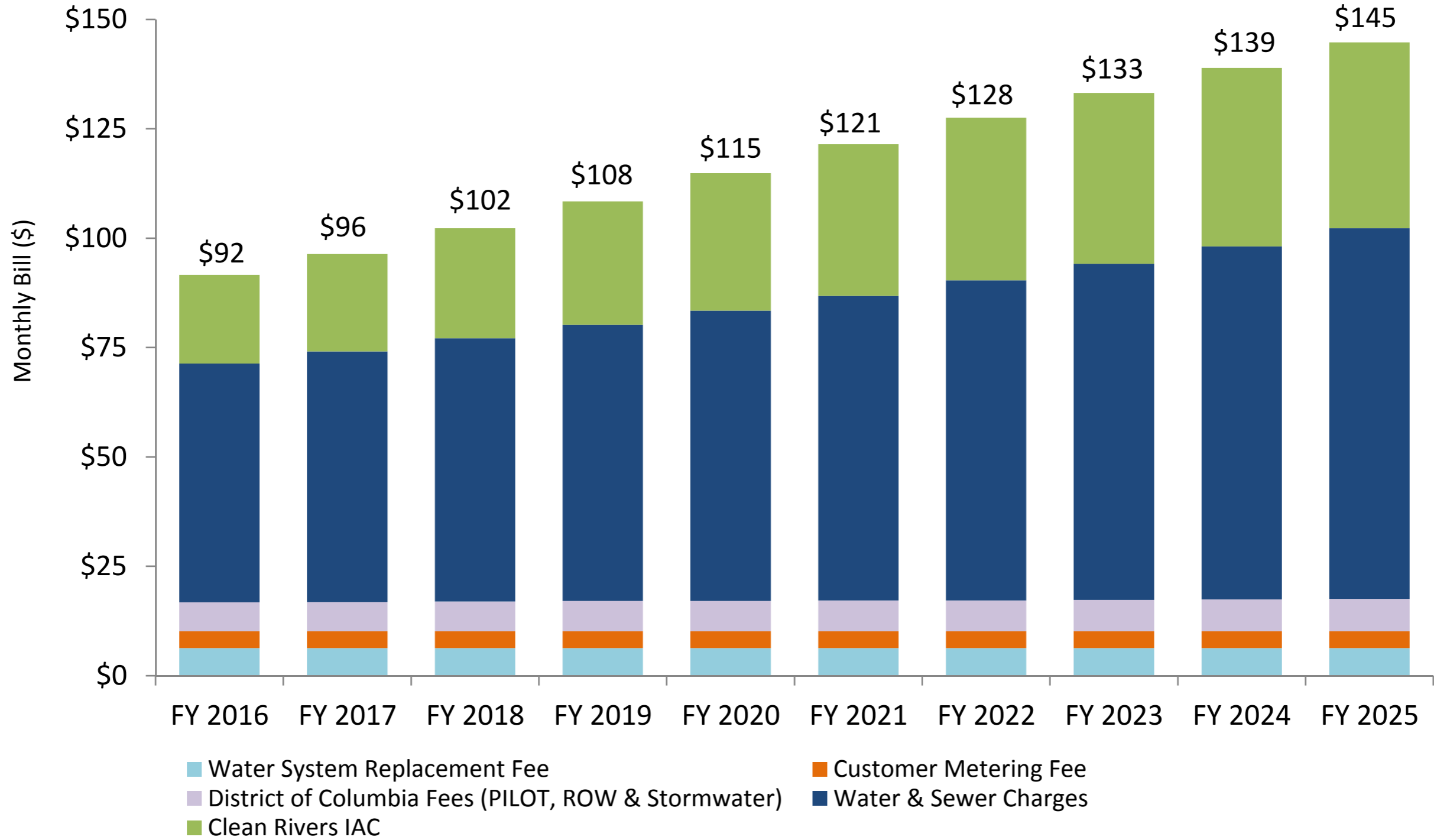
(4) District Department of the Environment stormwater fee of \$2.67 effective November 1, 2010

DC Water's Historical Average Residential Customer Bill



Average Monthly Consumption: FY2008 – FY2015 = 6.69 Ccf; FY2016 – FY2018 = 6.20 Ccf

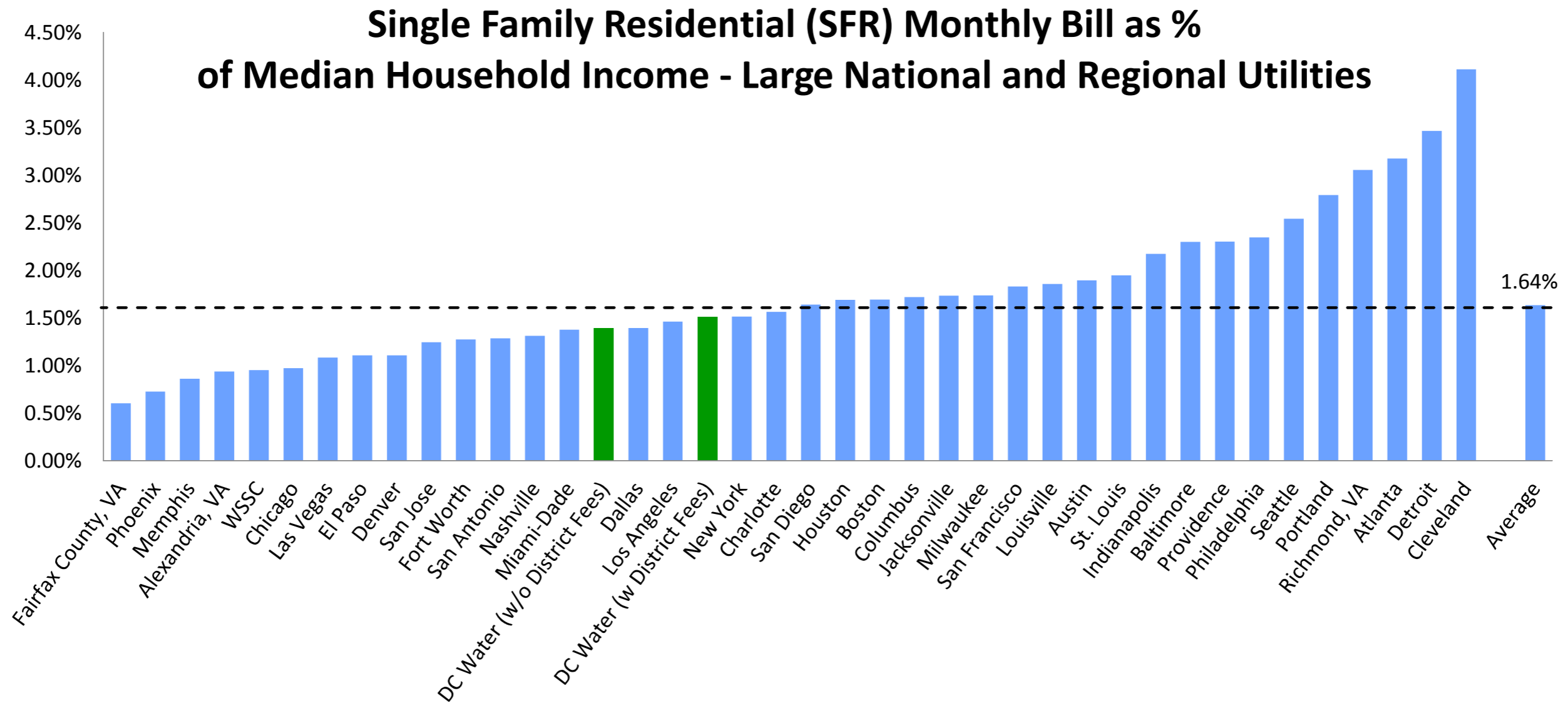
DC Water's Projected Average Residential Customer Bill



Note: Based on 6.20 Ccf (or 4,638 gallons) consumption and approved FY2015 – FY2024 Financial Plan

DC Water's Rates Remain Affordable

- DC Water's single family residential monthly bill as a percentage of median household income (1.39%) is below the average of large national and regional utilities (1.64%)
- Delinquent balances as a percent of operating revenue have decreased from 2.5% in 2006 to 1.0% in 2015 even as rates have increased over same time period



Source: Amawalk Consulting Group