

**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

DC Retail Water and Sewer Rates Committee

## Tuesday, November 15, 2016

9:30 a.m.

 MEETING MINUTES

**Committee Members in Attendance**

Rachna Butani, Acting Chairperson

Matthew Brown, Board Chairman

Ellen Boardman

Howard Gibbs

Reverend Kendrick Curry

Ana Harvey

**DC Water Staff**

 Mark Kim, Chief Financial Officer

George Hawkins, General Manager

Henderson Brown, General Counsel

Charles Kiely, AGM, Customer Care & Operations

Linda Manley, Board Secretary

**Consultant**

Henrietta Locklear, Senior Manager

Katie Cromwell, Consultant

**Call to Order**

Acting Chairperson Ms. Butani called the DC Retail Water and Sewer Rates Committee meeting to order at 9:33 a.m.

**Preliminary Analysis on CRIAC Restructuring (Attachment A)**

Mr. Kim thanked the Committee for its commitment and unrelenting focus on affordability for our rate payers. He added that this presentation is in response to a request from the Committee to look at the rate setting process with respect to CRIAC and ways to potentially restructure CRIAC just like the Authority had done with water and sewer. This preliminary analysis is on what it will take to restructuring CRIAC. He stated that Raftelis Financial Consultants was contracted to perform this task as they were instrumental in developing the water and sewer rate restructure. This study was originally scheduled for December 2016, but was being presented earlier.

Mr. Kim introduced Ms. Henrietta Locklear, Senior Manager, Raftelis Financial Consultants.

Ms. Locklear first stated the study objectives:

* Assess impact of the CRIAC upon certain customer segments
* Develop an idea of whether relief is needed or warranted and if so, what does that mean?
* Determine how revenue will be impacted by any customer relief program or efforts
* Develop cost recovery alternatives for consideration.

Ms. Locklear then described the customer segments of interest:

* Non-profits
* Small business owners
* Charitable and religious organizations
* Low income residential customers (not enrolled in CAP).

Ms. Locklear explained the methodology for identification, which included:

* Identification of customers by segment
* Collection of financial information to evaluate affordability

Mr. Kim noted that DC Water’s current CIS system does not have the ability to identify any of those customers. In the ECIS system customers are either residential or non-residential customers, so part of the scoping exercise is to provide an overview of what it would cost and how long it would take to get the data, which would have to come from a third party / outside sources.

Ms. Locklear stated that on the residential customer side we do know who those customers are in the system but we don’t have their incomes. We would use census data to develop an idea of the extent of customers that may fall into the low-income categories. This methodology for identification and quantification of impacts is relatively straight forward, however, it is not applied to each particular customer in the service area. We do have the ability on a broad basis to identify those customers.

Ms. Locklear stated that DC Water provided Raftelis with a list of the non-profit customers, which although not complete, but can be quantified. The non-profits are difficult to identify and to collect affordability related data. Further analysis on the non-profit customer’s assessment of affordability can be performed by obtaining financial data from the publicly available 990 tax filings for the 501c3 organizations. The tax exempt status of charitable and religious organizations makes collection of affordability related data difficult for these customers. A methodology will be developed to assess their affordability. Acting Chairperson Ms. Butani wanted to know if churches are exempt from filing a 990. Reverend Curry responded via telephone that all churches are required to file a 990 if they have financial transaction.

Ms. Locklear mentioned that small businesses will be evaluated based on the percent increase or dollar increase in their typical bills. It is most difficult to establish evaluation criteria for this customer segment.

Regarding small businesses, they are potentially the hardest group to identify and collect financial information for measuring affordability because it is difficult to analyze and categorize them based on size, location and business type. Some information may be collected from the Small Business Administration. Ms. Harvey asked what is considered small business in terms of revenue and how can we identify them since some of them are in homes. Mr. Kim noted that it would be better to define a small business since there is no current data available to identify these customers by segments.

Acting Chairperson Ms. Butani asked if there was any way to survey our non-residential customers and have people answer questions based on what they are. Mr. Kim noted that in the past couple of years we did a customer satisfaction survey. Ms. Boardman said that a self-informed survey lacks reliability and objectivity and I am concerned that we have to have an objective way of doing that and I am becoming less convinced we can do that. Acting Chairperson Ms. Butani suggested if a survey could be performed to obtain information from the Small Business Association (SBA). Ms. Harvey mentioned that we have a Gallop organization working with us starting next month for a survey of all small businesses in the District that will be completed by February. Also, we could rely on DCRA for business registration. She stated that a copy of the Gallop survey could be provided to DC Water. The Committee also raised concerns about the reliance on self-study surveys.

Next, Ms. Locklear showed how Affordability will be evaluated under the different customer segments. For residential customers, the current industry standard for measuring affordability is 4% of total household income.

Reverend Curry asked about the assumptions to arrive at 4 percent figure. Mr. Hawkins responded that US EPA guidelines suggest 4% (2% water & 2% sewer) based on median household income. This is not satisfactory but there are no thoughtful replacement for the study hence, DC Water will use the current industry standard established by the EPA. Reverend Curry requested for a copy of the report.

Ms. Locklear explained that for non-profits, charitable and religious organizations, Raftelis will evaluate the percent increase for a typical bill by applying 4% of operating expenses, similar to residential customers. Establishing evaluation criteria is more difficult for this segment of customers. Mr. Kim noted that once we identify the customer segments we are interested in doing a deeper study, this core question of evaluating, defining and setting a standard of affordability is going to be an enormous challenge. Assuming we get over the first two hurdles then what type of assistance can we offer. There are a number of different options we can explore: 1) discounted rates for certain customers; 2) providing credits much like we have done against some of our rates, charges and fees; 3) establishing a new assistance fund modeled after our customer assistance program; and 4) developing alternative rate structures. Once we do that we then need to model what the impact would be on DC Water’s revenues. All of these discounts and credits would result in revenue shortfall for the authority and we would then quantify that and establish ways to make up for the revenue shortfall. Mr. Kim stated that the most important slide is “Identifying Solutions” with the first option of raising rates on existing customers. How do we make up for that revenue shortfall. At the end of the day that’s what we all looking to do is to raise revenue to provide a benefit for a certain customer. In some ways raising rates on existing customers is the most unappealing option. In many ways we need to think beyond that as an acceptable option. Merely shuffling the deck of chairs and redistributing the burden amongst our existing rate payers does not really get at the core question of affordability for everyone. Solution to affordability is to broaden our customer base: 1) Reevaluate exempt customers; 2) Tourists; and 3) Suburban jurisdictions.

Mr. Kim suggested to broaden rate base to include customers not currently reached like District of Columbia who is exempt from paying CRIAC although it owns over 30 percent of impervious area on account of streets and Right-of-Way (ROW). If charged, it could reduce the CRIAC substantially, which currently is spread over the other rate payers because District of Columbia is exempt.

Approximately 17 million tourists visit Washington D.C. every year and use water and sewer services but do not pay for it. The District’s 650,000 residents pay for such water and sewer services. The revenue can be generated from new source by adding 1 to 2 cents surcharge on hotels and restaurants. Mr. Kim gave an example of a building in New York called the Jacob K. Javits Convention Center. Tourist are charge a Jacob K. Javits Convention Center fee for staying at a hotel to help pay for the Convention Center. He suggested a surcharge on specific tourist related activities.

Mr. Hawkins noted that the most direct way would be a hotel surcharge on tourists. Ms. Harvey stated that hotels are already paying for the water that tourists are using so, it’s unfair to charge them again. Mr. Hawkins responded that the question is not nobody should pay more or less, but there is an issue of affordability. I think this is an issue before us regardless of the question at hand, which is are we going to offer discounts to some parties. Our rates over the next ten years are above inflation. I think we have an affordability issue independent of the particular question we are asking. If we do reduce or do more on the affordability front that revenue will have to come from our existing rate payers, suburban or retail or some other source. Hotels pay a water and sewer bill that’s no doubt and their impervious cover that little piece but the tourist are all over the city. To increase the revenue, the money will have to come from new source such as hospitality tax, our existing rate payers or suburban jurisdictions. There are no easy outcomes. Chairman Brown noted that DC Water anticipates to generate $102 million CRIAC revenue in FY 2017. He stated that even though we cannot identify customers who pay less, which means somebody pays more. Ms. Harvey asked a question as to the role Blue Drop played on this. Mr. Hawkins responded that he doesn’t foresee any revenue contribution in the near future.

Mr. Kim proposed the following next steps:

* Development of project timeline
* Finalize customer segments for evaluation
* Finalize identification methodology
* Evaluate rate relief options
* Begin revenue impact modeling
* Research, identify, and develop solutions

Mr. Kim suggested to conduct a survey on definition of affordability that other utilities have adopted in developing program like this. This survey would be used as a reference for DC Water.

Ms. Boardman asked what are the costs for outside experts and within existing departmental staff with a holistic look and potential of achieving our goal. While we push forward and look, I don’t want to spend an enormous amount of money with an unattainable goal.

Mr. Kim referenced to the Committee that the last cost of service study for restructuring of water & sewer rates, fees and charges and implementing a new fixed WSRF fee cost approximately $300,000. It took over eighteen months to complete with literally thousands of staff hours across Finance, General Counsel Office, Customer Service and IT to validate, design, test, and to make sure that it was legally defensible and that we have all the resources to do all the modelling and the projection. He expected that the CRIAC would be of similar magnitude.

Chairman Brown asked if there was a way to look at some initial/big picture numbers for an example a 50% CRIAC credit results in a $0.11 increase to the rest of the customers. Mr. Kim responded in the affirmative. May be one path forward would be that rather than doing the exercise across all of the different customers segments if we could drill down and focus on the charitable, religious and educational institutions that have gotten a lot of focus from this Committee. There is a fair amount of precedence for non-profits institutions and subsets of non-profits to receive discounts/credit on certain charges. This might be one way forward to do this on a limited basis and present preliminary results to the Committee

Acting Chairperson Ms. Butani stated that non-profit segment has received a lot of attention from the Committee, but she is more concerned about the customers that fall just above the line. Those are the people that we have been very concerned about, because they really get hurt the most by rate increases. She was not sure if the Committee was there yet to make a decision on the non-profit. Chairman Brown suggested the next step on the exempt customers e.g. District of Columbia and tourists is to find out what it would cost on a 1 percent motel or hotel tax. May be this can be put in a policy.

The Committee also proposed that it was more prudent to know where the money was coming from and how much before discounts could be given to people, because the alternative would create an automatic roll down of cost to the other customers

**DCGIS FY 2014 Flyover Update**

Mr. Kiely briefed the Committee on the background of the flyover. He stated that the initial database was created from planimetric data which was originally created by District of Columbia Geographic Information System (DCGIS) in 1999 and updated in 2005 for DC Water’s May 2009 Go Live. The effort was greatly underestimated and cost approximately $2M. Typically updates are triggered by new premises being made active through the permitting process, customer calls or simple visual inspection of changes in ownership information or ortho-imagery. The DCGIS completed the latest flyover in November 2013 with the planimetric data and ortho-imagery being available (to DC Water) in the Spring of 2014. DC Water included $800,000 in the FY 2015 capital budget to update the database. DC Water started updating its GIS data in 2015 and completed in 2016.

Mr. Kiely presented the flyover results, which showed addition of 850 new accounts and 10,955 additional ERUs.

In FY 2009 the total actual ERUs were 372,946 generating revenue of $452,753 per month for five month (May – Sept. 2009). In FY 2016 total actual ERUs increased to 403,987 for revenue of $8,621,205 per month.

Mr. Kiely showed the slide with ERUs by Customer Type. Residential, Commercial and Federal customers account for 28%, 34% and 18% of CRIAC revenue respectively.

 Mr. Kiely then presented the Residential Tier Stratification. One of the issues the Enterprise faces is the categorizing IAC charges on the multi-family structures since they are mixed used, commercial and residential. Residential customers ERUs were created using wide band ranges which were further divided into tier structures using square footage. Majority of the residents fall within the 1 ERU tier (74%) and 0.6 ERU tier (17%).

Mr. Kiely explained the slide on the financial impacts:

* Accounts Receivable > 90 days delinquent as of 9/30/16 – $7.7M
	+ 12,406 accounts representing all bill classes
	+ 35% or $2.7 million represents Impervious Only accounts > 90 days delinquent
* CAP Distribution – CAP customers have slightly lower ERU costs than other residential accounts because more are in the smaller tiers
	+ 25% of CAP customers in 0.6 ERU tier vs. 17% of all residential customers
	+ 73% in 1.0 ERU tier vs. 74% among all residential customers
	+ Less than 3% of CAP customers are at 2.4 ERU or higher tier vs. 9% of all residential customers
* Billing Density Analysis
	+ Residential customers who are billed for less than 3 Ccf have more than 50% of their bill as fixed charges
	+ Almost 500 non-residential customers have fixed charges that are 80% or more of their bill – primarily those with large buildings and large driveway or parking areas relative to the quantity of water use (churches, embassies, retail stores, Metro stations, cemeteries).
	+ This population will grow with the shift in fixed charge rate design.

Mr. Kiely presented an analysis of Accounts Receivable greater than 90 days delinquent as of September 30, 2016. He mentioned that the increase in delinquent accounts receivable is mainly due to impervious only accounts. DC Water is closely monitoring the situation because standalone receivable amount increases as rates increase.

**FY 2017 Proposed DC Retail Rates Committee Workplan (Attachment C)**

There was no Committee discussion

**Other Business**

There was no other business

**Executive Session**

There was no executive session

**Agenda for December 16, 2016 Committee Meeting (Attachment D)**

There was no Committee discussion

**Adjournment**

The meeting was adjourned at 10:40 a.m.

**FOLLOW-UP ITEMS – DC Retail Water and Sewer Rates Committee Meeting (November 15, 2016)**

There were no follow-up items from the Committee meeting on November 15, 2016