

**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

Joint Meeting of the DC Retail Water and Sewer Rates

 *and Finance and Budget Committees*

## Tuesday, November 15, 2016

10:45 a.m.

 MEETING MINUTES

**Committee Members in Attendance**

Rachna Butani, Acting Chairperson

Timothy Firestine, Chairperson

Mathew Brown, Board Chairman

Howard Gibbs

Reverend Kendrick Curry

Ana Harvey

Ellen Boardman

Sarah Motsch

 **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

**Call to Order**

Acting Chairperson Ms. Butani and Chairperson Mr. Firestine called the joint meeting of the DC Retail Water and Sewer Rates and Finance and Budget Committees to order at 10:45 a.m.

**CAP Customer Clean Rivers IAC Presentation (Attachment 1)**

Mr. Kim stated that he was back before the Joint Committee to make final recommendation as well as to answer the follow up questions from the Joint Committee meeting on September 27, 2016.

Mr. Kim briefed the committee on the Customer Assistance Program (CAP) overview:

* Residential CAP customers currently receive:
	+ Credit of up to 4 Ccf of water, sewer, payment-in-lieu of taxes (PILOT) and right-of-way fee (ROW)
	+ 100% credit for Water System Replacement Fee (WSRF)
* On July 7, 2016, the Board directed the General Manager to evaluate the CAP and make a recommendation to the Retail Rates Committee regarding the expansion of CAP to include CRIAC fees as soon as practicable – (Board Resolution #16-60)
* On September 27, 2016, in a Joint Meeting of the DC Retail Water and Sewer Rates and Finance & Budget Committees, management presented its initial analysis of a CRIAC credit and the Committees requested additional analysis and time to consider the options presented

Mr. Kim stated that “CAP Customer Enrollment Figures” slide is in response to a question asked in the last Joint Committee meeting held on September 27, 2016. Mr. Kim noted that since 2009, the number of CAP customers has declined steadily by nearly 30% and this trend mirrors decline in the District’s Department of Energy and Environment (DOEE) LIHEAP enrollment figures. Mr. Kim informed the Joint Committees that when DC Water reached out to DOEE and asked them if they had any understanding why their enrollment figures for LIHEAP were trending down, they could not provide any reason for drop in CAP participation. Ms. Boardman asked if the number of applicants was decreasing or the approvals of applicants. Mr. Kim replied that he believed it was actually both. In the past we have tried customer outreach efforts to educate customers about our CAP program and do so every year. It is incumbent on the customer to apply to the LIHEAP program through DOEE. Ms. Boardman asked if it was an automatic rollover to CAP when a customer enrolls in LIHEAP. Mr. Kim affirmed that when customers enroll in LIHEAP they are automatically approved for CAP. Ms. Boardman inquired why the numbers are not exactly the same for CAP customers and applicants approved by DOEE/LIHEAP. Mr. Kiely briefed the Joint Committee that there is an automatic enrollment in DC Water’s CAP program if you apply for LIHEAP predominantly for electric and gas assistance. In some cases an applicant is not a customer of DC Water and he may live in an apartment building and does not have an individual account. Acting Chairperson Ms. Butani asked if CAP was an annual program. Mr. Kiely replied in affirmative.

Mr. Kim gave an overview of the CAP customers monthly ERUs by tiers and distributed GIS Flyover pictures of CAP customers with higher number of ERUs. Mr. Kim explained that the overwhelming majority of CAP customers have 1.0 ERU or less and approximately 3% of CAP customers have more than 1.0 ERU, which appear to be due to paved lots and building structures. Acting Chairperson Ms. Butani asked if it was not what we thought could potentially be retired community in an affluent neighborhood. Mr. Kim replied in the affirmative.

Mr. Kim gave an overview of the average CAP customer bills for FY 2017 and FY 2018, which assumed the approved 5% rate increase. In FY 2017, the average residential customer’s monthly bill is $96.35, which is reduced by -46.4% to $51.69 for CAP customers. This is a very significant program for CAP customers and provides substantial assistance. If we assume 50% CRIAC credit, which management is recommending today, the average CAP customer’s monthly bill will go down to $40.57, which is approximately 58% lower than the average residential customers monthly bill. For CAP customers, the 50% CRIAC credit results in an additional discount of $11.12 per month or $134.40 per year. Mr. Gibbs inquired if the 50% credit assumes one ERU. Mr. Kim replied in the affirmative. Mr. Gibbs then asked if CAP customers with 0.6 ERUs would receive less credit than CAP customer with one ERU and for CAP customers with more than one ERU the credit would be larger than CAP customers with one ERU. Mr. Kim replied that it was correct.

Mr. Kim provided an update on the analysis of revenue impact of CRIAC credit options. Mr. Kim further explained that anytime we introduce a credit we generate a revenue shortfall for DC Water. For 50% CRIAC credit option, the total estimated revenue impact for FY 2017 and FY 2018 will be approximately $874,000. The projected FY 2016 surplus will be used to cover FY 2017 and FY 2018 CRIAC loss of revenue. For FY 2019 and onwards, the CRIAC rates will be increased to cover the revenue shortfall. The increase in CRIAC rates for FY 2019, FY 2020 and FY 2021 will be $0.11, $0.12 and $0.14 respectively. Acting Chairperson Ms. Butani asked if CRIAC increase of $14M from FY 2018 to FY 2019 was not caused by the 50% credit on CRIAC. Mr. Kim replied in the affirmative. The CRIAC is designed to recover the cost of the Clean Rivers Project and the projected charges reflect the projected spending and projected debt issuance to finance the Clean Rivers Project. Mr. Gibbs asked whether the increase in the CRIAC is limited to residential customers or all categories of customers. Mr. Kim responded that the increase is for every customer.

Mr. Kim summarized the revenue requirements and implementation of credit:

* Total revenue requirements for CRIAC will remain the same
* FY 2017 and FY 2018 CRIAC has already been approved by the Board and any retroactive credit given in these years will reduce projected revenue
	+ The Authority will use the projected FY 2016 surplus to cover the FY 2017 and FY 2018 CAP CRIAC loss of revenue
	+ For FY 2019 to FY 2026 the CRIAC will have to be increased to meet the revenue requirements
* Management recommends implementing a percent of CRIAC credit:
	+ Management is recommending that any CAP credit be implemented as a percent of CRIAC (75%, 50% or 25%)
	+ The fixed ERU and fixed dollar credit options are not recommended due to increased complexity and cost of implementation

Mr. Kim stated that the management is recommending the 50% credit given the conversation that we had in the last Joint Committee meeting as well as our own analysis of the economics and feeling that the 50% credit level still provides a very meaningful amount of assistance of this one charge to our customers. It also allows the Board to continue to provide some additional assistance in the future. Mr. Gibbs inquired if the money to pay for the 50% credit for CRIAC would have ordinarily gone to Pay-Go or the Rate Stabilization Fund (RSF) and if we approved the credit we are not trying to find the money. Mr. Kim replied that is was correct. Mr. Kim continued to explain that in addition to the 50% CRIAC credit, we are recommending that the form of the credit be on a percentage basis rather than the other two alternatives that we had previously discussed, which were a fixed dollar amount of credit or a fixed ERU amount of credit. The fixed dollar amount of credit was the least attractive way of providing the credit largely because it would require us to adjust it each year to keep pace with the overall percentage of assistance we are trying to achieve, whereas if we opted for either a percentage based credit or a fixed ERU credit, these would automatically escalate over time and maintain the same level of assistance that the committee had recommended. With respect to the choice between a percentage credit or a fixed ERU credit, it really boils down to administrative burden and cost in terms of reprogramming our billing system and that implementing a fixed ERU credit was burdensome and more expensive. Given that we are in the midst of replacing our customer information system, it did not seem to warrant all of the additional expense to reprogram the system which we are in the process of replacing. Therefore, the fixed percentage credit is the method we are recommending. Acting Chairperson Ms. Butani inquired that from a budgeting perspective, is LIHEAP a program CAP customers need to apply at one specific time of the year or can CAP customers be admitted to the program throughout the year. Mr. Kiely responded that predominantly it is done for fuel assistance but CAP customers can apply any time during the year. GM Hawkins stated that you can apply any time at the Reeves Center office. The reason most people apply early is because LIHEAP funds are fixed and if you apply later in the year you will have less chance of getting the funds that are left over. Acting Chairperson Ms. Butani asked, “from a budgeting standpoint how does DC Water account for the CAP enrollment.” Mr. Kim responded that the total CAP enrollment has been declining and that serves as a natural cushion against if we had an unexpected surge of CAP customers’ enrollment. We are comfortable in our projections for CAP customer enrollments.

Mr. Kim stated management is recommending an expansion of our CAP program with a 50% credit for the CRIAC. If the Committee were to take action and the Board take action in December, we are estimating that we would have the credit reprogrammed and tested and ready to go-live around May 2017. There is a question before the Committee of retroactivity and when we ought to make the credit effective. Should the credit be given when the system is ready to go-live in real time going forward or we can look to provide a retroactive credit back to October 1, 2016. Acting Chairperson Ms. Butani stated that a credit should be given once the system is ready in May 2017. GM Hawkins mentioned that one of the reasons this is a challenge is because, the same people who will be working on implementing the new credit are the folks working on the new ECIS system. GM Hawkins explained that the $874,000 cost assumes the credit for two years and anything less than a whole year would be smaller. Chairman Firestine stated that in terms of retroactivity it does get more complicated because you would have to make sure that each person/household is eligible for the credit and it seems to be a tremendous amount of work. Mr. Gibbs mentioned that he agrees to go-live rather than going back with a retroactive credit and agrees with the 50% credit. Ms. Harvey mentioned that she agrees with no retroactivity and that the 50% credit is good. GM Hawkins added that if we can implement the credit sooner we will but no later than May 2017. Ms. Boardman was also in agreement with the 50% credit and the May 2017 start date.

The Joint Committee agreed on the 50% credit and the effective date of May 2017 and recommended the action item to the full Board in the meeting to be held in December.

**FY 2018 Proposed Budget (Attachment 2)**

Mr. Kim presented an executive summary of the FY 2018 proposed budget which includes the proposed operating budget of $561.9 million, proposed ten-year Capital Improvement Plan (FY 2017 – FY 2026) disbursements of $3.75 billion, lifetime project budget of $10.9 billion, and proposed revenues of $617.2 million.

Mr. Kim further explained that the operating budget increase of $26.1 million over the FY 2017 budget is due primarily to increase in debt service and pay-go needed to finance the Authority’s Capital Improvement Program (CIP**),** while the core operations and maintenance portion shows a decrease of approximately $1.6 million. The ten-year CIP reflects the consent decree modification for the DC Clean Rivers Program and deferral of the Potomac River Tunnel, scheduled for construction from FY 2026 to FY 2030.

Mrs. Annie Fulton-George, Manager, Capital Budget, provided a brief overview of the capital budget proposal, which included the ten-year CIP (disbursement and lifetime) and capital equipment budgets. She noted that in-depth discussions on the capital projects will be reviewed by the Department of Engineering & Technical Services at the joint committee meeting on Thursday November 17, 2016. She provided an overview of the historical and projected disbursements noting that while there is decline in the ten-year disbursement plan from FY 2017 to FY 2026, however, there is an uptick from FY 2025 to FY 2026 due to planned spending for the Clean Rivers Project. Capital Equipment spending for FY 2017 is projected at $55 million, with key budget drivers including the Meter Replacement Program, various information technology and security programs, Customer Information System (CIS), and Enterprise Resource Planning (ERP) projects. In response to a question on Other Reserve Funds in the proposed Capital Equipment Budget by Acting Chairperson Ms. Butani, Mrs. Fulton-George and Mr. Kim stated that the funds are used to meet the Authority’s pending obligations from prior years and also to accommodate other unfunded items such as replacement of the Authority’s current financial system which has exceeded its useful life.

Mrs. Lola Oyeyemi, Manager, Operating Budget, provided an overview of the FY 2018 operating budget proposals, reiterating that the core O&M need of the operating budget (O&M) has remained relatively flat with moderate increases based on historical and projected trends from FY 2009 to FY 2018. She explained that the proposed FY 2018 O&M budget reflects a decrease of $1.6 million and a decline in the O&M portion of the total budget from approximately 60 percent in FY 2017 to 57 percent in FY 2018.

Mrs. Oyeyemi provided in-depth discussions on the historical trends and underlying budget assumptions for the various cost categories of the Authority’s budget. She mentioned that no additional FTE was recommended and the total headcount will be maintained at the board-authorized level (1260) until a lower single digit vacancy rate is achieved. In response to Chairman Firestine’s question on the personnel cost, Ms. Oyeyemi explained that the increase was associated with annualized cost (making whole) of past organizational restructurings, coupled with increases in employees’ health insurance costs. It was also noted that any additional funding needed to support union pay increase that may result from the collective bargaining agreement, which expired in 2015, would be accommodated from potential savings from other line items within the proposed FY 2018 budget.

Ms. Oyeyemi further explained that the budget proposal reflects materialized savings resulting from the performance of the digester project, which was commissioned in February 2015. There has been a significant decline in both the biosolids production from 1087 WT/D in FY 2014 to 435 WT/D in FY 2016 and associated hauling costs from $20 million to $7 million in FY 2016. Mr. Hawkins, CEO & General Manager, noted that the wholesale customers’ share as well as WSSC biosolids contract have also declined.

Regarding the Combined Heat & Pressure (CHP) project with on-site electricity generation beginning in late June 2015, Ms. Oyeyemi noted that this has reduced the authority’s reliance on the grid thereby driving down electricity costs. She explained that the projected increase in the Blue Plains’ demand from 19 MW in FY 2016 to 23MW by FY 2018 is for the new facilities (Filtrate Treatment and Wet Weather) anticipated to come online. Ms. Oyeyemi stated that due to the volatility in the market conditions and to ensure budget certainty, some of the Authority’s electric loads have been hedged through FY 2018. She also stated there is projected uptick in the utilities cost for natural gas and water usage in the digesters.

Mr. Firestine enquired if there were any expectations for budget savings in the approved FY 2017 budget based on the performance in FY 2016. Mr. Kim and Ms. Oyeyemi explained that while we are still at the early stages of the new fiscal year, management anticipates some underspending in the areas of chemicals, biosolids and electricity which is contingent upon the continued optimization and performance of the digester and CHP. In addition, it is pertinent to note that impact of the union agreement was not included in the FY 2017 budget. Ms. Oyeyemi mentioned that consistent with the refunds offered to wholesale customers in FY 2016, their proportionate share of any budget underspending will be reflected in FY 2017.

Ms. Oyeyemi reported that the outlook for chemicals based on historical cost trends are stable and the FY 2018 budget assumes lower pricing for some major chemicals such as methanol based on market conditions, continued treatment processes that uses less expensive replacement chemicals like lime slurry and projected reduction in the use of methanol when the Filtrate Treatment Facilities are completed. In summary, Mrs. Oyeyemi reiterated management’s high level of confidence that the Proposed FY 2018 Operating Budget would be sufficient to meet the Authority’s core business needs as they continue to manage any operational risks that might arise.

Mr. Kim provided an overview of the ten-year financial plan which comprises of the retail rates, charges, fees and revenues noting that the plan reflects the multi-year rate proposal of 5 percent increase in FY 2017 and FY 2018 as previously adopted by the Board. He stated that the Authority’s revenue sources are well diversified and the proposed increase in revenue requirements in the proposed FY 2018 revenues reflect a shift from wholesale customers to retail customers. Revenue comparison by customer class shows projected increase in retail revenues by $27 million from FY 2017 to FY 2018, while the wholesale revenue is projected to decrease by $5.4 million during same period. This fundamental change is as a result of the shift in CIP projects that are planned to be performed outside Blue Plains, such as the Clean Rivers and Tunneling Projects.

Mr. Kim discussed the impact of the Consent Decree modification on affordability which would have required additional $500 million spending on the clean rivers program between FY 2021 and FY 2025. Without the agreement, the Authority would have had to raise the needed funds through significant rate spikes for the projected water & sewer rate up to 7.5 percent or CRIAC rates up to $10.34 per month, thereby increasing the average residential customers’ bill.

Mr. Kim identified several operational risks that included the collective bargaining agreement, which expired on September 30, 2015; impact of higher plant flows on chemical costs, electricity usage, and biosolids production; new facilities slated to be placed into operation (such as Filtrate Treatment and the Wet Weather Facilities); changes in healthcare premiums; increased insurance premiums due to increased asset portfolio; and litigation reserves.

**Action Items**

The Committee agreed to move the following action items forward for Board approval and adoption:

* 1. Recommendation for Approval of the FY 2018 Proposed Budget
1. Fiscal Year 2018 Proposed Operating Budget, totaling $561,947,000
2. Fiscal Year 2017 – FY 2026 Capital Improvement Program totaling $3.75 billion and Lifetime Budget totaling $10.9 billion
3. Fiscal Year 2017 – FY 2026 Ten-Year Financial Plan with FY 2018 operating receipts totaling $617.2 million
4. Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing not to exceed $323,000,000 for FY 2018
	1. Recommendation for Approval of Expansion for the CAP Program to provide50 percent credit for eligible customers that are billed monthly for Clean Rivers Impervious Surface Area Charge (CRIAC)

**Adjournment**

The meeting was adjourned at 12:06 p.m.

**FOLLOW-UP ITEMS – Joint Meeting of the DC Retail Water and Sewer Rates and Finance and Budget Committees (November 15, 2016)**

1. Modify the Comparison by Cost Category table for the FY 2018 Operating Budget to include the FY 2016 Projections and Capital Labor.