



**MINUTES OF THE JOINT MEETING
OF THE DC RETAIL WATER AND SEWER RATES
COMMITTEE & THE FINANCE AND BUDGET
COMMITTEE
JANUARY 28, 2025
(via Microsoft Teams)**

DC RETAIL WATER AND SEWER RATES COMMITTEE MEMBERS PRESENT

1. Rachna Bhatt, Principal, Chair
2. Howard Gibbs, Principal, Vice Chair
3. Anthony Giancola, Principal
4. Richard Jackson, Principal
5. Jed Ross, Principal
6. Unique Morris-Hughes, Principal

FINANCE AND BUDGET COMMITTEE MEMBERS PRESENT

1. Anthony Giancola, Principal, Chair
2. Richard Jackson, Principal
3. Sarah Motsch, Alternate

DC WATER STAFF

1. David Gadis, Chief Executive Officer and General Manager
2. Marc Battle, Chief Legal Office and EVP, Government and Legal Affairs
3. Matthew Brown, Chief Financial Officer and EVP, Finance, Procurement and Compliance
4. Wayne Griffith, Chief Administration Officer and EVP
5. Jeffrey Thompson, Chief Operating Officer and EVP
6. Lola Oyeyemi, Vice President, Budget
7. David Parker, Vice President, Engineering
8. Michelle Rhodd, Secretary to the Board

The joint meeting of the DC Retail Water and Sewer Rates and the Finance and Budget Committees was called to order by Anthony Giancola, Chairperson, at 10:04 AM. Board Secretary Michelle Rhodd called the roll.

I. PROPOSED FY 2026 BUDGET

Matthew Brown, Chief Financial Officer and EVP, Finance, Procurement and Compliance presented the proposed FY 2026 Budget, noting that this discussion contained additional details of the budget summary that was presented at the Board Budget Workshop earlier in the month.

Mr. Brown reviewed the budget adoption calendar. This proposal will be reviewed by the Environmental Quality and Operations, Finance and Budget, and DC Retail Water and Sewer Rates committees in January and February, with recommendation to the Board for adoption on March 6, 2025.

The proposed FY 2026 Operating Budget is \$838.1 million is an increase of \$49.9 million over the current fiscal year. The proposed Ten-Year Capital Improvement Program (CIP) budget is \$9.62 billion, which is an increase of \$1.88 billion over the current CIP.

Next, Mr. Brown reviewed the proposed FY 2026 Budget's sources and uses of funds totaling \$1.01 billion. Major categories of expenditures include personnel and infrastructure investments. Debt service comprises 26.9 percent of the proposed budget and services the debt of \$3.8 billion in previously borrowed funds for the capital program. The sources and uses of the Ten-Year CIP totaled \$9.62 billion. The major uses of the CIP budget include water projects at 29.8 percent, sewer projects at 28.3 percent, and wastewater treatment at 18.3 percent. An additional issuance of \$4 billion revenue bonds is anticipated to continue infrastructure upgrades over the next ten years. Mr. Brown noted that Congress is discussing removing tax-exempt status for bonds for entities such as DC Water, which would have significant negative consequences for the Authority and could amount to an additional \$45 million each year in debt service costs each year. Mr. Brown informed the committee of the various executive orders regarding federal grants, and noted staff will continue to monitor the status for any significant impact.

Mr. Brown provided details of the Proposed Revised FY 2025 Operating Budget and FY 2025 and FY 2026 Operating Revenues. The Proposed Revised FY 2025 Operating Budget includes reprogramming \$5.5 million from debt service to Cash Financed Capital Improvements (CFCI) for PAYGO to reduce future borrowing costs and revenue increases mainly for retail and wholesale revenues, and fire protection fees.

Lola Oyeyemi, Vice President of Budget, compared the FY 2025 and FY 2026 operating budgets. For FY 2026, proposed expenditures are approximately \$838.1 million, an increase of \$49.9 million or 6.3 percent, highlighting the largest expenditures being personnel service and debt service.

Ms. Oyeyemi reported DC Water successfully closed the FY 2024 fiscal year with strong financial performance at 97 percent of the overall budget. Ms. Oyeyemi congratulated CEO Gadis, the Senior Executive Team (SET) and Finance team, as well as members of the accounting team who recently received an unmodified "clean" audit opinion for DC Water's FY 2024 financial statement. The amended FY 2025 operating budget remains

the same, due to the reprogramming of \$5.5 million from Debt Service to CFCI. The proposed FY 2026 operating budget will increase \$49.9 million compared to the FY 2025 level.

Next, Ms. Oyeyemi reviewed the various operating budget cost categories and variances. Personnel services for FY 2026 account for \$217.5 million of expenditures, an increase of \$7.8 million, which includes salary and wage adjustments, merit and step increases, and other adjustments in accordance with the union agreement ratified this fiscal year. She noted the increase of \$2.1 million for overtime to address the growing need for emergency repairs to aging infrastructure, boil water events, and equipment outages. Ms. Oyeyemi reported the employee headcount of 1,283 reflects the elimination of 45 hard-to-fill vacant positions, and the addition of 3 new positions. The elimination of the 45 hard-to-fill vacant positions will save our customers at least \$5.0 million a year going forward. The vacancy rate for FY 2026 is assumed at 5 percent, compared to seven percent assumed in FY 2025.

Finance and Budget Committee Chairperson Giancola stated he is not in support of lowering the vacancy rate to five percent as he does not feel this is obtainable. He also noted that the net reduction of 42 positions should offset the projected increase in personnel costs. Ms. Oyeyemi noted that personnel increases are largely tied to the union agreement, which stipulates a three percent annual increase per year. She also noted that People and Talent is investing in hiring and as of last month, had reduced vacancies to seven percent from nine percent in September 2024, making the five percent goal achievable if the trend continues. Retail Water and Sewer Rates Committee Chairperson Bhatt asked if the projected vacancy rate was a result of People and Talent setting a goal for the staffing level they would like to see. Ms. Oyeyemi noted it was a combination of factors. Ms. Bhatt stated that she would like to make sure the vacancy rate is not being pushed down by eliminating positions and that the vacancy rate goal is based on what is ideal for DC Water.

Ms. Oyeyemi went on to review the chemicals and supplies budget, which includes an increase of \$1.9 million, mainly for critical parts and supplies to maintain DC Water's equipment and facilities. The utilities budget includes an increase of \$1.3 million mainly for electricity costs for capacity prices.

Ms. Oyeyemi discussed details of contractual services and the major budget changes, highlighting the FY 2026 budget remains flat at about \$102.3 million. Although maintenance and software and hardware costs have increased, adjustments were made in other areas, particularly in professional services. Water purchases are budgeted at \$48.1 million, an increase of \$2.8 million based on DC Water's share of the Washington Aqueduct's budget which includes funding for the McMillan Sewer backwash system and dredging of the Little Seneca Reservoir by the Washington Aqueduct. Small equipment is budgeted at \$1.5 million, an increase of \$0.2 million for rental of two cranes for use at Blue Plains.

Next, 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 capital labor charges are expected to decrease by \$3.2 million due to the elimination of vacancies, mainly in the engineering departments.

Debt service is the largest driver in the operating budget and represents approximately 33 percent of the net operating expenditure budget and 27.1 percent of operating revenue in FY 2026. She reported that \$4.2 billion is anticipated to be borrowed to fund the capital program over the ten-year period, with debt service costs projected to grow from \$244.0 million in FY 2025 to \$509.6 million by FY 2034 (an approximate 109 percent increase).

Finance and Budget Committee member Jonathan Butler inquired if there is a debt service ceiling. Mr. Brown stated that there is a management cap of 33 percent of operating revenues. Mr. Giancola noted that the projection for FY 2034 is that debt service will be 41.8 percent for the CIP and asked what the combined debt service cost will be at that time. Mr. Brown stated that the combined debt service cost for FY 2034 would reach 33 percent of revenues in the ten-year financial plan.

Ms. Oyeyemi concluded with potential budget risks, which include a significant increase in overtime, the impact of market volatilities on utility costs, inflationary pressures on professional services, supplies and chemicals, equipment and facilities, insurance premiums, and the potential impact of unanticipated litigation.

Mr. Giancola noted that the amount budgeted for overtime had been increased from \$9 million to \$11 million, and he praised this decision. He also suggested increasing the vacancy rate proposed for FY 2026 from five percent to seven percent.

Capital Improvement Program

Mr. Brown reviewed the Proposed FY 2025 – FY 2034 CIP of \$9.6 billion, an increase of \$1.88 billion over the current Board-approved CIP. The CIP funds major programs like the mandated Clean Rivers program and allocates \$1.1 billion for the Lead-Free DC program. He noted DC Water uses federal grants to fund the private side replacements, therefore the executive orders, signed by the new Executive administration, may have an impact on receipt of federal funds that will impact the program for private side replacements. Additionally, the CIP allocates funds for more than 150 miles of small-diameter water main replacement, invests \$4.5 billion in the aging water and sewer system infrastructure, directs \$1.8 billion to major rehabilitation and upgrades at Blue Plains, allocates \$500.8 million for DC Water's share of the Washington Aqueduct's infrastructure program, and provides \$350.8 million for the purchase/replacement of vehicles, and Information Technology projects.

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. He noted that the Authority is likely not investing enough in upgrading our assets, and there is a need to increase the investment in upgrading old infrastructure. A revised CIP budget will be submitted the following year to address infrastructure needs and subsequent costs to our customers.

Mr. Butler asked if there should be a line item in the CIP budget that reflects some investment in a second source of water for the District. Mr. Brown noted that one project is dedicated to second source, but the complete project would cost well over \$1 billion, and it is not included in the budget, but the initial work on water resiliency is included within the ten-year CIP. David Parker, Vice President of Engineering, stated that part of the funding request will look at the Blue Plains facility and possible reuse, reclamation, or high-level treatment in relation to a second source. There are also projects included to provide additional water storage of both finished and raw water. Mr. Giancola requested the budgeting for a second source be more visible in future budgets and to provide additional details regarding earmarks for design or studies in the next Finance & Budget or Environmental Quality committee meetings.

Retail Water and Sewer Rates Committee member Jed Ross requested a budget conversation regarding federal funding for the Washington Aqueduct. He also requested the Authority's previous insurance premiums presentations provided last year ahead of annual renewals this year.

Mr. Brown reviewed the Capital Equipment budget of \$32.5 million, a net increase of \$1 million over the FY 2025 budget. Debt service costs for current debt are projected to be approximately \$7.1 billion over the next 30 years through 2054. He noted that to advance the capital program, DC Water will need to borrow an additional \$4.1 billion over the next ten years.

Mr. Brown provided details of the Proposed Revised FY 2025 Revenues of \$951.9 million and Proposed FY 2026 Revenues of 1,011.4 million, highlighting the diverse sources of revenue. Mr. Brown provided a review of projected rate increases in each of the next ten years. He noted that near-term rate increases are slightly lower than original projections due to increased revenue in the FY 2025 budget. Chairperson Giancola asked if the projected rate increases table could be augmented with the projected national inflation rate for each year. 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.

Over the next ten years, DC Water anticipates receiving \$400.8 million in grants, about 4.2 percent of anticipated capital expenditures. A significant portion of this funding will be used for the Lead-Free DC Program.

Board Chair Unique Morrison Hughes, inquired if there had been information from grant

providers regarding the impact of President Trump's executive order stopping grant funding. Mr. Brown stated that information received to date from the EPA Regional office that they anticipate continuing to process reimbursements for grants that have already been awarded. He noted that an update will be provided to the Board in each of Mr. Gadis' weekly reports.

DC Water uses the ten-year financial plan to monitor its financial progress and to help 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 the goal of 350 days, and tracking overall trends with consumption and debt. Details of the ten-year plan were included.

Mr. Brown discussed the Intent to Reimburse Capital Expenditures, which is a requirement to allow DC Water to reimburse itself for capital expenditures with debt proceeds. The combined amount requested for FY 2025 and FY 2026 is \$785.0 million. DC Water plans to enter the bond market in Summer 2025.

In closing, Mr. Brown reminded the Committee the respective recommendations and actions from the various Committees that will occur in February with final budget adoption by the full Board on March 6, 2025.

II. ADJOURNMENT

The meeting adjourned at 11:01 AM.

FOLLOW-UP ACTIONS

1. Ensure the budgeting for water second source be more visible in future budgets and to provide additional details regarding earmarks for design or studies in the next Finance & Budget or Environmental Quality committee meetings. **(Mr. Giancola)**
2. Initiate budget conversation regarding federal funding for the Washington Aqueduct. **(Mr. Ross)**
3. Provide the Authority's previous insurance premiums presentations provided last year ahead of annual renewals this year. **(Mr. Ross)**
4. Update the projected rate increases table with the projected national inflation rate for each year. **(Mr. Giancola)**