



**MINUTES OF THE MEETING
FINANCE AND BUDGET COMMITTEE
FEBRUARY 27, 2025
(Via Microsoft Teams)**

COMMITTEE MEMBERS PRESENT

1. Anthony Giancola, Chair, District of Columbia
2. Jonathan Butler, Vice Chair, Prince George's County
3. Sarah Motsch, Alternate, Fairfax County

DC WATER STAFF

1. David Gadis, Chief Executive Officer and General Manager
2. Matthew T. Brown, Chief Financial Officer & EVP
3. Marc K. Battle, Chief Legal Officer & EVP
4. Jeffrey Thompson, Chief Operating Officer & EVP
5. Michelle Rhodd, Board Secretary

The DC Water Finance and Budget Committee meeting was called to order by Anthony Giancola, Chairperson, at 9:30 AM. Board Secretary Michelle Rhodd called the roll.

I. MONTHLY REPORT TO THE FINANCE AND BUDGET COMMITTEE

Lola Oyeyemi, Vice President of Budget, presented the monthly financial report for January 2025 by exception.

As of the end of January 2025, with approximately 33 percent of the fiscal year completed, total operating revenues were favorable to budget at \$351.1 million, or 37.9 percent of the annual budget; operating expenditures were \$229.6 million, or 29.1 percent of the budget; and capital disbursements were \$181.4 million, or 24.8 percent of the budget.

Ms. Oyeyemi informed the Committee that the Annual Comprehensive Financial Report and the Green Bond Report are anticipated to be completed in February 2025. The IMA Operating & Maintenance Settlement and the Office of Management and Budget (OMB) Uniform Guidance Audit will be completed in March 2025. Proposed FY 2026 budget meetings were held with the Office of the People's Counsel and Wholesale Customers, and representatives of the finance office testified at the DC Council Public Oversight Hearing for FY 2024 – FY 2025 on February 20th. Mr. Giancola commended the staff for

their excellent performance during their testimony and noted he was impressed with the very positive response to the Q&A session.

Total operating revenues were at \$351.1 million, with a year-to-date favorable variance of 36.4 million, mainly in the Residential/Commercial/Multi-Family category due to higher than anticipated consumption. Favorable variances within the Wholesale Customer and All Other categories, are due to Blue Drop receipts, a portion of which was applied as a credit to the Wholesale Customers category and DC Water's share was included in the Other Revenue category.

Total operating expenses were \$229.6 million, with a year-to-date favorable variance of \$7.7 million or 29.1 percent of the budget. Ms. Oyeyemi noted a pending revision to the operating budget to leverage debt service savings and transfer to Cash Financed Capital Improvements (CFCI). At the end of January 2025, there were 1,146 filled staff positions, and the year-to-date vacancy rate was 7.3 percent. An unfavorable variance of 3.6 percent in water purchases was due to higher consumption and Ms. Oyeyemi noted staff will closely monitor this account. Capital disbursements totaled \$181.4 or 24.8 percent of the budget, and a detailed project performance will be provided by Engineering at this meeting. Cash investments, including the Rate Stabilization Fund balance of \$35.6 million and unspent bond proceeds totaled \$607.9 million. The operating interest income for the month of January was \$1.5 million for a total of \$4.9 million year-to-date.

Jonathan Butler noted that capital disbursements should be guided by a master plan that would dictate spending for the term and inquired why spending was below budget for some months. Mr. Matthew T. Brown, Chief Financial Officer & EVP Finance, explained that a monthly view of capital expenditures is not always useful as these funds are spent on a per-project basis for projects that may span months or years. Mr. Brown suggested that better measures for capital program implementation are project start and end dates and minimizing change orders. Chairperson Giancola noted that another useful measure of capital project success is to determine which projects are proceeding on schedule.

Retail account delinquencies fell slightly in January in both dollar value and the number of delinquent accounts, which was \$35.5 million for 11,709 accounts. It was noted that delinquencies were a topic of discussion at the recent DC Council Public Oversight Hearing.

II. CAPITAL IMPROVEMENT PROGRAM QUARTERLY UPDATE

Paul Guttridge, Director of CIP Infrastructure Management, provided the status of Capital Improvement Program (CIP) projects and Key Performance Indicators (KPIs) through the 1st Quarter of FY 2025. The period covers October through December 2024. Mr. Guttridge noted that the updates are provided quarterly rather than monthly as capital spending is

variable over the short term but smooths out with a longer span. A graph was presented which summarized actual disbursements for the CIP compared to baseline and current projections. The total baseline budget for FY 2025 is \$650 million. Through the first quarter, actual CIP disbursements were \$122 million, which is 19 percent of the total baseline budget for FY 2025.

Mr. Guttridge noted that there are 52 scheduled KPIs for projects in the CIP for FY 2025. He noted the Lead-Free DC (LFDC) program and Water Service Area programs are projected to be over budget for the year, while the Sanitary Sewer Service Area program is projected to be under budget by year end.

Service Area updates were provided for the Water Service, Sanitary Sewer and Non-Process Facilities. Mr. Guttridge highlighted ongoing project contract spotlights and accomplishments achieved in each area. For the Water Program, the valve and fire hydrant assessment has been completed and next steps are underway.

Mr. Guttridge discussed changes to project scheduling and tendering using the collaborative project delivery method. Where possible, programs are bundled to attract larger national contractors to deliver projects more efficiently and effectively.

III. PROPOSED FY2026 BUDGET

Mr. Brown provided an overview of the Revised FY 2025 and Proposed FY 2026 budgets, with a goal to obtain the committee's recommendation to the full Board for the following items: the Proposed Amended FY 2025 and Proposed FY 2026 Operating Expenditure Budget, Proposed Revised FY 2025 Operating Revenue Budget, Proposed FY 2025 – FY 2034 Capital Improvement Program (disbursements and lifetime), including the Proposed FY 2026 Capital budget, Proposed FY 2025–FY 2034 Financial Plan, and Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing.

Mr. Brown reviewed the budget adoption calendar and noted the Finance and Budget Committee's review and recommendation represented the final required committee review before the budget is reviewed by the Board on March 6, 2025, for submission to US Congress via the District of Columbia.

The proposed operating budget for FY 2026 is \$838.1 million, which is an increase of \$49.9 million. The proposed 10-year capital improvement program budget is \$9.62 billion, which is an increase of \$1.88 billion. The proposed financial plan includes previously approved FY 2026 rates and fees, forecasts annual rate adjustments, and meets Board financial policy requirements.

Mr. Brown reviewed the details of the sources and uses of funds for FY 2026 operating and the ten-year capital program. He informed the Committee that operating revenues for

FY 2026 are expected to exceed \$1 billion. Debt Service will comprise approximately 26.9 percent of the use of funds and 18.4 percent will be used for personnel services. The Proposed of \$9.62 billion includes \$3.2 billion that will be funded by cash via PAYGO financing and 20 percent of capital funding will be from wholesale customers.

Mr. Brown reviewed the proposed changes to the FY 2025 Operating Budget. He explained due to the debt refinancing in the last fiscal year, \$5.5 million is reprogrammed from debt service to Cash Financed Capital Improvement (CFCI) to reduce future borrowing costs. Higher projected water consumption income will be reflected in a \$16.1 million increase to retail revenue and Other Revenue will be increased by approximately \$9.4 million to reflect the increased fire protection fee.

Next, Mr. Brown highlighted the adjustments to the proposed FY 2026 personnel services budget which reflects increases for staff vacancies, overtime, leave adjustments, three new positions, and also proposes the elimination of 45 vacancies. The proposed five percent vacancy rate was maintained with a value of approximately \$3.5 million compared to 7 percent.

He also addressed potential risk and opportunities for the budget including headwinds from federal funding and potential tariffs to consider, and a further possibility that the tax-exempt status of DC Water bonds may be at risk.

The proposed ten-year CIP budget of \$9.62 billion includes a \$1.88 billion increase over the current Board-approved CIP to reflect added work including the Potomac Interceptor and greater investment in addressing aging sewer and water systems. Chairperson Giancola inquired whether the investment in small diameter and sewer lines would at any time approach or exceed two percent. Mr. Brown noted that this topic would be addressed with the Board in the next several months and stated that Engineering had estimated an additional \$5 to \$10 billion in additional capital needs. He also noted that approximately 96 percent of DC Water's budget is from rate payers and only a very small portion from grants, necessitating rate increases beyond what was projected for additional spending. Chairperson Giancola discussed mandated programs such as Clean Rivers and LFDC that are limiting investments in infrastructure improvements, which are not mandated, and stated that this is a significant concern.

Mr. Brown reviewed the breakdown of revenues and the table of historical and projected combined rate increases, noting higher increases over the next four years and somewhat lower increases from 2030 to 2034, based on the initial financial plan. Due to higher-than-expected revenue, the increases in the near years have been reduced in the revised plan and increased in the outer years.

Mr. Brown reviewed the revised 10-year financial plan. The plan has been revised to use a more conservative assumption regarding true-ups, resulting in an adjustment of approximately \$16 million over the length of the plan.

Mr. Brown presented the Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing, seeking approval to reimburse DC Water for “Costs of the System” as defined in the Master Indenture that allows DC Water to reimburse itself for capital expenditures with debt proceeds. He noted that DC Water plans to enter the market in summer of 2025. Chairperson Giancola inquired why this activity will be delayed until summer. Mr. Brown explained that there are additional debt actions that need to be taken and it is prudent to package debt transactions to take place at one time where possible.

In conclusion, Mr. Brown presented the management recommendations and action items. Mr. Brown expressed gratitude to staff involved in the budget formulation process highlighting the extensive collaboration between Finance, Engineering and all departments since summer 2024.

IV. ACTION ITEMS

Committee members recommended approval of the following items to the full Board:

- Recommendation for Approval of the FY 2025 Amended and FY 2026 Proposed Budgets
 - Fiscal Year 2025 Revised Operating Budget
 - Fiscal Year 2026 Proposed Operating Budget
 - Fiscal Year 2025 Revised and Fiscal Year 2026 Proposed Operating Revenue Budget
 - Fiscal Year 2025 – 2034 Capital Improvement Program (Ten-Year Disbursement Plan and Lifetime Budget)
 - Fiscal Year 2025 – 2034 Financial Plan
 - Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing

V. AGENDA FOR THE MARCH 2025 COMMITTEE MEETING

The agenda for the March 2025 committee meeting includes the February 2025 monthly financial report, and a property and casualty insurance renewals update.

VI. ADJOURNMENT

The meeting adjourned at 10:08 AM.