



**MINUTES OF THE JOINT MEETING
DC RETAIL WATER AND SEWER RATES &
FINANCE AND BUDGET COMMITTEES
JANUARY 27, 2026
(via Microsoft Teams)**

RETAIL WATER AND SEWER RATES COMMITTEE MEMBERS PRESENT

1. Howard Gibbs, Principal, Vice Chair, District of Columbia
2. Anthony Giancola, Principal, District of Columbia
3. Alexander McPhail, Alternate, District of Columbia
4. Jimmy Ortiz, Alternate, District of Columbia

FINANCE AND BUDGET COMMITTEE MEMBERS PRESENT

1. Anthony Giancola, Principal, District of Columbia, Chair
2. Fariba Kassiri, Principal, Montgomery County

DC WATER STAFF

1. David L. Gadis, CEO/General Manager
2. Lola Oyeyemi, Interim Chief Financial Officer & EVP
3. Kirsten Williams, Chief Administrative Officer & EVP
4. Matthew T. Brown, Chief Operating Officer & EVP
5. Amber Jackson, Chief People Officer and EVP & Interim Chief Legal Officer
6. Barbara Mitchell, Associate General Counsel and Director of Government and Legal Affairs
7. Moussa Wone, Chief Engineer and Vice President, Engineering & Clean Rivers
8. Michelle Rhodd, Secretary to the Board

The joint meeting of the DC Retail Water and Sewer Rates Committee and the Finance and Budget Committee meeting was called to order by Anthony Giancola, Chairperson, at 10:23 AM. Board Secretary Michelle Rhodd called the roll.

I. PROPOSED FY 2027 BUDGET AND TWO-YEAR RATES

Lola Oyeyemi, Interim Chief Financial Officer & EVP, presented the proposed FY 2027 budget and two-year rate proposal and the ten-year capital improvement Program (CIP). She reviewed the budget calendar which includes multiple meetings with the Board, committees, and stakeholders. Committee recommendations and actions are expected

in February, with full Board adoption of the proposed budgets and two-year rates anticipated on March 5, 2026. Public outreach and hearings are planned for the spring.

The proposed FY 2027 operating budget is \$844.1 million and the 10-year Capital Improvement Program (CIP) is at \$9.69 billion with a \$67 million increase. The proposed rates for the next two years include a 6.0 percent annual increase for volumetric water and sewer rates, a Clean Rivers Impervious Area Charges (CRIAC) fee of \$25.50 per equivalent residential unit (ERU) in FY 2027 and \$27.22 in FY 2028 and increases for Payment in Lieu of Taxes (PILOT) and groundwater rates. Several fees, including right-of-way, customer metering, and high-flow backwash, remain unchanged.

A new public inconvenience fee of \$0.42 per Ccf will be introduced in FY 2027 to recover costs associated with occupancy permits when construction projects in public spaces extend beyond 30 days. The average residential customer will pay approximately \$2.28 per month. This fee is expected to generate \$12.7 million annually or \$127 million over 10 years and required to pay the previously waived permit fees charged by DDOT.

Overall, the combined rates for the average customer are projected to rise by 6.6 percent in FY 2027, down from the previous forecast of 6.7 percent, and by 5.3 percent in FY 2028, down from the previous forecast of 5.7 percent. Without the public inconvenience fee, the FY 2027 increase would have been approximately 5 percent for the average residential customer.

DC Water Retail Water and Sewer Rates Committee member Alexander McPhail asked how the \$127 million over 10 years cost of the inconvenience fee was calculated. Ms. Oyeyemi stated that of the \$12.7 million annual cost, about \$10.5 million is allocated to Lead Free DC work, \$3.2 million to small-diameter water main replacement, and \$1.4 million to large water main projects in the District. These cost estimates were used in calculating the inconvenience fee.

Next, Ms. Oyeyemi highlighted management's commitment to customer affordability and reviewed the various Customer Assistance Programs (CAPs) and their income thresholds. CAP customers typically receive about a 68 percent discount on their monthly bills.

The FY 2027 operating sources and uses are balanced at \$1.07 billion. Debt Service and Pay-Go are projected to be the largest expenditures supporting the capital program. The 10-year CIP sources and uses of funds is \$9.69 billion. The CIP sources include \$3.3 billion in additional borrowing and \$3.1 billion in Pay-Go funds, making up 67 percent of CIP financing. Wholesale Customer contributions account for 21.3 percent, and federal grants is 4.3 percent.

Ms. Oyeyemi explained that the financial plan includes an Assumed CIP Spend Rates category of \$709 million, representing a portion of the CIP that will not be spent. This portion is consistent with historical spending patterns for the CIP. The proposed customer

rates are based on the assumption that 90 percent of the CIP budget will be spent, except for the mandated Clean Rivers, Capital Equipment and the Washington Aqueduct. Without this assumption, the average residential bill increase in FY 2027 would have been higher at 7.3 percent, compared to the proposed increase of 6.6 percent. She added that over 10 years, projected cumulative increases are lower at 52.2 percent compared to 56 percent without factoring. Excluding District Department of Transportation (DDOT) fees, the rate increase would be approximately 5 percent in FY 2027.

Finance and Budget Committee Chair Anthony Giancola noted past delays with completing some capital projects and asked whether the budget aligned rates as closely as possible with actual expenditure levels. Matthew Brown, Chief Operating Officer and EVP, confirmed that research was conducted with the Authority's financial advisor and peers to understand the best way to align budgeting with capital expenditures to minimize increases. He noted the complexity of budgeting capital expenditures, given that project costs are not consistent year to year and some projects extend beyond the 10-year budgeting cycle. He also noted that the only project where spending is obligatory and funds required in advance is the Washington Aqueduct due to the Aqueduct's interpretation of the Anti-Deficiency Act.

Ms. Oyeyemi discussed proposed budget amendments for the current year, including the reprogramming of approximately \$24.4 million from Debt Service to Pay-Go to reduce future borrowing. The proposed revision of \$3.2 million in the operating revenue budget is mainly due to lower consumption for the Federal customers due to resolution of leakage at JBAB. Additionally, there is an increase in Potomac Interceptor costs for wholesale customers, and interest earnings based on current forecasts.

Proposed Capital Improvement Program

Mr. Brown reviewed the proposed CIP, beginning with the 10-year disbursement budget of \$9.69 billion and the lifetime project budget of \$17.4 billion. He noted that completing the two tunnels and the remaining green infrastructure projects for the Clean Rivers project would require \$1.3 billion in spending. He noted that the CIP has been prioritized based on consequences and risk of failure, with large sewers and transmission mains prioritized, as well as work on the Potomac Interceptor (PI) to address the recent collapse.

Mr. Giancola noted that the PI collapse must be addressed immediately and asked about its impact on the outer years of the 10-year CIP. Mr. Brown stated that the impact was not expected to be significant. Moussa Wone, Chief Engineer and Vice President, Engineering and Clean Rivers, noted the affected section of the PI was extended to almost two miles in length to ensure all vulnerable sections of the pipe are addressed. The Authority is in an active procurement process to address the collapse.

Dr. Wone then reviewed the proposed 10-year CIP budget noting that detailed presentation on the CIP for the various service areas was delivered to the Environmental Quality and Operations committee this month. He highlighted that the proposed CIP is

relatively flat compared with the approved CIP. Key changes include accelerating the Advanced Metering Infrastructure (AMI) meter replacement program and reallocation of some software from operating to capital equipment. Water and Sewer projects make up 57 percent of the 10-year CIP. Clean Rivers spending will decline as the project wraps up in 2030. Lead Free DC is included but extends beyond the current CIP, ending in 2037 per regulations.

Mr. Brown observed that the plan was financially constrained, and shaped by affordability, ability to implement, and contractor capacity. Alternative scenarios were considered and ranged from \$12 billion to over \$20 billion which would have required double-digit rate increases over multiple fiscal years. There was a collaborative effort between finance and engineering to ensure that costs and risks were balanced to arrive at the proposed amounts.

Ms. Oyeyemi then reviewed the Authority's debt service costs. The debt at the end of FY 2025 was \$4.1 billion. Another \$3.6 billion in borrowing is projected to advance the CIP over the next 10 years, which will drive additional rate increases. Debt service is anticipated to account for approximately 31.7 percent of net operating expenses and 24.4 percent of operating revenue in FY 2027. The financial plan sets a target for debt service as a percentage of operating revenues at 33 percent or less, and the current projections comply with this objective. Further, debt service is expected to increase from \$247.4 million in 2026 to nearly \$472.6 million by 2035.

Kirsten Williams, Chief Administrative Officer and EVP, discussed the inconvenience fee and its impact on the Lead Free DC program. She noted that it is a unique project because, without a specific mandate, the Authority relies on customer partnerships to obtain right-of-entry forms. This means staying longer on each block. Moving on and off blocks within 30 days would increase costs due to repeated street restoration and curb-to-curb work. The Authority continues to consult with the DC Council and its executive office to emphasize the importance of partnership between DC Water and the city in completing the project.

Proposed Operating Expenditure Budget

Ms. Oyeyemi reviewed the process improvements implemented during the budget cycle. Following the internal auditors' feedback, DC Water introduced performance-based budgeting and later implemented program-based budgeting to enhance transparency and align with best practices. This approach will guide future budget decisions to better align with Blueprint 2.0.

The proposed FY 2027 operating budget is \$844.1 million, an increase of \$5.9 million or 0.7 percent compared to FY 2026. The personnel services budget includes a \$9.5 million increase for merit consistent with union agreements, overtime to address emergency repairs and other salary adjustments. The authorized headcount remained at the Board-authorized level of 1283 FTEs with a vacancy rate of 5 percent assumed in the budget.

Ms. Oyeyemi explained that a new Governmental Accounting Standards Board (GASB) requirement requires sick leave to be accrued, impacting future budgets. Between 2022 and 2025, leave adjustments rose by 15 percent or \$3 million. Ms. Oyeyemi noted that vacancy savings may help address overtime needs and ensure adequate staffing while recruitment efforts are ongoing to lower the vacancy rate and meet targets.

Mr. Giancola stated skepticism of a 5 percent vacancy rate and noted that overtime increases should already be included in the budget. Ms. Oyeyemi replied that further increases were needed to cover the sick leave accrual and other expenses. Mr. McPhail also observed that historical and projected headcount figures are unrealistic, while Chair Giancola noted that funds remain in personnel services each year due to higher-than-projected vacancies. Ms. Oyeyemi explained that funds are required in the budget to ensure that all departments can hire the personnel they need. She also noted that the Board has flexibility and the authorization to redirect any favorable net position to areas of need as part of the mid-year projections process.

Ms. Oyeyemi then reviewed the operating budget comparison by cost category. The fixed cost for chemicals and supplies totals \$60.2 million, including a \$1.4 million increase for chemicals and \$1.3 million for critical supplies. She explained that the decrease in the contractual services category was mainly due to the reallocation of some software costs to capital. There were increases for maintenance, repairs, cleaning, insurance, and other professional services. Water purchase also increased and reflects DC Water's share of approximately 75 percent of the Washington Aqueduct's operating costs.

Ms. Oyeyemi noted that while the budget is conservative, there are various risks that may impact the budget such as market volatility, overtime impacts, legal cases, and insurance policy requirements. DC Water will continue to manage these risks within the overall proposed budget.

Proposed Operating Revenues, Rates, Fees and Charges

Syed Khalil, Vice President, Rates and Revenue, reviewed the FY 2026 vs FY 2027 operating revenues, noting year-over-year growth is driven mainly by rate increases and public inconvenience fees. The metering and water system replacement fees are unchanged. Residential, commercial, and multi-family categories are expected to increase due to rate increases in both FY 2027 and FY 2028. Federal contributions remain steady, while wholesale revenue increase is due to increase in indirect cost rate from 20 percent to 25 percent and operations and maintenance expense projection. Other revenue will increase in FY 2027, largely driven by the public inconvenience fee of \$12.7 million, resulting in total other revenue of \$13.8 million.

Rate highlights include the lifeline rate, a reduced rate offered to residential customers in FY 2027, set at \$6.49 per Ccf (0-4 Ccf) compared to the regular rate of \$8.40 per Ccf (>4 Ccf). This provides a discount for the first four Ccf consumed, incentivizing reduced usage

and greater savings. The rate increases has shifted from Sewer to Water rate reflecting a reallocation of investment focus toward water service. The groundwater rate increases to \$3.90 in FY 2027 and is unchanged in FY 2028. The Right-of-Way Fee, Customer Metering Fee, Water System Replacement Fee, and High-Flow Filter Backwash Rate for FY 2027 and FY 2028 will remain the same as FY 2026.

In the Proposed Financial Plan, the projected rates increase for FY 2027 and FY 2028 are 6.6 percent and 5.3 percent respectively which are lower than last year's forecasts. Chair Giancola noted the lower rate increases in the outer years of the proposed plan and asked why the FY 2027 increase cannot be lowered as well. Mr. Khalil noted that the original proposed plan included a 5.0 percent increase for FY 2027, but the implementation of the inconvenience fee increased it to 6.6 percent.

Mr. Khalil explained that the CAP discounts for all CAP programs will increase in FY 2027 and FY 2028 under the proposed plan. For CAP+ program introduced in FY 2025, the monthly discounts for low-income customers are \$137.73 in FY 2027 and \$145.58 in FY 2028. The net bill for FY 2027 and FY 2028 will be \$19.07 and \$19.49 respectively.

The projected average monthly residential customer bill ranges from \$147 in FY 2026 to \$230 in FY 2035 and are lower than previous forecasts in the approved previous financial plan (\$138 in FY 2025 to \$245 in FY 2034).

Proposed Financial Plan

Ms. Oyeyemi reviewed the Authority's grant funding, noting that there is \$413.5 million available to support the CIP program, with approximately \$308.6 million coming from the Bipartisan Infrastructure Law (BIL) and the rest from other grants. She explained that with the requirement to replace brass as part of the Lead-Free DC Program, the EPA and DOEE funds totaling \$237.6 million will be used to remove lead lines on the private side. Federal grant funds for private side replacement will be fully utilized in 2032 with full brass replacement or in 2034 without brass replacement. Future Board policy decisions will be required to determine how funds will be made available for private side replacements.

Next, Ms. Oyeyemi reviewed the financial plan which serves as the fiscal roadmap to achieve the Board's strategic plan and is one of management's tools to monitor progress and ensure we meet or exceed all financial goals. This includes complying with debt requirements, maintaining strong debt coverage and liquidity ratios and debt service as a percent of operating revenues target. Maintaining strong credit ratings is crucial for securing lower borrowing costs for customers.

The Rate Stabilization Fund (RSF) has a balance of \$40.6 million. Ms. Oyeyemi reminded the Committee that the RSF policy was revised in 2023 to ensure that DC Water maintains a target of 5 percent of projected revenues. It also prioritizes using RSF for only emergencies or unplanned events to prevent future rate spikes and reduce expenses.

Ms. Oyeyemi reviewed the intent to reimburse capital expenditure to satisfy the requirement in the master indenture for DC Water to reimburse itself with debt proceeds for capital expenditures. The plan is to go to the market in the summer of 2027 to issue approximately \$476 million in new bonds.

In closing, Ms. Oyeyemi reviewed the budget adoption calendar noting that management will present the budget recommendations to the various Board Committees in February. She acknowledged the Board members' concerns about the proposed rate increases and emphasized balancing affordability with the need to address aging infrastructure and avoid major system failures. She expressed appreciation for the Committee's feedback and emphasized ongoing collaboration. Final budget adoption by the full Board is anticipated on March 5, 2026.

II. ADJOURNMENT

The meeting adjourned at 11:26 AM.

FOLLOW-UP ITEMS

1. Provide detail breakdown on how the 10-year cost of the inconvenience fee was calculated. **(Mr. Giancola & Dr. McPhail)**