

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

PUBLIC HEARING ON **Proposed Retail Rates, Fees & Charges** **for Fiscal Year 2019 & 2020**

Wednesday, May 9, 2018
6:30 p.m.

Metropolitan Council of Governments
777 North Capitol Street NE
First Floor (Training Room)
Washington, D.C. 20002

AGENDA

1. Call to Order Rachna Bhatt, Chairperson
2. Opening Statement..... Rachna Bhatt, Chairperson
3. DC Water Management Presentation..... Henderson J. Brown, IV., Interim General Manager
Proposed FY 2019 & 2020 Retail Rates, Fees Matthew Brown, Chief Financial Officer
& Charges
4. Presentation by Independent Consultant..... Amawalk Consulting
Proposed FY 2019 & 2020 Retail Rates, Fees & Charges
5. Public Witnesses
 - Pre-registered Speakers
 - Other comments (time permitting)
6. Closing Statement Rachna Bhatt, Chairperson
7. Adjournment..... Rachna Bhatt, Chairperson

**PROPOSAL TO AMEND 21 DCMR CHAPTER 40 ON
RETAIL RATES AND FEES**

**BOARD OF DIRECTORS OF THE
DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**



**OPENING STATEMENT OF TOMMY WELLS
CHAIRMAN OF THE BOARD OF DIRECTORS
DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**WEDNESDAY, MAY 9, 2018 AT 6:30 P.M.
METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
777 NORTH CAPITOL STREET NE
(FIRST FLOOR TRAINING ROOM)**

Good evening. My name is...

The purpose of this hearing is to receive public comment on DC Water's proposed FY 2019 and FY 2020 retail customer rates, charges and fees and then to make a recommendation to the full Board on these amendments. This year marks the second time that DC Water has adopted a two year budget, which is a more efficient way of budgeting. The rate and fee changes shared this evening are proposed to take effect in Fiscal Year 2019 and Fiscal Year 2020 (beginning on October 1, 2018 and October 1, 2019 respectively).

Joining me this evening are (list Board members in attendance...) and Board Secretary Linda Manley.

Ms. Manley, please call the roll to establish the required quorum for tonight's hearing.

(Ms. Manley calls roll)

For the record, DC Water was established by the Council of the District of Columbia in 1996 as an independent authority that has a separate legal existence within the District Government. DC Water operates the world's largest advanced wastewater treatment plant at Blue Plains and provides water and sewer services to all residents, visitors, institutions and businesses in the District of Columbia. Our drinking water comes from the Potomac River.

DC Water operates as a non-profit, unlike for-profit utilities in the electric or gas fields. We raise ONLY the amount of money we need to carry out our mission, including to look out for the current and future needs of the utility, as well as to fulfill federal mandates for cleaning up the river and providing safe and reliable drinking water and wastewater services.

The proposed rate adjustments before you tonight were published in the D.C. Register in March 16, 2018. In addition, DC Water last month wrapped up a series of Town Hall meetings in each of the District's eight wards to ensure that customers have an opportunity to review and comment on this budget proposal. We met with hundreds of District residents to hear from them about what we're doing right and what we need to work on.

One thing we heard over and over again is that recent increases in water and sewer bills have impacted our customers. We know this and we carefully reviewed the budget plan to understand the implications that increases will have on our customers. Also, DC Water leadership is continuing to work with District government in an effort to identify the most effective and efficient way to expand relief to low-to-moderate income customers.

Before we begin and hear from the public and DC Water's management, I will review the ground rules for this hearing:

- Individuals presenting testimony have up to five (5) minutes to speak.
- Representatives of an organization or group have a total of ten (10) minutes to address this committee.
- Those testifying should clearly state their name, name of organization (if any) and their address.
- Witnesses representing an organization should give a brief description of the organization, its services and its location.

Please keep in mind that we are here to listen to comments on the proposals noted in the DC Register only. If there are individual questions or concerns about a particular service or billing matter, management and staff are here to talk with you after the public hearing.

The Board gives equal consideration and weight to written comments that will be reviewed as we receive them. Written comments can be submitted to the Office of the Board Secretary, DC Water, 5000 Overlook Avenue, SW, Washington, DC 20032. You may also e-mail comments to imanley@dcwater.com.

In order to have written comments included as part of the *official hearing transcript*, they must be received no later than June 11, 2018.

The Board, however, will accept and consider comments through the time that final action is officially taken on any rate adjustments.

A final decision on the proposed rate increases will be made by only the members of the Board who represent the District of Columbia at the Board's regularly scheduled meeting on July 5, 2018.

DC Water Interim General Manager Henderson Brown will provide his testimony on the proposed rate adjustments and then we will hear a presentation from our independent financial consultant regarding the proposed FY 2019 and FY 2020 rates. Afterward, we will hear public comments on the proposal. Individuals who pre-registered will speak first and time permitting we will hear from others here tonight who wish to testify.

CLOSING:

We realize that rate increases are never a popular action to take. DC Water, however, stands by its obligation to provide our city with reliable and safe water and sewer service and to establish rates necessary to fulfill that mission. Management's rate proposal is posted on DC Water's website and the independent rate consultant's report will be posted on DC Water's website tomorrow. Thank you again for your time and your comments.

**PROPOSAL TO AMEND 21 DCMR CHAPTERS 1 & 41 ON
RETAIL RATES AND FEES**

**BOARD OF DIRECTORS OF THE
DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**



**TESTIMONY OF HENDERSON BROWN, ESQ.
INTERIM CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER
DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**WEDNESDAY, MAY 9, 2018 AT 6:30 P.M.
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GOVERNMENTS
777 NORTH CAPITOL STREET NE
(FIRST FLOOR TRAINING ROOM)**

Good evening Chairman Wells, members of the board, staff and customers. My name is Henderson Brown, and I serve as the interim Chief Executive Officer and General Manager of the District of Columbia Water and Sewer Authority, or DC Water. I am proud to lead an enterprise responsible for the health and well-being of more than 19 million people who live, work and visit the District of Columbia every year. I am here tonight to present our proposal to adjust the retail rates, fees and charges for Fiscal Year 2019 and Fiscal Year 2020 which begin on October 1, 2019 and October 1, 2020 respectively.

The last two years have been exciting times for DC Water. We strive to provide the very best water and wastewater service in the country and operate as the only water utility in the country that serves customers in three jurisdictions; Maryland, Virginia and the District of Columbia. Our work in DC took a historic step forward this year when we opened the first leg of our Clean Rivers tunnel system.

That network, aimed at preventing combined sewage and stormwater from entering the Anacostia and Potomac Rivers and Rock Creek, is a massive undertaking but it's already paying dividends. Within the first few weeks of operation, during a heavy rainstorm, the Anacostia Tunnel system diverted 170 million gallons of combined sewage from gushing into the Anacostia River. The

opening of that tunnel has put us squarely on a path to making the Anacostia swimmable and more enjoyable for generations to come – to be enjoyed by our children and their children.

I would also like to take this opportunity remind anyone listening – the Clean Rivers project, though expensive, is a federal mandate. We are required to meet that mandate and clean up the Anacostia and Potomac Rivers and Rock Creek. The costs are largely fixed. Our primary challenge at DC Water is developing the fairest and most equitable way of apportioning those costs.

Meanwhile, our finances remain solid. DC Water has an “AAA” credit rating from S&P and our innovation continues to be the envy of the industry. We are constantly refining our financial plan. The next two years anticipate overall rate increases of 5.9 percent and 5.7 percent. The Board-approved FY 2019 operating budget totals \$582.8 million. The biggest share of our budget, (about 35 percent), continues to be pay off the loans for the federally mandated Clean Rivers project and other debt associated with improvements to Blue Plains and the water and sewer conveyance systems. This is followed by payroll for our staff, contracts and other small expenses, including delivering safe drinking water and treating wastewater.

The chart before you presents the details of our retail rate proposal.

	Units	Current FY 2018	Proposed FY 2019	Proposed FY 2020
DC Water Retail Rates Water (Residential Lifeline 0 - 4 Ccf)	Ccf	\$ 3.39	\$ 2.91	\$ 3.06
DC Water Retail Rates Water (Residential > 4 Ccf)	Ccf	\$ 4.26	\$ 3.90	\$ 4.10
DC Water Retail Rates Water (Multi-Family)	Ccf	\$ 3.80	\$ 3.37	\$ 3.54
DC Water Retail Rates Water (Non-Residential)	Ccf	\$ 4.40	\$ 4.05	\$ 4.25
DC Water Retail Rates Sewer	Ccf	\$ 6.00	\$ 7.75	\$ 8.14
DC Water Clean Rivers IAC	ERU	\$ 25.18	\$ 23.00	\$ 25.58
DC Water Customer Metering Fee	5/8"	\$ 3.86	\$ 3.86	\$ 3.86
DC Water Water System Replacement Fee	5/8"	\$ 6.30	\$ 6.30	\$ 6.30
District of Columbia PILOT Fee	Ccf	\$ 0.49	\$ 0.50	\$ 0.51
District of Columbia Right-of-Way Fee	Ccf	\$ 0.18	\$ 0.18	\$ 0.19
District of Columbia Stormwater Fee *	ERU	\$ 2.67	\$ 2.67	\$ 2.67

* Example Fee shown here for 5/8" meter. Please see Notice of Proposed Rulemaking for full list of fees for your meter size.

Aside from debt service on the Clean Rivers project, I will run through some other big picture items in the budget this year.

Notably, we have been engaged with Mayor Muriel Bowser and D.C. Council member Mary Cheh on a plan to provide new relief to low income customers. More details on that agreement will be forthcoming as they are ironed out but one of shared goals is finding ways to mitigate the impact of the Impervious Area Charge.

Importantly, our budget includes the Water System Replacement Fee (WSRF), which we began charging in 2016 and which will fund the 1% renewal and replacement program of our water infrastructure. This helps us replace some of the older water mains in the city, many of which are more than 80 years old, so that we can prevent failures before they occur. The city's low-income customers receive a 100% credit for this fee on their monthly bill, among other discounts.

For the average household customer, water bills in the next fiscal year will increase by \$6.02 from \$102.30 a month to \$108.32 a month. Within that bill, IAC charges will decrease by \$2.18 in Fiscal Year 2019 and increase by \$2.58 in Fiscal Year 2020.

During the month of March and April, members of the DC Water team and board members visited all eight wards. The purpose of those town hall meetings was two-fold; first to present to you, our customers, an overview of our recent spending and our projections on what we expect to spend during the next 10 years. But secondly, we held those meetings as a listening session to hear directly from you about our performance. Hundreds of customers participated, coming out to

share complaints or compliments, and in many cases to learn about the factors that shape our budget.

We publicized those meetings, taking out ads in local newspapers, sending press releases, using multiple forms of social media, broadcasting the timing on our website and of course connecting with District Council members and Advisory Neighborhood Commissioners.

Because we are sensitive to the cost of water services, DC Water continues to promote and offer two types of assistance to our customers.

The first is a Customer Assistance Program (CAP) that provides eligible customers with a significant discount on their water and sewer bills. Eligibility is based on federal low-income guidelines and is administered by the District Department of Energy and Environment. We do this because we know that these charges pose a real burden to customers at the lowest incomes. In FY 2017, CAP assisted 4,244 customers and provided \$1.1 million in discounts.

In addition, we offer assistance to families in need in times of emergency through the Serving People by Lending a Supporting Hand program (S.P.L.A.S.H.).

Customers can contribute to S.P.L.A.S.H by donating on their monthly DC Water bill. Every dollar received by DC Water is distributed to eligible customers. In FY 2017, SPLASH assisted 331 households and provided \$103,283 in contributions to customers in need.

We will continue to explore ways to provide the same or better services for less money. In fact, I was proud to kick off an ambitious goal of reducing DC Water costs by \$20 million and raising \$20 million in new revenue by the year 2020. We are already underway on that effort and I will continue to provide updates on our progress.

Thank you all once again for participating in this process and attending this hearing. As always, DC Water values the opinion of our customers and we encourage you to connect with us via social media on Twitter, on Snapchat, on Facebook, on Instagram and of course at our website: www.dewater.com. And we're always available to take your concerns over the phone at 202-354-3600.

Mr. Chairman that concludes my prepared remarks. I want to thank you and each one of our Board members for their hard work and valuable contributions towards

the governance of this water authority. We could not do it without each and every one of you. I am available to answer any questions you may have.

Summary of 2019 – 2020 Rate Proposal

	Units	Approved FY 2018	Proposed FY 2019	Proposed FY 2020	Change FY 2019 \$	Change FY 2019 %	Change FY 2020 \$	Change FY 2020 %
DC Water Rates								
Water								
Residential 0-4 Ccf (Lifeline)	Ccf	\$3.39	\$2.91	\$3.06	-\$0.48	-14.2%	\$0.15	5.2%
Residential > 4 Ccf	Ccf	4.26	3.90	4.10	-0.36	-8.5	0.20	5.1
Multi-Family	Ccf	3.80	3.37	3.54	-0.43	-11.3	0.17	5.0
Non-Residential	Ccf	4.40	4.05	4.25	-0.35	-8.0	0.20	4.9
Sewer (Excluding CRIAC)	Ccf	6.00	7.75	8.14	1.75	29.2	0.39	5.0
Clean Rivers IAC	ERU	25.18	23.00	25.58	-2.18	-8.7	2.58	11.2
Customer Metering Fee	5/8"	3.86	3.86	3.86	-		-	-
Water System Replacement Fee	5/8"	6.30	6.30	6.30	-		-	-
District Rates								
PILOT Fee	Ccf	0.49	0.50	0.51	0.01	2.0	0.01	2.0
Right of Way Fee	Ccf	0.18	0.18	0.19	-	-	0.01	5.5
Stormwater Fee	ERU	2.67	2.67	2.67	-	-	-	-

Independent Review of the Proposed Rates for 2019 – 2020

DC Water Public Hearing
May 9, 2018



Amawalk
Consulting Group LLC

Outline

- Accomplishments Since the Last Hearing
- Financial Performance
- Operating Performance
- Water & Wastewater Industry Challenges
- Why is a DC Water Rate Increase Necessary?
- Steps DC Water Takes to Minimize Rate Increases
- Summary of 2019 – 2020 Rate Proposal & Financial Plan
- Industry Comparisons
- Affordability of User Charges
- Conclusion
- Appendix



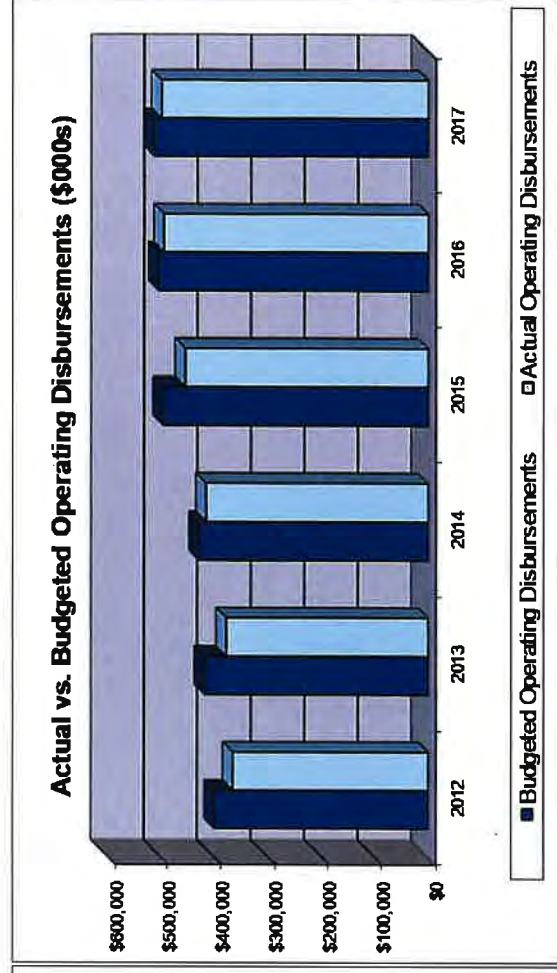
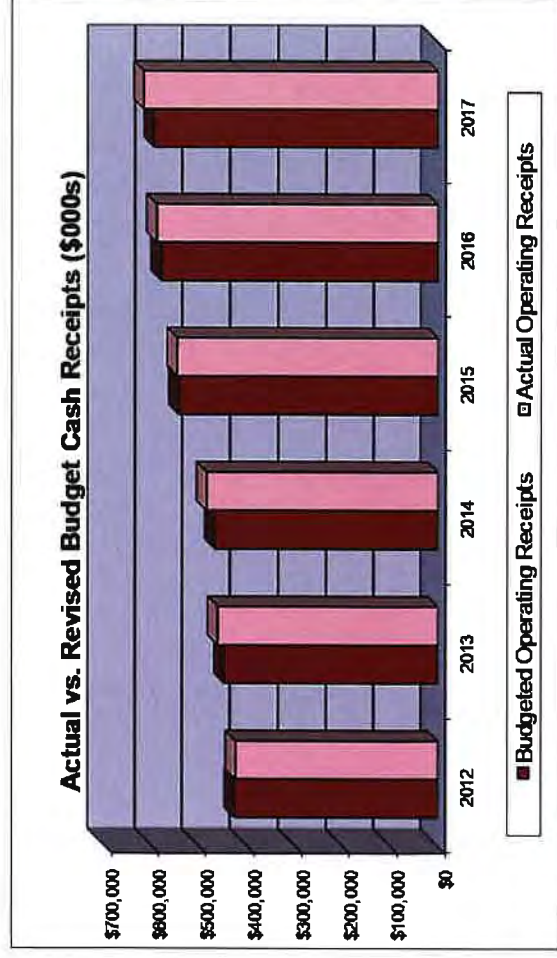
Accomplishments Since the Last Hearing

- Successfully implemented significant rate structure changes and a two-year rate-setting process:
 - Multi-tiered rates, including lifeline rates for homes with low water consumption
 - Expanded the Customer Assistance Program (CAP) to credit 100% of the Water System Replacement Fee and 50% of the CRIAC
 - Actual results in 2017 and 2018 YTD are good; supporting the 2-year cycle
- Utilized cash and the proceeds of borrowed money at very attractive interest rates to help finance capital improvements:
 - In 2017 and 2018, issued \$300 million and \$300 million of debt, respectively, at interest rates of 4.00-5.00% and 5.00%.
 - Using \$220 million in cash to finance construction over those two years to keep total borrowing at reasonable levels
- Combined coverage achieved in 2017 was 1.76; projected 2018 is 1.64.
- DC Water's high level of performance is recognized by the bond rating agencies: AAA senior lien rating from S&P and Aa1 from Moody's.

DC Water continues to: expand affordability assistance for low income customers and meet or exceed the Board's financial goals.

Financial Performance

- From 2012 – 2017: actual expenditures have been < budget in each year (averaging 5.6% less); actual cash receipts have been > budget in each year (averaging 2.0% more).
- Year-to-date 2018 results are in line with budget; for all of 2018, it is expected that expenditures & cash receipts will be consistent with budget.



While not a guarantee of future results, this track record offers a degree of comfort that expenditure and revenue estimates are prudently developed.

Operating Performance

- In compliance with the Consent Orders & all permits.
- CIP projects are on time and close to budget; change orders and claims continue to be a small % of costs.
- The digester facilities & waste-to-energy facilities are yielding multiple benefits – lower expenses, fewer biosolids and a high quality product.
- The Independent Engineering Report again gave high grades to the facilities and people of DC Water; identified needs are being addressed.
- The ongoing implementation of the new CIS is expected to improve reporting capability and billing accuracy. Limited billing delays during the transition to the new system are currently being resolved.
- 10-year CIP incorporates a replacement cycle for pipe-related assets at an annual average of 1% per year.
- Metered replacement program is ahead of schedule.
- Annual CIP spending is past the peak years: in 2013-17 average annual capital spending was \$587 million; the 2018-22 average is \$432 million.

DC Water continues to meet or exceed the Board's operating goals. Strong operating performance helps manage the cost of providing service and mitigates risks.

Water & Wastewater Industry Challenges

■ **Increases in capital spending:**

- Growing regulatory mandates require significant investments; in addition, state-of-good-repair investments are also needed to ensure that the underlying assets (e.g., pipes) provide reliable service.

■ **Increases in operating expenses:**

- Salaries and wages, fringe benefits and pensions.
- Growing regulatory requirements for stormwater management.
- Certain costs that previously would be capitalized are now counted as expenses.

■ **Water use is declining:**

- Most revenues are derived from water usage-based charges but long-term water demand is declining in the east coast cities such as New York, Philadelphia, the District & Boston.

■ **Affordability of rates and charges:**

- Charges as a % of median household income (MHI) is a common measure of affordability but a portion of customers may be well below MHI.

Why is a DC Water Rate Increase Necessary?

- **Increases in capital spending:**
 - 35.4% of the CIP is legally mandated.
 - Increasing CIP emphasis on pipe relining & replacement.
 - Debt service will rise to 35.3% of total disbursements in 2019 and 36.2% in 2020, increasing by 8.0% and 7.6% vs. the prior year, respectively.
 - Anticipated level of cash-financed construction in 2018-22 lowered the need for borrowing by about \$250 million compared to 2013-17; use of cash-financed construction is generally perceived to be a credit strength by the rating agencies.
- **Increases in operating expenses:**
 - Total O&M expenses, excluding PILOT/ROW, increase by \$18.0 million for 2019 and by \$9.5 million for 2020.
- **Water use is declining:**
 - Long-term water demand is declining in the District; the actual decline in 2017 was 1.7%, the projected declines in 2018, 2019 and 2020 are 1.4%, 1.0%, and 1.0%, respectively.
- **DC Water receives no subsidies:**
 - Unlike cities such as Atlanta (sales tax) or Milwaukee (property tax), DC Water revenues pay all bills.



Steps DC Water Takes to Minimize Rate Increases

- A. No material change in total staffing levels is anticipated.
- B. Strong financial performance and solid credit ratings optimize the cost of borrowing money; using cash for capital reduces long-term debt.
- C. DC Water effectively manages its capital contract costs:
 - ❑ In 2017 actual bids were just a bit higher than estimates: 1.9% higher for facilities contracts and 6.6% higher for streets contracts.
 - ❑ Change orders and claims payments continue to be a relatively small % of construction
- D. Maintaining a strong rate of bill collection and minimizing accounts receivable so that paying customers do not subsidize delinquent property owners.
- E. Pursuing innovative strategies to increase revenues from sources other than ratepayers – these include marketing the end products of the biosolids digestion facilities, offering DC Water services to other utilities for a fee and implementing a new System Availability Fee.

Summary of 2019 – 2020 Rate Proposal

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Sewer (Excluding CRIAC)	Ccf	6.00	7.75	8.14	1.75	29.2	0.39	5.0
Clean Rivers IAC	ERU	25.18	23.00	25.58	-2.18	-8.7	2.58	11.2
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District Rates								
PILOT Fee	Ccf	0.49	0.50	0.51	0.01	2.0	0.01	2.0
Right of Way Fee	Ccf	0.18	0.18	0.19	-	-	0.01	5.5
Stormwater Fee	ERU	2.67	2.67	2.67	-	-	-	-

■ The 2018 Management Recommendations, Consistent with the 2018 Cost of Service Study Recommendations:

- ❑ Reallocate some revenue needs from water to sewer and from CRIAC to sewer – adjustments all reflect the latest cost of service findings.
- ❑ Implement the above rates to raise overall retail revenue by 4.9% in 2019 and 5.9% in 2020.
- ❑ WSRF revenue to be used to only reduce water revenue requirements.
- ❑ Have the flexibility to use part of year-end balances for RSF deposits.

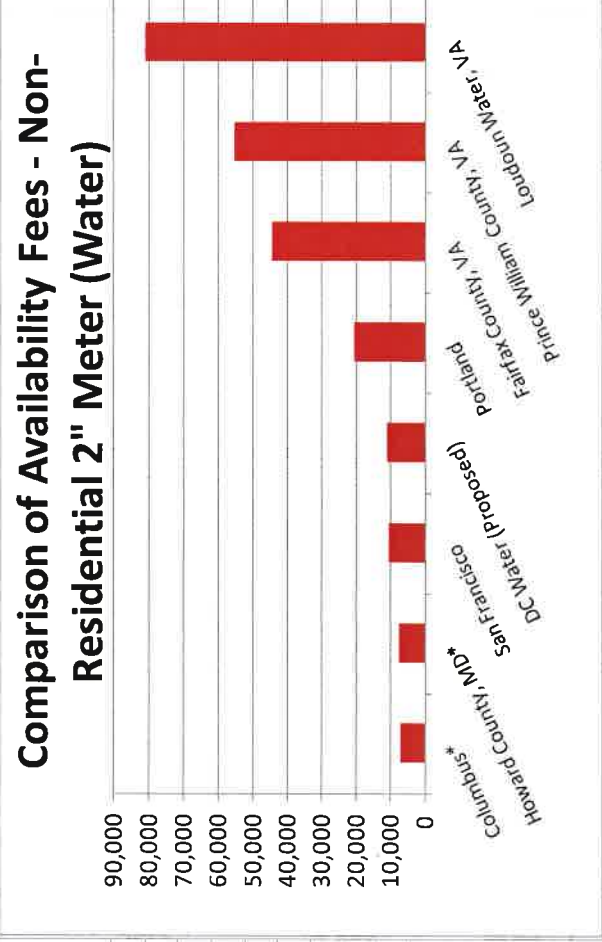
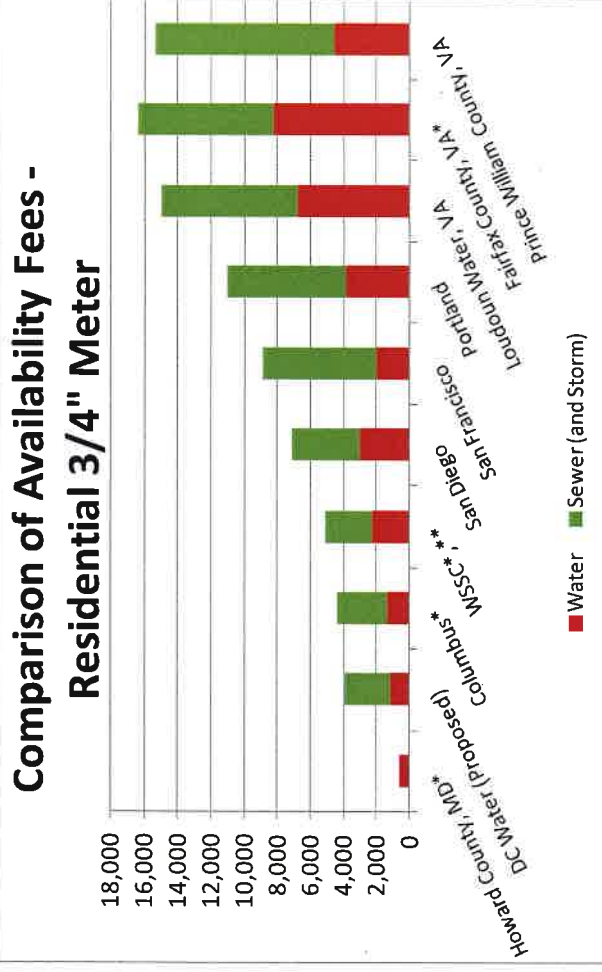
Average residential customer charges (6.2Ccf) would be \$108.32 for 2019 and \$114.48 for 2020, an increase of \$6.02 per month or 5.9% and \$6.16 per month or 5.7% compared to the prior year, respectively.

Rate Proposal and Financial Plan

- The realignment of rates within the current structure is intended to have revenues from each rate better reflect the cost of each service. The realignment is intended to be revenue neutral for the system.
- The current financial plan provides a strong ability to manage risks:
 - Strong reserves and Rate Stabilization Fund balances: \$144 million in cash balance and \$61 million in RSF as of March 2018.
 - Amawalk reviewed DC Water's reserve fund policies and practices earlier this year and concluded that projected reserve fund levels are appropriate and consistent with those of highly-rated peer utilities.
 - Compliant with Board financial policies including combined debt service coverage.
 - Annual capital cash needs that decline from the 2014 peak of \$682 million to \$439 million in 2019 and \$420 million in 2020; lower amounts thereafter.
- The approved System Availability Fee will be implemented on June 1, 2018, providing an additional source of revenue.

DC Water continues to meet or exceed the Board's financial goals, and expanding efforts to address affordability concerns.

Industry Comparison – SAF Revenues



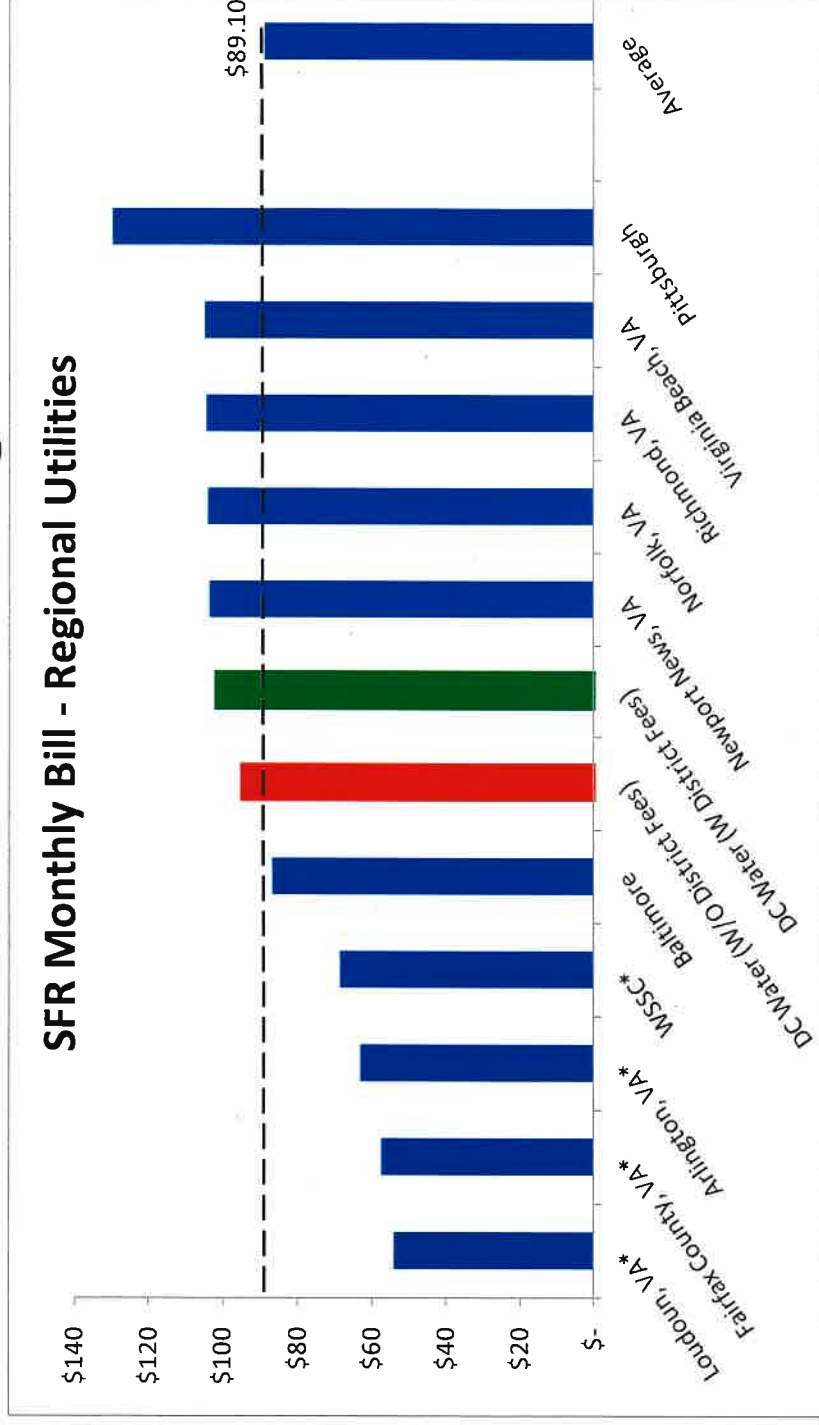
*Howard County, Columbus, WSSC and Fairfax Public Works also assess Front Foot Benefit Charge not included in the fees above

**For WSSC assume housing unit with 3-4 toilets

*Howard County and Columbus also assess Front Footage Benefit Charge not included in the fees above

Conclusion: The proposed System Availability Fee is reasonable compared to industry peers. In addition, DC Water has reasonably forecasted a slow ramp-up of cash receipts from this Fee, beginning with \$3.85 million in 2019 and \$5.77 million in 2020.

Industry Comparison – Regional Utilities



Note: Some cities utilities use property tax revenue or other revenues to pay for part of the cost of water, wastewater, or stormwater services, as indicated by * in the graph above.

DC Water charges are somewhat higher than the average of the regional utilities that we surveyed; however, unlike some utilities, DC Water receives no property tax revenue or other subsidies to reduce its user charges.

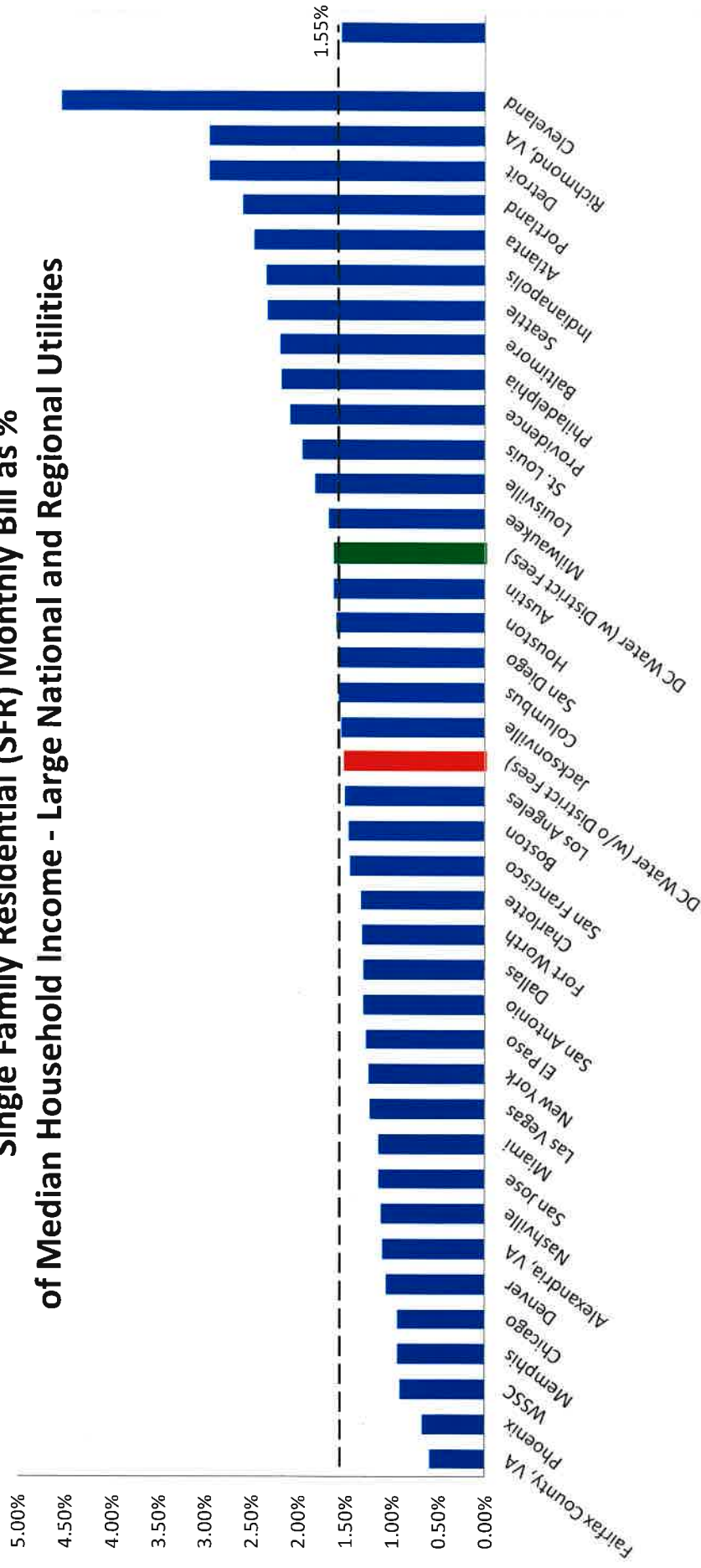
Industry Comparison – Rate Subsidies

Municipality	Type of Support	Notes
Phoenix	Stormwater is part of the City	
Milwaukee	Property Tax for capital spending of storm and sewer	\$1.73 per \$1000 valuation
Denver	Property Tax for major storm projects	
Fairfax County, VA	Property Tax	\$0.03 for stormwater, per \$100 value
Houston	Property Tax to fund street and drainage	\$0.118 per \$100 value
St. Louis	Property Tax to fund stormwater	\$0.1197 per \$100 assessed value
Alexandria, VA	Property Tax and General Fund Contribution supporting stormwater	\$0.005 per \$100 assessed value
Atlanta	Sales Tax	1%
Loudoun, VA	General fund supports Stormwater and some water/wastewater initiatives	
Arlington, VA	Property Tax for sanitary district	\$0.013 per \$100 of assessed value
Chicago	Property Tax fund Metropolitan Water Reclamation District	

Conclusion: Some municipalities provide funding support, most often to the sewer and stormwater system, which alleviates rate pressure. DC Water receives no subsidies.

Affordability of User Charges

Single Family Residential (SFR) Monthly Bill as %
of Median Household Income - Large National and Regional Utilities



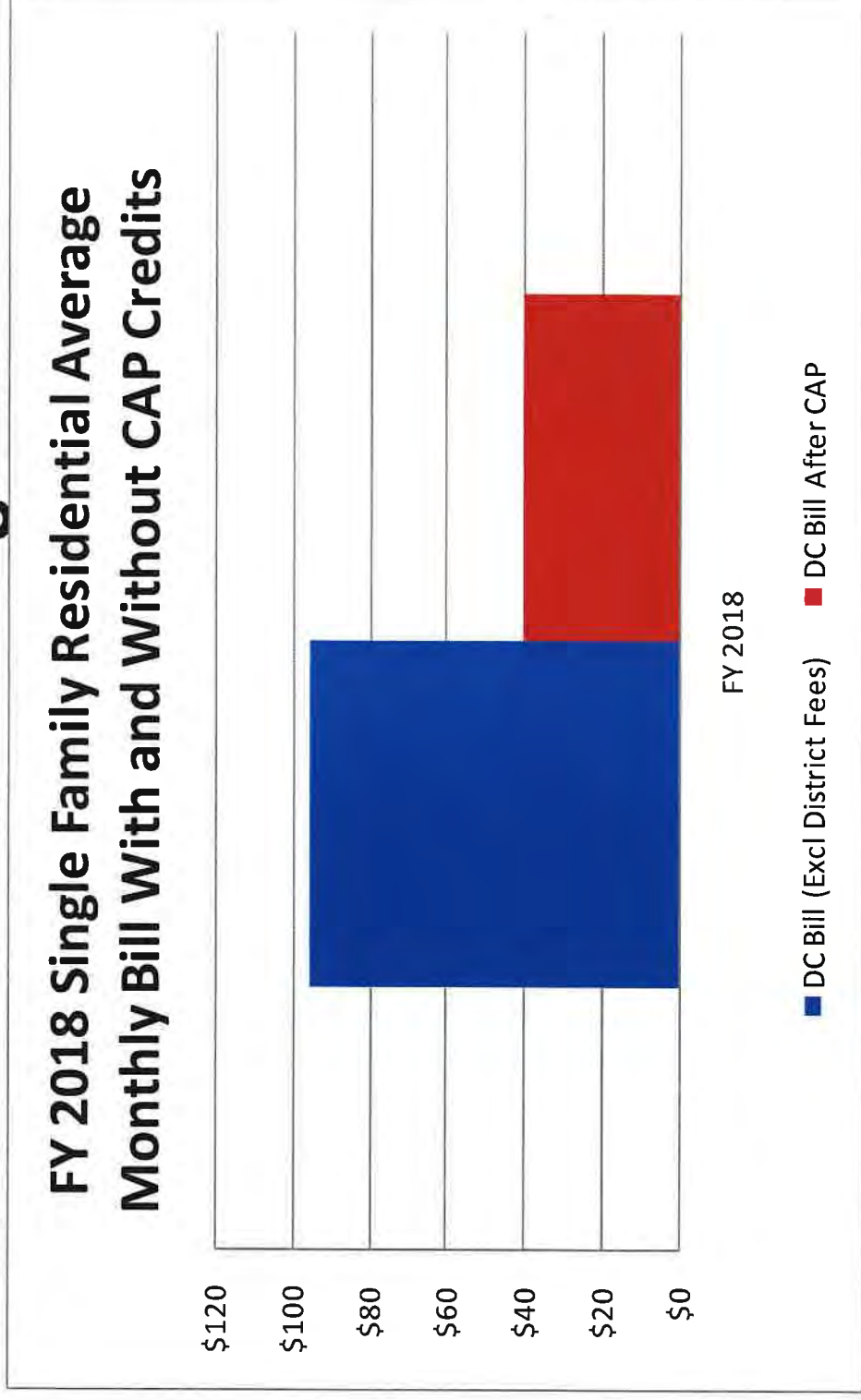
Water, sewer, stormwater, and District charges as a % of median income are affordable at 1.6% of MHI, and competitive with peers



Affordability of User Charges

- At 1.6% of median household income (MHI), DC Water's charges are competitive with other major cities in terms of affordability. Charges greater than 2% to 4% of MHI are typically viewed as a strain on household budgets.
- Over 77.2% of DC Water households spend less than 4.3% of their household income on water and sewer charges. Of the 22.8% that show charges greater than 4.3%, it is anticipated that many of those households are renters that do not pay a water/sewer bill directly.
- For those households that directly pay a water/sewer bill, DC Water's lifeline rate for the first 4 ccf (\$3.39 per ccf instead of \$4.26 per ccf in the second tier) and the CAP and SPLASH programs help bill-paying customers whose water/sewer bills are a high percentage of their household income.

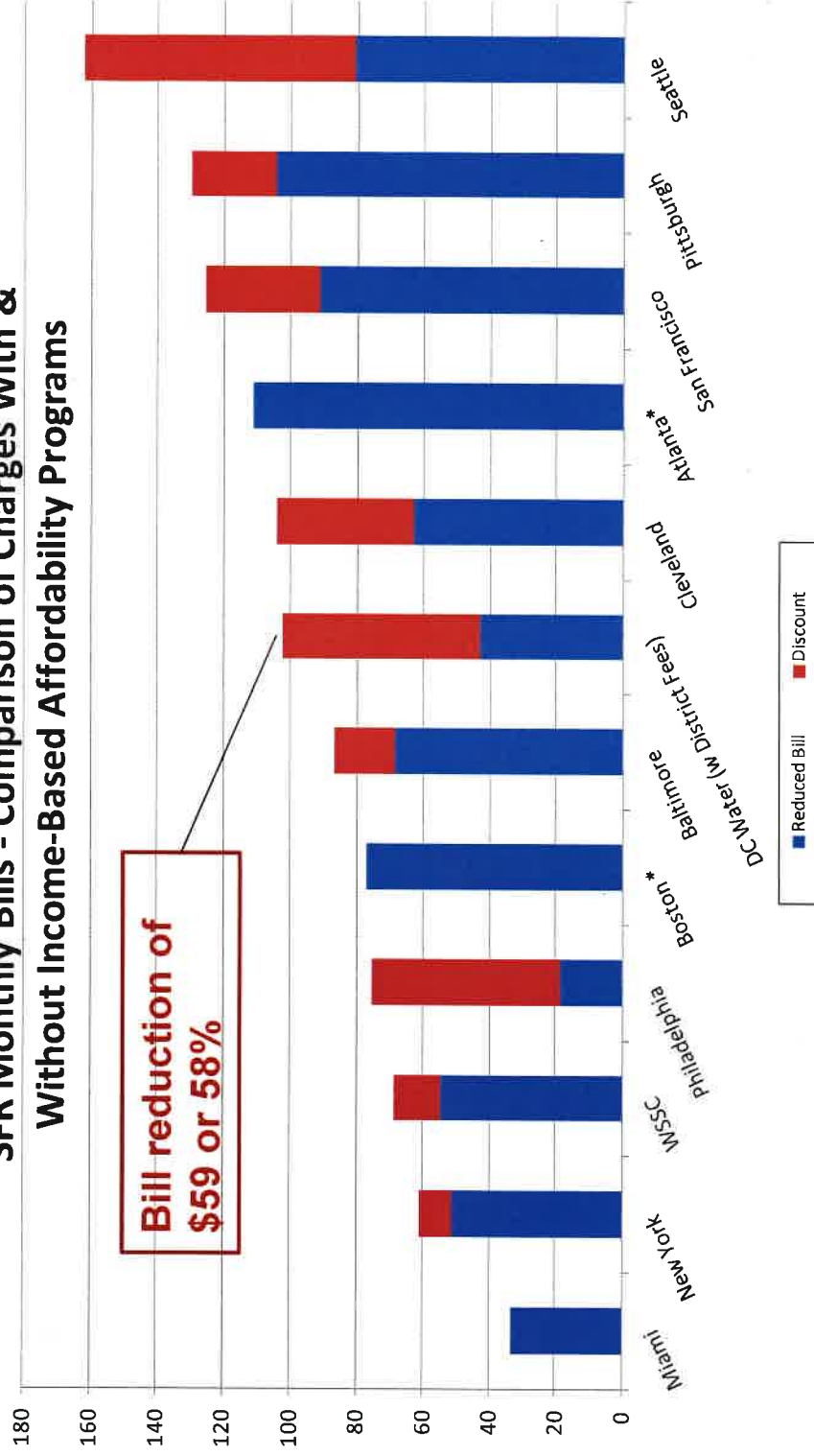
Affordability of User Charges – DC Water Customer Assistance Program



Note: After CAP credits, a family of 4 at the 2017 Federal Poverty level spends a bit over 1.9% of income on DC Water bills.

Affordability of User Charges

SFR Monthly Bills - Comparison of Charges With & Without Income-Based Affordability Programs



* Boston provides a 30% discount on water bills for senior citizens or fully disabled customers with no income eligibility requirement.
Atlanta provides a 30% discount on bills for seniors citizens who meet income eligibility requirement.

The affordability assistance provided by DC Water is robust compared to other utilities, providing a meaningful impact on a customer bill.



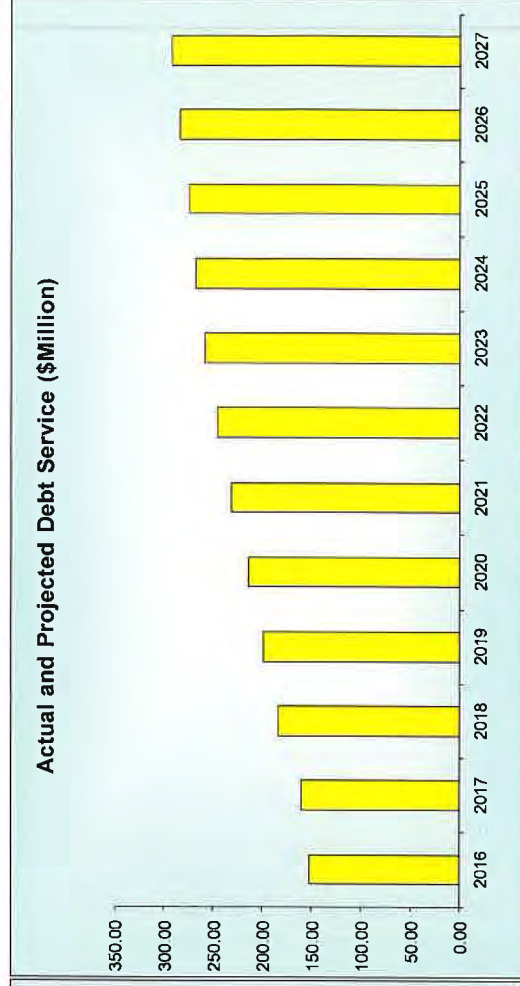
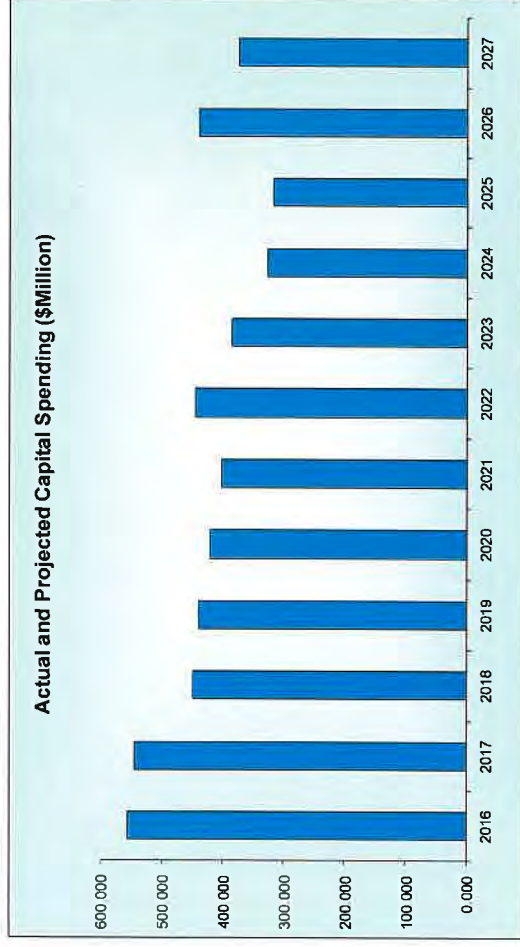
Conclusions

- DC Water's proposed rates have been reasonably developed, reflect the anticipated revenue requirements of the System, adhere to Board policy and are comparable to other utilities.
- If water usage declines at a faster rate than assumed rate, interest rates are higher than expected or unforeseen major expenses are encountered, the actual financial results could differ from current projections. The potential underspending in 2018, the availability of the RSF and allowances for cash-financed construction provide flexibility and risk mitigation in such circumstances.
- Affordability is a growing concern in the water and wastewater industry as the cost of providing service continues to increase. DC Water's CAP and SPLASH programs and its use of a lifeline rate are: 1) in line with industry practices and 2) progressive in providing assistance to low income billpayers.

Appendix

Why is a Rate Increase Necessary – Capital Investment/Debt Service

- DC Water is investing in its water and sewer infrastructure to ensure that high quality services are provided on a reliable basis.
- 35.4% of planned capital improvements are legally mandated.
- Debt service payments increase by \$14.7 million from 2018 to 2019 and \$15.1 million from 2019 to 2020; such payments are an increasing % of total disbursements: 35.3% in 2019 and 36.2% in 2020.



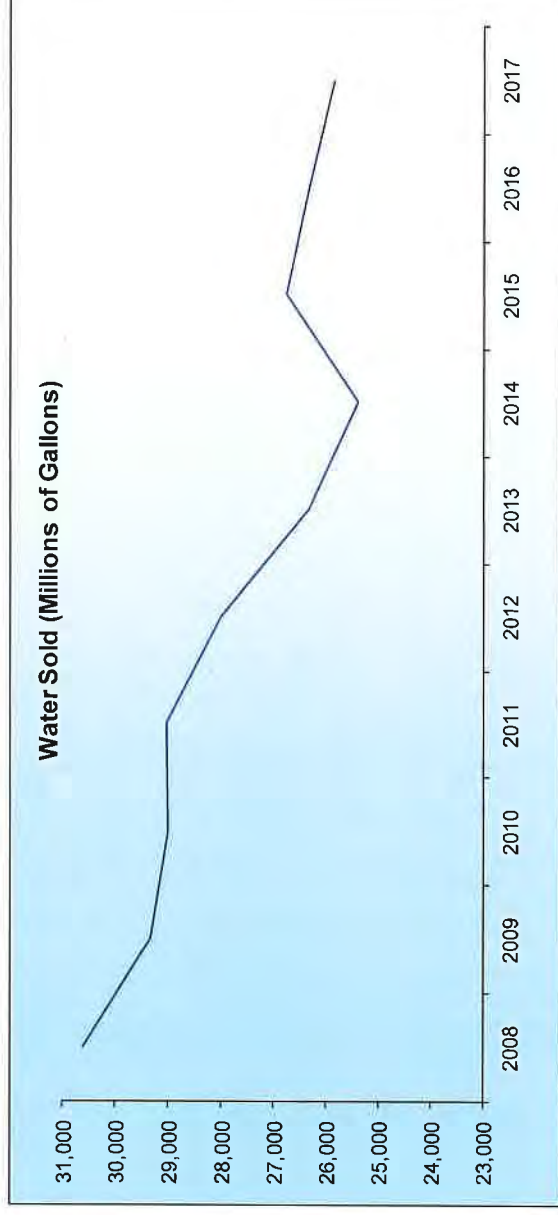
Why is a Rate Increase Necessary – Expenses

- Total O&M expenses, excluding PILOT/ROW, are expected to increase by \$18.0 million for 2019 and by \$9.5 million for 2020.
- DC Water budgeted \$35.3 million in 2018 for cash-financed construction/bond defeasance, decreasing to \$27.0 million in 2019 and the increasing to \$28.6 million in 2020. The purpose is to potentially reduce debt, enhance coverage and provide cash flow flexibility.

O&M Expenditure (\$ M)	FY 2018 Approved Budget	FY 2019 Approved Budget	FY 2020 Proposed Budget	Change FY 2019	Change FY 2020
Personnel Services	128.1	144.4	148.7	12.7%	3.0%
Contractual Services	79.4	81.7	84.1	2.9%	3.0%
Water Purchases	30.2	30.5	31.4	1.2%	3.0%
Chemicals & Supplies	30.7	32.1	33.0	4.6%	3.0%
Utilities & Rent	29.4	26.9	27.7	-8.4%	3.0%
Small Equipment	1.1	1.2	1.3	15.8%	3.0%
Total	298.8	316.8	326.3	6.0%	3.0%
PILOT/ROW Fees	21.4	21.7	22.0	1.5%	1.5%
Debt Service	184.3	199.0	214.1	8.0%	7.6%
Defeasance D.S./Cash Financed Capital Construction	35.3	27.0	28.6	-23.4%	5.8%
Total Operating Disbursements	539.7	564.5	591.0	4.6%	4.7%

Why is a Rate Increase Necessary – Conservation/Declining Demand

- About 57% of total cash receipts in 2019 and in 2020 are expected from consumption-related retail charges.
- Long-term retail water demand is slowly declining.
- Year-to-date water sales are 8.1% lower than in 2017; most of the decrease is due to delay in billing during the transition to the new CIS.
- It is assumed that water usage will decline at the rate of 1.4% per year in 2018 and 1.0% thereafter. New York, Boston & Philadelphia assume similar annual declines.



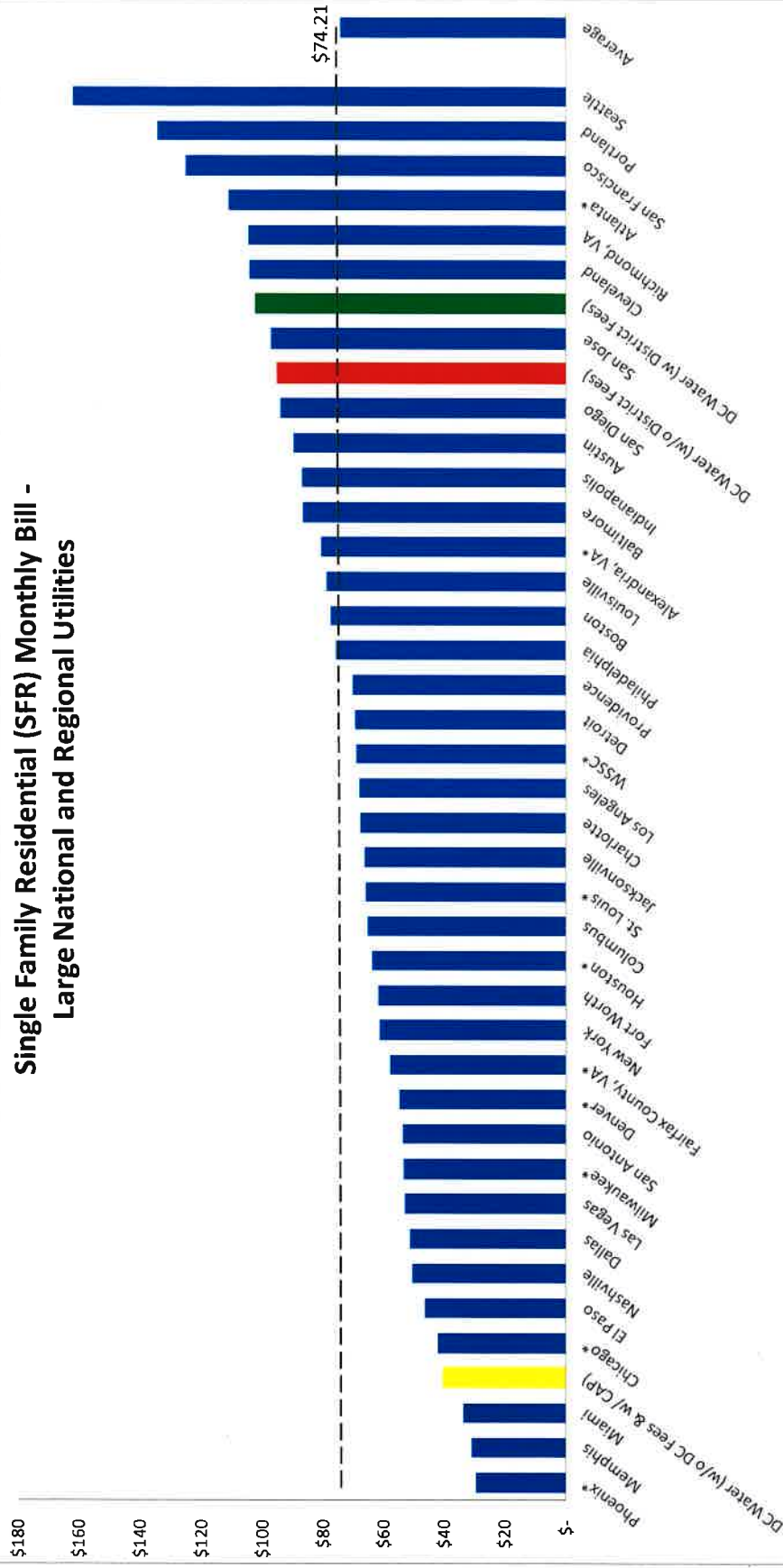


Industry Comparison - System Availability Fee

Municipality	Meter-Based	Fixture-Based	Front Footage-Based	Other
Arlington, VA		✓		
Fairfax County, VA	✓	✓	✓	
Loudoun, VA	✓			
WSSC		✓	✓	
DC Water (Proposed)	✓			
Howard County, MD	✓		✓	
Prince William County, VA	✓			
Portland, OR	✓	✓		
San Francisco	✓			✓
Columbus	✓		✓	
San Diego		✓		

Conclusion: The proposed System Availability Fee is commonly used in the industry and in the region; the intent is to recover investment in system capacity.

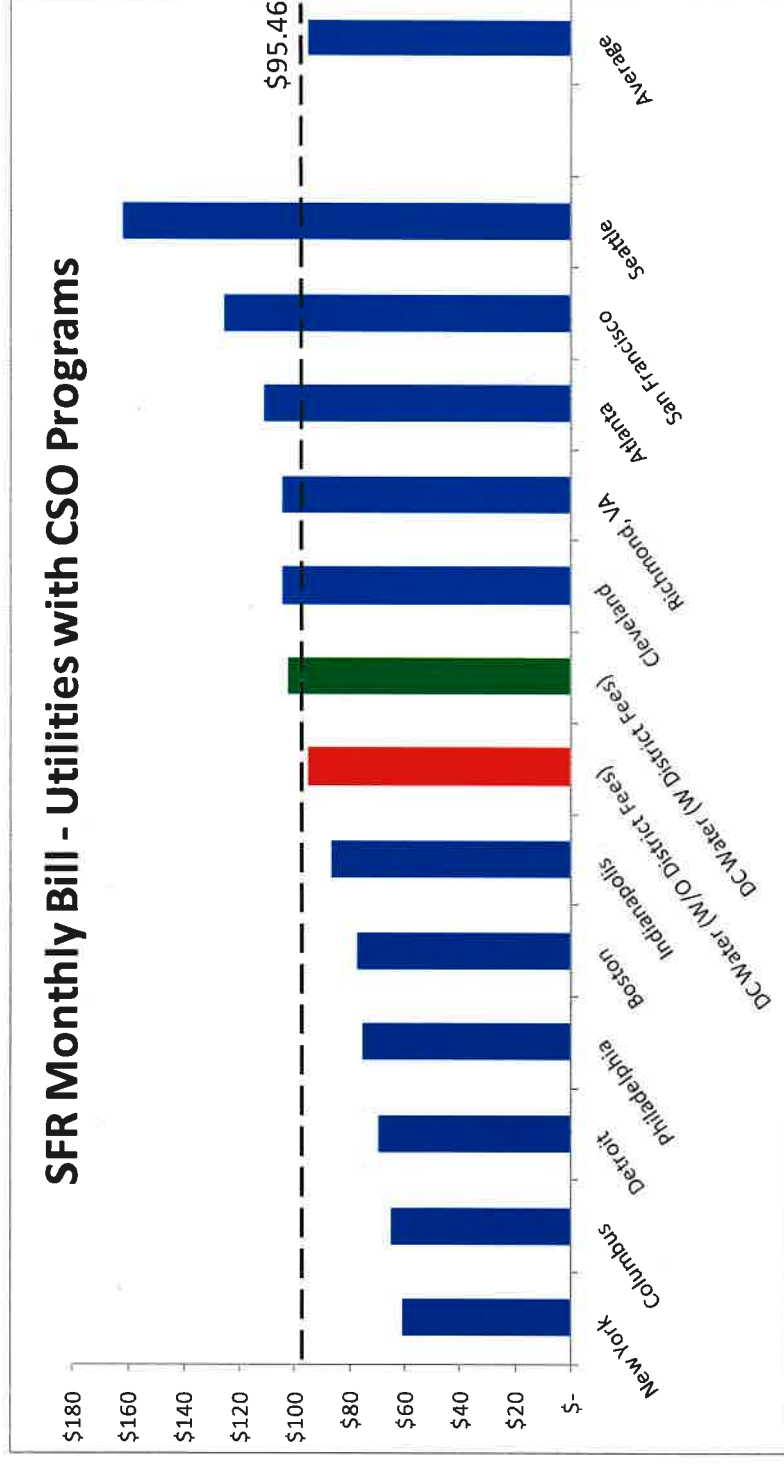
Industry Comparisons: Rates/Charges



Note: Reflects rates and fees in place as of March 2018. Some cities use property tax revenue or other revenues to pay for part of the cost of water, wastewater, or stormwater services, as indicated by * in the graph above. In such situations, the user charge will not reflect the full cost of water, wastewater or stormwater services.

DC Water charges, without the benefits of CAP, are higher than the average of the universe of national and regional utilities that we survey each year on behalf of DC Water.

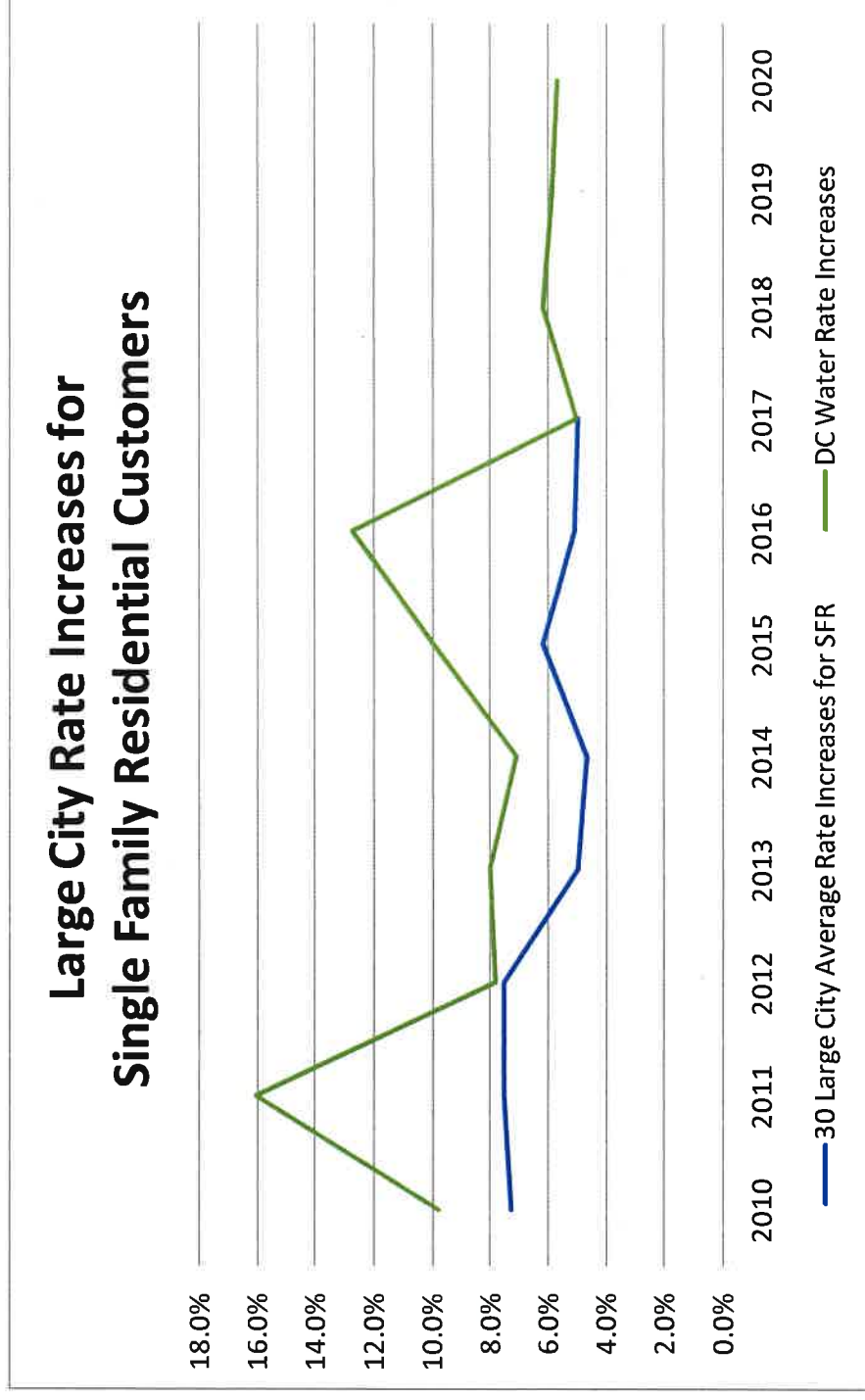
Industry Comparisons – CSO Utilities



Note: Reflects rates and fees in place as of March 2018.

DC Water charges are comparable to the average of the utilities that we survey that have CSO programs.

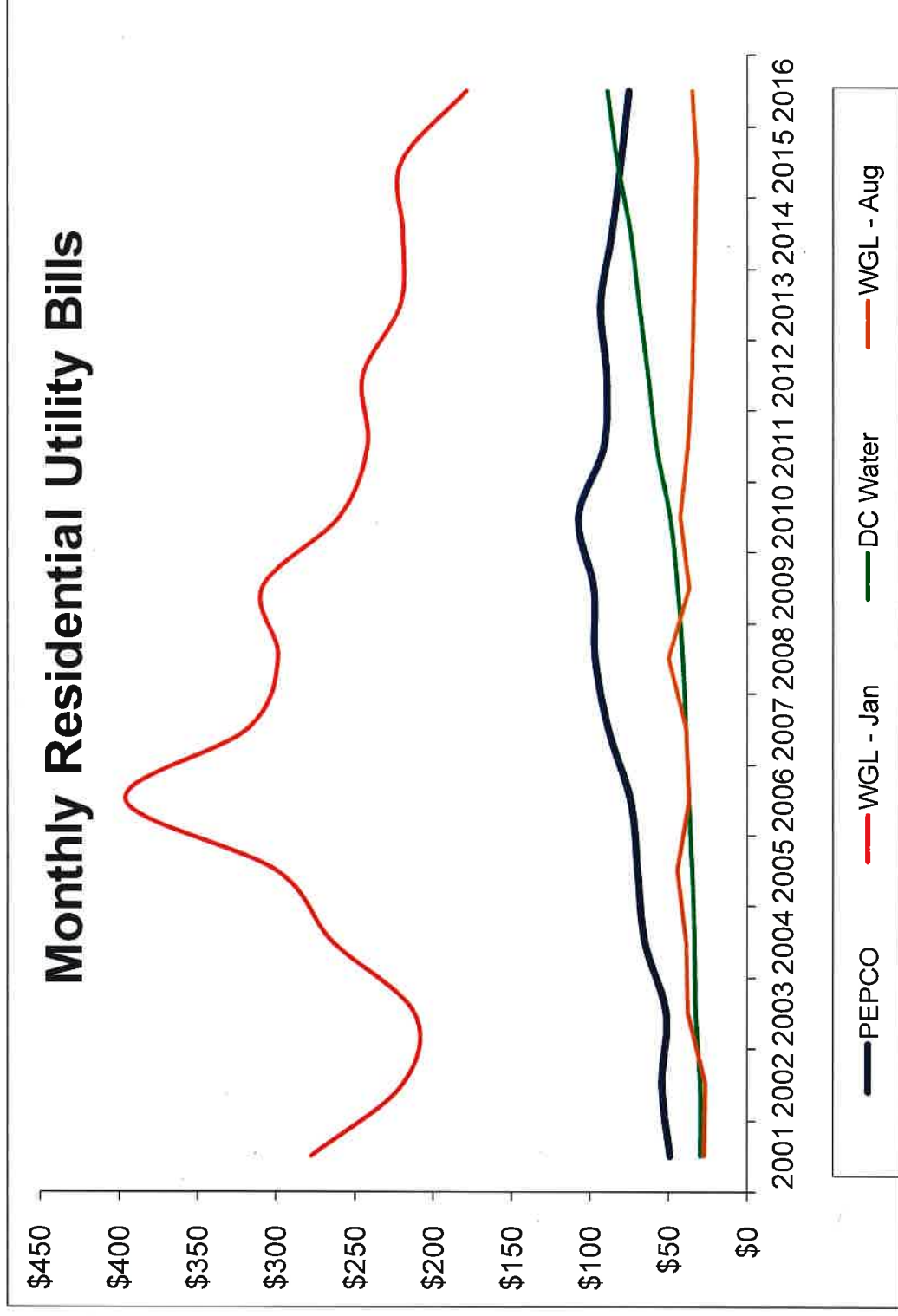
Industry Comparisons – Rate Increases



Historical rate increase percentages for DC Water were generally higher than peers in recent years. As the LTCF spending slows down, it is expected that future DC Water rate increase percentages will be similar to peers.



Industry Comparison – Electricity and Gas



Source: DC Public Service Commission and DC Water

