



The Proposed FY 2024 Budget

Presentation to the Finance & Budget Committee on February 23, 2023

District of Columbia Water and Sewer Authority



- 💧 Review the management's budget proposal
- 💧 Obtain committee's recommendation to the Board on the following:
 - Proposed Revised FY 2023 and Proposed FY 2024 Operating Budget
 - Proposed FY 2023 – FY 2032 Capital Improvement Program (disbursements and lifetime), including amendments to the FY 2023 Capital Disbursements budget
 - Proposed FY 2023 – FY 2032 Financial Plan
 - Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing

- 💧 Preparation of Proposed Budget ✓
- 💧 Wholesale customer briefing ✓
- 💧 Board review of proposals
 - Two months of committee review by Finance and Budget, Environmental Quality and Operations, and Retail Rates Committees
- 💧 Office of People's Counsel Budget Briefing ✓
- 💧 Budget Adoption by the full Board on March 2, 2023
- 💧 Fiscal year begins on October 1, 2023



Budget Adoption Calendar

Timeline (2023)	Activity	Status
January 5	Budget Workshop with Board of Directors	✓
January 10	Office of People's Counsel Briefing	✓
January 13	Wholesale Customer Briefing	✓
	Committee Discussions & Reviews	✓
January 19	Environmental Quality & Operations	✓
January 24	Joint DC Retail Water & Sewer Rates and Finance & Budget Committee	✓
February 2	Board Meeting (No Board Action Required)	✓
	Committee Reviews, Recommendations & Actions	✓
February 16	Environmental Quality & Operations	✓
February 23	Finance & Budget	
February 28	DC Retail Water & Sewer Rates	
March 2	Board Adoption	
April	Submit Budget via the District to U.S. Congress	
October 1	Fiscal Year 2024 Begins	

- 💧 The Board of Directors has the sole authority to adopt DC Water's budget
- 💧 When DC Council established DC Water, they emphasized the importance of need for independent financial control in DC Code § 34-2201.01:
 - **(3) The financing requirements** for water distribution and sewage collection, treatment, and disposal systems, including the ability to fund capital programs without undue reliance on the general obligation credit of the District, are substantial and **require financial resources independent of other District funds**
 - **(4) Creation of an independent authority** with secure funding **separated** from the District's General Fund to oversee water and sewer operations for the District and surrounding jurisdictions will **enhance the financial viability of water distribution and sewage collection, treatment, and disposal systems in the District and enhance the District's ability to meet its statutory obligation to provide sanitary sewer services to the surrounding jurisdictions**
 - **(7) It is in the best interest** of the District, its citizens, and the surrounding jurisdictions that the Council establish an **independent water and sewer authority** to achieve the following goals and objectives
 - **(B) To expedite the repair, replacement, rehabilitation, modernization, and extension of existing water distribution and sewage collection, treatment, and disposal systems including the financing, on a self-sustaining basis, of capital and operating expenses** relating thereto

💧 DC Council and the U.S. Congress enacted legal requirements for DC Water's budget:

- **7 affirmative [Board member] votes shall be required for approval of the Authority's budget.** See D.C. Law 11-111; D.C. Code § 34-2202.04(b)(4)(j)
- The District of Columbia Water and Sewer Authority established pursuant to Chapter 22 of Title 34 shall prepare and annually submit to the Mayor, for inclusion in the annual budget, annual estimates of the expenditures and appropriations necessary for the operation of the Authority for the year. All such estimates shall be forwarded by the Mayor to the Council for its action pursuant to §§ 1-204.46 and 1-206.03(c), **without revision but subject to his recommendations.** Notwithstanding any other provision of this chapter, the **Council may comment or make recommendations** concerning such annual estimates, but **shall have no authority under this chapter to revise such estimates.** See Pub. L. 104-184, § 4(a); D.C. Code § 1-204.45a(a)

The Proposed FY 2024 Budget and CIP

💧 Proposed Operating Budget of \$737.6 million

- Operations and Maintenance (O&M) budget of \$433.9 million for personnel and non-personnel
- Debt Service budget of \$232 million and Cash Financed Capital Improvements budget of \$48.3 million
- PILOT & ROW payments to the District of \$23.4 million or an increase of \$0.4 million

💧 Proposed 10-year Capital Budget of \$6.95 billion

- Capital Projects – \$6.27 billion for mandated projects, equipment upgrades and rehabilitation at Blue Plains, and continued investments in the aging water and sewer infrastructure
- Capital Equipment – \$347.4 million equipment including pumps, motors, meters, backhoes, jet-vacs, catch basin trucks and other aged vehicles to meet operational needs
- Washington Aqueduct (WAD) – \$338.5 million for DC Water's share of WAD's capital program

💧 Proposed Financial Plan

- Includes previously approved FY 2024 rates and fees
- Revenue requirements support the forecasted operating expenditures and ten-year CIP
- Meets Board financial policy requirements



DC Water Budget Overview

FY2023-2032 Proposed Capital Investments of \$6.95 billion

\$963 million



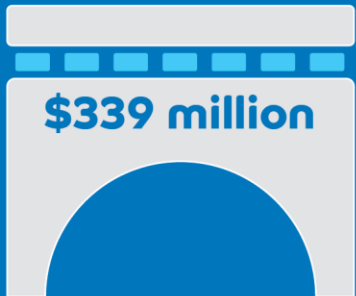
Fully Funds
DC Clean Rivers
projects to meet
Consent Decree
requirements



\$347 million

Invests in process
equipment, specialized
vehicles, and information
technology infrastructure

Invests in the
Aqueduct's
capital
infrastructure



\$339 million



\$612M

to remove all lead
service lines by
2030

Continues investment in
Water & Sewer infrastructure



\$1.4 billion

Ramps up to 1.5%
replacement for small
diameter water mains
per year



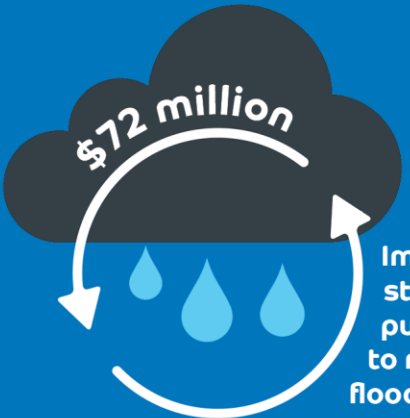
\$1.8 billion

Ramps up to 1.0%
rehabilitation for small
sewer lines per year

\$141 million



Constructs the new Fleet
and Sewer Facilities,
renovates the Historic
Main Pump Station,
and restores
the Main &
O campus
seawall



\$72 million

Improves
stormwater
pump stations
to relieve local
flooding

\$1.18 billion



Funds rehabilitation and
upgrades at Blue Plains

DC Water Budget Overview

FY 2024 Operating Budget of \$737.6 million

\$201.6 million

Pays the salaries, benefits and overtime of 1342 employees, including **17 new positions** (to maintain our increased assets, provide customer engagement, and support recruitment, and Diversity, Equity & Inclusion efforts), 17 apprentices, and Summer Internship Program



\$1.3 million

Expands various initiatives to improve customer engagement and stakeholder communication and provide support for the Building Information Management (BIM), Per- and Polyfluoroalkyl Substances (PFAS) monitoring, innovation, and strategic programs



\$23.4 million

PILOT & ROW payments to the District

\$91.0 million



Funds core operations including critical infrastructure and facilities maintenance and repairs, software technology, legal, compliance, insurance, credit card fees, audit services, biosolids hauling services, government affairs, and workforce development



\$0.9 million

Continues the Leak Assistance Program for customers to repair property side leaks impacting water bills and expands the Backwater Valve Program to install backwater valves on private properties impacted by storm events in the District



\$280.2 million

Other non-operational needs for debt service and Paygo for the capital program

paygo



\$1.4 million

Funds the maintenance of the Green Infrastructure (GI) facilities to manage stormwater

\$137.8 million



Funds fixed and nondiscretionary costs for chemicals & supplies, water purchase, and utilities

FY 2024 Budget Highlights – 5.4% Rate Increase

💧 The increase in operating revenues of \$36.1 million (retail & wholesale) in FY 2024 is needed to support:

- Increased costs for **salary and wages** plus **health benefits** to deliver vital water and sewer services and the addition of 17 positions to **improve operations**, \$15.4 million increase
- Fixed costs like **chemicals** and **energy** for wastewater treatment, \$1.4 million increase
- Purchase of **clean drinking water** from the Aqueduct, \$3.7 million increase
- Rising cost of **insurance premiums** needed to protect our assets, \$1.4 million increase
- Increased costs for professional service contracts including **maintenance and repairs** to ensure reliability of our assets and improve key performance indicators, \$2 million increase
- New initiatives to improve **customer engagement** and **stakeholder communication**, \$1.1 million increase
- CIP increases for programs like **Clean Rivers** and **Lead Free DC** programs through FY 2030 and **water and sewer infrastructure** projects



- 💧 DC Water has some of the most robust customer assistance programs in the nation
 - We know that some households cannot afford the vital service that we provide, so DC Water has implemented programs to help
 - Household incomes up to \$142,300 (household of four) may qualify

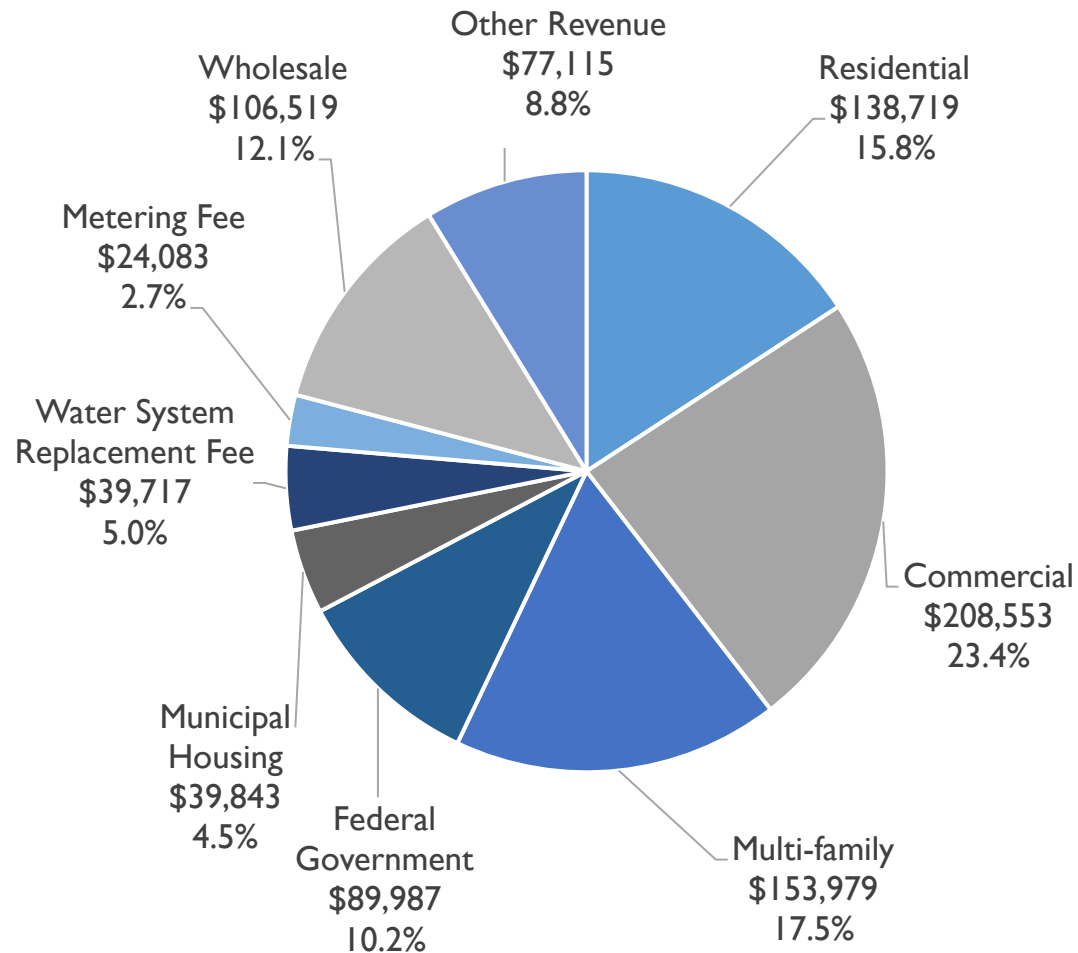


For more information, please see:
<https://www.dewater.com/customer-assistance>

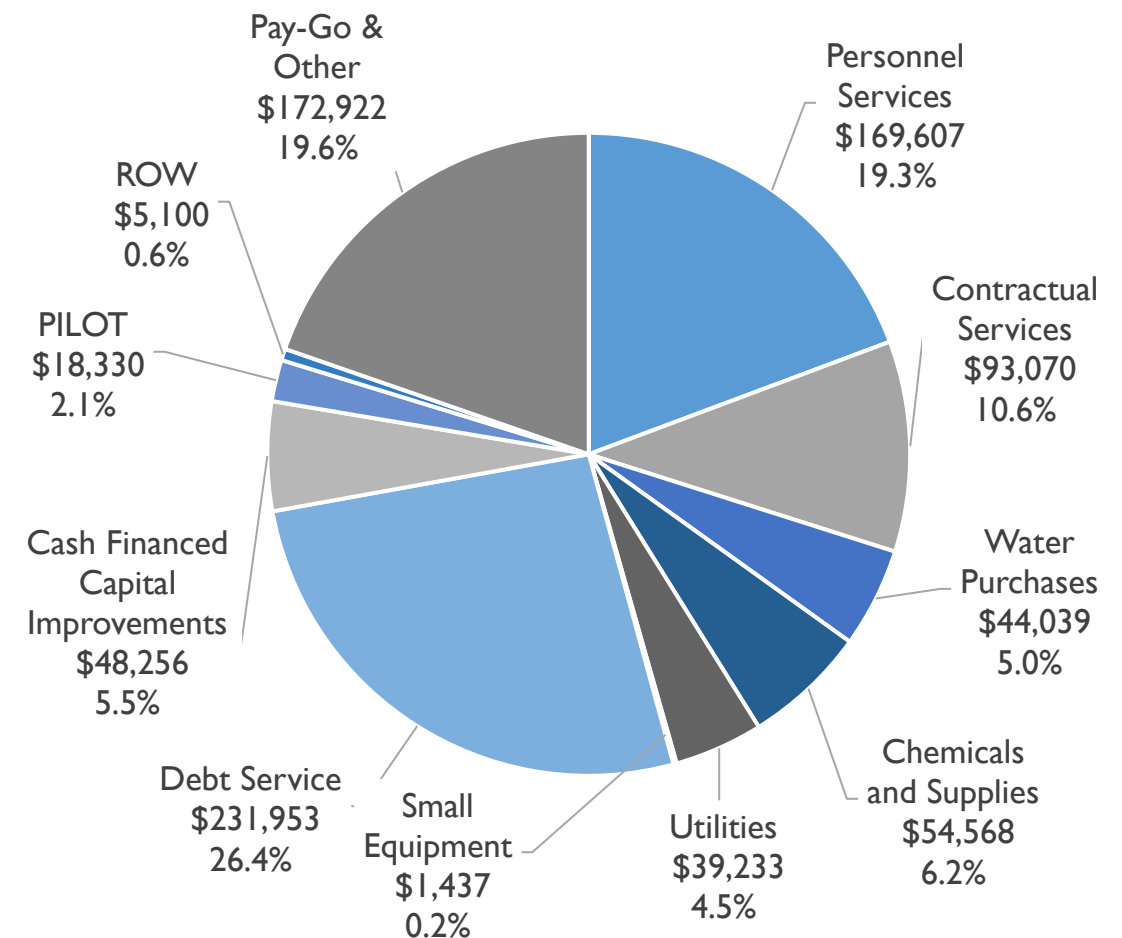
FY 2024 Operating Budget: Sources and Uses of Funds

\$ in thousands

Sources - \$878.5 Million



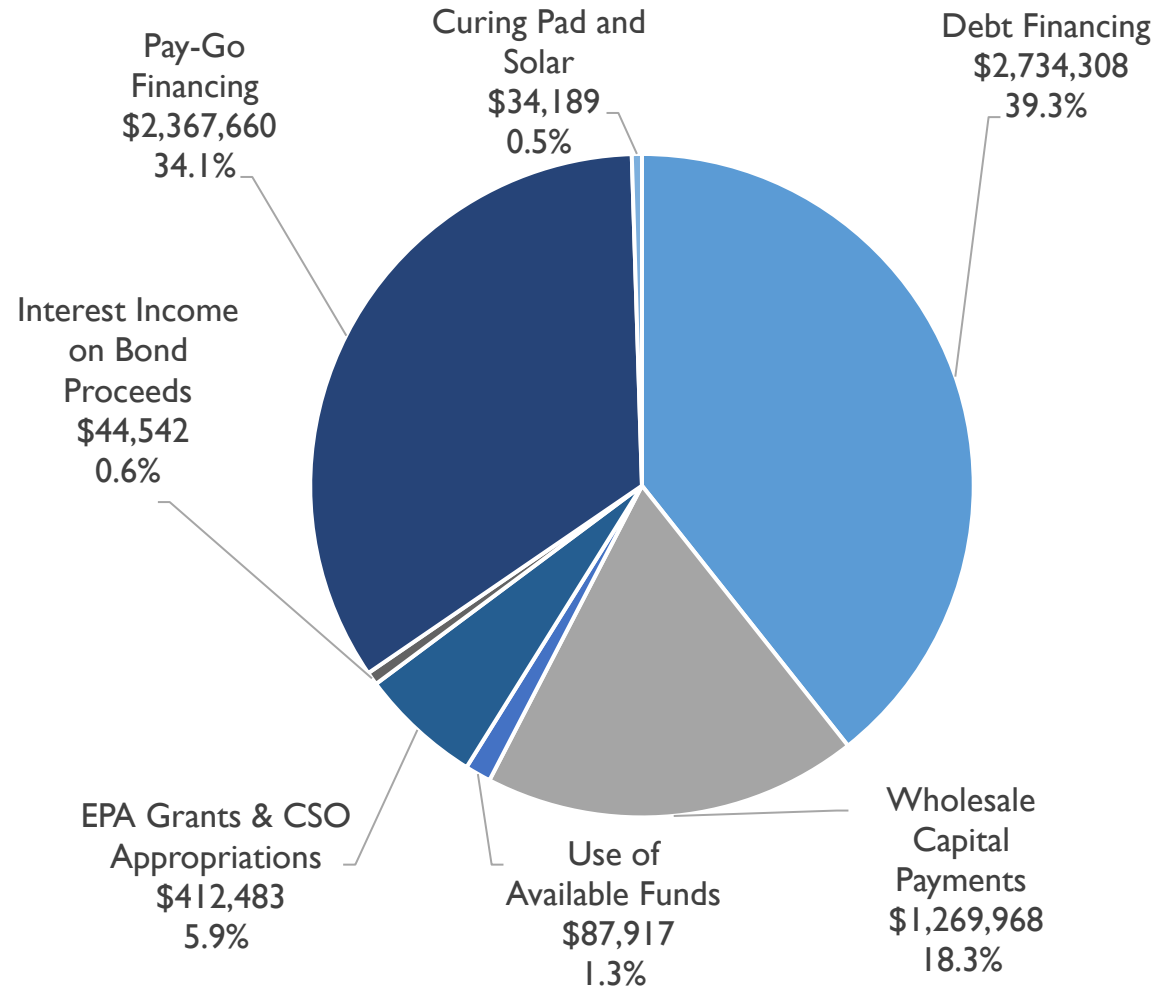
Uses - \$878.5 Million



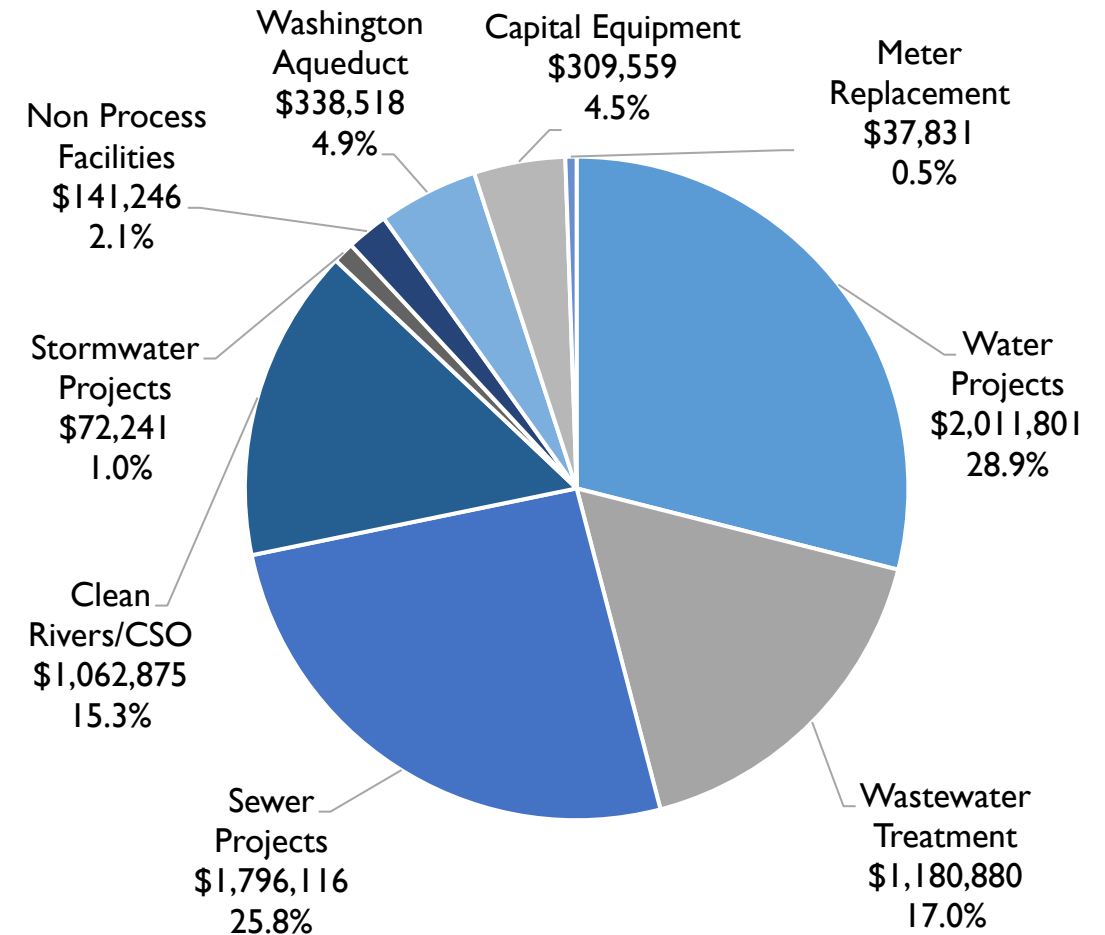
Ten Year CIP: Sources and Uses of Funds

\$ in thousands

Sources - \$6.95 Billion



Uses - \$6.95 Billion

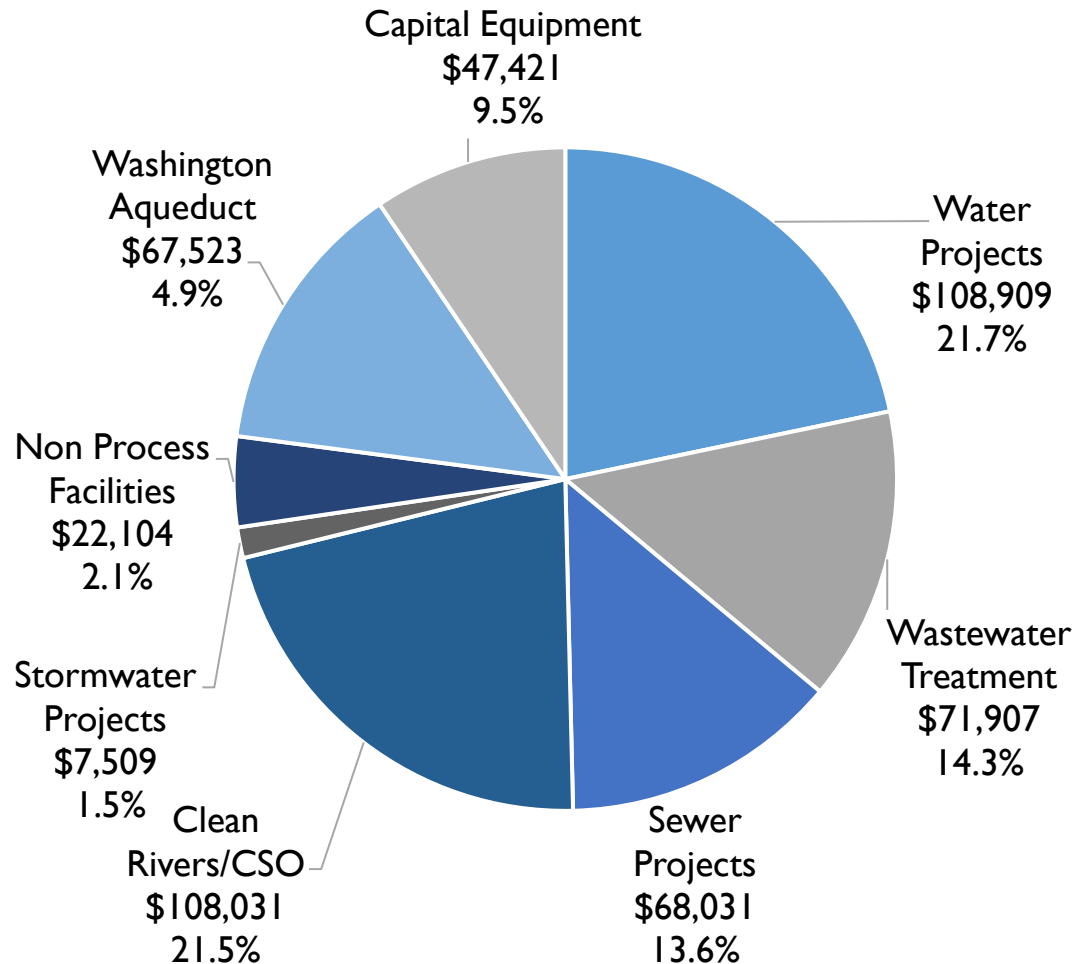


Proposed Capital Program and Operating Budget

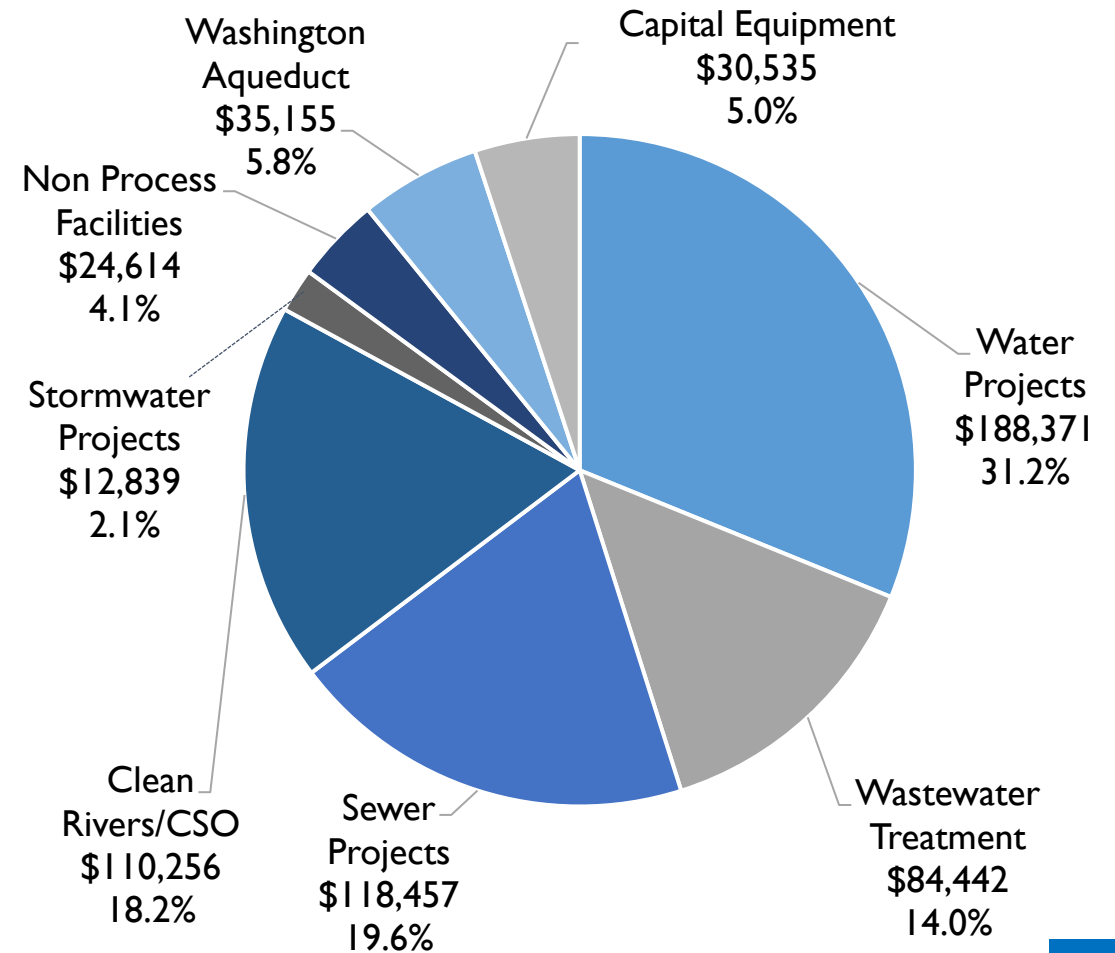
Revised FY 2023 vs. FY 2024 Capital Budgets

\$ in thousands

Proposed Revised FY 2023 \$501,437



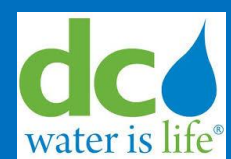
Proposed FY 2024 \$604,671



The Capital Improvement Program

- The **proposed ten-year CIP budget is \$6.95 billion** and includes proposed reductions in FY 2023 for capital projects and the Board-approved carry-over of \$10.4 million for the purchase of vehicles and \$7.2 million for the Aqueduct's capital projects
 - This is a \$531 million increase over the Board-approved CIP for the ten-year period
- The **proposed lifetime budget is \$14.63 billion** and covers total commitments, including labor, for active projects prior to, during, and beyond the ten-year window

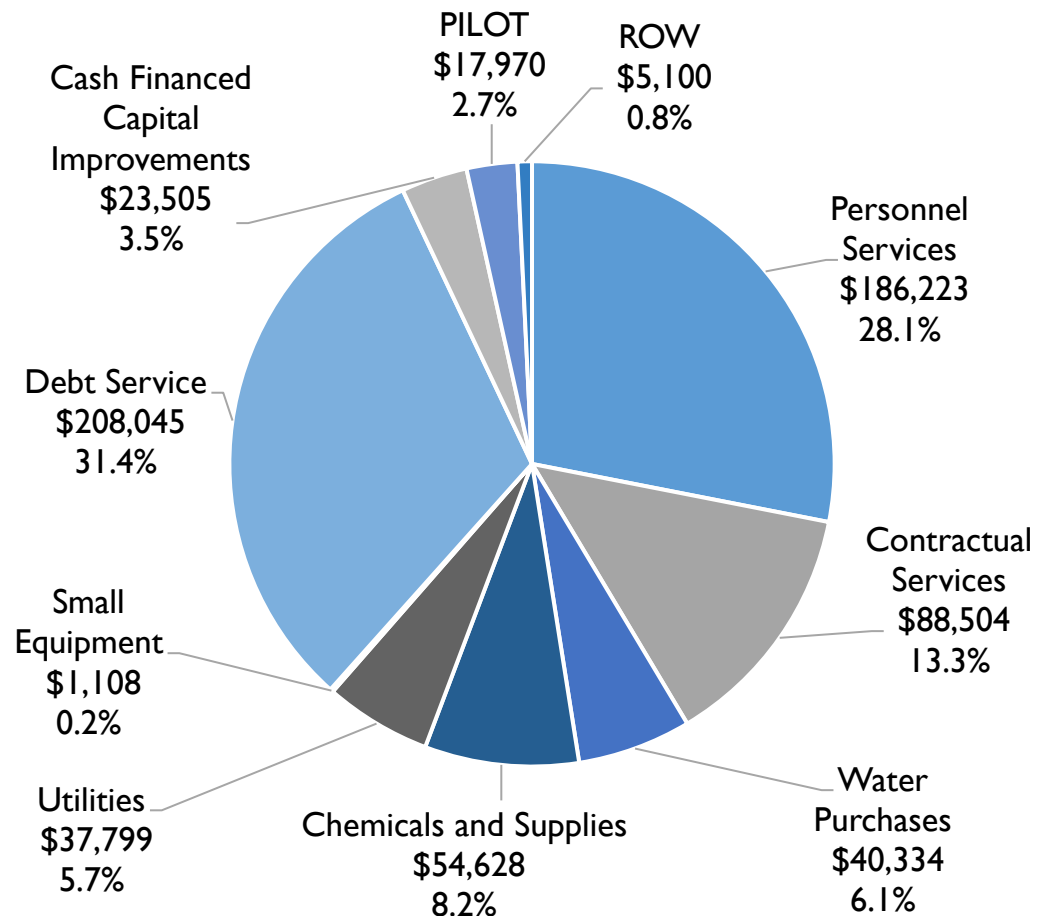
(Cash Disbursements \$ in thousands)	FY 2023 - FY 2032 CIP Disbursement Plan (Run 3C)											Lifetime Budget
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	10-yr Total	
NON PROCESS FACILITIES	\$ 22,104	\$ 24,614	\$ 25,247	\$ 32,462	\$ 24,646	\$ 3,879	\$ 2,293	\$ 2,000	\$ 2,000	\$ 2,000	\$ 141,246	\$ 269,010
WASTEWATER TREATMENT	71,907	84,442	117,684	137,739	145,555	143,319	140,299	132,166	123,098	84,671	1,180,881	3,535,160
COMBINED SEWER OVERFLOW	108,031	110,256	148,064	188,379	149,410	157,261	138,385	46,029	12,465	4,593	1,062,875	3,216,072
STORMWATER	7,509	12,839	8,319	7,571	5,837	3,812	4,305	7,162	8,682	6,205	72,241	216,779
SANITARY SEWER	68,031	118,457	185,109	168,564	222,916	277,735	271,002	222,140	143,246	118,914	1,796,116	2,727,733
WATER	108,909	188,371	238,506	242,278	247,009	242,826	221,357	203,725	154,341	164,479	2,011,801	3,572,035
CAPITAL PROJECTS	386,492	538,981	722,930	776,993	795,374	828,832	777,640	613,222	443,833	380,862	6,265,159	13,536,789
CAPITAL EQUIPMENT	47,421	30,535	31,654	31,776	34,334	34,334	34,334	34,334	34,334	34,334	347,390	347,390
WASHINGTON AQUEDUCT	67,523	35,155	29,480	29,480	29,480	29,480	29,480	29,480	29,480	29,480	338,518	338,518
ADDITIONAL CAPITAL PROJECTS	114,944	65,690	61,134	61,256	63,814	63,814	63,814	63,814	63,814	63,814	685,909	685,909
LABOR												404,476
TOTAL CAPITAL BUDGETS	\$ 501,437	\$ 604,671	\$ 784,064	\$ 838,249	\$ 859,188	\$ 892,646	\$ 841,454	\$ 677,036	\$ 507,647	\$ 444,676	\$ 6,951,067	\$ 14,627,174



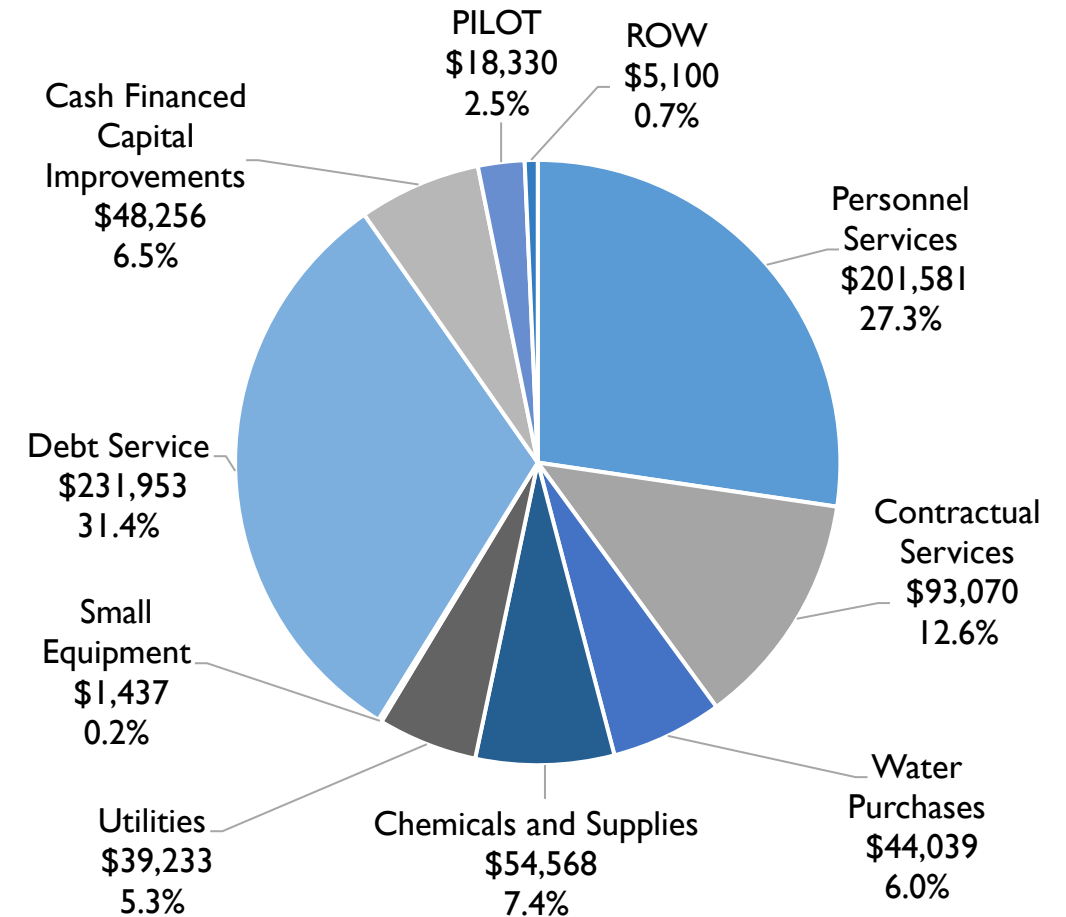
Revised FY 2023 vs. FY 2024 Operating Budgets

\$ in thousands

Proposed Revised FY 2023 \$686,403*



Proposed FY 2024 \$737,567



* Revised from original estimate of \$709.6 million. This reflects proposed reduction of \$3 million from CFCI and administrative reprogramming of \$20.2 million from CFCI to cover anticipated cost pressures in chemicals and energy in FY 2023.

Changes to Board-adopted FY 2023 Budget

- 💧 The Board-adopted \$686.4 million Operating Budget was previously amended upward using \$3 million from the FY 2022 net cash and reallocation of \$3 million from projected underspending in debt services to address chemicals and energy cost pressures
- 💧 An additional \$20.6 million is needed to cover cost pressures in chemicals (\$14.6 million), electricity (\$4 million) and increased water usage increase (\$2 million)
- 💧 These increases will be offset by an additional \$447,000 savings in debt service and from the Cash Financed Capital Improvement (CFCI)
 - CFCI serves a dual purpose of contingency planning and PAYGO
- 💧 Management has effected a budget reprogramming of \$23.2 million from CFCI to maintain the Board-adopted budget of \$686.4 million

Revised

\$000's	Adopted	Adjustments	Revised
O&M	\$ 381,962	\$ 26,634	\$ 408,596
PILOT & ROW	23,070	-	23,070
Debt Service	234,679	(3,447)	231,232
CFCI	46,692	(23,187)	23,505
Total Operating Budget	\$ 686,403	\$ -	\$ 686,403

Operating Budget Comparison by Cost Category

- FY 2023** – Proposed revision of \$686.4 million reflects administrative budget reprogramming to cover cost pressures in chemicals and energy and proposed reduction from CFCI to maintain the Board-adopted overall budget. (This has been revised from original estimate of \$709.6 million)
- FY 2024** – Proposed overall operating budget of \$737.6 million includes an increase of \$25.3 million for the O&M category

Revised

(\$000's)	FY 2023 Adopted Budget	Management			FY 2023 Proposed Revision	FY 2024 Proposed Budget	(Increase)/ Decrease	
		Amendment	Reprogramming	Proposed Adjustments			\$	%
Regular Pay	\$ 137,044				\$ 137,044	\$ 147,203	\$ (10,159)	-7.4%
Benefits	40,960				40,960	45,869	(4,909)	-12.0%
Overtime	8,218				8,218	8,509	(291)	-3.5%
Total Personnel Services	\$ 186,223	\$ -	\$ -	\$ -	\$ 186,223	\$ 201,581	\$ (15,358)	-8.2%
Chemical and Supplies	36,994	3,000	14,634		54,628	54,568	60	0.1%
Utilities	28,799	3,000	6,000		37,799	39,233	(1,434)	-3.8%
Contractual Services	88,504				88,504	93,070	(4,566)	-5.2%
Water Purchases	40,334				40,334	44,039	(3,705)	-9.2%
Small Equipment	1,108				1,108	1,437	(329)	-29.7%
Total Non-Personnel Services	195,739	6,000	20,634	-	222,373	232,347	(9,974)	-4.5%
Total Operations & Maintenance	\$ 381,962	\$ 6,000	\$ 20,634	\$ -	\$ 408,596	\$ 433,928	\$ (25,332)	-6.2%
Debt Service	234,679	(3,000)	(447)		231,232	231,953	(721)	-0.3%
PILOT & ROW	23,070				23,070	23,430	(360)	-1.6%
Cash Financed Capital Improvements	46,692		(20,187)	(3,000)	23,505	48,256	(24,751)	-105.3%
Total Non-O&M	\$ 304,441	\$ (3,000)	\$ (20,634)	\$ (3,000)	\$ 277,807	\$ 303,639	\$ (25,832)	-9.3%
Total Operating Expenditure	\$ 686,403	\$ 3,000	\$ 0	\$ (3,000)	\$ 686,403	\$ 737,567	\$ (51,164)	-7.5%
Capital Labor Charges	(30,435)				(30,435)	(31,974)	1,539	-5.1%
Net Operating Expenditure	\$ 655,968	\$ 3,000	\$ 0	\$ (3,000)	\$ 655,968	\$ 705,593	\$ (49,625)	-7.6%

FY 2024 vs. FY 2023 O&M Budget Variances

- **Personnel Services** – \$15.4 million increase mainly for salaries and employee health benefits costs for 1342 FTEs. Includes partial funding for 17 new positions and provides funding for the career workforce advancement program for existing employees, apprenticeship program and Summer Internship Program. Overtime costs include increase of \$0.3 million due to increase in salaries
- **Chemicals & Supplies** – Relatively flat. \$0.9 million increase in parts and supplies needed for the maintenance of equipment and various facilities, offset by a \$0.9 million decrease for major chemicals compared to the revised FY 2023
- **Utilities** – \$2.4 million increase mainly in electricity (and includes onsite electric generation of 6.5MW from the CHP) and fuel based on prevailing and projected market prices, increased water usage due to changes made in the treatment process, rental of additional space for sewer vehicles and funding for the water usage by Soldiers Home
- **Water Purchase** – \$3.7 million increase reflects approximately 75% of the Aqueduct's projected operating costs, including DC Water's share of the McMillan Sewer backwash (\$3.5 million) with offsetting revenue opportunity
- **Contracts** – \$4.6 million increase mainly for critical maintenance and repairs of assets, rising cost of insurance premiums and various professional services to support new and expanded programs including Building Information Management (BIM), PFAS monitoring, customer engagement, marketing campaigns, innovation, strategic activities
- **Small Equipment** – \$0.3 million increase is due to inflationary cost pressures for critical equipment

Non Operations & Maintenance Budget Drivers

- 💧 **Debt Service** – \$232.0 million or increase of \$0.7 million
 - 💧 New debt service costs for debt projected to be issued in FY 2024 offset by reductions in existing debt

- 💧 **PILOT & ROW** – \$23.4 million or increase of \$0.4 million consistent with MOUs
 - PILOT – Increase of \$0.4 million for payments to the District
 - ROW – Remains at the FY 2022 level of \$5.1 million for payments to the District

- 💧 **Cash Financed Capital Improvements** – \$48.3 million
 - Consistent with the financial plan requirements for PAYGO funding

- 💧 **Capital Labor Charges** – \$32.0 million or increase of \$1.5 million
 - Funds personnel costs incurred on capital projects
 - Continues the in-sourcing of key engineering functions to support the capital program

Chemicals and Energy

- FY 2023 Revised and FY 2024 Proposed budgets reflect current cost pressures
- Budget reflects most likely scenario based on analysis of business unit and budget office; If cost pressures subside, there could be budget savings

Contractual Services

- Budgeted throughout the Authority
- Full funding required to issue contracts

Personnel

- As of January 2023, 1098 of the budgeted 1325 positions was filled; vacancies are budgeted less than 2080 hours (vacancy credit)
- Vacancies in excess of budget assumptions would drive budget savings

💧 Budget for Cash Financed Capital Improvements (CFCI) serves as a contingency

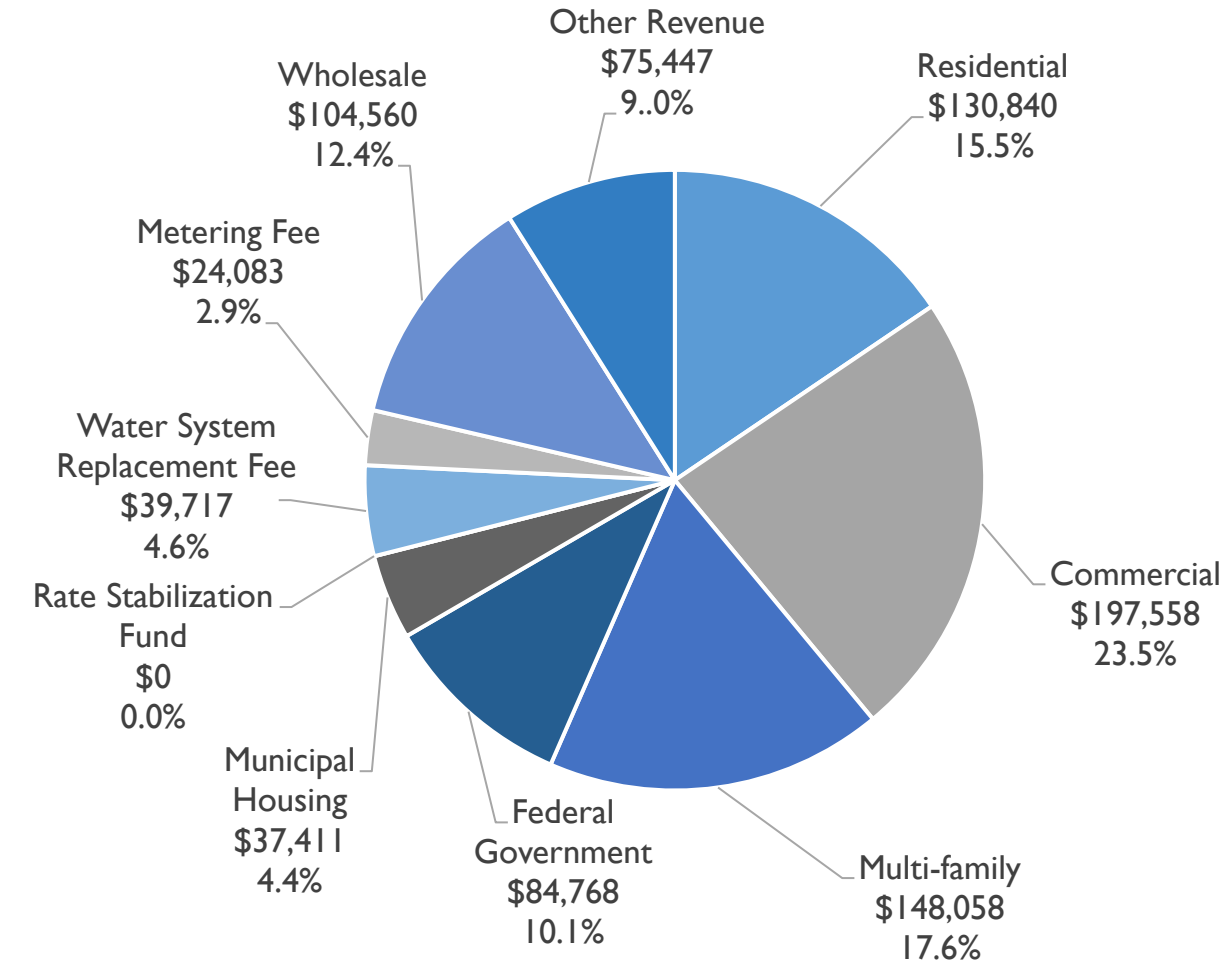
- Budgeted funds are used as pay-as-you-go (PAYGO) capital funding
- If operating costs exceed budget, CFCI is reprogrammed out and PAYGO is reduced
- If operating costs are less, unspent budget will be reprogrammed to CFCI and used as PAYGO, reducing debt service costs for all customers

Proposed Operating Revenues and Financial Plan

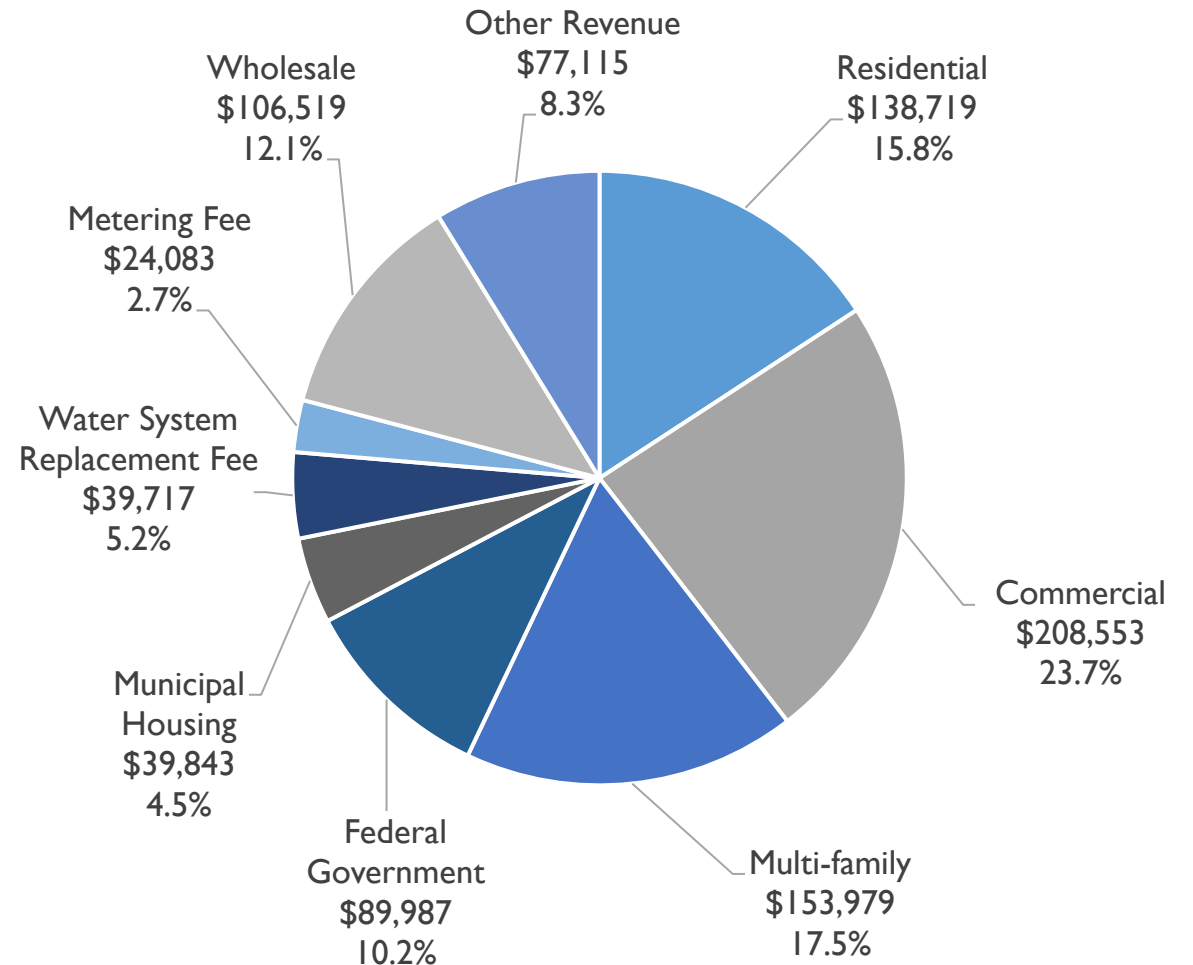
FY 2023 vs. FY 2024 Operating Revenues

\$ in thousands

Revised FY 2023 \$842.4 million



Proposed FY 2024 \$878.5 million

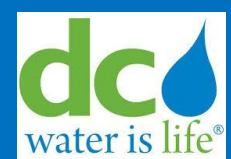


💧 FY 2023 and FY 2024 Revenues have been revised upward due to following:

- Retail Revenue – higher projected consumption by 1.0 million Ccf
- Wholesale Revenue – increase in O&M cost
- Interest Earnings and Interest on Bond Reserves – higher projected interest rates
- Other Revenue – increase in projected Engineering/Permit fee based on Cost of Service

FY 2023	Current	Revision	Proposed
Retail Revenue	\$ 667,024,202	\$ 18,481,139	\$ 685,505,341
Wholesale Revenue	85,720,070	18,839,431	104,559,501
Interest Earnings	4,161,829	2,866,384	7,028,213
Other Revenue	42,861,646	1,966,795	44,828,441
Interest on Bond Reserve	225,034	295,811	520,845
Total	\$ 799,992,781	\$ 42,449,560	\$ 842,442,341

FY 2024	Current	Revision	Proposed
Retail Revenue	\$ 689,378,359	\$ 28,932,111	\$ 718,310,470
Wholesale Revenue	89,142,239	17,376,830	106,519,069
Interest Earnings	4,150,788	3,544,015	7,694,803
Other Revenue	44,756,646	882,795	45,639,441
Interest on Bond Reserve	276,595	74,296	350,891
Total	\$ 827,704,627	\$ 50,810,047	\$ 878,514,674



Revenue Comparison by Customer Class

- Total revenue is projected to increase by \$8.8 million for FY 2023 as compared to FY 2022 Actual and increase by \$36.1 million or 4.3% for FY 2024 due to the rate increase
 - Retail Revenue – Decrease by \$17.6 million or 2.6% in FY 2023 and increase by \$32.4 million or 4.9% in FY 2024. The decrease in FY 2023 is due to utilization of \$52.1 million RSF in FY 2022; \$41.6 million RSF was transferred to ending cash balance
 - Wholesale Revenue – Increase by \$19.7 million or 23.2% in FY 2023 and increase by \$2.0 million or 1.9% for FY 2024 due to operations and maintenance expense projection. Revenue estimates are based on most recent flow data

\$ in thousands	Actual FY 2022	Revised FY 2023	Proposed FY 2024	FY 2023 vs FY 2022		FY 2024 vs FY 2023	
				Incr/(Decr)		Incr/(Decr)	
				\$	%	\$	%
Retail Revenue	\$680,026	\$662,435	\$694,881	-\$17,591	-2.6%	\$32,446	4.9%
Wholesale Revenue							
Potomac Interceptor (PI)	3,405	3,547	3,547	141	4.1%	-	0.0%
Loudoun County Sanitation Authority (LCSA)	7,695	9,300	9,538	1,604	20.8%	239	2.6%
Washington Suburban Sanitary Commission (WSSC)	59,049	73,648	74,959	14,599	24.7%	1,312	1.8%
Fairfax County*	14,749	18,066	18,475	3,316	22.5%	409	2.3%
Total Wholesale Revenue	\$84,899	\$104,560	\$106,519	\$19,659	23.2%	\$1,960	1.9%
Other Revenue	68,670	75,447	77,115	6,777	9.9%	1,668	2.2%
Rate Stabilization Fund (RSF)		-	-	-	-	-	-
Total Revenues**	\$833,595	\$842,442	\$878,515	\$8,846	1.1%	\$36,073	4.3%

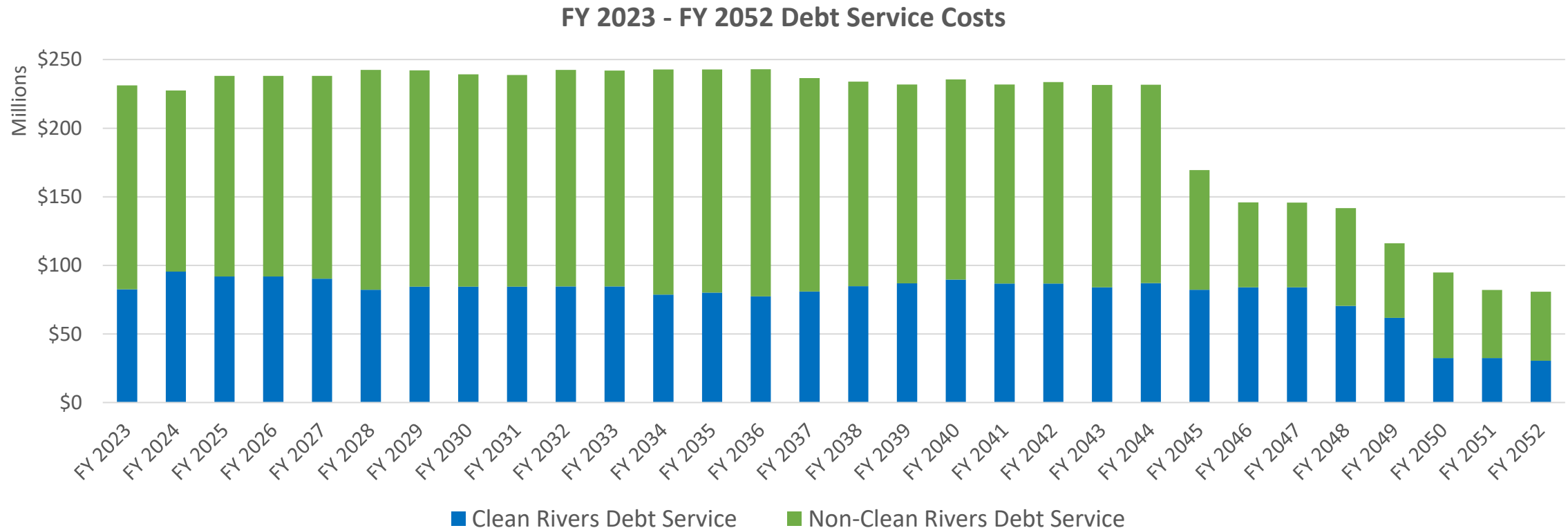
* The reduced revenues for Fairfax reflects decrease in percentage flow in 2021 (9.16%) as compared to 9.78% that was used in the FY 2022 approved budget last year. Most recent flow that is available at the time of preparing the projections is used to estimate revenue. However, actual costs will be distributed, and revenues recouped using actual flows for FY 2023 and FY 2024

** FY 2022 receipts include \$41.6 million RSF amount, which was transferred to ending cash balance

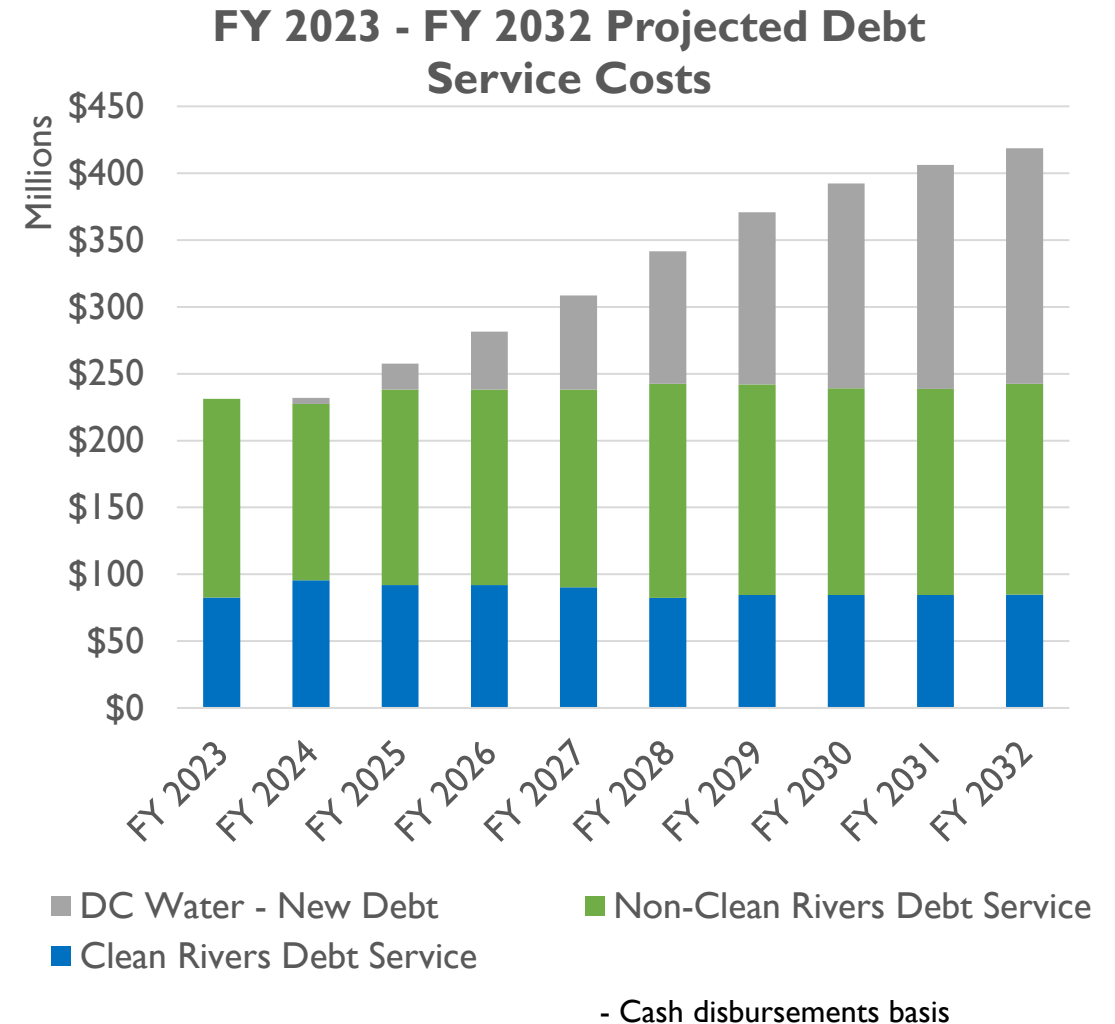
- The metrics maintained in DC Water's financial plan are intended to maintain our credit ratings and keep borrowing costs low
- Over the next ten years DC Water plans to borrow an additional \$2.7 billion that must be repaid through customer rates
- DC Water's prudent approach to borrowing is designed to provide generational equity among ratepayers without compromising future financial flexibility or incurring unnecessary costs
 - Borrowing allocates a portion of current capital costs to future ratepayers for capital improvements expected to remain in use at the time repayment occurs, but increases total costs due to interest expenses incurred
- Financial strength has allowed DC Water to spread repayment of once-in-a-generation capital costs aggressively and equitably, providing relief to current ratepayers
 - Financial Plan contemplates the issuance of \$2.7 billion of new debt; only ~\$1.8 billion of existing bonds are scheduled to be repaid through FY2032
 - Existing debt includes a \$350 million century bond will not be repaid until 2114 and represents the only century bond within the municipal utility sector
 - Commitments to generational equity in the debt portfolio are more aggressive than they could be at a lower rating level., with century bond market not available to lower-rated issuers and escalating credit premiums required for maturities >30 years.
- Weakening of financial metrics could compromise access or increase costs for financial products that provide savings to DC Water ratepayers

Debt Service for Existing Debt

- Debt service costs *for current debt* are projected to be approximately \$6.2 billion over the next 30 years through 2052
 - Clean Rivers debt service costs are \$2.4 billion and Non-Clean Rivers debt service costs are \$3.8 billion



- To advance the capital program, DC Water will borrow an additional \$2.7 billion over the next ten years
- These new debt service costs will require additional rate adjustments
- DC Water must maintain a strong financial position and its bond ratings in order to borrow funds to finance the capital program



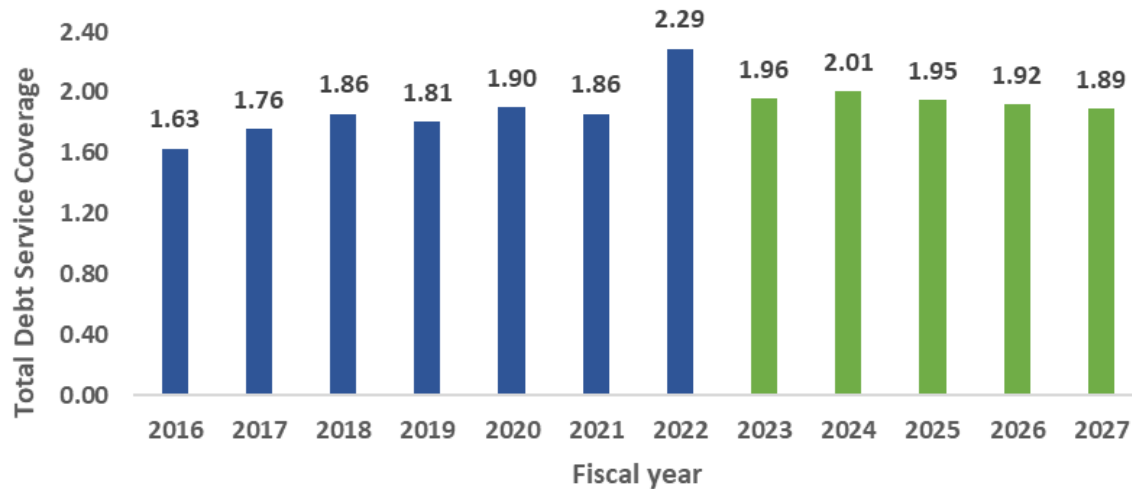
- The chart below demonstrates the substantial financial impact of lower credit ratings under normal and stressed market conditions per \$100 million of debt issuance, noting that DC Water has plans to issue at least \$2.7 billion of new money debt in the next ten years and maintains over \$3.8 billion of outstanding debt, some of which could be refinanced in the future
 - Low-cost debt funding is vital to continued refinancing efforts that have generated hundreds of millions of dollars of present value debt service savings over the past ten years
- Costs shown measure incremental interest costs incurred for a fixed amount of borrowing at various rating levels versus DC Water's current rating level, but do not measure the full interest costs related to proposed additional borrowing
 - Additional borrowing compounds added costs

	Average Credit Spreads				Maximum Credit Spreads			
Rating	Yield Differential vs. AAA Rating	Annual Cost Differential (per \$100 million)	Total Cost Differential (Through Maturity)	PV at 3.50%	Yield Differential vs. AAA Rating	Annual Cost Differential (per \$100 million)	Total Cost Differential (Through Maturity)	PV at 3.50%
AAA	-	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -
AA+	0.10%	100,000	2,000,000	\$1,421,240	0.20%	200,000	4,000,000	\$2,842,481
AA	0.15%	150,000	3,000,000	\$2,131,860	0.35%	350,000	7,000,000	\$4,974,341
AA-	0.25%	250,000	5,000,000	\$3,553,101	0.65%	650,000	13,000,000	\$9,238,062
A+	0.35%	350,000	7,000,000	\$4,974,341	0.95%	950,000	19,000,000	\$13,501,783
A	0.45%	450,000	9,000,000	\$6,395,581	1.30%	1,300,000	26,000,000	\$18,476,124
A-	0.55%	550,000	11,000,000	\$7,816,822	1.60%	1,600,000	32,000,000	\$22,739,845

Source: PFM

- 💧 Coverage is a core financial metric that reflects the financial health of a utility and measures the funds that are available to pay debt service after operating costs are met
 - *Funds representing excess coverage are used as PAYGO or cash to fund the capital program and reduce required borrowing*
 - *A reduction in PAYGO would require additional borrowing to cover capital budget expenditures for infrastructure improvements*
- 💧 Coverage projections in the budget and the financial plan is consistent with recent results that have led to high bond ratings and lower borrowing costs for customers in DC
- 💧 Higher coverage indicates greater flexibility to tolerate financial stress from unexpected expenditures or a shortfall in revenues while still assuring repayment of debt
- 💧 The Trust Indenture requires coverage of 1.2X for senior bonds and 1.0X for subordinate coverage; Board Policy requires a minimum of 1.6X combined coverage
 - DC Water management policy of a maximum of 33% of revenues (one-third of every dollar) to be spent on debt; given the significant amount of debt to be added to the balance sheet over the next ten years this increases coverage
 - The Fitch ratings process in large part is determined by leverage – which measures a utility's debt and other fixed obligations (net of certain balance sheet resources), relative to its annual cash flows available to service those obligations
 - A reduction in coverage from our current levels impacts the Fitch leverage calculation and could result in a ratings downgrade and an increase in borrowing costs that would put pressure on customer rates
- 💧 Maintaining this metric in the Financial Plan is deliberate and not arbitrary; it has been recognized by Rating Agencies as a financial strength and a reason that DC Water can borrow at low rates

Historical and Projected Debt Service Coverage

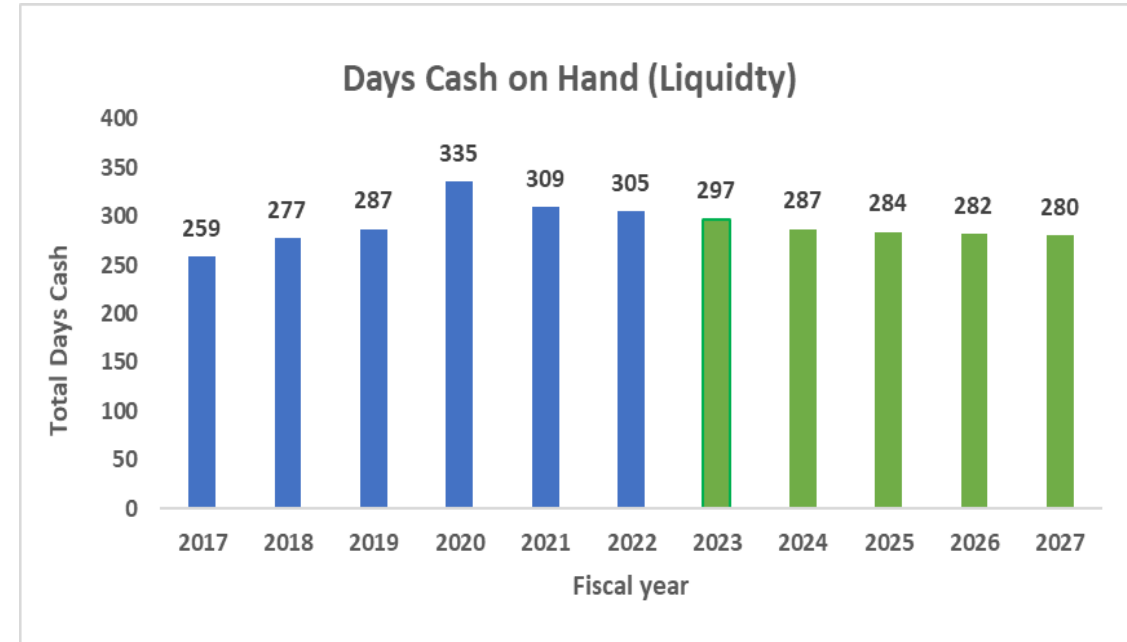


Higher 2022 coverage projection is the result of a Rate Stabilization Fund withdrawal to establish 250 days of cash outside of that Fund

- In calculating debt service coverage, withdrawals from RSF are counted as revenues; deposits to RSF are subtracted from revenues*

- 💧 Fitch wrote in our last ratings report that “Rate adjustments that are not sufficient to support sustained revenue growth and hold debt service coverage by net revenue close to current levels” could result in a ratings downgrade
- 💧 Moody’s: “departure from history of routine rate increases that weakens the authority’s financial metrics” could result in a downgrade
- 💧 A downgrade would increase borrowing costs for our customers
- 💧 Minimum coverage requirements in our Indenture and in our Board Policy are not sufficient to maintain our bond ratings, especially with and additional \$2.7 billion in planned borrowing over the next ten years

- 💧 Liquidity is measured in the number days of unrestricted operating cash
 - *Liquidity is the number of days that DC Water could cover operating costs without additional revenue*
- 💧 Higher liquidity indicates greater flexibility to deal with unexpected expenditures or a shortfall in revenues
- 💧 DC Water has maintained a minimum of 250 days of cash since 2015, which is required by Board policy
- 💧 Certain rating agencies expect > 250 days of cash for utilities rated in the highest category
 - Fitch wrote in our last ratings report that “Sustained declines in operating liquidity, or a change in regulations or water quality that necessitates much more borrowing” could result in a ratings downgrade
- 💧 DC Water’s unrestricted liquidity is low when compared to its highly rated peers
- 💧 Maintaining this metric in the Financial Plan is deliberate and not arbitrary; it has been recognized by Rating Agencies as a financial strength and a reason that DC Water can borrow at low rates



Liquidity as measured by credit rating agencies includes unrestricted reserves in addition to Rate Stabilization Fund balance.

- DC Water's combined debt service coverage is in line with similarly rated peers (1)
- Liquidity at 366 days is low compared to our peers (2)
- Current coverage and liquidity levels need to be maintained to keep borrowing costs low for our customers

Selected Peer	Type	Moody's Rating (Senior)	S&P Rating (Senior)	Fitch Rating (Senior)	Total Operating Revenues (\$000s)	Total Annual Debt Service (\$000s)	Debt Ratio	Long Term Debt (\$000s)	Total Debt Service Coverage	DS as a % of Total Operating Revenues	Days Cash on Hand
Atlanta, GA	Water & Sewer	Aa2	AA-	AA	482,084	235,362	41.5%	2,947,648	1.9x	48.8%	1,291 Days
Charlotte, NC	Water & Sewer	Aaa	AAA	AAA	458,669	142,074	32.4%	1,460,786	2.0x	31.0%	498 Days
Dallas, TX	Water & Sewer	Aa2	AAA	AA	675,180	222,946	48.3%	3,178,441	1.4x	33.0%	245 Days
DC Water	Water & Sewer	Aa1	AAA	AA+	770,557	214,611	42.6%	3,422,793	2.2x	27.9%	366 Days
Louisville MSD, KY	Sewer	Aa3	AA	AA-	365,367	162,506	65.9%	2,333,927	1.6x	44.5%	364 Days
Metro St. Louis Sewer District, MO	Sewer	Aa1	AAA	AA+	458,249	123,886	41.6%	1,740,295	2.2x	27.0%	494 Days
NE Ohio Regional Sewer District	Sewer	Aa1	AA+	NR	382,237	108,963	51.4%	1,915,685	2.5x	28.5%	1,196 Days
NYC Water	Water & Sewer	Aa1	AAA	AA+	3,879,042	593,200	83.8%	31,542,159	3.9x	15.3%	336 Days
San Antonio, TX	Water & Sewer	Aa1	AA+	AA+	779,332	204,249	47.6%	4,041,445	2.0x	26.2%	523 Days

Metrics	Indenture Requirement	Board Policy	Management Target	Financial Plan
Days of Cash on Hand (excluding RSF)	60 days	250 Days	—	252 - 263 Days
Combined Coverage Ratio	—	1.6X	—	1.76X – 2.01X
Senior Coverage	1.2X	—	—	5.80X – 7.83X
Subordinate Coverage	1.0X	—	—	2.07X – 2.45X
Debt Service as a % of Revenue	—	—	33% of Revenue or Less	26% - 33%



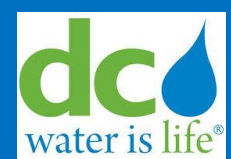
Revised

\$ in thousands

OPERATING	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
<i>Retail</i>	\$685,505	\$ 718,310	\$ 755,081	\$ 802,038	\$ 852,254	\$ 898,145	\$ 953,657	\$ 1,006,114	\$ 1,049,289	\$ 1,081,751
<i>Wholesale</i>	104,560	106,519	110,780	115,211	119,819	124,612	129,597	134,781	140,172	145,779
<i>Other</i>	52,377	53,685	53,625	58,319	63,816	67,423	65,912	64,501	62,804	60,816
<i>RSF</i>	-	-	-	-	-	-	-	-	-	-
Operating Receipts ⁽¹⁾	\$ 842,442	\$ 878,515	\$ 919,485	\$ 975,568	\$ 1,035,890	\$ 1,090,180	\$ 1,149,166	\$ 1,205,396	\$ 1,252,264	\$ 1,288,346
Operating Expenses	(401,231)	(425,383)	(441,828)	(458,923)	(476,695)	(495,170)	(514,376)	(534,342)	(555,099)	(576,678)
Debt Service	(231,232)	(231,953)	(257,615)	(281,518)	(308,481)	(341,582)	(370,871)	(392,286)	(406,343)	(418,816)
Cash Financed Capital Improvement	\$ (23,505)	\$ (48,256)	\$ (60,406)	\$ (72,183)	\$ (76,703)	\$ (80,833)	\$ (85,829)	\$ (90,550)	\$ (94,436)	\$ (97,358)
Net Revenues After Debt Service	\$ 186,474	\$ 172,922	\$ 159,636	\$ 162,943	\$ 174,011	\$ 172,596	\$ 178,090	\$ 188,218	\$ 196,387	\$ 195,495
Operating Reserve-Beg Balance	257,374	274,600	282,600	292,600	303,600	314,600	327,600	340,600	354,600	368,600
Other Misc (Disbursements)/Receipts										
Wholesale/Federal True Up	(11,688)	(11,256)	-	-	-	-	-	-	-	-
Pay-Go Financing	(157,560)	(153,665)	(149,636)	(151,943)	(163,011)	(159,596)	(165,090)	(174,218)	(182,387)	(180,495)
Operating Reserve - Ending Balance	\$ 274,600	\$ 282,600	\$ 292,600	\$ 303,600	\$ 314,600	\$ 327,600	\$ 340,600	\$ 354,600	\$ 368,600	\$ 383,600
Rate Stabilization Fund Balance RSF ⁽²⁾	\$ (35,644)	\$ (35,644)	\$ (35,644)	\$ (35,644)	\$ (35,644)	\$ (35,644)	\$ (35,644)	\$ (35,644)	\$ (35,644)	\$ (35,644)
Senior Debt Service Coverage	580%	734%	783%	699%	644%	659%	656%	620%	645%	617%
Combined Debt Service Coverage	196%	201%	195%	192%	189%	181%	178%	178%	178%	176%
Actual/Projected Water/Sewer Rate Increases	9.50%	3.25%	9.00%	7.50%	8.00%	8.00%	7.50%	7.50%	6.50%	6.50%
Operating Receipts \$ Increase/Decrease										
Retail	34,950	32,805	36,770	46,957	50,216	45,890	55,513	52,457	43,174	32,463
Wholesale	19,660	1,960	4,261	4,431	4,608	4,793	4,984	5,184	5,391	5,607
Operating Receipts % Increase/Decrease										
Retail	5.4%	4.8%	5.1%	6.2%	6.3%	5.4%	6.2%	5.5%	4.3%	3.1%
Wholesale	23.2%	1.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

⁽¹⁾ Includes interest earnings on senior lien revenue bonds' debt service reserve fund

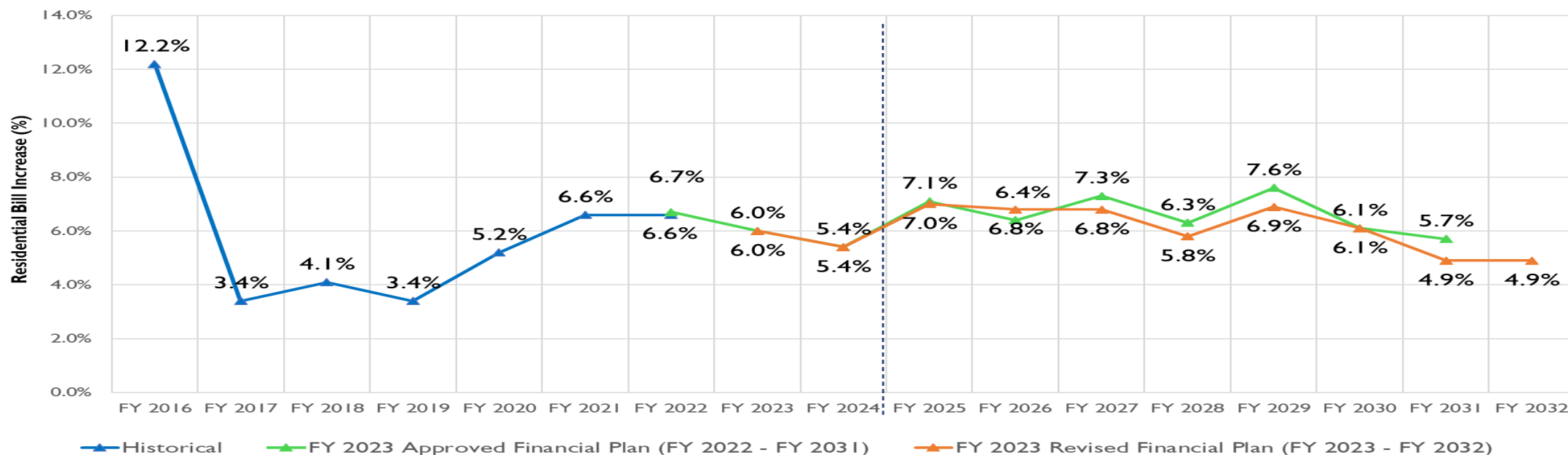
⁽²⁾ FY 2024 planned transfer of \$0.0 million to Rate Stabilization Fund and \$0.0 million utilization will keep the total fund balance at \$35.644 million.



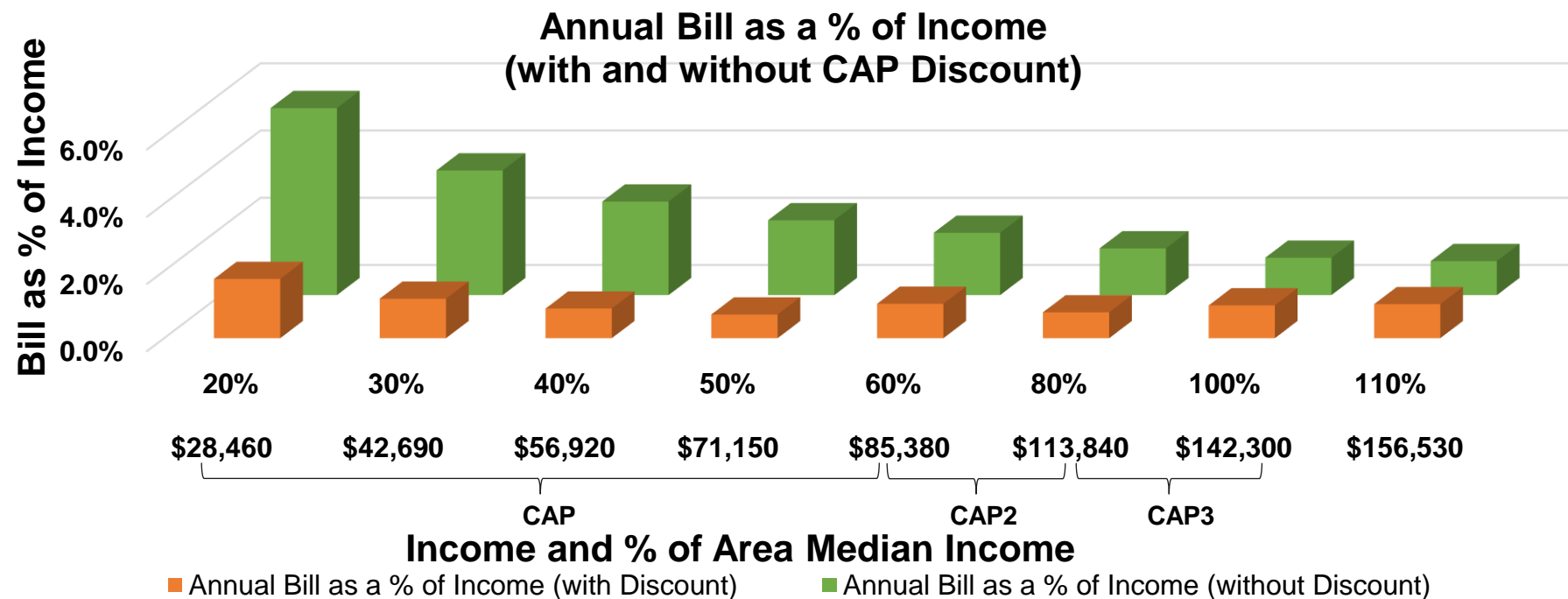
Historical and Projected Combined Rate Increases

- DC Water calculates rate increases that will be required to meet operating and capital budget expenditures as well as maintenance of financial metrics that keep borrowing costs low
- Rate increases are required because of increases in spending on operations and infrastructure investment (the capital budget)
 - DC Water offers some of the most robust customer assistance programs in the country for those who cannot afford our services
- Debt service is the fastest growing portion of the budget
 - Using cash for capital projects (PAYGO) and sustaining our high bond ratings help keep customer rates lower

The stable outlook incorporates the expectation that the authority will manage rates effectively to maintain healthy liquidity and sound debt service coverage while generating new revenue over the longer term to support capital improvements – Moody's



- 💧 CAP provides discounts to households up to 100% Area Median Income
- 💧 Those with lower incomes receive a greater benefit
- 💧 Programs assist with affordability for households below area median income



Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing

Intent to Reimburse Capital Expenditures

- Approval to reimburse DC Water for “Costs of the System” as defined in the Master Indenture; allows DC Water to reimburse itself for capital expenditures with debt proceeds
- Updated from original proposal to reflect planned borrowing in FY 2024 plus estimated premium, amount requested is \$185 million (revised from original estimate of \$269 million); DC Water has three years from the time of the last expenditure to make the reimbursement
 - Reductions in capital spending due to supply chain issues, delayed DC Water's access to enter the market in 2023
 - Borrowing for FY 2023 and FY 2024 was combined for approximately \$185 million
- As part of the request to issue a specific series of debt in the future, the Board will be asked to adopt a specific resolution that confirms the intent for the actual amount financed with actual reimbursed expenses




Action Items

Committee Actions & Budget Adoption


	Environmental Quality & Operations	Finance & Budget	DC Retail Water & Sewer Rates
Committees & Meeting Dates	February 16	February 24	February 28
FY 2023 - FY 2032 Capital Budget <ul style="list-style-type: none"> Revised FY 2023 Capital Disbursements Proposed FY 2024 Capital Disbursements Ten-Year Disbursements Lifetime Project 	Action Taken	Action Required	
Annual Operating Budgets <ul style="list-style-type: none"> Proposed Revised FY 2023 Expenditure Proposed FY 2024 Expenditure 		Action Required	
FY 2023 - FY 2032 Financial Plan <ul style="list-style-type: none"> Proposed Revised FY 2023 Revenues Proposed FY 2024 Revenues 		Action Required	Action Required
Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing		Action Required	




Complete Budget Briefing available online at <https://www.dewater.com/budget-and-rate-review-documents-0>



[My Accounts](#) · [Pay Your Bill](#) · [Report a Problem](#) · [Find a Job](#) · [Get a Permit](#) · [Contact Us](#)

 [View Customer Center >](#)

[About DC Water](#) · [Projects](#) · [Resources](#) · [What's Going On](#) · [Work with Us](#)

Search the site 

[Home](#) > [About DC Water](#) > [Finance](#) > [Ratemaking Process](#)

Ratemaking Process

The Board's Strategic Plan and 10-year financial plan provide the framework for the formulation, prioritization, implementation and monitoring of the annual budget process.

The annual budget process typically begins with planning in June and official kickoff in July of each year for the Operating and Capital Budgets. Plans and budgets are prepared at an appropriate level of detail for each management level. Assumptions inherent in the plans and budgets reflect the entity's historical experience, current conditions and Executive Team's directives. Once decisions are finalized for the operating and capital budgets, management develops the financial plan and rate model including various scenarios to ensure a balanced budget for recovery of costs. Further review is undertaken with independent consultants including benchmarking our proposed rates with peers in the industry. DC Water develops two-year rate proposals. The benefits of multi-year rates include greater revenue certainty, increased budget discipline and better alignment between revenues and expenditures.

The proposed budgets are finalized during the fall of each year, and introduced to the Board during the Budget Workshop typically in January. The Committees then submit their recommendations to the full Board for adoption and DC Water's adopted budget is included in the District of Columbia's budget submission to U.S. Congress.

DC Water's adopted budget and proposed rates are communicated via various news and media outlets as well as town hall meetings in each ward and a public hearing to provide customers the opportunity to comment on the changes. Once the budgets are appropriated by Congress and the final rates approved by the Board, they become effective on October 1st of each year.

IN THIS SECTION

- [FY 2024 Proposed Budget](#)
- [FY 2023 Approved Budget](#)
- [FY 2023 and FY 2024 Approved Rates](#)
- [Budget and Rate Review Documents](#)


OTHER LINKS & DOCUMENTS

Online Tools


- [Rate Comparison Tool](#)
- [Impervious Area Calculator](#)

FY 2023 & FY 2024 Approved Rate Documents


- [Responses to Comments and Recommendations on Proposed Rates](#)
- [FY 2023 & FY 2024 Proposed Rates Presentation - RRC February 22, 2022](#)
- [Independent Review of Proposed Rates for FY 2023 and FY 2024 - Report](#)
- [Independent Review of Proposed FY 2023 & FY 2024 Rates, Charges & Fees Presentation - RRC February 22, 2022](#)
- [2022 Cost of Service Study](#)
- [2022 Cost of Service Study Presentation - RRC January 25, 2022](#)



[My Accounts](#) · [Pay Your Bill](#) · [Report a Problem](#) · [Find a Job](#) · [Get a Permit](#) · [Contact Us](#)

 [View Customer Center >](#)

[About DC Water](#) · [Projects](#) · [Resources](#) · [What's Going On](#) · [Work with Us](#)

Search the site 

[Home](#) > [About DC Water](#) > [Finance](#) > [Ratemaking Process](#) > [Budget and Rate Review Documents](#)

Budget and Rate Review Documents

Date	Title
January 24, 2023	Joint DC Retail Water & Sewer Rates and Finance & Budget Committees Proposed FY 2023 - FY 2032 Capital Improvement Program
January 19, 2023	Environmental Quality and Operations Committee Proposed FY 2023 - FY 2032 Capital Improvement Program
January 5, 2023	Budget Workshop with the Board FY 2024 Proposed Budget



Are You
In The
Know?

Strategy



People



Thank You!

Teamwork Delivered the Budget Proposal

Management recommends the approval of the following:

- 💧 **Proposed Operating Budget**
 - Revised FY 2023 budget of \$686.4 million
 - Proposed FY 2024 budget of \$737.6 million
- 💧 **Proposed Capital Budget**
 - Revised FY 2023 budget of \$501.4 million and Proposed FY 2024 budget of \$604.7 million
 - FY 2023 – FY 2032 Capital Disbursements of \$6.95 billion
 - Lifetime Project Budget of \$14.63 billion
- 💧 **Proposed FY 2023 & 2024 Operating Revenues**
 - Rates and Fees were approved last year
- 💧 **Proposed FY 2023 – FY 2032 Financial Plan, including the revenue requirements to support the operating and capital budgets**
- 💧 **Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing**

