



# Overview of Operating Budget Drivers & Rate Increases

Finance and Budget Committee – December 14, 2021

District of Columbia Water and Sewer Authority



- 💧 Review historical and projected expenditure budget drivers
- 💧 Provide overview of previous, current, and projected customer rates

- DC Water will propose its annual budget and Capital Improvement Plan (CIP) to the Board of Directors in January 2022
  - Budgets are reviewed by Board committees over a two-month process before they are adopted
- A two-year rate proposal to support the operating budget and CIP will be presented at that time
  - After Board review, the rate proposal undergoes a public process
  - OPC provides comments and testimony
  - Retail Rates are recommended to the Board by the Retail Rates Committee
    - Only board members from DC are on the Retail Rates Committee that reviews and approves rates

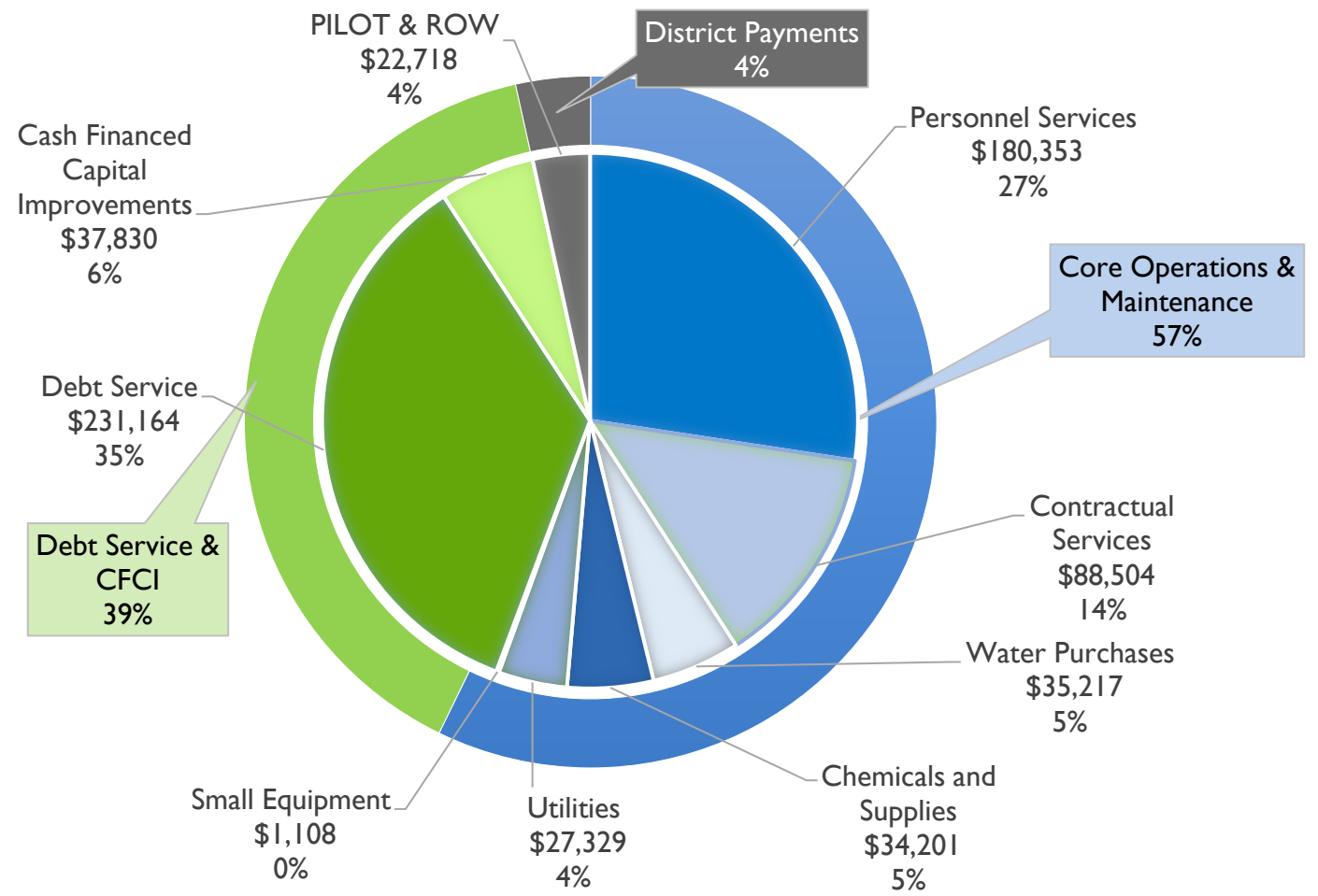




# Approved FY 2022 Operating Budget

\$ in thousands

- DC Water's operating budget includes the operations & maintenance (O&M), debt service & Pay-Go and District payments
- The operating budget is consistent with the Board-adopted financial plan which already factored in reduced revenues due to the continued decline in water consumption as a result of the COVID-19 pandemic



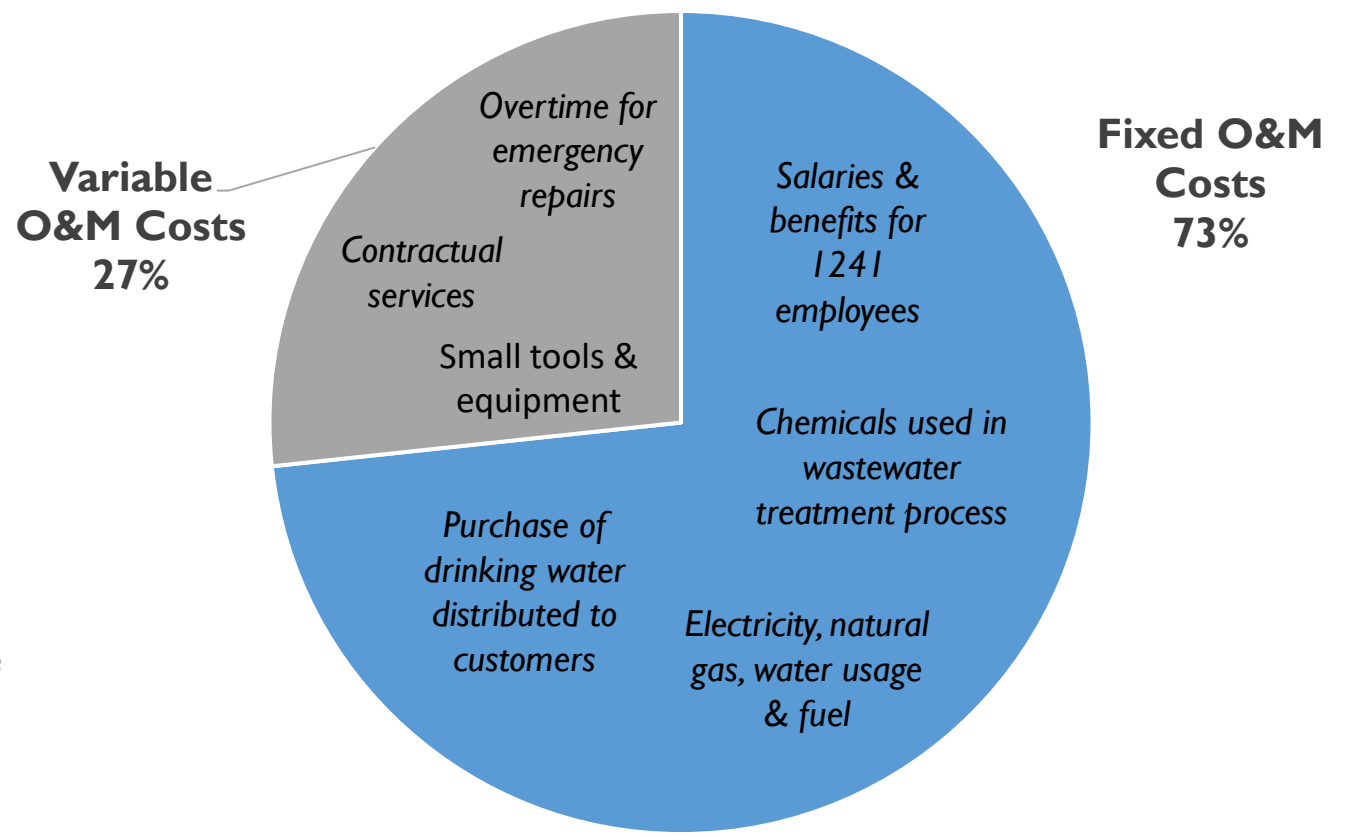
💧 **Fixed costs** are considered non-discretionary in nature and mainly for unavoidable and uncontrollable services such as

- Union agreement – salaries and benefits for approx. 67% of DC Water’s workforce
- Market Driven – Chemicals and energy costs
- Purchase of water from the Washington Aqueduct
- Debt service and fees required for capital investments

💧 **Variable costs** are based on operational business needs, strategic priorities and other discretionary items such as

- Overtime used for emergency repairs
- Contractual services for operations and maintenance of equipment, vehicles, buildings; software maintenance, employee training, etc.
- Small tools and equipment

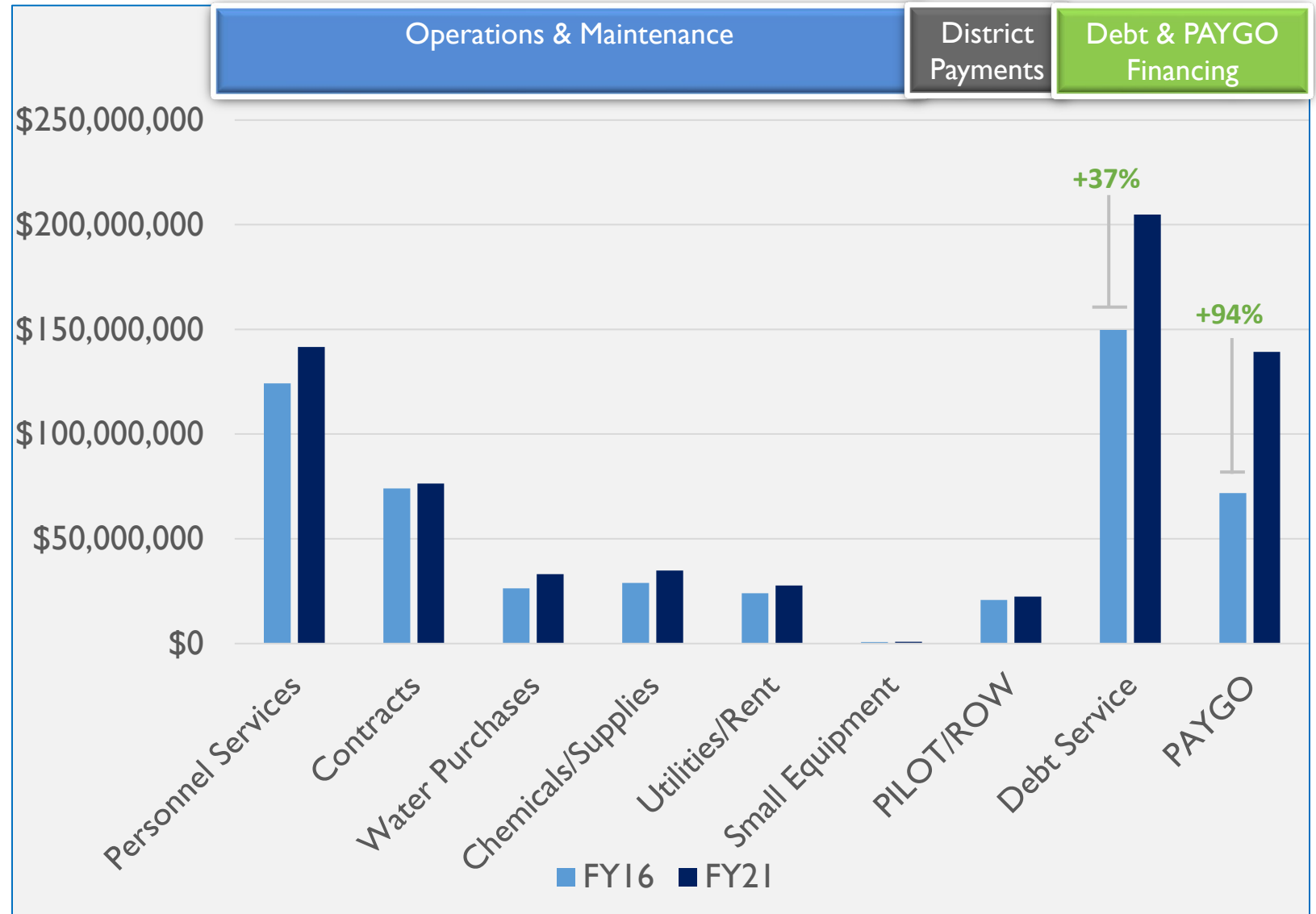
*Approximately 73% of the core operations and maintenance costs are fixed*





# Expenditure Growth, FY 2016 – FY 2021

- From FY 2016 to FY 2021, expenditure growth has been driven by capital improvements, including Clean Rivers
  - Debt Service costs up 37% as bonds issued for capital program including Clean Rivers
  - Operating costs increased an average of 2.5% a year (**12.7% from FY 2016 – FY 2021**)



## DC Water's operational initiatives and process improvements have saved rate payers money

- 💧 **\$20 million** - Annual reduction in reduced waste hauling and energy purchases from the Digesters and Combined Heat and Power Facilities
- 💧 **\$1.1 million** in annual savings from new Cloud-based Oracle ERP system that replaces former legacy financial system and four HCM systems
- 💧 **\$0.8 million** saved in inventory reductions through optimization of materials and inventory operations
- 💧 **\$8.7 million** in renegotiated multi-year contracts for goods & services in FY 2021

*\$30.6 million in annual savings and avoided costs  
Without these initiatives, rates would be an estimated 5.3% higher*

## Budget Risks

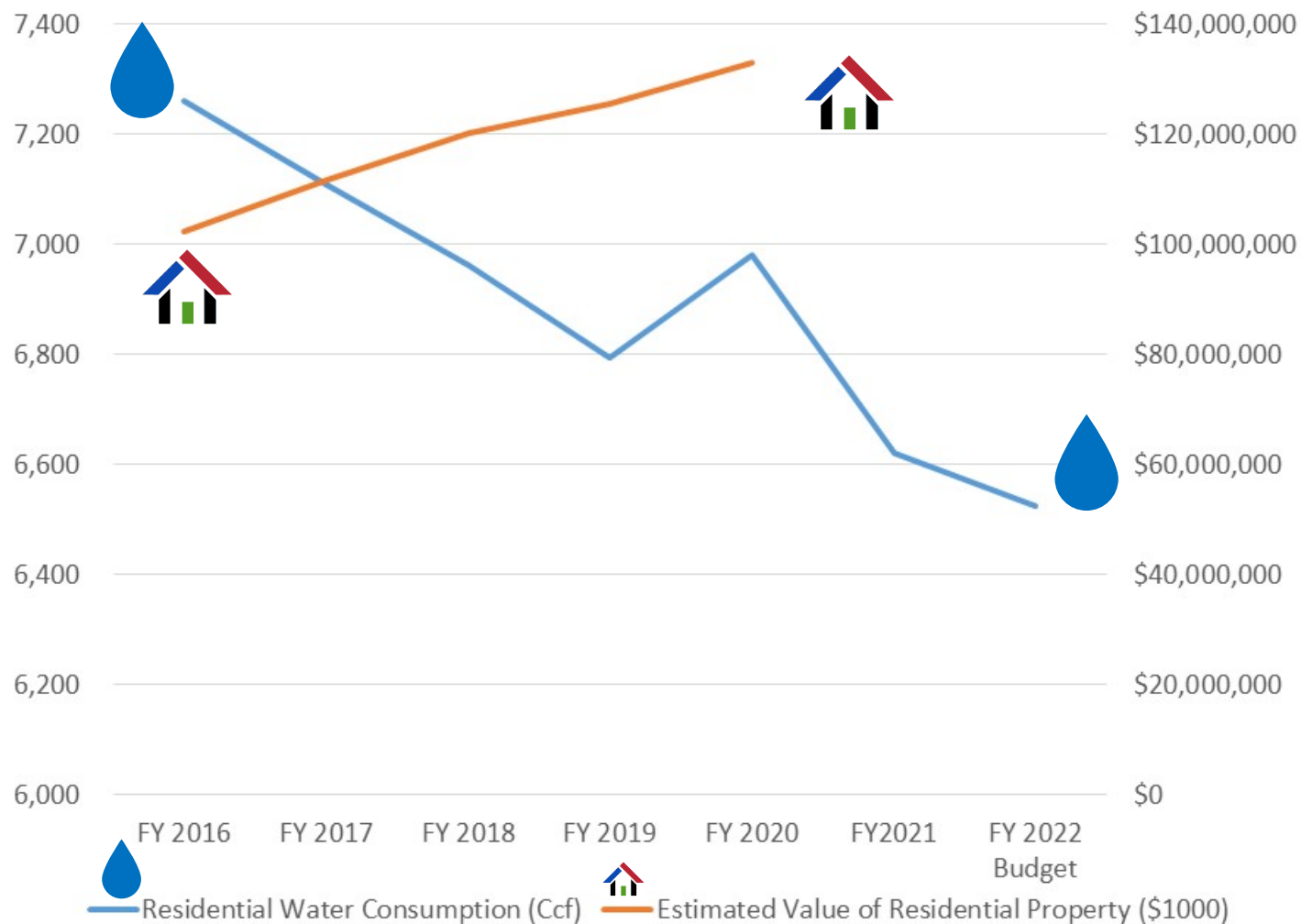
- Crude oil energy market volatilities and supplies chain issues (energy and chemicals)
- New requirements (regulatory, technology, tunnels and operational facilities)
- Aging infrastructure (repairs, overtime for water main breaks and sewer backups)
- Litigation for unanticipated large legal cases
- Claims and insurance premiums
- Increases in employee medical benefits based on industry trends and regulations

## Mitigation Strategies

- Extensive outreach with departments to gain insight into any budget pressures
- Mid-year projections and periodic forecasts for monitoring spending
- Implementation of strategic spending restrictions to redirect funds to prioritized needs
- Cash Financed Capital Improvement Fund is also available as contingency for emergencies, with unutilized funds transferred to pay-go at the end of the year
  - Its use would decrease the amount of PAYGO available

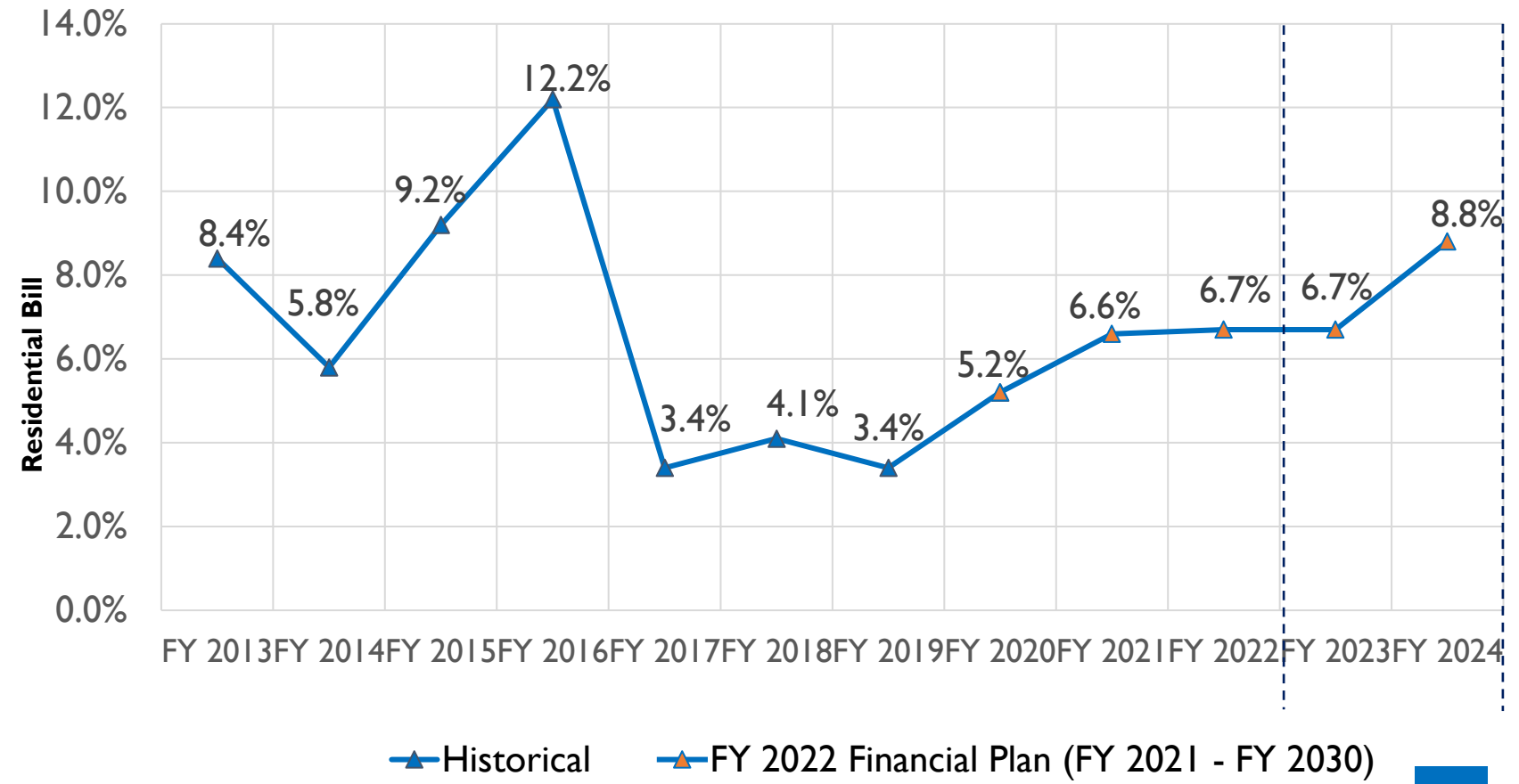


Residential Water Consumption vs Property Value



- Without a rate increase, retail revenue will fall because consumption decreases each year from conservation
  - FY17-19 saw a steady decline in residential water consumption of at least 2% per year

- 💧 The Board-approved Financial Plan includes an estimate of rates to support anticipated operating expenditures and capital improvement plan
- 💧 Because of water conservation, Water and Sewer rates must increase every year or retail revenue will decrease



- DC Water recovers only the funds necessary to fund the Operating and Capital Budgets through rates
- The fastest growing expenditure category is debt service for the capital program, which has grown an average of 6.5% a year since 2016
- As part of the budget, DC Water presents the rates required to support the CIP and forecasted operating expenditures
  - Rates are reviewed and approved by the DC Water Board every two years
  - The financial plan, including the forecast of rates, is proposed to the Board for consideration
- Customer Assistance Programs provide discounts for residential customers
  - Income requirements for those programs every year
  - In FY 2021 the discount was increased for customers in the CAP program to ensure that rates comprised a lower portion of household income



- ▾ **Blueprint 2.0 Update** – new strategic plan with actionable goals to support five organizational imperatives: Healthy, Safe and Well, Reliable, Resilient, Sustainable, and Equitable
- ▾ **Lead Free DC** – committed to the ambitious goal of removing more than 28,000 lead service lines by 2030, will impact rates
- ▾ **Small Diameter Water Main renewal** – Increasing replacement to improve performance and improve water quality; \$642.3 million in 10-year capital plan to rehabilitate 121.6 miles
- ▾ **Methanol reduction program** – Researching how a nutrient removal technology known as Partial Denitrification Annamox (or PdNA) to remove nitrogen at Blue Plains Plant; has the potential to significantly reduce chemical use and overall treatment costs and reduce DC Water’s carbon footprint



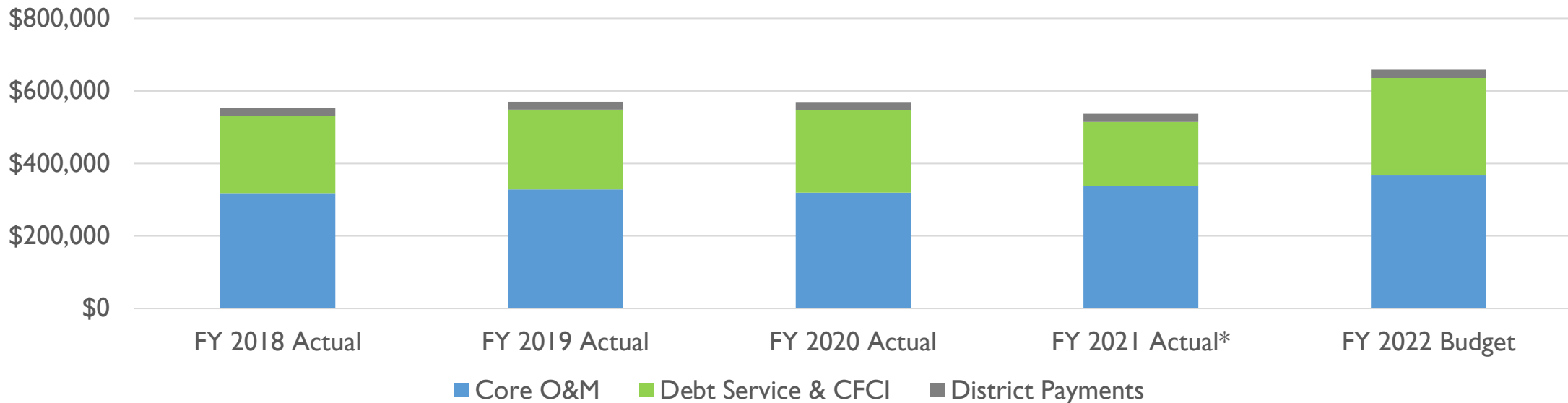
- 💧 Deliver the Proposed FY 2023 budgets in January 2022
  - Revenue – Cost recovery within two-year rate proposals for FY 2023 and FY 2024
  - Expenditure – Funds operating budget priorities
  - Capital Program – Address system infrastructure priorities over ten years
- 💧 Conduct reviews and recommendations with the various Board Committees and Wholesale Customer in January and February 2022
- 💧 Budget Adoption in March 2022
- 💧 Rate Process
- 💧 Fiscal Year Begins on October 1, 2022

# Appendix

- 💧 Core Operations & Maintenance (O&M) costs for personnel and non-personnel services have been consistently stable with average growth of 3% - 4% per year
  - Lower spending in FY 2021 and FY 2022 was mainly attributable to the spending targets implemented to align with reduced revenue forecasts
  
- 💧 Debt service continues to be the largest driver of the operating budget, at 34% of the overall FY 2021 expenditures and 35% of the FY 2022 forecast
  - Annual average growth of 5.5%

\$ in thousands

### Annual Operating Expenditures



*FY 2021 - These are preliminary results and subject to change after completion of the fiscal-year financial and audit activities*

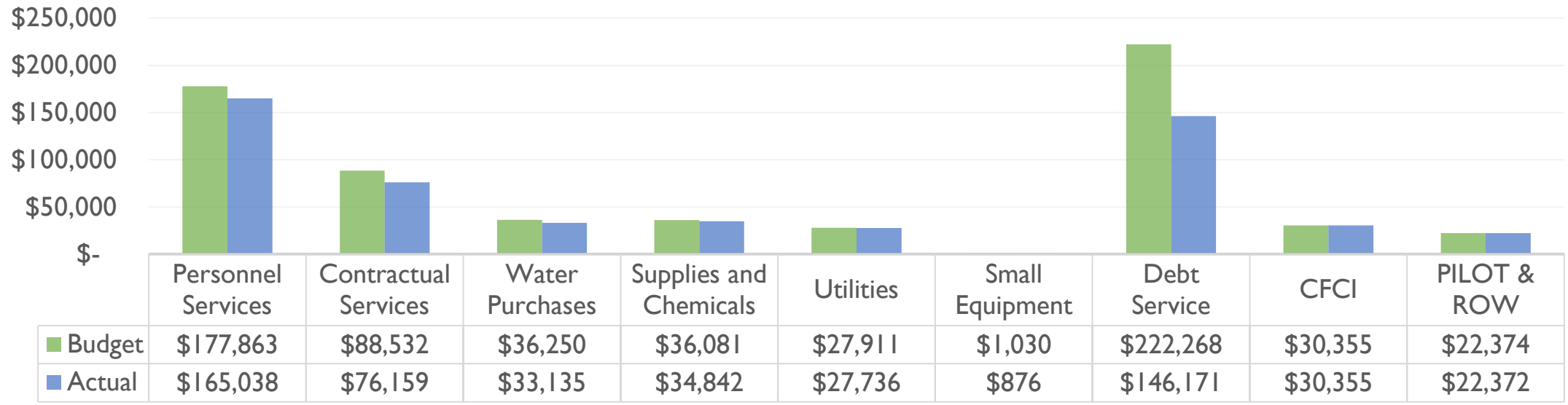


# FY 2021 Operating Budget Performance

- DC Water ended the fiscal year 2021 with strong financial results with the following preliminary results:
  - Operations and Maintenance (O&M) – approximately \$27.3 million below budget mainly from personnel (hiring critical positions only, lower benefits and reduced overtime), fixed costs (favorable prices from chemicals and utilities), water purchases and contractual services (spending reductions to achieve targets due to revenue forecasts)
  - Debt Service - \$17.4 million below budget consistent with the FY 2021 adopted financial plan and including the refunding of the 2013 Series A bonds and lower projected debt service cost
  - Cash Financed Capital Improvement (CFCI) – With favorable O&M position, these funds were fully utilized for pay-go financing

\$ in thousands

FY 2021 Budget vs. Actual Operating Expenditures\*



FY 2021 - These are preliminary results and subject to change after completion of the fiscal-year financial and audit activities

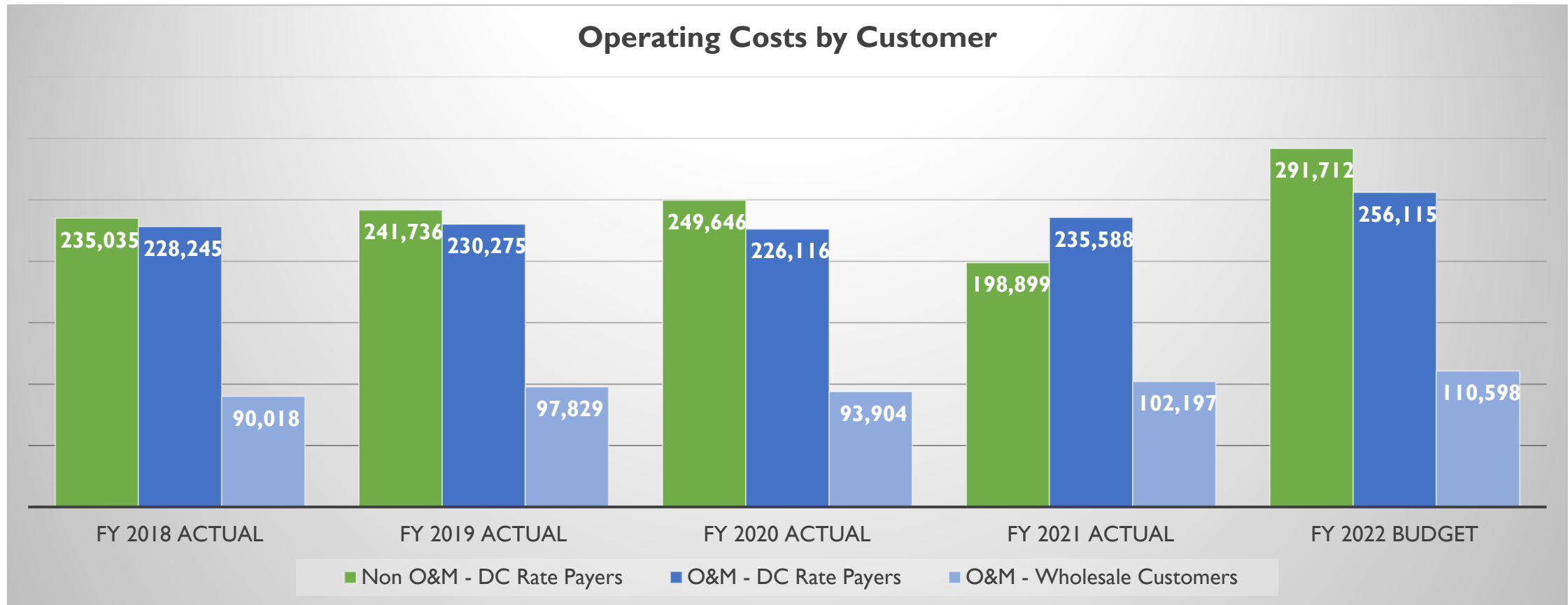




# Operating Costs by Customer

\$ in thousands

- Approximately 70% of core operations and maintenance (O&M) costs are recouped from the District ratepayers with the remaining 30% from the wholesale customers as part of the annual operating bill and MJUF settlements
- The Non-O&M costs for debt service and PAYGO to support the capital program, PILOT and ROW are fully paid by the District Ratepayers



FY 2021 Actual – These are preliminary results and subject to change after completion of the year-end close and financial audit activities



# Personnel and Contractual Services

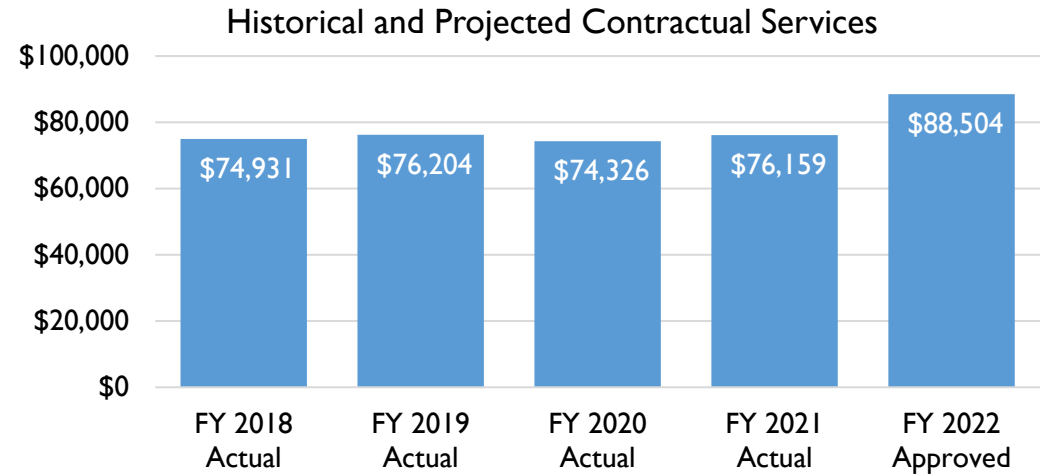
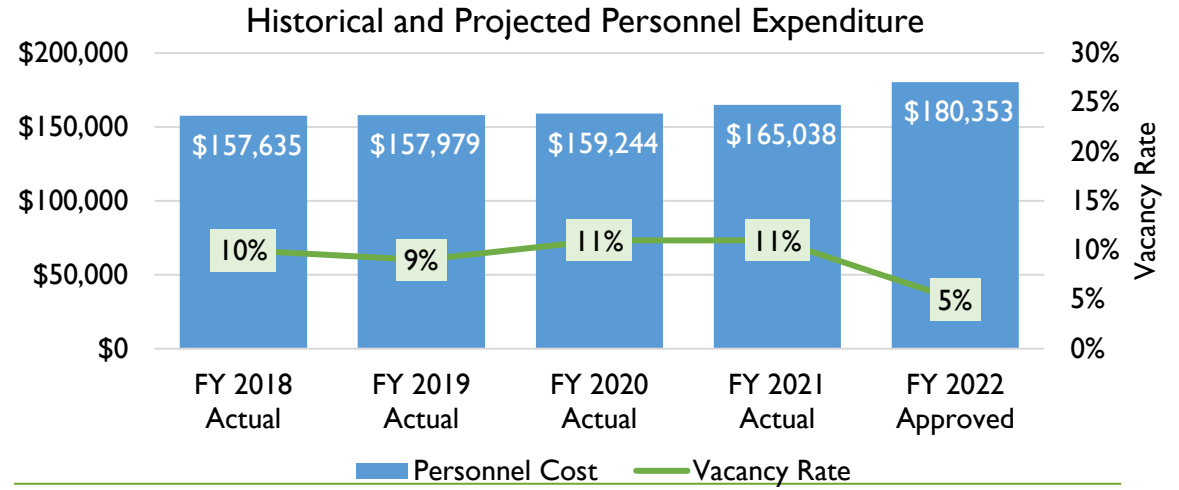
\$ in thousands

## Personnel Services - accounts for approximately 50% of DC Water's core operations and maintenance costs

- The District ratepayers are responsible for 74% of personnel costs
- FY 2022 budget funds ten new positions and continues management's efforts to backfill critical positions to achieve a lower vacancy rate of 5% compared to historical trend of 11%

## Contractual services – approximately 62% of these costs are for infrastructure maintenance, legal and compliance requirements

- The District ratepayers are responsible for 62%
- Lower overall contractual spending in FY 2020 and FY 2021 was due to actions taken to align spending with reduced revenue forecasts in response to the pandemic
  - These include deferred proactive inspections, repairs and maintenance on equipment and reduced hours for professional services e.g. field controllers, calibration & instrumentation, and low voltage services
- The FY 2022 budget reflects cost adjustments for on-going programs and funds new programs such as the leak repairs, Backwater Valve Program, maintenance of the Green Infrastructure (GI) facilities, and the facilities and maintenance needs for the new Fleet Service and Sewer Service locations.



FY 2021 - These are preliminary results and subject to change after completion of the fiscal-year financial and audit activities

\$ in thousands

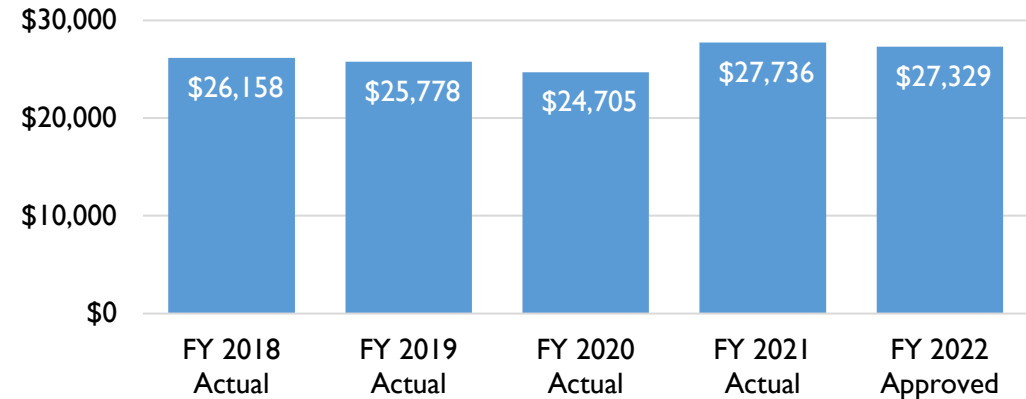
💧 **Utilities** - One of the largest drivers of the operating budget is electricity costs which accounts for approximately 65% of the utilities budget

- Onsite electric generation (6MW in FY 2021) from the Combined Heat & Power facility continues to reduce the rate of growth of electricity costs and DC Water’s reliance on the power grid
- DC Water also hedges blocks (5MW in FY 2021) of its electric load to mitigate the price volatility in energy markets
- District ratepayers are responsible for 59% of total utilities costs
- Cost pressures anticipated in FY 2022 mainly for electricity based on current market forecasts (up to \$2 million)

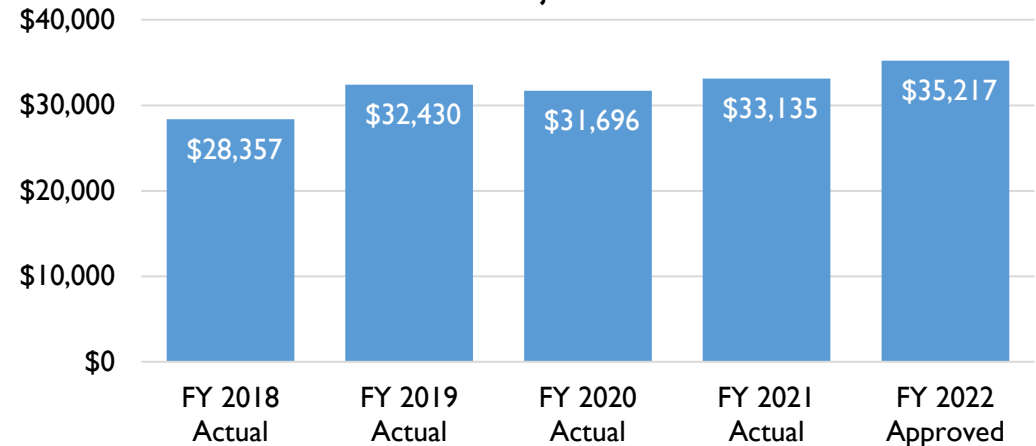
💧 **Water Purchases** - DC Water purchases water from Washington Aqueduct (WAD)

- Responsible for approximately 75% of the Aqueduct’s operating costs based on proportionate share of water sold and paid by the ratepayers
- Annual water rates are set based on the approved budget, including historical budget performance and consumption trends
- The increase in FY 2021 reflects the approved water rates and the increase in water demand by 3% or 1,080 MGD compared to FY 2020

Historical and Projected Utilities Expenditure



Historical and Projected Water Purchases



FY 2021 - These are preliminary results and subject to change after completion of the fiscal-year financial and audit activities

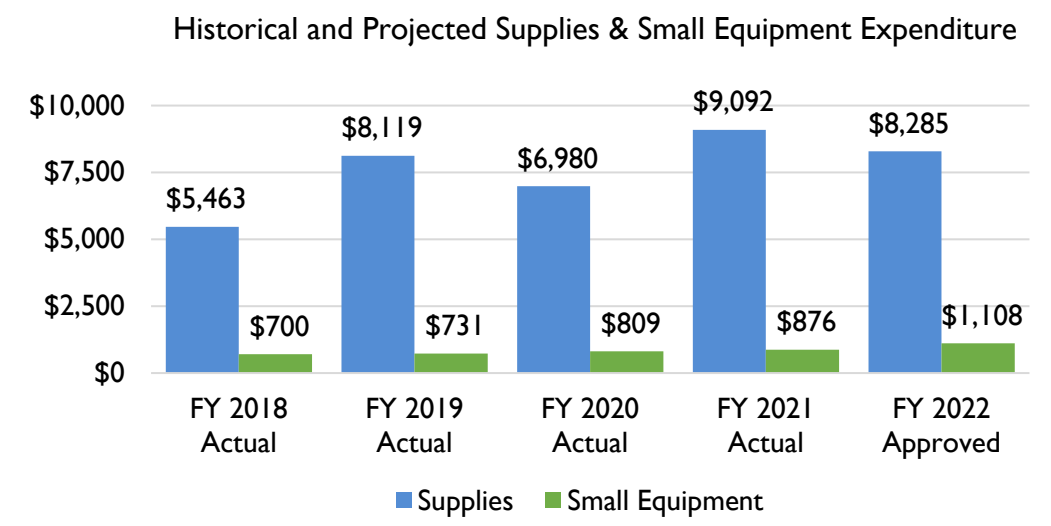
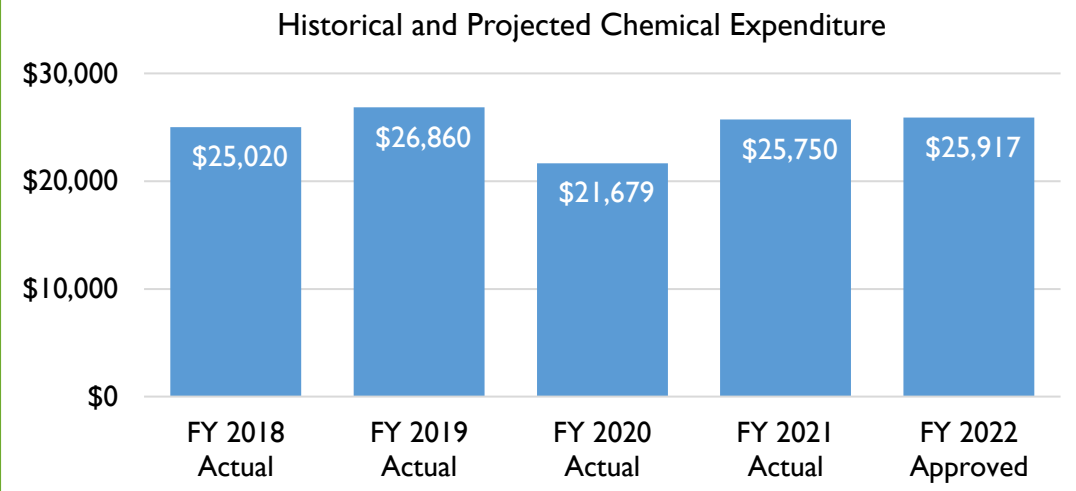


# Chemicals, Supplies and Small Equipment

\$ in thousands

- Chemicals** - used in the treatment processes at the Plant and various pumping facilities
  - Impacts include market volatilities of major chemicals (methanol, polymer and lime slurry), utilization in the Tunnel Dewatering Pump Station (TDPS), and concentration of the influent
  - The lower expenditure in FY 2020 was mainly due to lower prices for major chemicals and reduced load based on less tourists visiting the District during the pandemic
  - Cost pressures in FY 2022 for major chemicals due to supply chain issues (\$2-3 million)
  - Wholesale customers are responsible for approximately 59%

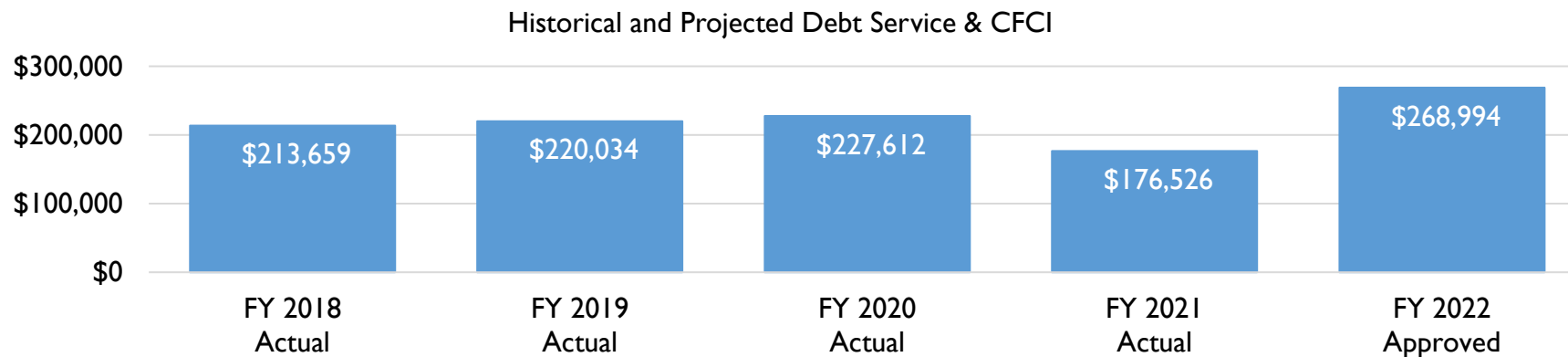
- Supplies** - for the purchases of parts for water lines, mains and pumping station repairs; and pays for the uniforms and shoes for our working crews as required by the union agreement
  - FY 2021 increase in supplies costs includes catch-up work from FY 2020 due to the pandemic
  - The District ratepayers are responsible for 60% of these costs



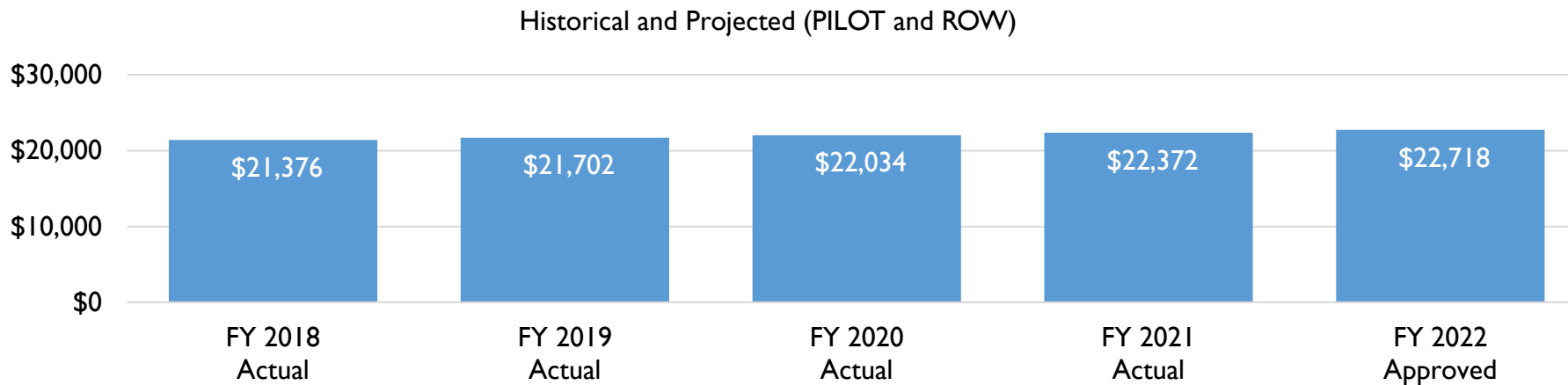
FY 2021 - These are preliminary results and subject to change after completion of the fiscal-year financial and audit activities

\$ in thousands

- Debt Service and Cash Financed Capital Improvement (pay-go) are funding requirements to support DC Water's capital program



- Payment in Lieu of Taxes (PILOT) & Right of Way Fees (ROW) are consistent with MOU with the district which assumes an annual escalation of 2% for PILOT with no increase for ROW



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