

Proposed FY2022 – 2031 Capital Improvement Program & Alternative Options

Presentation to Environmental Quality and Operations Committee • February 17, 2022



### **Purpose**



- Provide an overview of alternative budget and rate options
- Review management's capital budget proposal
- Obtain committee's recommendation to the Board on the following:
  - Proposed FY 2022 FY 2031 Capital Improvement Program (disbursements and lifetime), including the Proposed FY 2023 Capital Disbursements budget



## **The Budget Process**

#### Budget Submissions

**Prioritization** 

Proposed Budget

- DC Water's collaborative budget process helps ensure a decentralized approach that encourages ideas to be brought forward
- The process is guided by the themes and imperatives in Blueprint 2.0, our strategic plan
- Alternative operating and capital budget scenarios, risks and opportunities, and related rate impacts were evaluated by management
- Proposed budgets and rates are prioritized to balance what we ask from our customers with needs to deliver high quality water services in a safe, environmentally friendly, and efficient manner





## 10-Year CIP Options Compared

Service Area	Approved Baseline \$4.9B (\$5.4B total**)	Proposed Baseline \$5.8B (\$6.4B total**)	Fully Funded \$6.6B (\$7.4B total**)		
Clean Rivers	Fully funded to meet Consent Decree	Fully funded (added \$233M) to meet Consent Decree	Fully funded to meet Consent Decree		
Wastewater	Fully funded to meet NPDES Permit and established levels of service	Fully funded to meet NPDES Permit and established levels of service	Fully funded to meet NPDES Permit and established levels of service		
Stormwater*	Fully funded	Fully funded	Fully funded		
Water					
Pump Stations & Storage Facilities	Generally funded	Generally funded	Fully Funded		
Small Diameter Water Mains	Funded to ramp up to 1.5% per year replacement level from FY2028 onwards. [16.5 mi/year]	Funded to ramp up to 1.5% per year replacement level from FY2028 onwards. [16.5 mi/year]	Fully funded to ramp up to 2% replacement level [22 mi/year]		
Large Diameter Water Mains	Generally funded	Generally funded	Fully Funded		
Lead Free DC Program	Underfunded – FY2022 LFDC program fully funded, FY2023-2030 funded for Voluntary Program and LSRs in SDWMs only	Fully funded to meet goal LFDC by 2030	Fully funded to meet goal LFDC by 2030		
Sewer					
Pump Stations	Fully funded	Fully funded	Fully funded		
Sewer Lines < 60" diameter	Funded to ramp up to 1% per year rehabilitation level [17.5 mi/year] by FY2024	Funded to ramp up to 1% per year rehabilitation level [17.5 mi/year] by FY2024	Fully funded to ramp up to 2.3% rehabilitation level [40 mi/year]		
Sewer Lines ≥ 60"	Generally Funded	Generally Funded	Fully funded		
Non-Process	Fully funded	Fully funded	Fully funded		

<sup>&#</sup>x27;Generally Funded' = What we know or expect to find can be rehabilitated 'Underfunded' = What we know or expect to find is not all funded

<sup>&#</sup>x27;Fully Funded' = All needs known or expected are met \*Vertical Stormwater assets \*\* Total = Capital Projects, Capital Equipment & Washington Aqueduct

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### **Full Funding**

- Fully Funding operating and capital budget needs would add about \$130 million in annual spending
  - \$100 million would be added each year to expand the capital program ("Fully Funded" option)
    - Accelerate projects in the 10-year CIP to implement deferred critical infrastructure projects for improvement of the sanitary sewer system and service reliability
    - Fully fund (\$100 million over ten years) Washington Aqueduct's critical infrastructure rehabilitation needs
    - Fund an additional \$10 million of capital equipment each year, would accelerate fleet replacement program and undertake major/large IT projects over ten years
  - \$30 million annual increase to the operating budget would fully fund existing vacancies; fund additional headcount to support operations & maintenance, fleet and facilities management, customer care and cyber resilience, CIP delivery and succession planning needs; and meet funding requirements for electricity and chemical costs
  - · Cash reserves would increase to meet the days of cash requirements
  - Full funding would increase customer rates (average residential household) by 18.5%, or an additional 12.5% in FY 2023 and an additional 2.0% over the 5.4% recommendation in FY 2024





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#### 0% Rate Increase Scenario

- Without a rate increase, revenues would fall by approximately \$9 million from FY2022 and about \$480 million over the ten-year financial plan as costs continue to increase in FY2023
  - Operating costs including personnel agreements, chemicals, and utilities
  - Debt service costs associated with upcoming \$400 million transaction
- Impact would be immediate freeze on hiring and layoff planning
  - More than 200 filled positions would be in danger of elimination leaving staffing shortages in mission critical operations of DC Water
  - Significant customer impacts include extended service disruptions due to water main breaks, delayed hydrant repairs, and delays in addressing sewer related issues and other critical infrastructure failures





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#### **0% Rate Increase Scenario**

- Deferral of:
  - Capital equipment purchases for fleet and other major equipment necessary to maintain critical infrastructure systems
  - Critical maintenance for Blue Plains, Pump Stations, water distribution system, and sewer system which could result in failures
- Deferred maintenance, compliance risks and operations and maintenance staffing shortages at Blue Plains Advanced Resource Recovery Facility; the world's largest facility of its kind
- Inability to meet capital program contribution requirements for critical improvements at Washington Aqueduct including water treatment, storage, and large diameter water transmission mains that cross the District

- Incremental rate scenarios would have similar impacts on operations and the capital program
- Many expenditure categories are "fixed" (like energy, utilities, and chemicals)
  - Budget reductions would be first made to personnel (hiring) and to the capital program
  - Planned improvements to the sewer system would be the first areas targeted for reductions



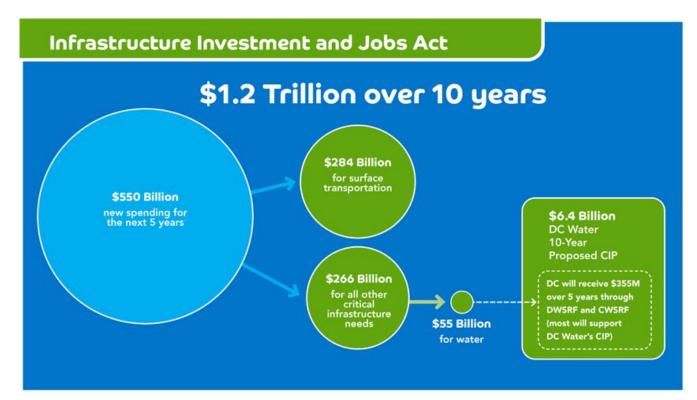
### Management Recommendations: Capital Budget

- The proposed ten-year CIP budget of \$6.4 billion includes previous amendments to the FY 2022 budget for the Lead Free DC program, carry-over of funds for the purchase of vehicles and projected increase in the Aqueduct's capital projects
- ◆ The proposed lifetime budget is \$13.38 billion and covers total commitments, including labor, for active projects prior to, during, and beyond the ten-year window

\$ in 000's		FY 2022 - 2031 CIP Disbursement Plan					Last Years	(Increase)/	Lifetime						
	ĺ	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	10-yr Total	!0-yr	Decrease	Budget
NON PROCESS FACILITIES		31,439	12,051	28,160	14,422	6,620	3,351	1,778	387	2,000	2,000	102,208	109,776	7,568	215,847
WASTEWATER TREATMENT		85,978	78,574	117,545	116,402	132,436	165,310	129,249	121,373	126,710	141,086	1,214,664	1,158,991	(55,673)	3,445,105
COMBINED SEWER OVERFLOW		152,267	117,704	77,304	105,185	161,941	171,760	220,123	153,173	51,403	6,306	1,217,166	1,122,976	(94,190)	3,216,072
STORMWATER		7,031	11,527	5,553	5,813	4,985	6,158	4,620	4,499	6,330	8,722	65,236	63,894	(1,342)	120,933
SANITARY SEWER		68,08 <del>4</del>	103,383	150,828	130,967	160,400	205,946	183,824	149,256	129,368	80,069	1,362,125	1,312,973	(49,152)	2,166,442
WATER		165,313	227,116	218,339	194,652	202,046	191,451	192,665	192,324	124,683	120,842	1,829,430	1,147,717	(681,713)	3,167,891
CAPITAL PROJECTS		510,112	550,355	597,728	567,442	668,428	743,975	732,259	621,011	440,494	359,025	5,790,828	4,916,327	(874,501)	12,332,290
CAPITAL EQUIPMENT		40,519	37,021	36,156	35,307	39,671	41,813	36,203	36,203	36,203	36,203	375,302	336,036	(39,266)	375,302
WASHINGTON AQUEDUCT		16,875	59,628	34,749	17,164	27,825	37,122	14,723	11,940	19,831	13,911	253,768	180,125	(73,643)	253,768
ADDITIONAL CAPITAL PROJI	ECTS	57,394	96,649	70,905	52,471	67,496	78,935	50,926	48,143	56,034	50,114	629,070	516,161	(112,909)	629,070
LABOR															416,097
TOTAL CAPITAL BUDGETS		567,507	647,004	668,633	619,913	735,924	822,910	783,185	669,154	496,528	409,140	6,419,899	5,432,489	(987,410)	13,377,458
															Lifetime
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	10-yr Total			Budget
Prior Year Board Approved CIP	471,267	476,140	540,585	500,427	499,918	681,280	632,075	568,067	572,262	490,468	-	5,432,489	-	-	12,133,115
Delta (inc)/dec	471,267	(91,367)	(106,419)	(168,206)	(119,995)	(54,644)	(190,836)	(215,119)	(96,892)	(6,060)	(409,140)	(987,410)			(1,244,343)



## Infrastructure Investment and Jobs Act



- Funds anticipated are incorporated in the financial and capital plans, and the proposed and forecasted rates
- Dollars anticipated over the five-year period will fund less than a year of DC
   Water's capital costs



## **Committee Recommendations & Actions**

	Environmental Quality & Operations	DC Retail Water & Sewer Rates	Finance & Budget
Committees and Meeting Dates	February 17, 2022	February 22, 2022	February 24, 2022
<ul> <li>FY 2022 - FY 2031 Capital Budget</li> <li>Proposed FY 2022 Capital     Disbursements</li> <li>Ten-Year Disbursements</li> <li>Lifetime Project</li> </ul>	Action Required		Action Required
Proposed FY 2023 Operating Expenditure Budget			Action Required
Proposed FY 2023 & 2024 Operating Revenues, Rates and Fees		Action Required	
Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing			Action Required
FY 2022 – FY 2031 Financial Plan		Action Required	Action Required

