

**Presented and Adopted: October 5, 2023**  
**Subject: Approval of Revised Rate Stabilization Fund Policy**

**#23-61**  
**RESOLUTION OF THE**  
**BOARD OF DIRECTORS OF THE**  
**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

The Board of Directors ("Board") of the District of Columbia Water and Sewer Authority ("DC Water") at the Board meeting held on October 5, 2023, upon consideration of a joint use matter decided by a vote of eight (8) in favor and none (0) opposed, to approve and adopt the following action with to the approval of the Revised Rate Stabilization Fund Policy.

**WHEREAS**, on December 4, 1997 the Board, through Resolution #97-124, approved Rate Setting Policies ("Policies") (a matter not affecting the general management of joint-use sewerage facilities) for DC Water which state that as cash reserves and/or revenues permit, DC Water will establish a rate stabilization fund or other innovative approaches to assist in mitigating annual rate increases; and

**WHEREAS**, on March 26, 1998 the Board approved DC Water's Master Indenture of Trust, which Section 603 and Section 604 of the Master Indenture of Trust formalized certain requirements of the Rate Stabilization Fund; and

**WHEREAS**, on November 1, 2007, the Board, through Resolution #07-87, approved the a Rate Stabilization Fund Policy and authorized the General Manager to implement the Policy; and

**WHEREAS**, on July 1, 2010, the Board, through Resolution #10-76, upon recommendation of the Finance and Budget Committee, approved the revised "Rate Stabilization Fund Policy" and authorized the General Manager to implement the Policy; and

**WHEREAS**, the 2010 revised Rate Stabilization Fund Policy: 1) required the Financial Plan to include the ten-year planned use of the RSF, 2) specified that transfers into the RSF would be determined by the Board, including year-end allocation of surpluses, 3) interest earned would be accounted as General Revenue, 4) the only stated the purpose of the RSF was to "mitigate rate spikes and allow smoothing of annual rate increases, and 5) the Policy did not specify a target balance; and

**WHEREAS**, on September 27, 2022, DC Retail Water and Sewer Rates Committee met to consider the Fiscal Year 2023 Workplan; and

**WHEREAS**, the General Manager reported to the DC Retail Water and Sewer Rates

Committee that the Rate Stabilization Fund Study would be conducted in FY 2023 Workplan to include: 1) Review of Board and management policy decisions and objectives concerning the RSF; 2) conduct peer comparisons including both policies and RSF levels; 3) assess potential risks and other available mitigation measures to the projections of cash flow and rates; 4) identify possible revisions to DC Water policies and procedures regarding the use of the RSF; and 5) review recommendations for all aspects of the RSF including an appropriate name for the fund; and

**WHEREAS**, on April 25, 2023, the DC Retail Water and Sewer Rates Committee met to consider the summary of findings of the Rate Stabilization Fund study and proposed options; and

**WHEREAS**, the General Manager and Amawalk, the financial consultant, presented the Rate Stabilization Find Study summary of findings: 1) the RSF may, but is not required to maintain a balance by the Bond Indenture; 2) funds can be transferred into and out of the RSF at the recommendation of management and at the discretion of the Board; 3) DC Water has historically added and withdrawn funds from the RSF for multiple purposes, and typically used to address potential fluctuations in revenue to “smooth out” rate increases; and 4) more than half of utilities have no RSF requirement; and

**WHEREAS**, Amawalk presented options for consideration by the DC Retail Water and Sewer Rates Committee and General Manager, including: 1) confirming the current name or changing the name to: retail rate fund, residual fund, residual balance carry-forward, rate stabilization account; 2) defining a minimum, maximum or target balance requirement: setting a target RSF balance of 5% of projected retail rate revenue; and 3) updating the policy for use of funds that would minimize RSF use for retail rates and prioritize use for initiatives that reduce growth of rates like investments in new technologies and to defease higher costs debt; and

**WHEREAS**, on April 25, 2023, after further discussion and consideration, the DC Retail Water and Sewer Rates Committee requested the General Manager to present the Rate Stabilization Fund study summary of findings and options to the Finance and Budget Committee before final consideration for recommendation to the Board; and

**WHEREAS**, on May 25, 2023, the Finance and Budget Committee met to consider the summary of findings of the Rate Stabilization Fund study and proposed options; and

**WHEREAS**, the General Manager and Amawalk presented the summary of findings of the Rate Stabilization Find Study as presented to the DC Retail Water and Sewer Rates Committee on April 25, 2023; and

**WHEREAS**, Amawalk recommended: 1) targeted RSF balance of 5% of projected retail revenue and authorization to withdraw fund should include a plan to replenish funds to meet the target; and 2) DC Water should prioritize use of the funds for: i) emergencies or unplanned events, ii) investment in technologies or other initiatives that could reduce operating expenses, and iii) defeasance of higher cost debt; and

**WHEREAS**, on September 26, 2023, the DC Retail Water and Sewer Rates Committee met to consider the General Manager's proposed revised Rate Stabilization Fund Policy; and

**WHEREAS**, the General Manager recommended revising the Rate Stabilization Fund Policy as follows: 1) establish a targeted RSF balance of 5% of retail revenues; 2) contributions to the RSF may be directed by the Board through the allocation year-end surplus or by the General Manager from savings or revenues from projects funded by the RSF; 3) the RSF may be used for: i) emergencies or unplanned events to prevent rate spikes, ii) investments in technologies or other initiatives that could reduce operating expenditures, iii) apply to revenues to reduce rate increases, defease higher cost debt, or as PAYGO to reduce debt service costs; and

**WHEREAS**, based on the recommendation of the General Manager, the DC Retail Water and Sewer Rates Committee recommended the Board approve the revised Rate Stabilization Fund Policy; and

**WHEREAS**, based on the recommendation of the General Manger and DC Retail Water and Sewer Rates Committee, the Board approves the revised Rate Stabilization Fund Policy; and

**NOW THEREFORE BE IT RESOLVED THAT:**

1. The Board hereby adopts and approves the attached "Rate Stabilization Fund Policy", as provided in Attachment A, and authorizes the General Manager to implement the policy.
2. This resolution is effective immediately.

*Michelle Rhodd*  
\_\_\_\_\_  
Secretary to the Board of Directors

# **District of Columbia Water and Sewer Authority**

## ***Rate Stabilization Fund Policy***

Anticipated Approval: October 5, 2023

# District of Columbia Water and Sewer Authority

## *Rate Stabilization Fund Policy*

### ***Purpose***

The purpose of this document is to set forth the policy for the Rate Stabilization Fund for the District of Columbia Water and Sewer Authority (DC Water).

The Board of Directors established a Rate Stabilization Fund (RSF) consistent with the Authority's Master Indenture of Trust (the "Indenture"). The purpose of the RSF is to smooth rate increases and reduce the growth of customer rates.

### ***Scope of the Financial Policy***

The Rate Stabilization Fund Policy governs contributions to and use of the Rate Stabilization Fund. The policy does not include financial planning and management, the issuance of debt, rate setting, or investments. Those items are addressed in stand-alone policies.

### ***Definitions***

The following are definitions for terms used in this policy. See the Master Indenture for definitions of additional terms.

**Debt Service** – the amount of money necessary to pay interest on outstanding bonds, the principal of maturing bonds and the required contributions to a sinking fund for term bonds. This amount is also known as the "debt service requirement."

**Master Indenture of Trust (Master Indenture)** - the Master Indenture of Trust dated as of April 1, 1998, between DC Water and the Trustee, including all amendments.

**Operating Cash Reserve** – the cash balance and includes the reserve funds established and required by the Master Indenture (Renewal and Replacement Reserve, and the Operating Reserve Fund). The Operating Cash Reserve does not include the Rate Stabilization Fund, DC Insurance Reserve Fund, bond funds, or debt service reserve funds.

**Operating Expenses** – current expenses directly or indirectly attributable to the ownership or operation of the system, including personnel services, chemicals, materials and supplies, water purchases, utilities and rent, contractual services, Payment in lieu of taxes and right of way fee, depreciation and amortization and the purchase of small equipment. Operating costs do not include capital expenditures or debt service.

**Retail Revenues** – revenues received from DC Water's retail customers in the District of Columbia

## ***Operating Cash Reserves***

DC Water, in the Statement of Financial Policies, has committed to maintaining strong levels of Operating Cash Reserves that exceed the Master Indenture requirements. Strong cash reserves are important to address emergency situations and to maintain DC Water's high bond rating that keeps borrowing costs low for DC residents and customers.

The Statement of Financial Policies requires DC Water to maintain at least 250 Days of Operating Cash Reserves outside of the Rate Stabilization Fund.

## ***Target Balance of and Contributions to the Stabilization Fund***

DC Water will strive to maintain the balance of the RSF at five percent of annual retail revenues.

Contributions and transfers to the RSF may be directed by the Board either through the annual budget or through the allocation of year-end surplus as described in the Statement of Financial Policies. The General Manager may also designate contributions to the RSF from savings obtained by the use of the RSF (see "Use of the Rate Stabilization Fund" below).

## ***Use of the Rate Stabilization Fund***

The purpose of the RSF is to smooth rate increases and reduce the growth of customer rates.

Funds can be used for:

- Emergencies or unplanned events;
- Investment in technologies or other initiatives that could reduce operating expenses; and
- Smoothing rate increases by being incorporated into the financial plan assumptions and rate proposals; and
- Debt Defeasance of higher cost debt or cash-financed construction

The General Manager may transfer funds from the RSF at any time for a use consistent with this policy. The General Manager must notify the Board within 30 days of the reason and amount of the transfer, and if any funds will be repaid to the RSF from savings achieved.

The establishment of operating and capital budgets to implement projects permitted by this Policy will be done in accordance with budget processes and procedures.

## ***Interest Income***

Interest earned on the RSF account will be accounted for as general revenues and be transferred out of the RSF at anytime.