



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

***Board of Directors***

***MEETING MINUTES***

***Thursday, October 6, 2011***

***Present Directors***

Chairman William Walker, District of Columbia  
Timothy Firestine, Montgomery County  
Adam Clampitt, District of Columbia  
Robert Hoyt, Montgomery County  
Alethia Nancoo, District of Columbia  
Anthony Griffin, Fairfax County  
Alan Roth, District of Columbia  
F. Alexis Roberson, District of Columbia  
Bradford Seamon, Prince George's County  
Carla Reid, Prince George's County  
Allen Lew, District of Columbia

***Present Alternate Directors***

Joseph Cotruvo, District of Columbia  
James Patteson, Fairfax County  
Howard Gibbs, District of Columbia  
Kathleen Boucher, Montgomery County  
David Lake, Montgomery County  
Dawn Hawkins-Nixon, Prince George's County  
Samuel Wynkoop, Prince George's County  
Brenda Richardson, District of Columbia  
Howard Croft, District of Columbia

***DC Water Staff***

George S. Hawkins, General Manager  
Randy Hayman, General Counsel  
Linda R. Manley, Secretary to the Board of Directors

Chairman Walker called the 169th Meeting of the District of Columbia Water and Sewer Authority's Board of Directors to order at 9:34 a.m.

Chairman Walker asked Linda Manley, Board Secretary to confirm a quorum. Ms. Manley confirmed a quorum.

### **Approval of the September 1, 2011 Meeting Minutes**

Chairman Walker asked for a motion to approve the September 1, 2011 minutes. The minutes were moved and seconded with approval by the Board of Directors.

### **Chairman's Remarks**

Chairman Walker noted that Steve Jobs passed on yesterday and he had the privilege of knowing Steve personally. There were two things that the Chairman thought were applicable as he thought about Steve on his way to the Board meeting this morning: (1) He first met Steve in 1986 when he was just unceremoniously kicked out of Apple Computer and Steve's license plate on his car said NEXT. NEXT was the name of Steve's company that he founded after Apple, in which he eventually sold back to Apple Computer. The company's name was emblematic of Steve's view of the world in the sense that he wasn't sitting there thinking about all that he had created at Apple. He had already moved on to the next thing and focused on the next thing and persevered to the next thing; and (2) Steve never looked at what competition was doing, but his creativity and focus on the future is clearly what made him so genius.

Chairman Walker stated that the Board will have a retreat in the next few months and DC Water loves to benchmark itself and look at what it is doing versus the competition. Chairman Walker put forth that as DC Water heads into its next chapter, the General Manager and his team are doing lots of things that are cutting edge and not what other utilities are doing. He noted that the Board should look at some of the issues a little bit out of the box and can clearly do some things that are in that vein of creativity and cutting edge.

Chairman Walker noted that he circulated the list of committee appointments and received feedback from one Board member. If any board member has concerns regarding the list they can see him following the meeting. Chairman Walker noted that since the Board has such deep capabilities in the alternate directors of the board, he has asked two alternate directors, Howard Gibbs and Joseph Cotruvo to become committee chairs.

Chairman Walker stated that several months ago the Board had a significant debate at the Board level as it relates to first source and the Skanska contract. In that debate, the Authority's overall procurement process was mentioned and since that debate, the General Manager has already begun a review of DC Water's procurement procedures and will either bring his proposal back to the Board through committee or to the full Board.

Chairman Walker noted that the committee minutes are extensive and thanked the Board members and staff for their time spent in preparing for the meetings. He noted that the Governance Committee had a good debate as it relates to new hires and how DC Water focuses on new hires versus growth inside of DC Water. The Chairman is looking forward to Ms. Nancoo's update on the Governance Committee and what work will be done on differentiating between new hires and existing hires.

Chairman Walker also noted that in the Human Resources and Labor Relations Committee there was a statement made by Alan Roth. His statement was, "can we put aside issues of control and focus on involvement." Chairman Walker stated that it was a well put comment as it relates to labor relations and management trying to do what it sees as best and to park for a moment about who is controlling an issue to focus more on what is best for the organization.

Chairman Walker then discussed the Committee's recommendation from staff to approve the Cigna contract decreasing the Authority's health insurance premiums by 1.8 percent. He noted that there was an article in the New York Times about health premiums across the board increasing nine percent year on year. The idea that DC Water has received a quote to reduce its healthcare premiums on health insurance by 1.8 percent is nothing less than fantastic.

Chairman Walker stated that he would be interested in the outcome from the survey on water quality that will be sent to the public.

Chairman Walker noted that the Board retreat will be scheduled either in December 2011 or January 2012 for one day and in the local area.

### **Governance Committee**

*Reported by: Alethia Nancoo*

The Committee met on September 14, 2011 at 9:30 a.m., and received a Government Affairs update from Kim Turner, Director, Policy and Government Relations. Ms. Turner reported on the appropriations for the Clean Rivers Project. She stated that the Financial Services and General Government Operations Appropriations Bill, provided no funding for the Clean Rivers Project. The Committee noted that it was important for DC Water to have external and internal lobbyists working hard on this issue. The appropriations for the Clean River Project is such a key component of DC Water's revenue and funding sources for the major projects that DC Water is undertaking.

The Committee then discussed the proposed compliance monitoring and reporting concerning the hiring practices of DC Water's D-B Contractor for the Blue Plains Tunnel. This agenda item was a result of Board concerns over certain compliance practices of the District Department of Transportation's Contractor, Skanska. To assist in addressing these concerns, DC Water hired a

third-party Compliance Officer, L.S. Caldwell & Associates, who then provided a presentation to the Committee with respect to the type of information the Committee will receive on a quarterly basis to ensure that DC Water's D-B contractor is complying with its hiring policy that is being developed.

The goal is to keep project dollars local, encouraging first source agreement goals that 51 percent of new hires are District residents and at least 35 percent of the apprenticeship hours be performed by District residents. In addition, the goal is to encourage hiring opportunities for residents of the user jurisdictions and a district-based and user jurisdiction-based MBE/WBE program.

The Committee will receive on a quarterly basis the collection of data to include the name of the contractor, and the number of employees, etc. In addition, L. S. Caldwell & Associates will have random site checks, random audits on employment applications, and random reviews of compliance complaints and employment compliance complaints.

Ms. Nancoo asked the Governance Committee members if there was anything that they wanted to add to the report. Mr. Roth noted that the Committee discussed the number of people the contractors bring with them from outside the area versus the totality of the project, and the number of employees that will be working and at what tiers. Mr. Benson agreed to bring the information back to the Committee. In addition, the Committee sees the need for DC Water to develop its own first source program, one that would benefit all user jurisdictions rather than relying entirely on the Department of Employment Services.

Mr. Hawkins noted that staff provided the Board with a breakdown of employment on construction contracts and DC Water employees. The breakdown shows that Prince George's County is the largest component of employment both at DC Water and of its contractors. In addition, he spoke with the City Administrator on yesterday and the District is in the process of building an employment preparation program for District residents targeted to specific jobs. The discussion is to utilize the funds that DC Water sends to the District's general fund and designate those funds for the employment preparation program.

### **Human Resources and Labor Relations Program**

*Reported by: Kathleen Boucher, Vice Chairperson*

The Committee met on September 14, 2011 with the Union Presidents.

The first issue was raised by Barbara Milton that hiring managers are not giving preference to internal candidates as required by the AFGE 631 Working Conditions Agreement. Ms. Milton stated that when employees are rotated through temporary positions as acting supervisors or acting managers that

experience is not considered when the employees apply for management positions.

The Committee was at a disadvantage to fully discuss the issue because there seems to be a conflict between what is written in the hiring manager tool kit and what Ms. Milton believes to be a provision of a collective bargaining agreement. It was requested that the General Counsel review the tool kit, compare it to the AFGE 631 Working Conditions and any other applicable collective bargaining agreement, and report back to the Committee as to whether the tool kit complies with those agreements.

Ms. Milton also raised an issue regarding a manager in the permit section communicating to the staff that after the reorganization, staff would not be hired for their old positions. Chris Carew, Chief of Staff, noted that one of the reasons for the reorganization is to relocate that function down to the Department of Consumer and Regulatory Affairs building. During this process the position descriptions for those positions changed and the employees may no longer be qualified under the new position descriptions. He also pointed out that all employees were placed in other positions and no one lost their job as a result of the reorganization.

Ms. Milton then raised a concern that management had moved away from transparency regarding the Team Blue Project. Ms. Milton objected to the fact that the union leadership had not been appointed to either the leadership team or the individual Team Blue Project teams.

The Committee discussed the conflict between what appears to be a legitimate exercise of management rights which is to put in place an organizational development initiative that does not appear to conflict with any collective bargaining agreements. This led to a discussion of communications and what is the real issue. Are we talking about an issue of collective bargaining, a technical violation of collective bargaining rights or are we talking about involvement, communications or issues of control. The Committee through Mr. Roth stressed the importance of thinking about what is best for DC Water as a whole.

Ms. Richardson asked how DC Water evaluates its hiring and promotion practices. Chairman Walker requested that the Human Resources and Labor Relations Committee report out to the Board at its next meeting.

The Committee received an update on DC Water's medical and dental plans and accepted management's recommendation that the proposals from the current providers of the Authority's medical and dental benefits be accepted. The Committee agreed to forward the recommendation to the Board of Directors at the next meeting.

## **Environmental Quality and Sewerage Services Committee**

*Reported by: Robert Hoyt, Chairperson*

The Committee met on September 15, 2011.

Walter Bailey, Assistant General Manager for Wastewater Treatment, reported that August was a dry month, as opposed to early September. There were 214 mg of Excess Flow (Outfall 001) during the reporting period which was within the permit limits.

The Committee discussed the plant's ability to handle earthquakes and was satisfied that there are controls and other precautions put in place that will handle earthquakes.

Mr. Bailey reported that DC Water has measured the carbon footprint of the plant pre-construction of the ENR facility, and may potentially look to sell carbon credits as a result of further reductions from the digester projects.

The Committee received a presentation from Carlton Ray, Director, Department of DC Clean Rivers. He reported on the status of obtaining easements or permits for the proposed tunnel alignments. The permits are on schedule. Staff continues to work on getting both the construction license and the 50 year easement that has already been verbally committed to DC Water. In addition, staff continues to work out an indemnity clause with DC Water's counsel. Discussions are ongoing with DDOT and Federal Highways on the hybrid solution which are easements for deep tunnels and permits for near surface structures.

David McLaughlin, Director, Engineering and Technical Services, provided the Committee with an update on the Potomac Pump Station. DC Water is still working on the design for the impeller to meet the capacity limit in the requirement in the consent order. Staff is working with the other parties of the Consent Decree to show that the pump station at a current capacity of 425 MGD results in no significant variance in water quality when compared to the Consent Decree capacity of 460 MGD.

The Committee agreed to forward the proposed Pretreatment Regulations to the full Board. However, there is one issue that needs to be resolved regarding the regulations and staff requested that the issue be addressed at the Committee level and once it is resolved it will come back to the full Board for approval.

The Committee is recommending nine joint-use action items for Board approval.

Mr. Bailey gave a presentation on the basics of a new nitrogen removal process to be implemented at Blue Plains. The process of deammonification shows potential for significant savings in both energy and chemical use.

Maureen McGowan, Special Assistant to the General Manager, presented on the proposed designation of Main (Sewer) Pumping Station as a District landmark and the recommendation for its being listed on the National Register of Historic Places.

### **Water Quality and Water Services Committee**

*Reported by: Joseph Cotruvo, Chairperson*

The Committee met on September 15, 2011 and received a report that there had been two positive coliform samples since the last report, both probably explainable due to some activity in the vicinity where they were collected. Follow-up samples were negative in both cases.

The Committee received a report on the Lead and Copper Rule Monitoring. It was reported that 31 samples returned in the current semester, with one sample exceeding the 15 ppb threshold on first draw, and two second draw samples exceeding. Overall, the 90<sup>th</sup> percentile statistic of first draw samples is 11 ppb, and 10 ppb for second draw samples. In addition, 14 samples had been taken coincident with the earthquake on August 23<sup>rd</sup>. The samples were analyzed but not included in the LCR compliance reporting. The results were unexpectedly somewhat lower than the results from the previous month's sampling in July.

The Committee received an update on fire hydrants. DC Water continues to stay below the one percent target for out of service hydrants.

The Committee is recommending two non-joint use contracts for Board approval.

### **DC Retail Water and Sewer Rates Committee**

*Reported by: Howard Gibbs, Chairperson*

The Committee met on September 27, 2011 and received updates on Howard University, Soldiers Home and Town of Vienna.

Randy Hayman, General Counsel, reported that Howard University made some payments and will continue to pay their current sewer bills going forward, while a cooperative resolution is being worked out on the significant arrearage.

Mr. Hayman reported that the Authority will have a legal opinion completed in November regarding the exemption status of the Soldiers Home account. It is Soldiers Home's position that they should receive free water and sewer services in exchange for the underground reservoir on their property.

Mr. Hayman also reported that the Authority is in the process of drafting a settlement agreement for execution with the Town of Vienna.

The Committee discussed DC Water's Customer Segmentation Review. Two months ago, the Committee looked at one year's worth of data. Since that time, two additional years of data have been compiled and analyzed. The report verified that certain customers have a higher peaking factor, which is the ratio of peak usage to average usage. The reason for this review is to determine whether or not there is a need to come up with more customer classes to determine if rates can be segregated for various customers based on the actual cost of service. The Committee recommended that the FY 2012 Cost of Service Study examine whether creating new customer categories would be justified based on actual cost impacts.

The Committee received an update on evaluating future strategies for unbundling volumetric rates.

The Committee then received an update on the fire protection cost of service study. Every three years DC Water looks at the cost of repairing fire hydrants. A draft of the FY 2012 study has been received from the consultants and staff plans to complete internal reviews in the next couple of weeks. The report will be finalized in December and if required, the rate making process will begin in January 2012.

### **Audit Committee**

*Reported by: Timothy Firestine, Acting Chairperson*

The Committee met on September 22, 2011 and received a report from the internal auditor indicating that it does appear they will complete all of the items that were on the audit work program this year. There were 11 items. Three audits still had quite a bit of work to do and some of that work may carry over to the next year.

The Committee reviewed the purchasing card audit. The audit identified five observations with recommendations on how to improve oversight. Management is in agreement with most of the recommendations, and the Committee will monitor and ensure that audit recommendations are put in place.

There are outstanding audits that the Committee will get to in the FY 2012 audit program.

The Committee is recommending for approval the renewal of the audit contract with SC&H.

## **Finance and Budget Committee**

*Reported by: Timothy Firestine, Chairperson*

Mr. Firestine noted that at the last Board meeting there was a discussion that the U.S. Government, being downgraded by S&P from their AAA rating to a AA+ rating caused an issue with DC Water's investment policy, because currently the investment policy states that DC Water can invest in agency securities. Those are securities issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Bank Board, only if they are AA rated.

The Committee discussed staff's revisions to the Authority's investment policy looking at a number of options. The option settled on by the Committee is to change the investment policy to allow investment in those agency securities as long as two rating agencies have a rating of at least an AA for those agencies and that, in the past, DC Water could invest 100 percent of the portfolio in agency securities. The added change would limit the amount to 80 percent in agency securities.

In addition, there were two other items in the investment policy that the Committee discussed: (1) allow for the purchase of FDIC insured Certificates of Deposit through placement services such as the Certificate of Deposit Account Registry Service (CDARS) and (2) the addition of acceptable collateral for bank deposits of a letter of credit from a Federal Home Loan Bank (FHLB) in the amount of 102 percent of the deposit.

The Committee is recommending the changes to the investment policy.

Mr. Firestine reported that operating revenues are projected to be slightly higher 101.3 percent at year-end. The projected increase results from increased water consumption during the summer months. The operating expenditures, based on projections will end the year at 93 percent of what was expected to be spent. The year-to-date capital disbursements through August were at 84 percent.

The Committee discussed the year-end projections. At the end of August 2011, the Authority's operating reserve balance remained unchanged from the previous month at \$41 million resulting in approximately \$24 million in excess cash over the \$125.5 million operating reserve requirement. Staff recommended that the \$24 million cash balance be used as follows: (1) \$5.25 million to refund wholesale customers in FY 2012 (this refund is required by the current Intermunicipal Agreement with the wholesale customers); (2) additional \$6.5 million be added to Pay-Go financing in FY 2011, bringing the total to approximately \$9 million; and (3) transfer additional \$12.25 million to the Rate Stabilization Fund in FY 2012.

Chairman Walker congratulated the General Manager and staff for managing DC Water's resources so well to produce such a surplus.

Chairman Walker noted that DC Water has held its overall expenditures from a human resource standpoint. The unions have built into their contracts COLAs that have raised their pay for the past several years. However, DC Water's non-union employees have not received pay increases.

Chairman Walker asked the General Manager to take a look at this and bring his proposal to the Board.

Mr. Roth requested that DC Water revisit how it deals with the Customer Assistance Program and the SPLASH Program in reference to the surplus.

### **General Manager's Report**

*Reported by: George Hawkins, General Manager*

The General Manager recognized those employees who represent DC Water as tour guides, those representing DC Water on the sewer science team and employees representing DC Water on its water conservation efforts.

Mr. Hawkins noted that he met with Senator Cardin to testify before the Senate Committee on what DC Water is doing regarding biological nutrient removal.

He also reported that he met with the Regional Administrator from Region 3 and will meet with the Administrator of the U.S. EPA in the next couple of weeks regarding the potential to modify the consent decree to allow for the piloting of green development rather than building tunnels over on the Potomac and the Rock Creek.

The General Manager invited the Board to a ceremony kicking off the Clean Rivers Project on Wednesday, October 12<sup>th</sup>.

Mr. Hawkins announced several awards received by DC Water as an organization and awards received by individual staff.

The General Manager informed the Board that DC Water received a 19 page ruling from Judge Gregory Jackson stating that DC Water won on all counts in the Cormier case (aka pinhole leak case). The Cormier case alleges that the water distributed by DC Water causes pinhole leaks. The general manager read the following quote from Judge Gregory Jackson's ruling: "There is no dispute that the water from DC Water is indeed safe for drinking, cooking, and bathing. The primary purpose of the water is not to keep plaintiff's pipes from corroding, but the court found persuasive the testimony that all types of pipes, including

galvanized steel, copper, and plastic, can experience leaks from water, which is a naturally corrosive substance”.

Mr. Hawkins congratulated Randy Hayman, General Counsel, his staff person Gregory Hope, and DC Water’s outside counsel of Beveridge and Diamond for their work on the Cormier case.

The General Manager began his budget presentation to the Board focusing on the major highlights, noting that DC Water is seeking to invest in its workforce, improve the process and procedures, and the Team Blue’s asset management. He stated that DC Water has had a strategic effort of in-sourcing water/sewer design, valve exercise and hydrant replacements to reduce higher cost of contracting out. Staff is exploring new technologies for trenchless sewer later replacements and leak detection. The General Manager is also proposing to enhance security for the organization.

Mr. Hawkins’ proposal for the operating budget is \$456.8 million for FY 2013, which is a \$41.4 million increase. The largest percent of the increase is in debt service to cover the capital programs. He then discussed the capital budget proposal, noting that the lifetime budget is \$8 billion, which is essentially the same as it has always been. The disbursements for 10 years, 2011 through 2020, is \$3.8 billion and of that \$3.8 billion, FY 2013’s request of \$606 million is the largest single capital expenditure DC Water planned for the next 10 years, because every major DC Water project is going full tilt in that fiscal year.

The General Manager stated that in order for DC Water to reach this revenue requirement for \$456.8 million in operating and \$606 million in capital, retail revenue has to increase by \$28.3 million. The portion of the increase is due to the clean rivers impervious area charge of \$3.09 million which is going from a little over \$6 million to over \$9 million for each credit of each impervious area unit.

Mr. Hawkins discussed the major budget development assumptions highlighting that there is a 3 percent merit increase built in the assumptions. He stated that there has been discussions on the Board whether there should or should not be merit increases in the budget. In the proposal staff maintained DC Water’s debt coverage and operating reserves at \$125.5 million.

The General Manager then highlighted the FY 2013 proposed retail rate changes noting that based on the proposed changes, the rate increase would be 9.9 percent.

Chairman Walker requested that staff provide the Board with various sensitivity analyses that the CFO has run on the major assumptions. In addition, Chairman Walker requested that the Board be provided with a sensitivity analyses on the rate DC Water will be borrowing in the two key areas, which are huge drivers of

the budget. The Board has been presented with inflated numbers, which allows for DC Water to come in with another surplus. He stated that staff should review what they think those numbers are going to be because it may not drive staff's proposal of a 9.8 percent rate increase.

Chairman Walker requested that City Administrator Allen Lew be briefed on the IMA to get a better understanding of the wholesale rate payers cost. David Lake suggested that staff provide a clear presentation of what the District retail rate fees include, and compare that to the wholesale ratepayers cost.

Mr. Firestine noted that the IMA identifies what costs wholesale customers pay and it does not specify what the rate increase is for wholesale customers.

Finally, the General Manager discussed emerging topics and opportunities to include size and associated risks inherent in managing large Capital Improvement Projects, labor contract negotiations, PILOT MOU expiration, and Team Blue initiatives.

The General Manager requested that all budget related questions be sent to Linda Manley, Board Secretary.

**Consent Items (Joint Use)**

Mr. Griffin moved the approval of Resolutions No. 11-90 through 11-103 and Mr. Firestine seconded the motion. The motion to approve Resolutions No. 11-90 through 11-103 was unanimously approved by the Board.

**Consent Item (Non-Joint Use)**

Ms. Nancoo moved the approval of Resolution No. 11-104 through 11-105 and Mr. Roth seconded the motion. The motion to approve Resolutions No. 11-104 through 11-105 was unanimously approved by the District members of the Board.

The 169<sup>th</sup> meeting of the DC Water Board adjourned at 11:46 a.m.

  
Secretary to the Board of Directors