DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS

Finance and Budget,
Environmental Quality & Sewerage Services,
DC Retail Water and Sewer Rates
and Water Quality & Water Services Committees

Thursday, October 27, 2011

9:40 AM

MEETING MINUTES

Committee Members
David Lake, Acting Chairperson
Joseph Cotruvo
Howard Croft
Howard Gibbs
Carla Reid
Alan J. Roth
Dawn Hawkins-Nixon
Allen Lew
Bradford Seamon
Brenda Richardson

DC WATER STAFF
George Hawkins, General Manager
Olu Adebo, Chief Financial Officer
Randy Hayman, General Counsel
Yvette Downs, Finance and Budget Director
Robert Hunt, Treasury Manager
Leonard Benson, Chief Engineer
Debra Mathis, Executive Assistant to the Board Secretary

Call to Order
Acting Chairperson David Lake called the meeting to order at 9:40 a.m.

September 2011 Financial Report
Mr. Olu Adebo, Chief Financial Officer, reported that at the end of FY 2011, revenues (cash receipts) totaled $404.0 million or 101.2 percent of the budget; expenditures (projected on accrual basis) were $372.5 million, or 92 percent of the budget, and capital disbursements were $297.4 million, or 91 percent of the capital disbursements budget. Mr. Adebo reported by exception and highlighted the relevant variances in both operating revenues and expenditures.

Mr. Adebo explained that retail revenues were the main drivers of the total Operating Revenues variance. The retail revenues variance was primarily the result of higher than anticipated consumption due to an unusually hot summer. Receipts for Clean Rivers IAC were $0.8 million higher than budget due to higher actual ERUs vs. budgeted ERUs. Mr. Adebo attributed the variance in Operating Expenditures primarily to water and electricity purchases. He ascribed the savings in water purchases to the delay in the operations of the hypochlorite facility, (a new facility at the Washington Aqueduct, which is now projected to begin in early FY 2012) and the federal freeze in employee wages. Savings in electricity are the result of DC Water's adopted block purchasing strategy coupled with an estimated 3.0 percent reduction in consumption experienced this fiscal year as compared to prior years.

Investment Report

Mr. Robert Hunt, Treasury Manager, provided a report of DC Water's overall portfolio performance. Mr. Hunt reported that DC Water's total investment portfolio continues to perform well and is in compliance with the Authority's Investment Policy. Returns continue to exceed the established benchmarks for short-term (less than one year) and core (one plus years) funds. DC Water's debt service senior lien is at 319%, as compared to the Board target of 140%.

Review of Revised FY 2012 & Proposed FY 2013 Budgets

General Manager George Hawkins presented highlights of the revised FY 2012 and proposed FY 2013 budgets, as summarized below:

1. FY2012 revised operating budget totals $415.4 million, as approved by the board in July 2011
2. FY 2013 proposed operating budget totals $456.8 million, or $41.4 million increase over FY 2012
3. Capital budget request includes: $8.0 billion lifetime budget; $3.8 billion 10-year disbursement budget; and $606.1 million authority request.

In his opening statement he continued by providing an overview of the budget process, including timelines required for congressional approval. Mr. Hawkins highlighted the budget prioritization process, approach and underlying assumptions for the proposed operating and capital budgets.

Next, Mr. Adebo explained in detail the major changes and drivers of the operating budget requests. The largest changes are in debt service and personnel costs, which account for 81% of the budget increase. CFO Adebo discussed the bond issuances planned over the next two fiscal years and the interest assumptions. A sensitivity analysis was provided that highlights an estimated $0.8 million annual impact upon the operating budget given a 1% change in interest rate assumption in FY 2013. Mr. Adebo also explained the much larger impact of this swing over the 10-year plan. Mr. Adebo then described the request for forty-one new positions in FY 2013, which is primarily to in-source more capital improvement program (CIP) work in the departments of Engineering and Water Services. These additional positions are projected to result in capital cost savings in the future. Mr. David Lake requested that staff should add a column to the General Manager's recommended rate adjustments table to show the drivers of the rate increase from FY 2012 to FY 2013. Mr. Cortuvo asked about the pros and cons of our credit ratings and its potential impact on DC Water. Mr. Adebo expounded on the topic and explained that based on recent experience, investors see DC Water as a stronger credit potential than our current ratings reflect.

Mr. Benson, Chief Engineer, highlighted the CIP by service area and the major changes and drivers in the program and explained spending prioritization is primarily driven by mandates. The Ten-Year disbursement plan remains at approximately the same level ($3.8 billion) while the Lifetime Budget increased by $79 million over last year's plan to $8 billion. The proposed Congressional Capital Authority request for FY 2013 is $606.1 million. Ms. Carla Reid requested a clarification and explanation of what "potential failure" means in the spending prioritization table. Mr. Benson responded that the category relates to facilities in danger of failing or critical to meeting permit requirements and cited Poplar Point as an example. Ms. Brenda Richardson also asked for additional clarification regarding the "high profile good neighbor" categorization. Mr. Benson responded that it addresses public concerns citing DC Water's Potomac Interceptor odor control as an example. Mr. Lake requested that staff prepare a summary page to identify projects associated with each of the spending prioritization. Mr. Benson noted that additional projects have been identified (such as some of the sewer projects originally presented in the findings from the 2008 sewer study), but are not included within the current proposal as the projects are not scheduled to start within the ten-year window. Also, DC Water will be better informed of the appropriate level and timing of other activities based upon additional data anticipated from the ongoing asset management program review. Currently, it is estimated that there may be one billion dollars of additional needs that are not currently funded in the capital improvement programs. Staff continues to review all asset conditions and needs.

At the conclusion of Mr. Benson's report, Mr. Adebo gave a summary of the operating revenues and the proposed FY 2013 retail rate changes. Mr. Alan J. Roth asked Mr. Adebo to elaborate on the Customer Assistance Program (CAP), stating that poorer people are adversely affected with the new Clean Rivers IAC rates. Mr. Roth suggested that DC Water consider development of a new CAP methodology that allows discount for some of the fixed fees. Mr. Adebo reviewed various comparisons of DC Water's retail rates to other selected utilities. The Joint Committee members in attendance noted the improvement of presentation of this data as a benchmarking tool. In concluding his report, Mr. Adebo noted that $6.5 million will be drawn from the Rate Stabilization Fund (RSF) in for FY 2012.

All Board members noted the usefulness of meeting in joint session.

Action Items
The Committee reviewed the Fact Sheet for the renewal of DC Water's Financial Advisory Services. After some discussion, principal member Mr. Seamon agreed with Mr. Lake to communicate the issue with Mr. Firestine via email, in order for the matter to be brought to the full board. Mr. Lake also suggested that the Fact Sheet be changed to indicate that the selection was based on qualification as opposed to lowest bid.

Adjournment
Hearing no further business, Mr. Lake adjourned the meeting at 11:55 a.m.

FOLLOW-UP ITEMS

1. Provide a summary page to identify projects associated with each of the categories in the spending prioritization table. **(Mr. Lake)**
2. Consider development of a new CAP methodology. **(Mr. Roth)**
3. Provide a breakdown of the merits benefit by collective versus non-collective bargaining employees. **(Mr. Roth)**