



**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 Services Committees*

Thursday, October 28, 2010

9:30 AM

MEETING MINUTES

Committee Members

Timothy Firestine, Committee Chairman
David J. Bardin
David Lake
James Patterson
Alexis Roberson
Alan J. Roth
Paivi Spoon
Howard Croft
Beverly Warfield
Joseph Cotruvo (by teleconference)

DC WATER STAFF

George Hawkins, General Manager
Olu Adebo, Chief Financial Officer
Meena Gowda, Acting General Counsel
Yvette Downs, Finance and Budget Director
Robert Hunt, Treasury Manager
Debra Mathis EA, to the Secretary to the Board

Call to Order

Committee Chairman Timothy Firestine called the meeting to order at 9:30 a.m.

September 2010 Financial Report

Ms. Yvette Downs, Director Finance and Budget, reported that revenues at the end of FY 2010 totaled \$373.5 million or 99 percent of the budget; expenditures at \$355.3 million were 93 percent of the budget, while capital disbursements were 87 percent of the capital budget. Mr. Bardin asked for clarification regarding the \$8.1 million in "Exempt" accounts receivables which was included in the year-end report at the request of Mr. Bardin in September. Ms. Downs responded that the email request had been received and a formal written response will be forthcoming. A draft response was provided at the meeting for preliminary review by the Joint Committees. Mr. Firestine reiterated that the issue of the thirty five delinquent accounts is a business and legal case and the nuances of the case will be deferred for review by the new General Counsel. Mr. Bardin wanted to know how much retail customers pay in metering fees and Mr. Adebo informed him that it is approximately \$5 million in FY 2010 and \$10 million anticipated in FY 2011. Mr. Firestine suggested that the Board and management take note of the variances between the year-end projections and the original Board approved budget levels and consider this as the FY 2012 budget proposal moves forward.

Chairman Firestine referenced the capital disbursements results and asked for more information on the types of items that delay close outs of construction contracts. Mr. Adebo referred to Attachment #4 and explained that the CIP budget is reported on a disbursement basis and retainage is not released until the actual final close out of contracts. Therefore, contract as-

builts, manuals, training documents, warranties and the like are the types of items that might hold up final payments to vendors.

Mr. Bardin noted that the accounts payable goal of 97 percent has not been met over a period of several years. He requested that management consider whether this was an appropriate goal and also suggested that this measure be included in the General Manager's monthly dashboard report as it is a pricing factor with many vendors.

In response to Mr. Patterson's inquiry on grants, Ms. Yvonne Reid, Grants Manager, explained the process of grant de-obligation to the Committees and reported that the Authority has not lost unspent grant dollars.

October Bond Sale Briefing

The committee received a briefing from the Chief Financial Officer, Mr. Olu Adebó, on the bond sale offering. He reported that DC Water had a successful market launch of its \$300 million 2010 bond issuance despite a heavy supply of bonds in the market. He explained that we were successful because we issued at total interest cost of approximately 3.6% net of federal subsidy. This is the lowest rate ever issued in our history for long term bonds and will save our rate payers approx \$2.7 million annually compared to issuing traditional tax exempt bonds.

Mr. Adebó emphasized that our deal attracted tremendous interest from many of the major national institutional investors, and that we received over \$700m in orders, despite pricing tighter (offering lower yields) than other comparable issuances in the market at the same time. He stated that it is a clear indication that investors see us as a stronger credit than we have been rated and were, therefore, willing to buy our bonds at a lower yield. Some pricing for DC Water bonds were at lower yields than agencies with better credit ratings. He said he was extremely pleased with the result which was a comprehensive effort from the entire finance team, the Board, and various members of the executive staff. The Chairman and the committee members congratulated management on the bond sale offering.

Review of Revised FY 2011 & Proposed FY 2012 Budgets

The General Manager, Mr. Hawkins presented highlights of the revised FY 2011 and proposed FY 2012 budgets. In his opening statements he gave an overview of the budget process, including analysis and timelines for congressional approval. Mr. Hawkins highlighted the Budget prioritization process, approach and the underlying assumptions for the proposed operating and capital budgets.

Next Mr. Adebó explained in detail the major changes and drivers of the operating budget requests. He discussed incorporation of thirty seven new positions in FY 2012, which is primarily to in source more CIP work in the departments of Engineering and Water Services and is projected to result in cost savings in the future. Mr. David Lake requested that staff start documenting savings resulting from in sourcing, because of its cyclical nature. Mr. Roth asked if management had considered the physical space that would be needed for the additional positions requested. Mr. Hawkins expounded on some of DC Water's space challenges as well as the proposed land use plan to address the issue.

Mr. Bardin discussed the potential impact of the Board voting to eliminate payment of the PILOT to the District and requested a detailed analysis of why DC Water is paying for PILOT and in addition needed further guidance regarding Right of Way (ROW). Mr. Hawkins reported that the issue with PILOT will be a top priority for his incoming General Counsel who would be requested to conduct an in-depth analysis and the Board will be updated with the report in due time. Mr. Roth noted that some of the discussion was political in nature and full impacts may not be covered by a financial or legal review.

Mr. Adebo highlighted the CIP by service area and the major changes and drivers in the program. He noted that mandates in the prioritization of spending have decreased giving the Authority some flexibility in spending in case of any emerging issues. Mr. Bardin noted that the Combined Sewer Outflow/Long Term Control Plan has approximately \$1 billion outside of the current 10 year window and asked what the impact would be to the Authority in the event that the future tunnels can be eliminated from the court decree? Mr. Hawkins responded that staff would review the impact. Mr. Roth wanted clarification and if possible a review of why Board Policy precedes Potential Failure in the prioritization table. Ms. Spoon requested that a review of the energy management activities, including the "quick wins" list, be discussed at the next Finance and Budget Committee meeting.

Next, Mr. Adebo gave a summary of the operating revenues, the proposed FY 2012 retail rate changes and elaborated on the Customer Assistance Program (CAP) and made a comparison of DC Water's retail rates to selected utilities. He noted the \$13 million draw down of the Rate Stabilization Fund (RSF) anticipated for FY 2011.

Mr. Bardin asked that staff review the Financial Plan format and consider reformatting so as not to demonstrate a large operating net surplus. Mr. Adebo noted that the revenues shown are necessary to match the Board bond covenant targets that also provide us with strong credit ratings and favorable investor yields.

Many Board members in attendance noted the usefulness of meeting in joint session. It was requested that the Human Resources and Environmental Quality and Sewerage Services be invited to the November Finance and Budget Committee meeting.

Action Items

The Committee reviewed the Fact Sheet for the renewal of the Citibank Government Commerce Services. After some discussion regarding the purpose of the contract and the type of activities covered, the action was recommended for referral to the full Board of Directors. It was requested that additional detail on the credit card purchase program be circulated to the full Board for information no later than the morning of the Board meeting.

Adjournment

Hearing no further business, Chairman Firestone adjourned the meeting at 11:59 a.m.