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**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

Finance and Budget Committee

## Thursday, May 22, 2014

11:00 a.m.

MEETING MINUTES

**Committee Members DC Water Staff**

Timothy L. Firestine, Committee Chairperson George Hawkins, General Manager

Adam Ortiz, Prince George’s County Mark Kim, Chief Financial Officer

James Patteson, Fairfax County, via conference call Randy Hayman, General Counsel

Gail Alexander-Reeves, Director, Budget

Robert Hunt, Manager, Treasury and Debt David McLaughlin, Director of Engineering

Lauren Preston, Director of Customer Service

Tanya DeLeon, Risk Manager

Linda Manley, Secretary to the Board

**Other Presenters and Guests** Daniel Hartman, Public Financial Management (PFM)

**Call to Order**

Chairperson Timothy Firestine called the meeting to order at 11:00 a.m.

**Operating Revenues, Expenditures and Capital Disbursements**

Mrs. Gail Alexander-Reeves, Director, Budget provided an executive summary of both the year-to-date operating revenues and expenditures as well as year-end projections. At the end of April 2014, cash receipts totaled $276.3 million or 59.1 percent of the revised budget and are expected to end the year at 101.7 percent, slightly exceeding budget expectations. Operating expenditures are at 55.6 percent of the revised budget, which includes estimated, incurred but unpaid invoices and are subject to revision in subsequent reports, and expected to end the year at 99.8 percent of the revised budget. Overspending is projected in personnel services and electricity. Increased personnel expenditures are consistent with the wage adjustments effective in FY 2014.

In discussing the electricity category, Mrs. Alexander-Reeves reported that the electricity market stabilized and the Authority was able to lock 20 MW at an average of $47.33 per MWh effective May 2014 through the end of the fiscal year and 5 MW at an average of $46.00 per MWh for FY 2015 with the new energy vendor, Con Edison Solutions. Staff continues to review market conditions and anticipate purchasing electric hedges for FY 2014 and FY 2015.

Mr. Ortiz asked about renewable energy requirements for the District. Staff will provide this information and will invite our energy service provider to meet with the Committee.

**Cash Reserves and Investments**

Mr. Robert Hunt, Treasury and Debt Manager, reported on cash reserves and investments. As of April 30, 2014, Operating Cash balance (including the Rate Stabilization Fund) was $183.2 million. The total of all funds available is $301.4 million, consisting of $183.2 million in operating cash, $23.5 million in the 1998 Debt Service Reserve, $64.8 million in construction fund proceeds, $1.8 million in capital interest, and $28.1 million in CSO Grant Funds. All investments are properly diversified and the portfolio is in compliance with the Authority’s Investment Policy with the overall yield-to-cost of the portfolio at 0.38 percent. Mr. Hunt also indicated that the Authority did not purchase any new securities during the month of April.

**Capital Improvement Program**

Mr. David McLaughlin, Director of Engineering and Technical Services, reported that current projected CIP disbursements are $612,651,000, which represents 17 percent above of the baseline disbursement projections of $524,748,000. This represents an $88 million above projections due to under spending in FY 2013 and the shift in the timing of delayed projects in FY 2014. Current disbursements for all major program areas are as follows: Wastewater ($342,036,000); Combined Sewer Overflow ($194,608,000); Storm Water ($2,138,000);Sanitary Sewer ($26,915,000); and Water Services ($46,954,000). Mr. McLaughlin reported the status of all Priority 1 Projects, which are on schedule and within budget.

Mr. McLaughlin briefed the Committee on the Capital Spending: Projections and Process, which included details of the following:

1. Structure of CIP
2. Disbursement Projection Steps
3. Disbursement Tracking and Reasons for Variances
4. Historical Accuracy of Projections; and
5. Conclusions

**Accounts Receivable Balances & Collection Efforts**

Ms. Lauren Preston, Director of Customer Services, reported that DC Water has reduced its 90 day delinquent customer accounts receivable by 80 percent from $29 million to $5.4 million as of April 2014. This was achieved through a combination of strategies focused on providing customers accurate timely bills, friendly reminders, reasonable payment terms, and payment assistance, where needed. The Authority used disconnection when all other efforts failed, and only resort to legal action, when necessary.

Ms. Preston continued her report which included reviews of arrears management, collection tools and accounts receivable collection challenges. Major challenges in collections are Multi-Family accounts, real estate transactions, Imperious Only accounts and other difficult to resolve high balance cases.

In response of Mr. Firestine’s inquiry of the Authority’s actions to collect on Impervious Only accounts with no water bills, Ms. Preston indicated that most of these accounts are of parking lots and undeveloped land and the Authority uses property liens and tax sales for their collection. Mr. Hayman agreed that the legal staff would look into other collections opportunities.

**Rolling Owner Controlled Insurance Program (ROCIP) Update**

Ms. Tanya DeLeon, Risk Manager, reported that ROCIP is well on its way to completing its tenth successful year. Ms. DeLeon provided a brief progress update on programs (ROCIP I, II and III). ROCIP program goals remain consistent with the Authority’s goals. The program’s trend continues to move in the right direction with forecasts she is hopeful that we can move towards establishing a ROCIP IV program.

Ms. DeLeon briefed the Committee on ROCIP’s program goals, which included the following:

1. With higher contractor coverage limits (DC Water’s standard is between $1 and 3 million), the ROCIP program allows for $100 million of excess liability coverage.
2. With Occupational Safety and Health coordination and oversight, DC Water currently has four Safety Specialists and a Safety Director working along with the Risk management team. Over 12,000 site safety inspections were conducted over the life of the program and we also partner with Clean Rivers and they’ve reported 1,500 site visits.
3. DC Water’s minority partners have better opportunities to work on our construction projects because there are no longer any insurance barriers.
4. Continue to see significant savings with lower insurance rates.
5. ROCIP program exists in an extremely cooperative multi-departmental environment, which has been the case for the past 10 years.

Ms. DeLeon shared the following performance highlights:

1. 147 projects enrolled to date
2. 1,149 contractors enrolled to date
3. 67 of the 147 Prime contractors are MBE/WBE/LBE/LSBE
4. Insurance Cost Savings Opportunity of over $22 million

Ms. DeLeon concluded her report with a brief overview of the program, key observations and the program’s next steps.

**2014 Plan of Finance Update**

The Plan of Finance for the 2014 bond issuance was presented by General Manager, George Hawkins, CFO, Mark Kim and Daniel Hartman, PFM, financial advisor to the Authority.  The proposed plan includes the issuance of approximately $300 million in fixed rate, taxable century bonds (100 year maturity) and $100 million as tax-exempt variable rate demand bonds.  The proceeds from the century bonds will be used to finance a portion of the Clean Rivers project, the proceeds from the variable rate bonds will be used to finance other capital improvement projects.    There was discussion as to feasibility of issuing century bonds and the affect if any on the Authority’s bond rating.  Mr. Kim stated that he has already had discussions with the three bond rating agencies and will continue discussions with an on-site meeting scheduled for the rating agencies at Blue Plains in June.  It is anticipated that the bond documents will be submitted to the Finance and Budget Committee for consideration at their scheduled meeting in June meeting and that the Board will review and take action on the documents at the July 3rd meeting.  DC Water’s bond sale is scheduled for mid-July with a closing the first week in August.

**Debt Policy Update**

CFO Kim briefed the Committee on management’s proposed revisions to DC Water’s Debt Policy, which included the following changes:

1. Incorporate language to the Municipal Advisor Rule
2. Deletion of DC Auditor’s requirement to approve bond documents
3. Permitting issuance of debt out to 100 years to finance Clean Rivers, subject to an independent engineering review.

**Action Items**

Committee members recommended moving the following action items for Board approval:

1. Approval of Revised Debt Policy and Guidelines; and
2. Modification of Raftelis Contract

**Agenda for June Committee Meeting**

The Committee accepted the agenda for the June Committee Meeting, scheduled for June 26, 2014; at 11:00 a.m., with no changes.

**Adjournment**

Chairperson Firestine adjourned the meeting at 12:50 p.m.

**FOLLOW-UP ITEMS**

Provide Renewable energy requirements for the District. **(Mr. Ortiz)**