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# Board of Directors

Finance and Budget Committee

## Thursday, June 26, 2014

 *11:00 a.m.*

 MEETING MINUTES

**Committee Members in Attendance DC Water Staff**

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

 James Patteson, Fairfax County Mark Kim, Chief Financial Officer

Robert Mallett, District of Columbia Randy Hayman, General Counsel

 Gail Alexander-Reeves, Director, Budget

 Robert Hunt, Director, Finance (Acting)

 Tanya DeLeon, Risk Manager

 John Madrid, Controller

 Linda Manley, Secretary to the Board

 **Other Presenters and Guests** Jon Clark, ConEdison Solutions

Nancy White, Squire Sanders, LLP

Joe Underwood, Albert Risk Management

Daniel Hartman, Public Financial Management (PFM)

**Call to Order**

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

 **May 2014 Financial Report**

Ms. Gail Alexander-Reeves, Budget Director, reported that with approximately 67 percent of the fiscal year, receipts and operating expenditures were within budgetary expectation with capital disbursements trending higher than budget. As of the end of May 2014, cash receipts totaled $318.3 million, or 68 percent of the revised FY 2014 budget, and operating expenditures totaled $279.4 million, or 63 percent of the revised budget. She also reported that the spending trend for capital disbursements totaled $461.4 million, or 83 percent of the disbursement budget and are consistent with projections reported in prior months.

Ms. Alexander-Reeves reported that additional electric loads were purchased by staff with approximately 90 percent of the Authority’s electric needs purchased for the remainder of FY 2014 and 50 percent for FY 2015. Staff continues to monitor the futures market with intent to purchase additional electric loads for FY 2015. In response to Mr. Ortiz’s question regarding Renewable Portfolio Standards, Ms. Alexander-Reeves noted that Attachment 17 provides a summary of the standards and RECs (Renewable Energy Credits) requirements for the District of Columbia, which is the basis for DC Waters’ requirements. She introduced Mr. John Clark, the representative from ConEdison Solutions, the new energy provider, beginning October 1, 2014 and reported that staff have already begun work with them.

Ms. Alexander-Reeves noted that the Committee will be provided with management’s FY 2015 Revised Budget proposals for consideration in July with Board action anticipated in September. Staff is currently working to develop the FY 2016 budget proposal for Committee review during the fall of 2014. She stated that the Wholesale Customers Briefing on FY 2014 performance and projected FY 2015 budget is scheduled for July 18.

**Cash Reserves and Investments**

Mr. Robert Hunt, Acting Finance Director, reported that as of May 31, 2014, Operating Cash balance (including the Rate Stabilization Fund) was $183.5 million. The total of all funds available is $283.4 million, consisting of $183.5 million in operating cash, $23.5 million in the Debt Service Reserve, $46.7 million in construction fund proceeds, $1.7 million in capital interest, and $28.0 million in CSO Grant Fund. He mentioned that there was one transaction made under the Rate Stabilization Fund for the purchase of $10 million of commercial paper for Coca Cola with 8 basis points for 90 days. He reported that the excess reserve funds and most of the bonds funds will be managed by PFM effective July 1, 2014. The Authority’s staff will continue to manage the operating cash and the PILOT/Right of Way (ROW) funds. All investments are in compliance with the Authority’s investments policy and the investments exceed the short and long term return objectives.

**FY 2014 Operating Cash Surplus Recommendation**

Mr. Mark Kim, Chief Financial Officer, presented an overview of the projected operating cash surplus of $29.8 million. He explained that the cash surplus is primarily due to projected revenue expected to be at $7.9 million or 1.7 percent above budget and expenditures at $21.9 million or 5.1 percent below budget.

Mr. Kim provided the following recommendations for usage of the overage:

* Increase refund to Wholesale Customers by $0.4 million;
* Transfer $7.7 million to PILOT reserve fund;
* Transfer of $5.1 million to ROW fund;
* Increase contribution to PAYGO by $0.6 million; and
* Maintain working capital of $16 million above the O & M reserve.

In response to Chairman Firestine’s question, Mr. Kim clarified that management’s recommendation is for Board action to transfer a total of $5.1 million to the ROW fund by the end of the year, even though $3.8 million has been transferred as of May 31, 2014.

**Status Update: DC PSC (Public Service Commission) Order on PEPCO Rate Increase – DC Water Impact**

Mr. Randy Hayman, General Counsel, and Attorney Nancy White (of Squire Sanders, LLP) provided the Committee with an update of the Pepco rate increase. Mr. Hayman stated that the Authority purchases electricity (transmission and distribution) services from Pepco. He reported that the Authority was successful in opposing and lowering Pepco’s proposed annual rate increase of $52.1 million. He stated that Commission reduced Pepco’s annual rate increase to $23 million and shifted a substantial portion of the increases from commercial to residential customers. This culminates in annual cost avoidance/savings of approximately $200 thousand to DC Water, being one of the top 3 users of electricity in the District. Attorney White briefed the Committee that commercial customers had been subsidizing residential customers by approximately $70 million annually. Mr. George Hawkins, General Manager, noted that these increases, though shifted to commercial customers, are being paid by the residential customers through their monthly water bill.

**Ceridian Contract Update**

Mr. John Madrid, Controller, presented the Committee with the status of the Ceridian contract, which included the following terms:

* A five-year fixed price contract commencing in January 1,2015;
* Planned transition from Ceridian legacy system; and
* Assist with time & attendance implementation at the Authority (currently twelve years old)

Mr. Robert Mallett raised concerns that the contract request was not consistent with Procurement regulations and practices which would have required a new bid and solicited to outside vendors.  Mr. Madrid explained that management had weighed the associated costs of new system implementation with outside vendors and concluded it was not cost effective.  It was explained that the urgency of the migration with January 2015 date is essential to the continuity of HR/Payroll operations. The Authority’s complex system for processing employee payroll, shift scheduling, recruitment and benefit applications will be combined in a single application. A change in payroll service provider would require 18 to 24 months to plan, procure, evaluate, and implement.

**Insurance Renewal Update**

Ms. Tanya DeLeon, Risk Manager provided a brief overview of the negotiation for the year’s operational insurance renewal. Ms. DeLeon stated that staff is on track to renew the Authority’s Property, Workers’ Compensation, Public Officials’ Liability, Umbrella/Excess Liability, Crime and Fiduciary insurance coverage on July 1. She stated that staff had anticipated an increase of 9 percent due to the total premiums due to potential hardening of the insurance market and increased operating exposure to the Authority. She reported that with ongoing renewal negotiations, the total estimated insurance premium is lower than anticipated at $2.25 million or one percent increase.

**Bond Financing Item**

Mr. Kim reviewed the FY 2014 Plan of Finance with the Committee.  He informed the Committee that Standards & Poor’s and Fitch Rating Agencies have reaffirmed the current rating on the senior lien debt and a stable outlook; with the rating expected from Moody’s and will be conveyed to the Committee. He stated that DC Water, after Board approval, plans to issue Series 2014A bonds in the amount of $300 million, taxable, fixed rate, senior lien revenue bonds with a stated maturity of 100 years (Century Bonds) in July 2014.  These funds will be held by the Bond Trustee (Wells Fargo) in a separate account to finance the Clean Rivers Project as part of the overall Capital Improvement Program.  DC Water will also issue 2014B Series in the amount of $100 million, tax-exempt, variable-rate, subordinate lien revenue bonds to finance other projects within the Capital Improvement Program.  The Series 2014A bonds will be sold as “Green” bonds as they will be financing the Clean Rivers project. He noted that DC Water has obtained a second party opinion on the sustainability of DC Water’s Green Bond from Vigeo, an internationally recognized organization certifying environmental programs for sustainability.

**Action Items for Board Adoption**

The Committee recommended the following items for Board action:

1. FY 2014 DC PILOT Reserve, ROW and PayGo recommendations
2. Approval of bond documents (#1 to #10)
3. Ceridian Contract

**Adjournment**

Hearing no further business, Chairperson Firestine adjourned the meeting at 12:16 p.m.