

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Thursday, March 24, 2011

11:00 a.m.

- 1. Call to Order Timothy Firestine, Chairperson
2. February 2011 Financial Report (Attachment 1) Yvette Downs
A. Operating Revenues & Expenditures
B. Cash Reserves & Investments
C. Capital Disbursements Summary
3. Discussion on DC Water Funded Grants/Research Projects George Hawkins
4. Summary of FY 2010 Comprehensive Annual Financial Report John Madrid
5. Quick Payment Act and Vendor Payment Performance Briefing (Attachment 2) Olu Adebó
6. Planning Calendar for Revised FY 2012 and Proposed FY 2013 Budgets (Attachment 3) Olu Adebó
7. Agenda for April 28th Committee Meeting Timothy Firestine
A. Update on Investments Portfolio
B. Other items to be determined
8. Action Items
9. Adjournment

FOLLOW-UP ITEMS – Finance & Budget Committee (Meeting held February 1, 2011)

- 1. Review of alternative approach on the settlement process for the Fire Protection Fee if to be estimated quarterly with a true-up at the end of the year. (Mr. Bardin) Status: TBD
2. Staff was requested to revise the breakdown of retail receipts chart to include information on IAC, metering fee, PILOT and ROW as well as volumetric sewer. (Mr. Bardin) Status: Under review.
3. Provide information/analysis on the delta between investment income on the Bond receipts versus the interest payments on the Bond financing via email. (Mr. Bardin) Status: To be discussed at the April 28th meeting
4. Include in the monthly report additional information on block purchase and spot market prices with resulting variance to the committee. (Chairman Firestine) Status: Complete
5. Provide the amount and percentage of reduction in contract bids compared to estimates for the ENRF project. (Chairman Firestine) Status: See attachment 4.

6. Staff to review the Accounts Payable performance goal of 97% if it is realistic or achievable and to include the information as part of the General Manager's Dashboard report. **(Mr. Bardin) Status:** See agenda.
7. Shift to the Finance and Budget committee from the Retail Rates committee the follow up item for settlement/billing process for the small PI customers. **(Mr. Bardin) Status: TBD**



FEBRUARY 2011 FINANCIAL REPORT

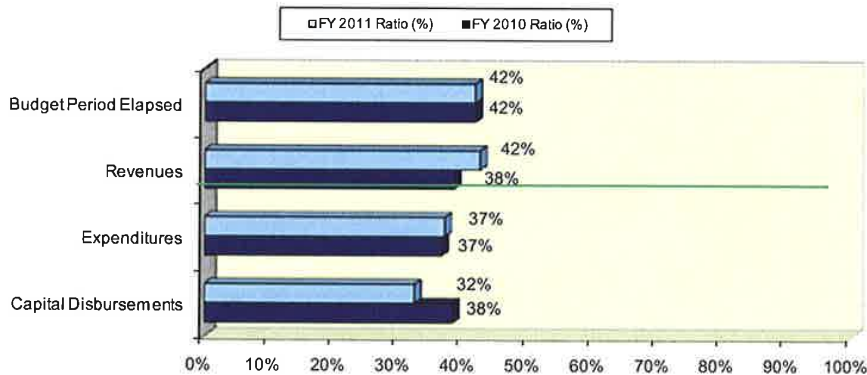
FY 2011 FINANCIAL PERFORMANCE

At the end of February, with 41.7 percent of the fiscal year completed, we are on track with budgetary expectations. The table below summarizes detailed information as discussed later in this report.

**Financial Performance
As of February 28, 2011
(\$ in millions)**

	Approved	Revised Budget	YTD Budget	YTD Actual	Variance		% Revised Budget
					Favorable (Unfavorable)		
Revenues (Receipts)*	\$395.9	\$399.1	\$166.3	\$169.4	\$3.1	1.9%	42.4%
Expenditures*	\$408.1	\$403.3	\$168.0	\$149.4	\$18.6	11.2%	37.0%
Capital Disbursements	\$383.7	\$325.2	\$133.3	\$105.2	\$28.1	21.1%	32.3%

* Straight-lined (5/12 of revised budget)



120-day Operating Reserve Analysis (\$ in millions)

FY 2011 120-day Operating Reserve Objective	\$125.5
Actual Average Daily Balances	\$139.1
Difference	\$13.6

OPERATING REVENUES & RECEIPTS

At the end of February 2011, cash receipts totaled \$169.4 million, or 42.4 percent of the revised FY 2011 budget. Several categories of customers make payments on a quarterly basis, including the federal and District governments, and wholesale customers. The table below provides a summary of operating receipts at the end of January.

REVENUE VARIANCE BY CATEGORY
(In millions)
As of February 28, 2011

Revenue Category	FY 2011 Budget	Year-to-Date Budget	Actual Received	Variance		Actual % of Budget
				Favorable	(Unfavorable)	
Residential, Commercial, and Multifamily	201.5	84.0	83.3	(0.7)	-0.8%	41.3%
Federal	44.9	18.7	21.9	3.2	17.1%	48.8%
District Government	9.7	4.0	5.1	1.1	26.9%	52.9%
DC Housing Authority	6.5	2.7	2.4	(0.3)	-12.9%	36.2%
Customer Metering Fee	10.8	4.5	3.7	(0.8)	-16.9%	34.6%
Wholesale	68.8	28.7	34.0	5.4	18.7%	49.5%
Right-of-Way Fee/PILOT	22.0	9.2	9.6	0.4	4.2%	43.4%
Sub-Total (before Other Revenues)	\$364.2	\$151.7	\$160.0	\$8.3	5.4%	43.9%
Other Revenue without RSF						
IMA Indirect Cost Reimb. For Capital Projects	4.0	1.7	0.0	(1.7)	-100.0%	0.0%
DC Fire Protection Fee	13.3	5.5	6.2	0.6	11.0%	46.2%
Stormwater (MS4)	0.8	0.3	0.0	(0.3)	-100.0%	0.0%
Interest	0.8	0.3	0.3	(0.0)	-1.0%	41.3%
Developer Fees (Water & Sewer)	3.0	1.2	2.4	1.1	89.5%	79.0%
Others	3.5	1.5	0.5	(0.9)	-64.1%	15.0%
Sub-Total	\$25.4	\$10.6	9.4	(1.2)	-11.4%	36.9%
Rate Stabilization Fund Transfer	\$9.5	4.0		(4.0)	-100.0%	0.0%
Other Revenue Sub-Total	\$34.9	\$14.6	9.4	(5.2)	-35.5%	26.9%
Grand Total	\$399.1	\$166.3	\$169.4	3.1	1.9%	42.4%

Discussion of Relevant Variance

In general, revenues are on target with 42.4 percent of the total revenues received through 41.7 percent of the year completed.

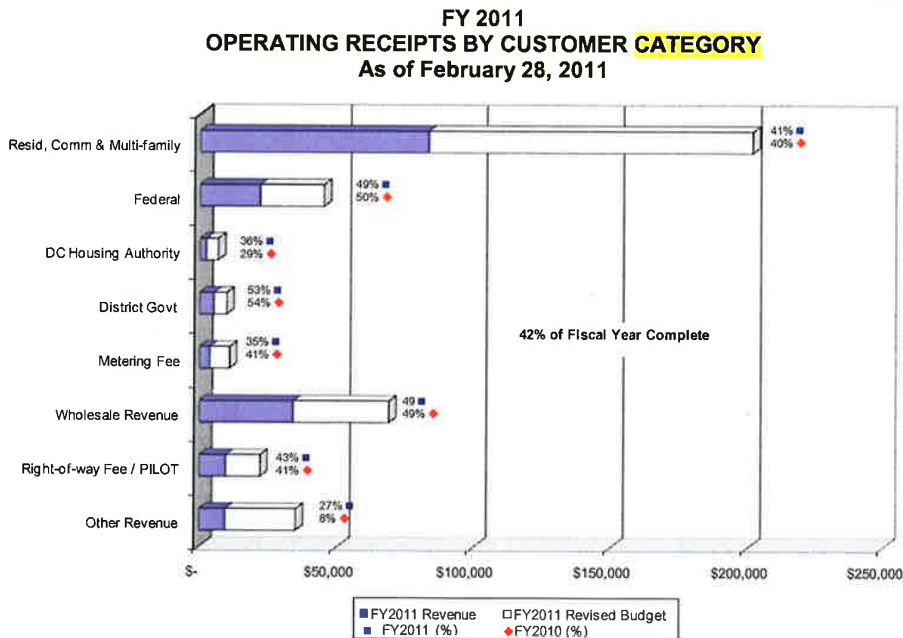
The largest variance of note in revenues exists in the category of Other Revenue. Other Revenue receipts are lower than the straight-lined budget at \$9.4 million or 26.9 percent of the budgeted category primarily due to the Rate Stabilization Fund transfer. The Rate Stabilization Fund transfer is anticipated in the fourth quarter of the fiscal year.

At the end of February, payments from Wholesale Customers total \$34.0 million or approximately 49.5 percent of the budget. Wholesale customers made their second quarterly payment in February.

DC Housing Authority actual receipts through February total \$2.4 million or 36.2 percent of the revised FY 2011 budget. This is due to lower than anticipated consumption. We will continue to monitor this category for variations in trends.

Receipts for the Customer Metering fee in the first five months of the year total \$3.7 million or 34.6 percent of the revised FY 2011 budget. In October 2010, the Customer Metering fee was increased for all meter sizes and higher revenues have been anticipated for FY 2011. A review of trends indicates this to be true. However, there is a lag between billing the new fee and collection of the new fee that contributes to the variance in this revenue category for the first quarter. February receipts alone were approximately 8 percent of the yearly budget and appear to be much closer aligned to expectations.

Federal payments have been received to date in accordance with available Congressional appropriations. However, it should be noted that the federal government has been currently operating under a continuing resolution that maintains spending at the FY 2010 levels. Appropriation activity is closely reviewed by the Director of Government Relations and the Board will be updated as needed.



**BREAKDOWN OF RETAIL RECEIPTS INTO WATER & SEWER
(Excluding Metering Fee)
(\$ in 000's)**

Customer Category	Water	Sewer	Water + Sewer
Residential	9,427	15,967	25,394
Commercial	15,207	20,974	36,180
Multi-family	8,489	13,234	21,723
Federal	9,220	12,680	21,900
District Govt	1,868	3,270	5,138
DC Housing Authority	907	1,440	2,347
Total	45,118	67,565	112,682

Note: The breakdown of Collections into Residential, Commercial, & Multi-family and Water and sewer is approximate as it is based on percentages of historical data and does not take into account adjustments and timing differences

OPERATING EXPENDITURES

At the end of February, with approximately 41.7 percent of the fiscal year completed, operating expenditures totaled \$149.4 million (including debt service and the right of way and PILOT fees). This is approximately 37 percent of the FY 2011 revised budget, which totals \$403.4 million. These numbers include estimated incurred but unpaid invoices.

EXPENDITURE VARIANCE BY CATEGORY
(in millions)
As of February 28, 2011

	FY 2011					FY 2012 Board Approved Budget	
	Board Revised Budget	YTD Budget	YTD as of 02/28/2011	YTD Variance Favorable/(Unfavorable)			Percent of Budget
				\$	%		
Personnel Services	105,292	43,872	42,548	1,324	3.0%	40%	113,354
Contractual Services	79,114	32,964	24,787	8,177	24.8%	31%	78,826
Water Purchases	33,000	13,750	10,504	3,246	23.6%	32%	33,000
Chemicals and Supplies	29,234	12,181	9,593	2,588	21.2%	33%	29,946
Utilities	34,938	14,558	12,908	1,649	11.3%	37%	37,447
Small Equipment	1,095	456	163	293	64.3%	15%	995
Subtotal O & M Expenditures	282,674	117,780	100,503	17,278	14.7%	36%	293,569
Debt Service	98,726	41,136	39,772	1,364	3.3%	40%	105,387
Payment in Lieu of Taxes	16,882	7,034	7,034	-	0.0%	42%	18,301
Right of Way	5,100	2,125	2,125	-	0.0%	42%	5,100
Total O & M Expenditures	403,382	168,075	149,433	18,642	11.2%	37%	422,357
Personnel Services Charged to Capital Projects	(11,000)	(4,583)	(4,445)	(138)	3.0%	40%	(16,000)
Total Net Operating Expenditures	392,382	163,492	144,988	18,504	11.3%	37%	406,357

Note: Actuals include accruals

Discussion

Personnel services (\$105.3 million annual budget; 37.2 percent of O&M budget) – At the end of February, personnel costs total \$42.5 million or 40 percent of budget. Of the 1,137 positions budgeted (1,165 positions authorized), 1,015 positions were filled at the end of February. Overtime spending totals \$2.4 million of the annual budget of \$5.0 million, or 8 percent of regular payroll costs. Spending in this category is typically higher during the winter months due to emergency response to water main breaks, snow removal, after-hour infrastructure repairs and other winter-weather related issues. We will continue to monitor and report overtime activities and risks.

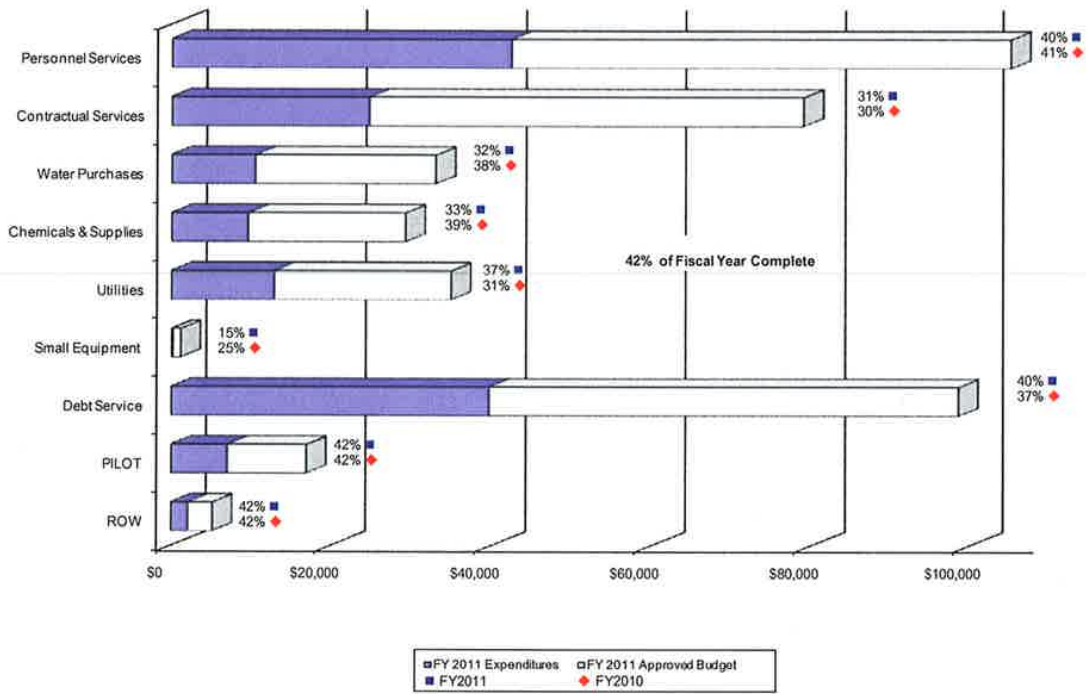
Water Purchases (\$33.0 million annual budget; 11.7 percent of O&M budget) – At the end of February, water purchases incurred total \$13.4 million. The current variance in this category reflect several items including the timing of billings, seasonal variation on water demand (and thus chemical costs) the federal freeze in employee salaries and delay in the operations of the hypochlorite project which is now projected to begin in early FY 2012. The Washington Aqueduct is currently estimating that the FY 2011 O&M expenses may run \$1.9 million lower than budget. DC Water's share of this FY 2011 savings would be in the range of \$1 to \$1.4 million. We will continue to monitor the operations and expenses in this category.

Chemicals and Supplies (\$29.2 million annual budget; 10.3 percent of O&M budget) – At the end of February, chemical costs total \$9.6 million or 33 percent of budget. We have been experiencing a rise in certain chemical costs primarily due to increase in world oil prices. While we have fixed market prices for most our chemicals, some suppliers for our major chemicals, including methanol and caustic soda (sodium hydroxide), are requesting substantial price increases to defray their costs. The unit prices for these chemicals may change through the fiscal year as contract options are exercised. We will continue to monitor the market and report to the Committee accordingly.

Utilities (34.9 million annual budget; 12.4 percent of O&M budget) – Additional information concerning actual performance in this category can be found later in this report.

Payment In Lieu of Taxes – (\$16.9 million annual budget) – Payments and accrued expenses for the District's PILOT fee totaled \$7.0 million. Actual payment differs due to previous Board direction and resulting offsets associated with the Fire Protection fee.

**FY 2011 Operating Expenditures
by Category
As of February 28, 2011**



CAPITAL SPENDING

For the month of February 2011 disbursements totaled \$27.8 million, with year-to-date disbursements totaling \$105.2 million, or 32 percent of the FY 2011 Revised (Annual) disbursements budget. Planned capital disbursements through February 2011 were \$133.3 million, or 41 percent of the FY 2011 Revised disbursements budget.

Capital Disbursements Variance
(dollars in thousands)
As of Feb. 28, 2011

Description	(Approved) FY 2011 Revised Disbursements Budget		Actual Disbursements			% of FY 2011 Revised Disbursements Budget	
	Annual	YTD	Oct. -'10 to Jan. -'11	FEB. -'11	' YTD	Variance Compared to Plan	Percent of Annual Budget
Total Wastewater Treatment	133,128	47,500	27,948	11,042	38,990	18%	29%
Total Sanitary Sewer	33,996	11,221	7,987	1,538	9,525	15%	28%
Total Combined Sewer Overflow	76,084	42,267	20,731	9,669	30,400	28%	40%
Total Stormwater	3,491	1,469	693	160	853	42%	24%
Total Water	50,612	21,032	14,787	4,532	19,319	8%	38%
Washington Aqueduct	10,449	2,508	1,995	513	2,508	0%	24%
Capital Equipment	17,462	7,276	3,227	384	3,610	50%	21%
Total Capital Projects	\$ 325,222	\$ 133,273	\$ 77,367	\$ 27,839	\$ 105,206	21%	32%

Discussion

Projects in the Wastewater Treatment service area led the disbursements at \$11 million followed by projects in the Combined Sewer Overflow service area at \$9.7 million. Disbursements for the Water service area totaled \$4.5 million, followed by disbursements for the Sanitary Sewer and remittance to the Washington Aqueduct at \$1.5 million and \$0.5 million, respectively. Capital Equipment service area disbursements came in at \$0.4 million, while those for the Stormwater service area were only \$0.2 million.

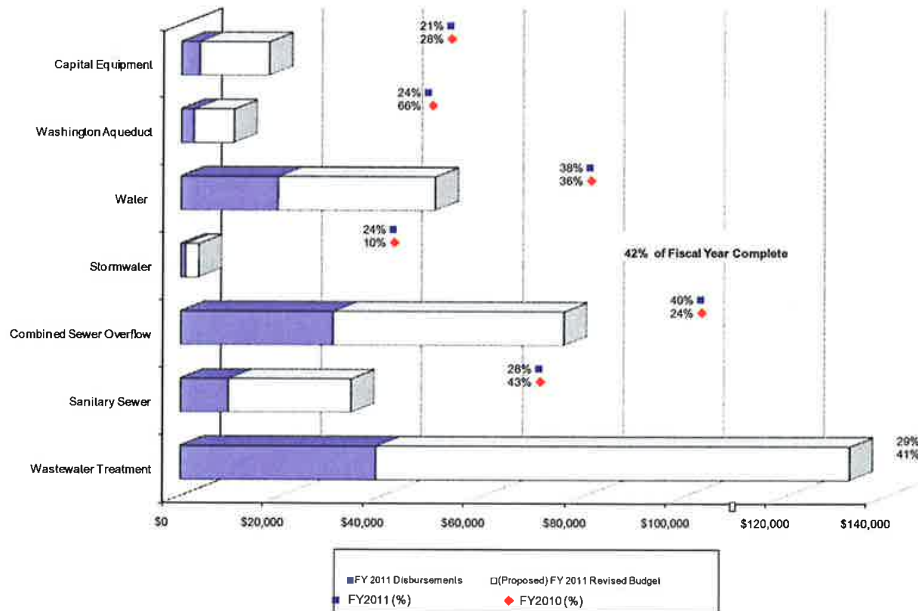
In the Wastewater area (Blue Plains), the Solids Processing program registered the highest disbursements, \$6.6 million; 90% of this was attributable to the New Digestion Facilities, Centrifuge Thickener Facility, and the Area Substation No. 6 projects. Enhanced Nitrogen Removal Facilities Program (formerly, BTN - the Total Nitrogen Program) disbursements came in next at \$3.1 million; the bulk of which was for the Blue Plains Tunnel Site Preparation, and the Nitrogen Removal Facilities projects. The Plantwide Program registered disbursements of \$0.9 million, primarily for the 'Miscellaneous' Project activities undertaken at Blue Plains, the Instrumentation, control & Electric- EPMC support and programming for new upgraded facilities throughout Blue Plains, and the Laboratory Upgrades projects. The Liquid Processing Program disbursements of \$0.4 million were mainly attributable to the Dual Purpose Rehabilitation, and the Nitrification Facility projects. The net decrease in the Wastewater Treatment Area of \$8.5 million is primarily related to the OCIP accrual and slow billing related to the Process Control System implementation, however all work is on schedule.

In the Combined Sewer Overflow (CSO) service area, \$5.3 million was disbursed under the 'Combined Sewer Projects' Program: most of this was for the 'Nine Minimum Control' group of projects, e.g., Outfall Sewer Rehabilitation, Rock Creek CSO projects, and the Poplar Point Pumping Station project. Disbursements for the D.C.Clean Rivers Project (aka Long Term Control Plan, or LTCP) amounted to \$4 million, primarily for the Anacostia LTCP Projects. Program Management related disbursements totaled \$0.4 million. The \$11.8 decrease in spending in this service area is mainly attributable to three items: \$3 million associated with the OCIP accrual; \$5.7 million for billing associated with the recent approval of the Clean Rivers Project consultant's work plan and the MOU for the "O" Street project; and \$2.8 million related to Outfall Sewer Rehabilitation Project and close out of the Main "O" Street Pump Station Project.

In the Water Service area, disbursements for the DDOT Water Projects program totaled \$1.7 million---all for the FY 2010 DDOT Water Project. Water Distribution (Systems) program disbursements totaled \$1.3 million, most of which was for the various Small Diameter Watermain Rehab contracts, and Large Valve Replacement (contract 3-7). The Water Lead Program disbursements were only \$0.3 million. Another \$0.3 million was disbursed for the AMR – Future Meter Replacements project. The net decrease in this service area is primarily related to the close out of two small diameter water main replacement projects (MV & MW) and the temporary suspension of work on small diameter water main rehab project N8.

Capital Equipment service area disbursements totaled \$0.4 million, mainly for the Document Imaging System, and the Infrastructure Asset Management System projects managed by the Information Technology department. Other significant disbursements were associated with various projects run by the Facilities department. Under spending in this area is mainly related to IT projects.

**FY 2011 Capital Disbursements Compared to Plan
By Service Area
(\$ in 000's)
As of February 28, 2011**

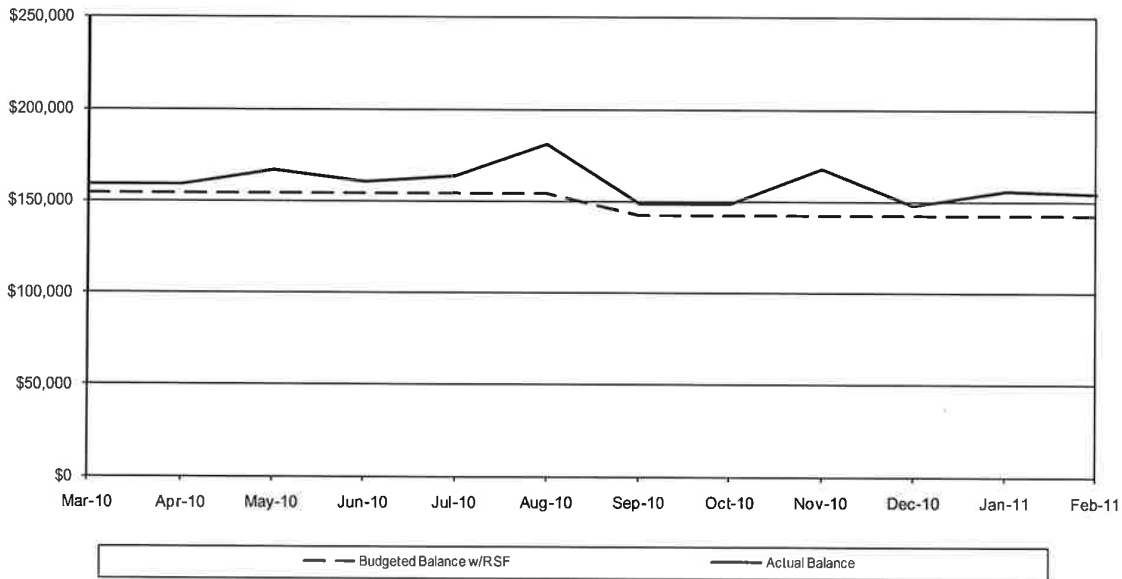


CASH AND INVESTMENT BALANCES

At the end of February, our operating reserve balance was \$137.9 million as compared to the FY 2011 operating reserve level objective of \$125.5 million. The following table provides a summary of all cash and investment account balances.

Cash Balances	
As of February 28, 2011	
(\$ in millions)	
Rate Stabilization Fund Account (RSF)	\$16.7
Operating Reserve Accounts	<u>137.9</u>
Operating Cash Balance Including RSF	154.6
Debt Service Reserve - Series 98	23.8
Bond Construction Fund - Series 10	247.1
Capital Interest Fund - Series 10	10.4
CSO LTCP Appropriations Account	<u>77.8</u>
Total All Funds	\$513.7

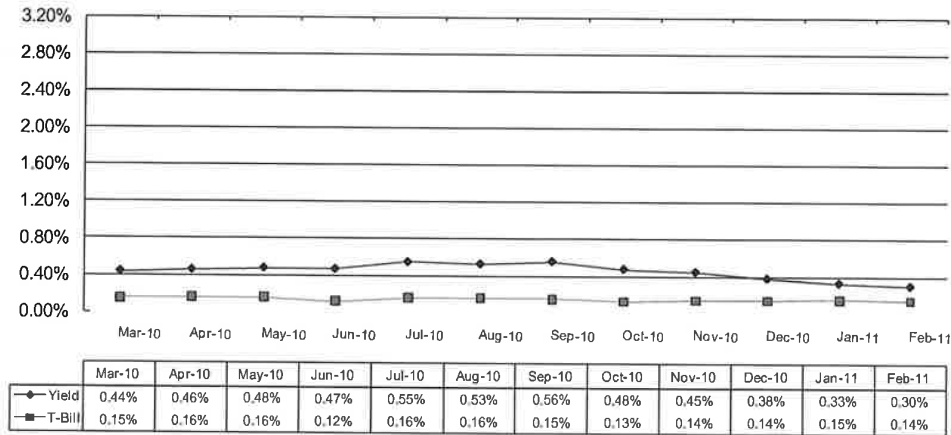
FY 2011 Operating Cash Balances
(\$ in 000's)
(Operating Reserve and RSF)



Overall Portfolio Performance

The February yield on the Authority's investment portfolio (not including bond-related funds) was 0.30 percent, 16 basis points higher than the targeted benchmark rate. The targeted benchmark is the three-month U.S. Treasury Bill, which had a return of 0.14 percent. Interest earnings on a cash basis in February totaled \$162,468. See also Short-Term v. Core Report, attachment to financial report.

**Investment Performance
Past Twelve Months**



At the April 2011 Finance and Budget Committee meeting, management will provide a full discussion and presentation of our portfolio performance. Simultaneously, a new series of investment reports will be unveiled that will provide greater detail and insight on cashflow analysis, investment strategy, benchmarking and more.

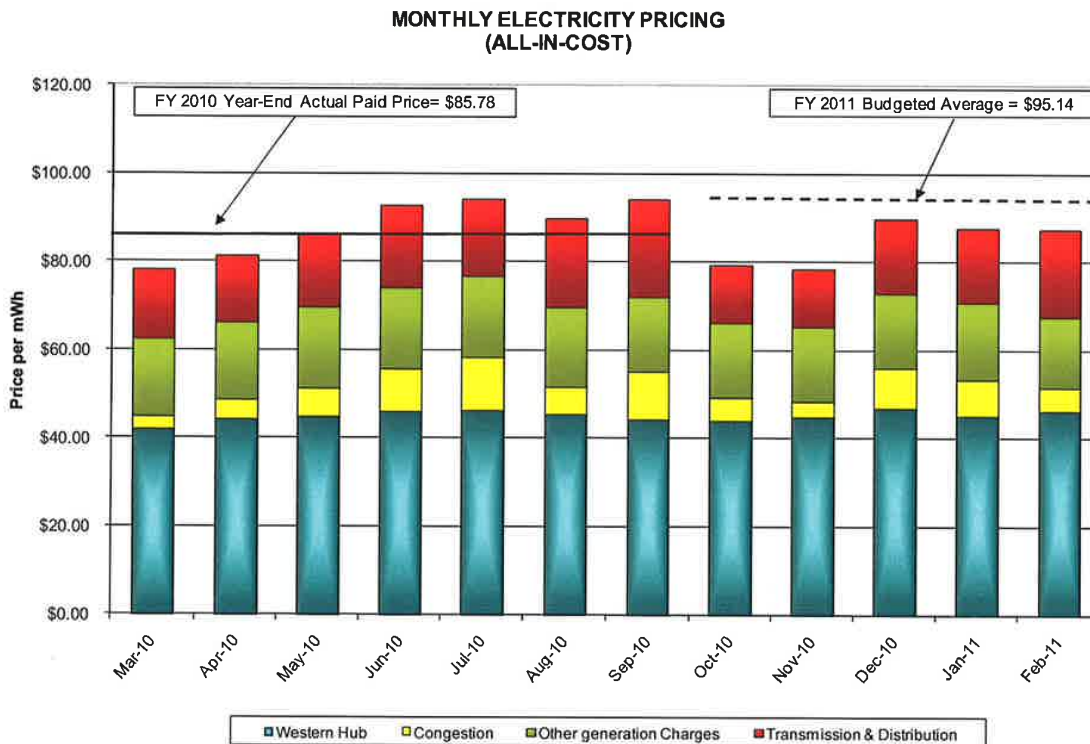
OTHER STATUS REPORTS

ELECTRICITY PROCUREMENT STRATEGY

The overall objective of our procurement strategy is to mitigate DC Water's exposure to daily electricity spot market prices in the deregulated electricity market. In view of the above, staff has adopted the strategy to purchase long and short term blocks of electricity at a mix of Western Hub future market prices with the unlocked portions floating at spot market prices.

In line with this strategy and the Board's directive, we have locked approximately 90 percent or 27MW of the Authority's monthly electricity load for FY 2011 at the Western Hub price of \$45.39/mWh. Staff continues to monitor the consumption trend and electricity market closely with intent to lock in the remaining 10 percent of the Authority's electricity load to determine the best lock.

The chart below depicts the all-in-cost for the electricity purchased by the Authority. As indicated in the chart, electricity prices generally increase during the winter and summer peak months. The average all-in-cost paid for February 2011 was \$87.60/mWh, with the year-to-date average at \$84.71/mWh.



Notes: A) Other generation charges include the capacity charges, loss factor adjustments, ancillary costs, and other adder (administrative) fees associated with electricity procurement over the spot market
 B) February FY 2011 prices include accruals for invoices not yet received.

ELECTRICITY COSTS

The revised FY 2011 electricity budget of \$26.9 million represents 77 percent of the total utilities budget and assumes an average all-in-cost of \$95.14/mWh. The current purchasing strategy is tracking favorably to the FY 2011 budget:

Electricity Budget (\$000)			
	Amount		Variance
	Budgeted	Actual	Budgeted vs Actual
Oct-10	\$2,478	\$1,709	\$769
Nov-10	\$2,187	\$1,641	\$546
Dec-10	\$2,388	\$2,120	\$268
Jan-11	\$2,386	\$2,133	\$253
Feb-11	\$1,877	\$1,827	\$50
YTD Total	\$11,316	\$9,430	\$1,886
Remainder	\$15,607		
Total Budget	\$26,923		

The current purchasing strategy can be compared to two benchmarks: the Standard Offer Service (S.O.S.) and Pepco DC Zone spot market prices. As indicated in the chart below, DC Water average actual prices year-to-date are currently lower than both the S.O.S. and Pepco DC Zone spot market prices.

All-In-Cost (\$/mWh)			
	Unit Price		
	Standard Offer Service (S.O.S.)	Spot Market	Actual ¹
Oct-10	\$158.24	\$70.98	\$79.34
Nov-10	\$152.48	\$71.55	\$78.62
Dec-10	\$155.93	\$99.91	\$89.97
Jan-11	\$153.78	\$95.53	\$88.01
Feb-11	\$152.57	\$85.47	\$87.60
YTD Average	\$154.60	\$84.69	\$84.71

¹ Actual prices are inclusive of the price mix of monthly block purchases and spot market unit prices.

RETAIL & WHOLESALE ACCOUNTS RECEIVABLE

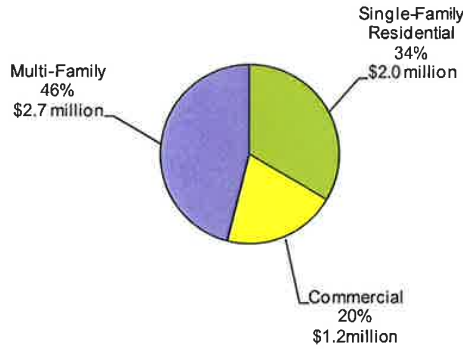
The following tables and chart show retail and wholesale accounts receivable over 90 days including a breakdown by customer class.

**Delinquent Accounts Receivable
Greater Than 90 Days by Customer
February 28, 2011**

	RETAIL		WHOLESALE		TOTAL	
	Greater than 90 Days \$ in millions	# of accounts	Greater than 90 Days \$ in millions	# of accounts	Greater than 90 Days \$ in millions	# of accounts
December 31, 2005	\$10.6	14,613	\$31.7	4	\$42.3	14,617
December 31, 2006	\$7.2	15,101	\$0.0	0	\$7.2	15,101
December 31, 2007	\$6.3	16,101	\$0.0	0	\$6.3	16,101
December 31, 2008	\$6.1	16,345	\$0.0	0	\$6.1	16,345
December 31, 2009	\$5.2	15,469	\$0.0	0	\$5.2	15,469
December 31, 2010	\$5.4	14,107	\$0.0	0	\$5.4	14,107
January 31, 2011	\$5.7	14,369	\$0.0	0	\$5.7	14,369
February 28, 2011	\$5.9	14,217	\$0.0	0	\$5.9	14,217

*In June 09 the Authority wrote off approximately \$1.3M of bad debt

**Delinquent Accounts Receivable
Greater Than 90 Days by Customer
February 28, 2011**



**Delinquent Accounts Receivable
Greater Than 90 Days by Customer
February 28, 2011**

	Number of Accounts			Month of February (All Categories)				Total Delinquent			
	W & S a/c	Impervious Only a/c	Total No. of a/c	Active		Inactive		No. of a/c Jan.	Amount (\$)	No. of a/c Feb	Amount (\$)
				No. of a/c	Amount (\$)	No. of a/c	Amount (\$)				
Commercial	11,650	3,460	15,110	2,008	1,061,415.05	124	138,743.56	2,155	1,008,871.83	2,132	1,200,158.61
Multi-family	7,395	500	7,895	1,194	2,338,913.16	91	357,004.43	1,298	2,711,995.43	1,285	2,695,917.59
Single-Family Residential	103,568	3,207	106,775	9,627	1,409,624.28	1,173	553,897.83	10,916	1,951,804.21	10,800	1,963,522.11
Total	122,613	7,167	129,780	12,829	4,809,952.49	1,388	1,049,645.82	14,369	5,672,671.47	14,217	5,859,598.31

Notes:
 -Included in the above \$4.81m (or 12,829 accounts) of the DC Water Over 90 days delinquent accounts, \$504,449.46 (or 3,544 accounts) represents Impervious only Accounts over 90 days delinquent.
 -Reportable delinquencies do not include balances associated with long-standing disputes between DC Water and two large commercial customers.

**District of Columbia Water and Sewer Authority
FY 2007 - 2016 Capital Improvement Program**

Service Area Title: Combined Sewer Overflow
Program Title: Combined Sewer Projects
Activity Group/Project Title: **D2 Outfall Sewer Rehabilitation**
Managing Department: Engineering and Technical Services **EPMC: EPMC-II**
Priority: Court Ordered, Stipulated Agreements, Etc.

Phase	Start Date
Design:	Oct 2007
Construction:	Dec 2008
Project Completion:	Mar 2011

Project Description:

This project will rehabilitate the existing Outfall Sewer System tributary to the headworks of the Blue Plains WWTP. Four 10-foot diameter sewers were inspected in 2005 and it was concluded that the pipelines will need to be rehabilitated in order to provide reliable service. This project is eligible for 50/50 matching funding from the Congressional CSO Appropriation.

Impact on Operations:

This project will have no material impact on the operating budget.

Funding by User (percent):

DC - 20.67%
 EPA/Fed - 20.68%
 WSSC - 45.84%
 Fairfax - 8.38%
 Loudoun/PI - 4.43%



FY2007 Approved Life Budget	30,000,000
FY2008 Revised/FY2009 Proposed Life Budget	30,000,000
Increase/(Decrease) to Approved Life Budget:	0

	Pre FY 2008	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Post FY 2016
Disbursements Budget	0	2,550	7,072	16,047	3,131	0	0	0	0	0	0
Commitments Budget	0	2,550	27,450	0	0	0	0	0	0	0	0

(projected disbursements do not include contingencies)

(dollars in thousands)



ATTACHMENT 2

Briefing on Vendor Payment Performance

Finance and Budget Committee
March 24, 2011

Presented by Olu Adebo, Chief Financial Officer

Background – Issue



- ▶ Prior to DC Water (the “Authority”) establishing prompt payment goal in FY 2001:
 - ▶ The Authority had a dismal record of prompt vendor payments
 - ▶ over 20% of invoices were paid late
 - ▶ There was a high dissatisfaction level with the Authority’s vendor stakeholder group
 - ▶ In fact, certain vendors refused to do business with the Authority because of this
 - ▶ Other vendors increased their charge to the Authority to cover this risk
- ▶ The Authority was exposed to fines and penalties from lack of compliance with:
 - ▶ DC Quick Payment Act of 1984
 - D.C. Law 5-164, effective March 15, 1985 (the Act), D.C. Code §§1-1171 to 1-1176
 - ▶ Its own contract terms with vendors
 - DC Water procurement regulations

Background – Issue (cont.)



- ▶ The Authority had little or no control over the system, business process or people involved:
 - ▶ System – although independent since 1996, that Authority still relied on the District Government’s (District) system for processing and paying vendors.
 - ▶ In FY 99 the District implemented a new system
 - This made matters worse, as the system still had a lot of bugs and employees had not been well trained and/or were still dealing with a learning curve
 - The Procurement and financial systems were not integrated – so each invoice had to be manually matched with its parent purchase order and/or contract
 - The District’s central Accounts Payable still handled all backend processing of invoices
 - While DC Water handled the receipt and processing of the invoices, the actual checks were cut by the District

Background– Issue (cont.)



- ▶ People – there were no set standards and many of the staff and managers involved in the process did not feel or were not held accountable for making sure vendors were paid on time:
 - ▶ Unfortunately, vendors were left to fend for themselves. Many of them having to make multiple trips or calls to many different people to inquire about the status of their payment

Plan and Execution (cont.)



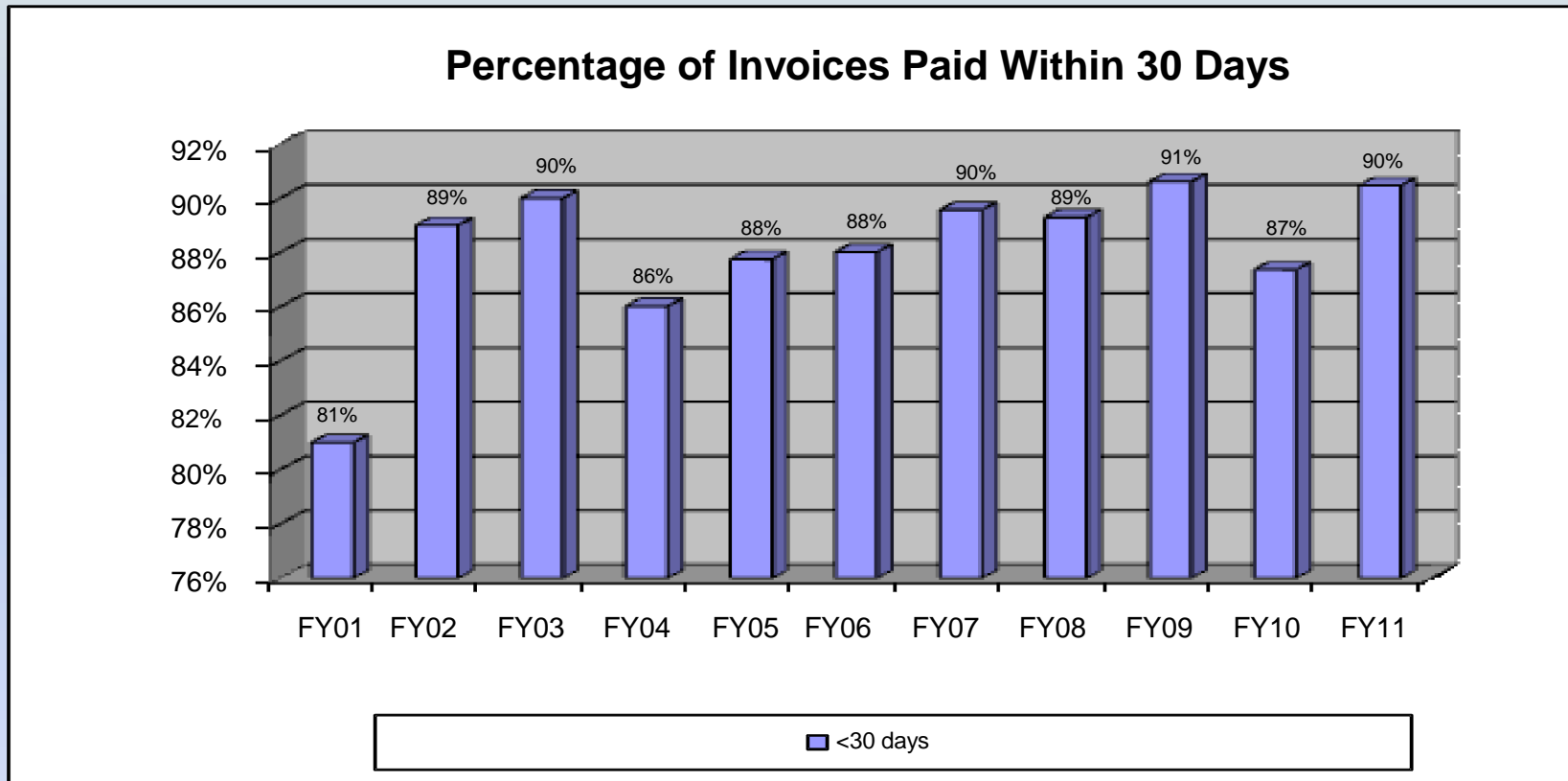
- ▶ To address these issues, the Authority developed and implemented (over a period of time) the following changes:
 - ▶ Implemented its own state of the art financial system
 - ▶ Integrated procurement and financial system
 - ▶ Built in Best Management Practices
 - ▶ Workflow to automatically route and track invoices
 - ▶ Document management system to attach invoice image
 - ▶ Developed and deployed many business process improvements
 - ▶ Single point of accountability for invoice receipt – all invoices must be submitted to the DC Water Accounts Payable dept.
 - ▶ More efficient routing of invoices and better control and accountability for invoice status
 - by leveraging technology (workflow) we can now track when the invoice was received, who and where the invoice is
 - Email notification (alert) once invoice moves within workflow

Plan and Execution



- ▶ Staffing – Improved and enhanced accountability on all staff members involved in the payment process, through:
 - ▶ Raising awareness
 - ▶ Additional and on-going training
 - ▶ Setting performance standards (97% on-time payment)
 - ▶ Routine internal stakeholder meetings

Performance To Date





Next Steps

- ▶ Although significant improvements have been made to date in our vendor payment performance, a large gap still exists
 - ▶ Current Average Annual Performance = 90%
 - ▶ Goal = 97%

- ▶ Ten years into the current process, this is a good time to reflect on next steps and on how to cover the gap. Should we:
 - ▶ Lower the goal (standard) – maybe standard is too high or unachievable, or
 - ▶ Strive to improve our performance



Next Steps

- ▶ Lower the goal – Although, the goal seems high, if we choose to lower the goal, we further increase our exposure to items listed in slide 2. Further,
 - ▶ The law and our vendor contracts does not currently provide any margin – it contemplates paying all our vendors all the time on time
 - ▶ There isn't any established national standard below the contract or legal requirement of 100% (undisputed invoices)
 - ▶ The District Treasurer's office has also established a timely payment standard of 98%
- ▶ Strive to Improve Performance – investigate and deploy further performance improvement measures, including:
 - ▶ Further leverage technology – request vendor invoices be submitted electronically and/or increase the number electronic vendor payments
 - ▶ Undertake certain business process improvement measures within our procurement process – many invoices are delayed because no contract or purchase order in place
 - ▶ Increase/enhance accountability – include performance goal within the GM's monthly dashboard to increase visibility in the organization

PLANNING CALENDAR REVISED 2012 AND PROPOSED FY 2013 BUDGETS



Response to Question from Finance & Budget Committee

1. Provide the amount and percentage of reduction in contract bids compared to estimates for the ENRF project. **(Chairman Firestine):**

Response:

Two construction contracts have been awarded for the ENRF program:

Construction contract #: 100010 (site preparation and structures)

Pre-bid estimate: \$137 million

Actual contract amount: \$69.5 million

Variance: \$67.5 million (49% reduction)

Construction contract #: 100020 (mechanical, process)

Pre-bid estimate: \$106 million

Actual contract amount: \$97.1 million

Variance: \$8.9 million (8.4% reduction)

Note: The lifetime budget for the ENRF has not been reduced in the FY 2010-2019 CIP, although the projected cash disbursements for the site preparation contract (#100010) has been reduced during the 10 year planning period to reflect the lower award value.