

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS



*Finance & Budget Committee
Thursday, June 25, 2009
9:00 AM*

MEETING MINUTES

Committee Members

William Walker, Interim Chairman
Paivi Spoon (for Dr. Brown)

DCWASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Chief Financial Officer
Yvette Downs, Director, Finance & Budget
Barbara Grier, AGM Support Services
Robert Hunt, Treasury & Debt Manager
Debra Mathis, Executive Assistant to the Board Secretary

Other Board members in Attendance

David J. Bardin

Call to Order

Interim Committee Chairman William Walker called the meeting to order at 9:00 a.m.

May 2009 Financial Report

Ms. Yvette Downs, Director of Finance and Budget, presented the May 2009 Financial Report highlighting that with 67% of the fiscal year completed, revenues were at 64%, operating expenditures at 59% and capital disbursements at 61% of the budgets. Ms. Downs noted that revenues are under budget 3.5% and advised the Committee that staff have already begun reviewing consumption data as well as reviewing meters.

Ms. Downs reported that operating expenditures are under budget by 10.9% mainly in contractual services, although she anticipates greater spending during the summer period. There are no major concerns at this time. Ms. Downs reported that we are doing well in personnel services and also in chemicals and supplies and she expects DCWASA will end the year under budget in both categories. Chairman Walker asked staff to closely monitor the cost of chemicals and energy for future increases and budgetary impact. Ms. Downs assured the Committee that staff routinely monitors chemical and energy pricing. Capital spending is under budget by 9%, primarily attributable to the slow down in spending early in the fiscal year associated with bond market activities. The capital spending trend has now leveled and should remain steady until fiscal year end.

Chairman Walker asked about how we validate our meter reading numbers in light of the recent occurrence with the 99 year old female customer from the District. General Manager Johnson provided response on how DCWASA's meters are read and validated. He identified several ways DCWASA uses technology and the electronic metering system (including HUNA) to show and

inform its customers on the issues with their water usage before the bills are provided. In fact, he noted that the electronic records document that the customer in question received notification of the high usage in line with the customer service process established. Chairman Walker indicated that DCWASA needs to put out a press release on this issue.

Operating Reserves Discussion

Chairman Walker noted the information including in the Committee package regarding the operating reserves and asked why the O&M reserves should not be reduced to 120 days. Mr. Olu Adebo responded that staffs' proposal is to decrease the O&M reserves to 120 days from 180 days while keeping the current funding balance at \$125.5m. An alternative option had been discussed by the Committee and was included for review and consideration upon Committee request. In working with the consultants and rating agencies, it was determined by staff that DCWASA should not reduce the \$125.5m cash balance that has already been funded in order maintain a strong credit rating. Mr. Johnson further endorsed staff recommendations. Chairman Walker asked if any Committee member would object to bringing the proposal to the Board, which there were none. In response to a question by Ms. Spoon regarding a dual recommendation of reducing the period to 120 days and also acknowledging the reserve component of the suburban jurisdiction, Mr. Johnson explained that the current proposal leaves those options open for future discussions.

DCWASA's financial consultant, Ms. Karin Demoors of Public Financial Management, confirmed that DCWASA's current 180 day period rates relatively high among other financial institutions. However, the idea of simultaneously lowering the 180 day operating reserve requirement to 120 day period and also lowering the actual cash amount in the reserve may send the wrong signal to the financial rating agencies.

Chairman Walker asked whether the fund would be recapitalized from suburban jurisdictions. Mr. Johnson responded that any future contributions from the jurisdictions would replace existing DC rate payer funds currently in the reserve. The total reserve would remain the same, thus freeing up rate payer funds for other uses including pay-go capital spending or the buy-down of rate increases. Currently, the reserve is funded by District rate payers only. In response to a question by Chairman Walker concerning the impact of IMA negotiations on the resulting reserve policy, Mr. Johnson explained that the IMA did not anticipate the reserve account because DCWASA did not exist in its present form when the IMA was established and reserves were not as critical at that time. Mr. Johnson noted that the question of jurisdiction contributions to the operating reserve could be addressed by either the Board or by IMA negotiations; the Board may be the more appropriate and expeditious venue. Mr. Bardin commented that the policy was created by the Board and not the IMA and he urges that a mechanism be created by the end of the year for which the Board, staff and the suburban jurisdictions could work together on this issue for resolution. Mr. Bardin further noted that he is not in favor of the \$125m reserve level and hopes that it would be reviewed and discussed further. Mr. Bardin pointed out that the current policy requires the Board to adopt the annual operating reserve in January and calculates operating reserve based on budgets. He noted that historically actual expenditures have been lower than budget, hence the current policy is still very conservative. He also referenced an "Attachment A" which was adopted as part of the FY 2008-2017 financial plan, which showed ending operating reserve in FY 2008 of \$139.1m, an amount that exceeded the operating reserve requirement of \$118m for that fiscal year. Mr. Adebo reminded the Committee that the Authority ended FY 2008 with approximately \$20m over the operating reserve requirement, primarily due to better than budgeted operating performance. As approved by the Committee and the Board \$10m of the surplus cash was transferred to the Rate Stabilization Fund, while the balance was used for pay-go financing of the CIP program. Chairman Walker noted that these use of the operating reserve balance was not identified in the "Attachment A" and requested a detailed breakdown of the operating reserve balances shown in the ten-year financial plan.

Investment Strategy Overview

Mr. Robert Hunt, DCWASA's Treasury/Debt Manager and Mr. Nelson Bush, DCWASA's financial adviser with the Public Financial Management, came forward to discuss the investment strategy presentation. Chairman Walker raised a concern that DCWASA has large cash reserves and conservative investment strategies and its existing cash may not be yielding enough returns. Staff responded to various investment questions, which included definition of investment terms raised by Committee members.

Mr. Bardin inquired about the interest revenues generated over the years, and whether that was sufficient to offset proposed rate increases. Information on the interest revenues was provided to Mr. Bardin and it was indicated that these revenues were taken into consideration during development of the annual budget and retail rates. Chairman Walker requested a standard proposal on DCWASA's liquid investment assets which would provide a blend of investment strategies. Mr. Johnson indicated that there is flexibility within the existing policy that would allow staff to invest wisely and move from the current conservative edge of the pendulum. The Committee agreed to continue discussion on changes to the current investment strategies followed by a review of the full Board. This was identified as a follow-up item and Mr. Adebo will bring additional information at a future meeting.

LSDBE/MBE/WBE FY 2007/2008 Report

Ms. Barbara Grier, AGM Support Services, provided a brief presentation on the Local and Small Disadvantage Business Enterprises (LSDBE) minority and women-owned businesses. The presentation provided summary information and expenditure details requested by Ms. Spoon. Chairman Walker noted that DCWASA's LSDBE/MBE/WBE results appeared to be trending downward as of FY 2008. Ms. Grier explained that some of the FY 2008 capital projects/contracts are still underway. In concluding the report, Ms. Grier explained that DCWASA's participation in the LSDBE program is contingent upon several factors that include the types of projects (capital intensity), labor and material needs.

PILOT Update

Mr. Johnson reported that DCWASA received a portion of the Cost of Service Study from the District's CFO in May. Mr. Adebo and staff met with DC CFO staff and have been analyzing the report, which estimates \$25.3 million in services provided to DCWASA. Mr. Johnson explained that details of the estimates were not supplied but DCWASA staff has requested additional information in order to work with the District to come up with a more understandable number.

Action Items

1. Recommendation of changes to Financial Policies re: Operating Reserves

The Committee agreed to forward the recommendation of a change to the operating reserves of 120 calendar days of O&M, with a goal of not less than \$125.5m to the full Board for review.

2. Recommendation of Vendor for Merchant Card Services (Attachment #5)

Chairman Walker commented that the transaction fee seems to be high. Mr. Hunt responded that the fee is actually at an all time low for DCWASA. The current rate is \$1.16 per transaction which is down from \$5.04 in FY 2001. Chairman Walker recommended that DCWASA customers be informed to explore electronic payment options through either articles in the monthly newsletter or through emails. The Committee agreed to advance this item to the full Board for consideration.

3. Recommendation to Amend the Procurement Regulations

Mr. Johnson presented an amendment to the procurement regulations recommended by The Council of Governments that will avoid possible prevention of DCWASA from sharing the same

procurement tools with surrounding jurisdictions. The Committee agreed to move the amendment to the full Board for consideration.

Other Business

Mr. Johnson discussed pending legislation that would allow the District of Columbia to establish types of redevelopment districts (special assessment districts). The current legislation being drafted would require that DCWASA working with various agencies of the District to identify water and sewer infrastructure improvements needed in the NOMA district. DCWASA would also be required to providing funding (subject to budget availability) which would be repaid by a special assessment collected by the District. General Manager Johnson received the first draft of the legislation and expects to receive another draft at a later date. A meeting with the Deputy Mayor’s Office of Economic Development has been held to provide feedback on this draft legislation. Mr. Johnson noted that when the revised draft of the legislation is available, it will be shared with the Board for review.

Adjournment

Hearing no further business, Chairman Walker adjourned the meeting at 11:14 a.m.