



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY  
BOARD OF DIRECTORS**

*Finance & Budget Committee  
Thursday, June 24, 2010  
9:30 AM*

**MEETING MINUTES**

**Committee Members**

Timothy Firestine, Committee Chairman  
Alethia Nancoo  
David J. Bardin

**DCWASA STAFF**

George Hawkins, General Manager  
Avis M. Russell, General Counsel  
Olu Adebo, Chief Financial Officer  
Yvette Downs, Finance and Budget Director  
Linda Manley, Secretary to the Board

**Other Board members in Attendance**

Dr. Joseph Cotruvo

**Presenters**

David McLaughlin, Acting Director, Engineering and Technical Services  
Constance Schwartz

**Call to Order**

Committee Chairman Timothy Firestine called the meeting to order at 9:31 a.m.

**May 2010 Financial Report**

Ms. Yvette Downs, Finance and Budget Director, presented the May 2010 Financial Report. At the end of May, with approximately 67 percent of the fiscal year completed, DC Water is on track with financial expectations.

Revenues are at 60 percent of the Revised FY 2010 revenue budget; however, it is 67 percent of the revenues when the "Other Revenues" category is excluded. Noting that no draw on the Rate Stabilization Fund is anticipated until the third quarter of the year, the Committee engaged in a lengthy discussion of revenue related activities through May 2010. Mr. Olu Adebo, Chief Financial Officer, stated that revenue receipts are lagging slightly for Retail Customers and staff continues to monitor this area. While the retail revenue categories appear to be on track with a straight-lined budget expectation, there are customers who have paid their third quarter payments and, therefore, slightly skew the image. A review of the table on page 3 showing the percent of completion through the same periods for both FY 2010 and FY 2009 show slight variations for Residential, Commercial, Multi-family, DCHA, PILOT/ROW and Metering Fee categories. Dr. Cotruvo asked for an estimate of the revenue gap and Mr. Adebo responded that it is about 3 percent through last month. Mr. Bardin noted that we need more analysis, and suggested consideration of reporting a rolling 12 months of consumption information to capture summer and winter seasonal variations. He further suggested that the General Manager and the CFO should think through what would be a good way to make that presentation – including what information to keep track on trends. Mr. Adebo stated that he would these suggestions under consideration and may present some of the retail related data to the Retail Rates Committee on a periodic basis to review receipts and consumption data.

Ms. Nancoo asked whether the independent consultant feasibility study conducted for the commercial paper program anticipated any revenues lower than the budget and if there were any credit implications from this. Mr. Adebo responded that the feasibility study looked at both revenues and expenditures and indicated as part of the P&L that risk can be mitigated on another line item of the P&L. Therefore, he doesn't believe that there will be a credit issue. Consumption declines are being seen across the country in the water and sewer industry.

Operating expenses are at 59 percent of the Board adopted FY 2010 Revised Budget and there are no major areas of concern at this time. Ms. Downs noted that personnel costs are right on track and we expect to be within that budget at the end of the year, however, overtime is a little high this year due to some unusual events such as a higher number of water main breaks and additional costs due to the extreme snow storms. However, we are still managing and monitoring this area closely and will use this information as we go into the next budget cycle. We will come back in July and make a recommendation to the Committee after we complete our projections.

Ms. Downs stated that Capital spending is lagging at about 56 percent of anticipated disbursements. We are working on the year-end projections, but will end the year slightly under the budget in disbursements. Mr. Firestine expressed concern about the trend of the capital expenditures. Mr. Adebo stated that a mid-year briefing was provided at the last Environmental Quality and Sewerage Services Committee meeting which also projected lower than anticipated spending for this year. Mr. David McLaughlin, Acting Director, stated that all capital program key performance indicators were met through the first two quarters of the fiscal year. According to Mr. McLaughlin, the key performance indicators look at the start of design on projects, completion of design, and completion of construction on projects that are generally five million dollars and greater. He also identified a couple of factors that attributed to the reduction in spending, which included rescheduling of projects, a late start on a few Stimulus projects, as well as some real savings realized from low bids in the current favorable market-place. Mr. McLaughlin further indicated that DETS still anticipates meeting the key performance indicators for the completion of construction.

Mr. Firestine suggested modifying the graph of the capital budget to show the anticipated spending for the entire fiscal year rather than a rolling 12 month time frame. Mr. Bardin suggested that the GM, CFO, and engineering department work together to determine the best way to present this information.

Ms. Downs noted that several of the follow-up data requests that were made by the Committee in May have been incorporated into the current financial report, including the incorporation of all debt reserves balances within the cash investment report. Dr. Cotruvo asked whether the RSF is going to be depleted as part of this year's budget or carry over in the current approved budget. Ms. Downs replied that the budget calls for all of the \$28.6 million to be drawdown in FY 2010, however any recommendation of alternative drawdowns would be made after the initial year-end projections are presented to the Committee in July. Mr. Adebo noted that within the financial plan, in order to meet our coverage calculations, the budget calls for \$2 million to be put back into the RSF, with the RSF full depletion anticipated at the end of 2012.

With regards to the insurance renewals, Mr. Firestine noted that the report indicates that we budgeted a 17% increase and the renewals actual came in at 9%. He wanted to know how much we saved in terms of dollars. Ms. Down stated that staff would provide that calculation to the Committee.

Mr. Bardin asked if we could add a footnote on the Accounts Receivable report noted the dates that a significant amount of Accounts Receivable has been written off on a one time basis.

Mr. Bardin mentioned that the A/R dollars seems to have gone up by \$200K (a four percent increase) from April. He asked if there was any type of explanation. Mr. Adebo suggested that the Customer Services Director will report on this matter at the next Committee meeting.

### **FY 2012 Budget Calendar**

Mr. Adebo mentioned that the Budget Kick off was in May and that we have gone through the process of compiling the departmental budget request and we are meeting with the individual departments. The CFO's staff is meeting with departments to understand their budget requests and justifications. In July, the budget requests will be reviewed by the CFO and meetings scheduled as necessary so that a comprehensive view of the budget requests can be presented to the GM in August for decision making. The final GM's budget request will be brought to the committees starting in October. The plan is to have the Committees have their recommendations to the Board by January.

Mr. Firestine asked Mr. Adebo whether any guidance was given to the departments when they prepared their budgets. Mr. Adebo noted that the kick-off meeting in May provided some guidance from the general manager and noted that each department was given an absolute ceiling that cannot exceed the Approved FY 2011. That is a hard ceiling. For FY 2012 a 3% inflation rate was provided as a ceiling.

Mr. Firestine asked what was being done to encourage departments to look for efficiencies or cost saving business re-engineering. Also, what happens in the event that someone has an idea to spend more money or do something that would require more money? Mr. Adebo noted that the GM has engaged the entire organization through the creation of Team Blue to improve communication and encourage the free-flow of ideas and suggestions. Through these meetings with every office at every field location with the Chief of Staff, an extensive list of ideas has already been generated. Also, the Office of Performance Improvement is looking at several areas of "quick wins" and longer-term improvements that will be considered during the budget process. At the budget kick-off, the GM noted that items of priority will include: health/safety of our employees & customers; legal requirements and board directives; customer service; efficiency. The approach that he asked staff to consider included: team work, communication, process improvement, performance management and accountability, innovation/creativity and the linkages between the operating and capital budgets.

Mr. Adebo went on to note that it has been the practice of the CFO to ensure that the general manager is aware of the resource needs and constraints of the Financial Plan and the pressure on rates that would exist we proposed budgets that are much larger than what we project in the Financial Plan. The General Manager will address his FY 2012 budget guidance and vision to the Committee in July.

### **Rate Stabilization Fund Policy**

Mr. Adebo asked the Committee to review Attachment 7, the proposed revisions to the Rate Stabilization Fund. Generally speaking, Year End projections are presented in July with recommendations of what the financial position will be at the end of the year. At that point there is an opportunity to recommend whether or not any surplus is expected. The current policy provides for Board action after the end of the fiscal year, which means that the revenue impact will always be a function of the following fiscal year rather than the fiscal year in which the surplus is generated. Also, there was some discussion regarding whether the GM has the discretion to drawdown less than the budgeted levels of the RSF. Based on the Board and Committee's dialogue over the last two years, a proposed revision to the existing policy has been presented to, hopefully, address the needs and concerns expressed.

After thoughtful discussion, the committee agreed to keep the current language, changing the review and approval dates to July for the Committee and September for the full Board. It was agreed that the proposed items 7c and 7d would be added in the proposal presented to the Board in July.

### **Investment Policy and Strategy Briefing**

In the interest of time, this item was deferred until the July meeting.

### **Update of the Facilities Master Plan Implementation**

Mr. David McLaughlin provided an update on the Master Facilities Plan Status of Priority Projects. He highlighted four funded priority projects to start this year. (1) Anacostia Old Pump Station; (2) Conversion of CMF Warehouse to LTCP Office Space; (3) Modifications to "O' Street Site for Constructions of LTCP; (4a.) New Warehouse Facility At Blue Plains - Central Warehouse Operation System; and (4b) New Warehouse Facility At Blue Plains - Central Warehouse Operation System - Interim Warehouse.

### **Action Items**

After discussions, Committee members supported and referred to the full Board for consideration the three action items (two fact sheet recommendations and one policy resolution):

- Recommendation of Merchant for Credit Debit Card Processing Services (Bank of America)
- Recommendation for Disposal of Inventory
- Recommendation to Revise RSF Policy

### **Other Items**

Mr. Bardin requested an update on the status of the Fire Hydrant Fee negotiations and the Impervious Area Charge.

#### **Fire Hydrant Fee**

The General Manager reported that DC Water is still in very intense negotiation with the District over every aspect of past due, current due, and future work. He noted that a capital contract that we are ready to undertake for the next round of work has been held up due to these discussions and the uncertainty of full revenue recovery. He further stated that we are scaling back with what we are doing until a decision is made. It has the attention at the highest levels in the District government. Hopefully at the next Board meeting we will have more news.

#### **Impervious Area Charge**

Mr. Hawkins summarized recent activities with the federal government regarding the Impervious Area Charge. The legal representatives from various agencies – including DC Water – have been in conversation. It is anticipated that the Department of Justice will be making a decision on the topic. Given that DC Water has a different purpose than many other agencies for its use of the IAC, it is possible that case-by-case decisions could be made for DC Water that has no impact on other impervious area fees. Senator Cardin of the State of Maryland has introduced a bill that will require the federal government to pay impervious area charges.

The GM notified the Committee that a meeting with the Fitch rating agency is currently scheduled for Tuesday June 29, 2010 and management will be assertively seeking a rating increase.

The Chairman adjourned the meeting at 11:15 am.

## **FOLLOW-UP ITEMS**

1. The GM and CFO should consider the best way to present revenue variances including a possible chart or graph of rolling 12 month consumption data, which would capture seasonal variations. (Mr. Bardin)
2. Quantify the insurance renewal savings achieved from the 9% increase versus the 17% increase assumed in the budget. (Mr. Firestine)
3. Add a footnote to the Accounts Receivable report noting dates of one time write offs. (Mr. Bardin)
4. Discuss the \$200 thousand increase in the Account Receivables for May 2010. (Mr. Bardin)
5. Provide a copy of the 2007 Board resolution on investments. (Mr. Bardin)
6. Add Attachment 8 (debt service schedule) to the next Committee agenda. (Ms. Nancoo)