



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY
Board of Directors**

Meeting of the Finance and Budget Committee

Thursday, July 28, 2011

11:25 a.m.

MEETING MINUTES

Committee Members in Attendance

Timothy L. Firestine, Committee Chairperson
David J. Bardin
Alethia N. Nancoo

DC WATER STAFF

George Hawkins, General Manager
Randy Hayman, General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Finance & Budget Director
Linda R. Manley, Secretary to the Board

Other Board Member in Attendance

Joseph Cotruvo, District of Columbia

Call to Order

Committee Chairperson, Mr. Timothy L. Firestine, called the meeting to order at 11:25 am after which he called for the presentation of the first item on the agenda.

June 2011 Financial Report - Operating Revenue and Expenditures

Chief Financial Officer, Mr. Olu Adebo provided a brief summary of the June Financial Report. This was followed by a more detailed update from the Director of Finance and Budget, Ms. Yvette Downs. Mr. Adebo reported that with 75% of the fiscal year completed operating revenues, expenditures and capital disbursements were on track with budgetary expectations. Revenues, expenditures, and capital disbursements were at \$283.9M or 71%, \$277.1M or 69%, and \$203.5M or 63% of the revised budgets, respectively. The 120 days operating reserve averaged \$140.3M or \$14.8M above the \$125.5M operating reserve target. He added that the projections for capital disbursements would be revised and presented to the Committee next month.

Ms. Downs reported that revenues were on track and at 95% of straight-lined expectations. Major variances continue in the 'Other Revenues' category as the Rate Stabilization Fund transfer and IMA indirect cost reimbursement for capital projects are anticipated within the next 30 – 60 days. DC Housing Authority (DCHA) receipts are lower than anticipated and based on discussions with DCHA representatives on-going renovations, and reduced tenancies are mainly responsible for the lower consumption (write-up on the issue was included within the Committee package). Also, impervious area ERU's are less than anticipated in the Revised FY 2011 budget. Mr. Bardin asked why the financial report identified 76 DCHA properties with 1,241 meters. Ms. Downs explained that a single facility managed by DCHA can have multiple meters for multiple buildings or uses. Ms. Nancoo added that the addition of recreation facilities to some of these properties increases the number of meters. Mr. Bardin also noted that page 3 of the report indicates that metering fees would be slightly under budget and that the related table shows 10% under budget. Mr. Adebo explained that because 11 months of receipts are received as opposed to 12 months the projection would be about 10% under budget. On Developer Fees,

Mr. Bardin noted that although the report stated that year-to-date receipts are \$4.2M, the projections are for \$3.0M. Ms. Downs responded that all projections would be updated in the next report.

Operating Expenditures are at 92% of the straight-lined budget. Mr. Firestine observed that actual spending in contractual services was 60% of budget at the end of June, the report states that spending in some major contractual services is lagging yet the year-end projection is 94%. He wanted to know how the projected target of 94% would be met and which areas showed under spending. He also noted that at this time last fiscal year actual spending was at 61% and wanted to know the fiscal year 2010 actuals. Mr. Adebo responded saying that the 94% was determined using existing commitments, purchase orders, and the fact that some contracts are executed by late fourth quarter, as the basis for the projection. Mr. Firestine was later informed that FY 2010 contractual services ended at 90% of the budget.

Capital spending was at \$203.5M of the anticipated \$237.7M disbursement. She noted that expenditures for the month of June were much higher than previous months and that this pattern is expected to continue through the end of the fiscal year. Mr. Firestine observed that the original budget for Wastewater Treatment was \$133M, while the revised projection is \$126M, and actual spending as at June is \$77M. Chairman Firestine asked if it is practically possible to meet the projected target. Ms. Downs replied in the affirmative citing anticipated increased spending on the Blue Plains tunnel project which impacts both the Wastewater Treatment area (ENRF) and the Clean Rivers Project.

Continuing with her report on cash and investments, Ms. Downs reported that Operating Reserves were at \$128.3M and Rate Stabilization Fund was at \$16.7M; a total of \$145M in operating cash; the total of all funds invested and available as at June was \$438.7M. The Committee was also informed that the current contract for Financial Advisory Services would expire on November 19, 2011, and a RFP has already been issued. Staff will make a recommendation to the Finance and Budget Committee at their meeting in October. Mr. Adebo and Ms. Downs also gave updates on electricity costs and reiterated the fact that that for the most part management of this cost is being done in-house.

Mr. Bardin observed that delinquent accounts receivable greater than 90 days for Retail Customers increased in dollars and the number of accounts for the month of June. He encouraged staff to closely monitor this area. He also inquired if receipts included funds from Howard University. Mr. Adebo responded that the revenues include the water bills that Howard University has begun to pay (under protest) and that the billing for sewer services will begin in October 2011. Mr. Bardin also encouraged staff to accelerate the billing for the sewer portion. General Manager Hawkins responded that the recommendation will be taken under advisement.

Investment Report and Market Outlook

Mr. Adebo informed the Committee that the Treasury and Debt Manager, Mr. Robert Hunt and two representatives from DC Water's financial advisers, Public Financial Management (PFM) Asset Management LLC Dan Hartman and Nelson Bush would present the investment report and market outlook. The financial advisers presented the potential impact that United States government treasury debt repayment default could have on DC Water's investment portfolio, debt issuance and bond rating. The Committee had discussions with the staff and our financial advisers, Mr. Daniel Hartman and Mr. Nelson Bush, regarding the impact of the current financial crisis facing the federal government. The consultants advised the Committee that, DC Water's investment portfolio is governed by the Board adopted Investment Policy and all investments have been made in accordance with the Policy. As of June 58% (\$253M) is invested in U.S. Federal Agency Notes (Fannie Mae, Freddie Mac, and FHLB) and no Treasury notes. The Policy requires these Notes to be rated AAA on the date of purchase. As these notes mature, and if Agency Notes are downgraded, the Authority will be faced with limited authorized options

to invest in. These funds may be held in cash/bank deposits or the Authority may invest in Treasury notes. Currently, the Investment Policy does not require U.S. Treasuries to be rated as AAA. The only requirement is that they are backed by the full faith and credit of the U.S. Government. The Committee was also advised about the impact on our bank deposits. Currently, our policy requires that all bank deposits be collateralized at 102% of market value plus interest. The collateral is defined as U.S. Treasuries or Federal Agency Notes (rated AAA). Therefore, If there is a downgrade to the U.S. Government credit, Federal Agency Notes would not qualify as collateral. We have notified our banks that if this occurs only U.S. Treasuries would qualify as collateral – which they have agreed to.

Staff and consultant also discussed impact of a downgrade and or default on DC Water's outstanding debt and credit. In the near term, DC Water's fixed rate debt portfolio of approximately \$1.2B will be unaffected by the current crisis. We expect the subsidy payment on the \$300M of taxable Build America Bonds to be paid in late September (\$2.8M). Also, DC Water's outstanding variable rate debt – short-term commercial paper in the amount of \$29.2M will not mature until late September and we expect no impact in the near term. DC Water's next bond issuance is projected to occur in June 2012. In the event of a downgrade to U.S. Government there may be an effect on DC Water's credit rating and cost of capital based on the importance of federal employment to the local economy, IMA payments (States of Maryland and Virginia currently on Credit Watch), federal grant payments and federal water and sewer payments.

FY 2013 Proposed Budget Update

General Manager Hawkins informed the Committee that the FY 2012 Revised Budget assessment was completed prior to analysis of the FY 2013 budget requests from departments. He highlighted that this approach was new and provides for a comprehensive analysis of the FY 2013 Proposed Budget inputs. Mr. Hawkins indicated that staff had been working since May on the FY 2013 budgets and that he plans to submit the FY 2013 Proposed Budget to the board in October FY 2012.

Executive Session

Ms. Alethia N. Nancoo and Mr. Firestine moved and seconded respectively, a motion that the Committee recess into executive session to consider legal matters; the Committee members voted in favor.

Action Item

At the conclusion of the Executive Session, the Committee reconvened and recommended approval of the Beveridge & Diamond, P.C. legal services contract.

Agenda for August 28, 2011 Committee Meeting

The Committee reviewed and approved the draft agenda.

Adjournment

Mr. Firestine thanked the staff members for an excellent job, and the meeting was adjourned at 1:18 pm.

FOLLOW-UP ITEMS – Finance & Budget Committee (Meeting held July 28, 2011)

1. In the operating expenditures report show PILOT and ROW on two separate lines. (Mr. Bardin) status: TBD
2. Include a brief report in the narrative section showing month-by-month budget, spending, and variance on the LTCP (Clean Rivers Project). (Ms. Nancoo & Mr. Bardin) Status: TBD

3. He wanted to know if DC Water was getting a grant from VA / HUD as stated on the table on page 24 of the package (Mr. Bardin) status: TBD