



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Wednesday, November 23, 2011

9:30 a.m.

Committee Members

Timothy L. Firestine, Chairperson
Alethia Nancoo
Bradford Seamon
James Patteson
Samuel Wynkoop

DC WATER STAFF

George Hawkins, General Manager
Olu Adebo, Chief Financial Officer
Randy Hayman, General Counsel
Yvette Downs, Finance and Budget Director
Robert Hunt, Treasury & Debt Manager
Linda Manley, Board Secretary

Call to Order

Chairperson Timothy Firestine called the meeting to order at 9:30 a.m.

October 2011 Financial Report

Ms. Yvette Downs, Director Finance and Budget, reported that with 8 percent of the fiscal year completed, revenues totaled \$43.5 million or 10 percent of the revised budget; expenditures were \$29.5 million, or 7 percent of the revised budget, and capital disbursements were \$43.5 million, or 8 percent of the capital disbursements budget. Ms. Downs reported that the year-to-date revenues at 10 percent and capital disbursements at 8 percent of budget were higher than same period in FY 2011. The higher capital disbursements are driven by the payment of mobilization on one of the Authority's large contracts. Mr. Firestine asked to be reminded of the drivers of the revenue changes between the approved FY 2012 revenues and the revised FY 2012 revenues. Mr. Olu Adebo, Chief Financial Officer, stated that the information would be provided in a follow-up communication.

For the month of October 2011, the average daily operating cash reserves, (\$161.4 million) was above the \$125.5 million operating reserve target. With the Committee's approval, Ms. Downs continued the financial report by exception, highlighting relevant variances in operating revenues and expenditures categories. Ms. Downs noted that staff has locked approximately 69 percent of the electricity load at Western Hub price of \$44.42 per mWh for FY 2012. This lock in price is favorable compared to the budgeted unit price of \$56.54 per mWh. Additional information on electricity savings for FY 2012 will be provided to the Committee members in a formal response on all budget-related questions.

In response to Mr. Firestine's inquiry on the FY 2011 year-end closing process, Mr. Adebo, reported that the external auditors have started their field work of the Financial Audit with anticipated completion and issuance of their audit opinion by December 24th. Thereafter, the A133 Audit is scheduled for completion in January 2012. Mr. Adebo also noted that staff will kick-off the planned bond issuance sometime in December, with anticipated issuance by Spring 2012.

CFO Adebo also announced that DC Water received the GFOA award for the Comprehensive Annual Financial Report (CAFR) for FY 2010.

Mr. Roth of the DC Retail Rates Committee suggested that a detailed breakdown of the Accounts Receivable report may be worth reviewing by the Finance and Budget Committee. Mr. George Hawkins, General Manager, noted that the Committee had reviewed such data in the past and that the frequency (as determined by the Committee) of such an in-depth analysis/review should be undertaken by the Finance and Budget Committee and presented to the Retail Rates Committee as informational only. Ms. Nancoo suggested that the review be done bi-annually and this was acceptable to the committee members.

Investment Report

Mr. Robert Hunt, Treasury & Debt Manager, reviewed the portfolio recap contained in the monthly investment report. He reported that the portfolio is in compliance with the Authority's investment policy and the overall yield on the entire portfolio for October was 0.60%. Mr. Hunt also reported on individual investments made thus far in November for operating funds and the construction fund. In addition, he stated that the bank certificates of deposit purchased through the Certificate of Deposit Account Registry Service (CDARS) network were recently added to the list of permitted investments. Three local banks who participate in the CDARS program have been contacted regarding future deposits and staff is reviewing the procedures and requirements for participation.

FY 2013 Proposed Budget Discussion

Mr. Adebo noted that a summary of the budget proposal was included within the Committee package for their discussion. A review of the calendar and action items was included within the package. In response to Mr. Firestine's question on FY 2013 debt service assumptions, Mr. Adebo explained that the FY 2013 budget proposal includes an assumption of 6.5 percent for the appropriation budget which is approved by the Congress and 5.5 percent for the financial plan which is used for rate-setting for retail and wholesale customers. Current market fixed rates were in the range of upper four to lower five percent.

Mr. Patteson asked about the use of the PAYGO financing proposed in the current ten-year financial plan. Mr. Adebo explained that the financial plan assumes the use of PAYGO financing for Washington Aqueduct and capital equipment costs only through FY 2015. During the latter part of the financial plan, (FY 2015 through FY 2020), there would be higher use of the PAYGO for on-going water and sewer pipe replacements.

In response to Chairperson Firestine's question on the Intermunicipal Agreement (IMA) partners' commitment to share in \$177 of multi-use projects, Mr. Adebo explained that the majority of the projects are in the sewer service area because there are wholesale customer jurisdictional sewer flows. The pending discussion within the Blue Plains technical committee is related to the quantity of flows and how the flows would be allocated which would be either for the whole system or by sections or nodes. Mr. Adebo reminded the Committee that these assumptions were not included in last year's budget proposals but they were disclosed and discussed as an emerging issue. The current proposal would lead to shifts in the allocation of these costs from retail to wholesale customers. Mr. James Myers, Capital Budget Manager, informed the committee that approximately \$60 million of these multi-use projects were applicable to the wholesale customers with different percentages within each project.

Mr. Hawkins reported that there have been several technical analysis on the accurate use of the term 'joint-use' for some of the Authority's facilities being used by the wholesale customers which were not previously identified/defined in the IMA agreement. He informed the Committee that a

proposal has been forwarded to the Environmental Quality and Sewerage Services Committee for these projects to be termed 'multi-use' as determined based on the best technological modeling available. Mr. Firestine raised concerns about certain policy issues related to the decision, including whether the decision should be brought before the Chief Administrative Officers (CAOs) for discussion and approval.

Chairperson Firestine also asked about the allocation of costs previously incurred for the multi-use projects during the design and construction phases that began last year. Mr. Adebo responded that a policy question is before the technical committee regarding the effective date for these projects which most believe should be the date when the allocation was changed for the District to benefit the wholesale customers. Mr. Adebo confirmed that no assumptions have been made in the current budget proposals for prior costs incurred on these projects. Mr. Firestine stated that the term 'multi-use' is not defined in the current IMA and asked if wholesale customers, as Board members, have an opportunity to vote on these projects. Mr. Hawkins opined that if there is multi-use funding then wholesale Board members would vote on these projects.

Chairperson Firestine asked if staff were tracking the savings in line with identified objectives for the in-sourcing proposal. Mr. Adebo responded that it would take about three years for the savings to be evident but staff are already tracking these results and would update the Committee during the year.

In response to Mr. Seamon's question about the eligibility of all employees for a 3 percent merit increase in FY 2013, Mr. Adebo explained that this is an average rate assumed based on the size of the pool and is applied in accordance with individual employee performance ratings. He also reminded the Committee that DC Water does not separately provide a cost of living increases nor does it currently have any collective bargain agreement for the budgeted periods.

Mr. Hawkins noted that responses to all the FY 2013 budget-related questions would be compiled and forwarded to all Board members.

Discussion of FY 2012 Employee Merit

Chairperson Firestine deferred this agenda item pending discussion with the Board Chairman.

Approval of Financial Advisory Services

Ms. Nancoo requested additional information on the Financial Advisory Firm contract. Specifically, she asked staff to provide informational only data about the relevant work experience of the minority firm partnering with PFM before the December Board meeting. The Committee members recommended the contract for the Board's approval.

Adjournment

Hearing no further business, Chairperson Firestine Mr. Lake adjourned the meeting at 10.30 a.m.

FOLLOW-UP ITEMS (November 23, 2011)

1. What is the difference between the FY 2012 approved and revised operating revenues (**Mr. Firestine**)
2. Compile and provide written responses to all the FY 2013 budget-related questions from the November 23, 2011 meeting to be forwarded to all Board members
3. Provide list of work done since its inception and existing transaction list by the small business enterprise firm as well as all joint-ventures (transactions and enterprises) undertaken in the past five years with the principal firm (**Ms. Nancoo**)