DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY
Board of Directors

Meeting of the Finance and Budget Committee

Thursday, June 23, 2011

11:00 a.m.

MEETING MINUTES

Committee Members in Attendance
David J. Bardin, (Acting) Committee Chairperson
Alethia Nancoo - District of Columbia

Other Board Member
Joseph Cotruvo – District of Columbia

DC WATER STAFF
George Hawkins, General Manager
Randy Hayman, General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Finance & Budget Director
Debra Mathis, EA to the Board Secretary

Call to Order

Acting Chair David J. Bardin called the meeting to order at 11:05 am. The agenda is posted at http://www.dcwater.com/news/publications/FB%20Committee%20Material%2006-23-11.pdf with links to its Attachments 1, 2, 3, 4-A, 4-B, and 5. Mr. Bardin asked Ms. Mathis, Executive Assistant to the Board Secretary, to provide Chair Firestine and other Board members an 8-page interest rate market update that Chief Financial Officer Adebo handed out at the meeting.

May 2011 Financial Report - Operating Revenue and Expenditures (Attachment 1)

Mrs. Yvette Downs, Finance & Budget Director, highlighted the May 2011 Financial Report. As of May 31, with about 67 percent of fiscal year completed, revenues and expenditures were on track, within budgetary expectations. Revenues, expenditures, and capital disbursements were at $264.9 or 66%, $238.6 or 59%, and $173.1 or 53% of the revised budgets, respectively. The operating reserve averaged $139.6M or $14.1M above the $125.5M operating reserve target.

Mrs. Yvette Downs reported that the ‘Other Revenues category’ continues to be the main area of variance within Operating Revenues, primarily due to the Rate Stabilization Fund (RSF) transfers and the Intermunicipal Agreement (IMA) indirect costs, both of which are not anticipated until the fourth quarter of the fiscal year. Responding to Mr. Bardin, Mr. Adebo explained that developer fees collections to date exceed the full year’s budget which had been scaled down based on last 3 years’ experience. Mr. Bardin noted that the Clean Rivers IAC receipts to date exeed straight-line budget in most categories but were lower in the DC Housing Authority and Multi-Family categories. He asked staff to look into the reasons and report back to the Committee.

Ms. Downs reported that operating expenditures were at 59% of budget; overtime expenses are tracking slightly higher than budgeted year-to-date, and staff continues to closely monitor this area. In response to an inquiry, Ms. Downs clarified that the Utilities expenditures includes all electricity costs, budgeted at $95.12 per mWh, which includes DC delivery taxes set at $7.70 per mWh. This line item also includes rent for Customer Service operations at First Street NE.

Capital spending was at 53% of the revised budgets, and there were no significant project delays. Disbursement variances were primarily the result of ROCIP accrual issue, delays in final project close-outs and associated disbursements.

Mr. Adebo explained that the unfavorable PAYGO variance shown in the cash flow statement report is a timing issue only: We will reimburse ourselves by drawing down on the letter of credit. At year-end the PAYGO usage would be the same as budgeted.

Ms. Downs reported that Accounts Receivable were marginally higher than the previous month, but no cause for concern. Mr. Hawkins explained that the number of outstanding accounts has been steadily declining over successive reporting periods.

Investment Performance Report (at end of Attachment 1)

In reviewing the Investment Performance Report and subsequent discussion, Ms. Nancoo asked that the Committee be provided a market update like Mr. Adebo's hand out on a monthly basis, along with the monthly Investment Performance Report, at least in the short term. Addressing Dr. Cotruvo's concern that DC Water is receiving very low yield on its demand deposits, Mr. Adebo mentioned that the Treasury has explored other options, even outside of the current bankers. The two-pronged approach involves maintaining a minimum balance with the current bankers, which would potentially entail a marginally higher yield, and identifying a pool of other banks from which we will periodically seek interest rate offers, and move deposits to the most favorable bank. Mr. Bardin suggested writing up Mr. Adebo's explanation as a part of next month's Committee package in addition to adding a monthly interest rate market update along with the monthly Investment Performance Report. Responding to Mr. Bardin, Mr. Adebo explained that DC Water will need to issue bonds no later than June 2012.

FY 2012 Revised Budget Proposals (Attachment 2 and Attachmnt 4-A – Action Item A)

Mr. Bardin underscored budget process coordination between the Finance & Budget and the Retail Rates Committees. Any changes suggested by the Retail Rates Committee will be reflected in the proposal as it moves along to the full Board. This year, for the first time, the plan is for Board review of a Revised FY2012 Budget in July, before work starts on the next cycle.

The Committee discussed and agreed to move forward to the Board the General Manager's FY2012 Revised Operating Budget proposal of $416.5 million set forth in Action Item A, subject to conforming adjustments if any be needed to carry out recommendations of the DC Retail Rates Committee scheduled to meet on June 28. Discussion included the following:

General Manager Hawkins explained that the proposed FY 2012 Revised Operating budget is $5.8 million lower than the FY 2012 Approved budget, primarily due to lower Debt Service, and Personnel Services expenditures. In a discussion about PILOT fee, Mr. Hawkins reminded the Committee that DC Water has collected PILOT in tandem with any increases in retail rates, but had frozen the increased pay-out to the District based on a 2007 Board directive.

In further discussing the proposed budget savings of $5.8 million, Mr. Hawkins noted that although merit increases for (non union) staff were not factored into the proposal, that does not preclude staff being rewarded in some other suitable fashion for the savings they helped achieve. Responding to Mr. Bardin, Mr. Adebo stated that the decisions related to merit increases are typically made in the first quarter of the new fiscal year. Mr. Cotruvo observed that there should be a serious consideration for cost of living related increases.

While discussing lower revenues from DC Housing Authority, Mr. Adebo advised the Committee of the declining trend in water consumption, partly due to more efficient usage of water, and that DC water was now proactively investigating the reasons behind this trend, and will be able to project revenues more accurately.

FY2011 Financial Performance, Anticipated Surplus, PAYGO and other options (Attachment 1) and RSF Recommendation (Attachment 4-B – Action Item B)

Management anticipates that cash operating reserves at the end of FY2011 (September 30, 2011) will exceed the target of $125.5 million by $16.6 million. Most of that excess stems from a budgeted drawdown of $9.5 million from the Rate Stabilization Fund (RSF) before the end of this fiscal year. Another $2.9 million stems from budgeted payments by suburban customers in excess of what will turn out to be their contractual obligation – so they will be entitled to "true up" refunds. The remainder stems from other net favorable variances in expenditures or revenues.

Management recommended that the Board return much of the anticipated cash surplus to the RSF. Under Board Resolution #10-76, RSF transfers have to be approved by the Board before the end of the fiscal year, which would require the Committee to consider management's recommendation no later than its July meeting, as Mr. Adebo and Mr. Hawkins reminded the Committee. Therefore the Committee must forward a recommendation to the Board either now or "no later than its regularly scheduled July meeting" to enable timely action by the full Board.

Moreover, if the Board decides to use any FY2011 surplus to pay down part of the FY2012 rate increases, which the General Manager was not recommending, that would have to be done no later than the Board meeting which decides on the rate increases – and the planning calendar now calls for a July Board meeting decision.

Mr. Hawkins discussed ideas for using parts of the FY2011 cash surplus for other purposes, but assured the Committee that he will seek Board approval for any of them and now plans to bring recommendations to the Finance & Budget Committee and possibly others for review in the September / October time frame when the actual cash surplus is more certain. Mr. Hawkins also told he Committee that if the cash surplus ends up more than $16.6 million his current thinking is to use that additional excess for additional Pay-As-You-Go Capital Financing (PAYGO). Mr. Bardin added that even part of the anticipated $16.6 million cash surplus excess could potentially be used for additional PAYGO. Mr. Adebo reiterated that having a discrete RSF was vital for DC Water's credit rating, especially in light of projected rate increases over the years.

The Committee decided to forward to the full Board a proposal to put back into the RSF in September the full amount of the budgeted drawdown after Mr. Hawkins said he was comfortable with raising to $9.5 million the $8 million original proposed by Management per Action Item B.

Electricity Contract Proposal (Attachment 5 – Action Item C)

The Committee decided to forward to the Board the proposal to extend the electricity contract with Hess Corporation by one more year and $22 million. In response to a question from Dr. Cotruvo, Mr. Adebo explained that DC Water contracts with HESS to procure electricity from the market, and HESS serves as a supplier/broker.

Insurance Renewals Update (Attachment 3)

Mr. Bardin complimented DC Water staff for presenting clear and comprehensive materials to the Committee in Attachments 2 and 3. Ms. Tanya DeLeon, Risk Manager, then referred the Committee to the 'Insurance Update' presentation, and took Committee's questions. In anticipation of July insurance renewals, staff traditionally updates the Finance and Budget

Committee even though none of the contracts reaches the threshold calling for Board review. The FY 2011 Budget estimated an overall 14 percent increase in total premiums due. The actual overall increase is now expected to be 9 percent. Mr. Bardin asked why the Crime & Fidelity Insurance coverage is limited at $5 million: Mr. Adebo noted that the limits were decided after a professional evaluation by Albert Risk, insurance consultants. While Mr. Joe Underwood of Albert Risk explained that this limit was set after benchmarking with comparable organizations, he did observe that $5 million might not be uniform practice. Mr. Bardin suggested that the consultants and Management consider costs and benefits of doubling this limit, to $10 million. Answering Ms. Nancoo's question, Mr. Underwood clarified that terrorism wasn't a separate coverage per se, but included in each coverage line, where applicable.

Cost Allocations on DC Retail Rate Payers and Suburban Areas Update

Mr. Hawkins told the Committee that a comprehensive review of the Cost Allocation process has identified Facilities that may qualify objectively as serving both Suburban and DC customers but are not being treated so currently. He explained why it is mutually beneficially to DC Water and its Suburban customers to reach accurate results in a timely fashion and sometimes to begin billing and payment subject to a true up potential if continuing review identifies superior methodology. He outlined his idea of how to combine transparency, quality professional work, and a prompter evolution in practice, Mr. Bardin suggested that Mr. Hawkins share his idea with all Board members in his own words and bring them up-to-date via a one-page summary.

Chief Engineer Len Benson will share with the Blue Plains Regional Committee at its quarterly meeting this morning Mr. Hawkins' idea of how to use a true-up model when DC Water and its consultants develop new methodology for allocating costs objectively: After notification and some time for discussion and review, using the best information currently available to DC Water engineers to begin billing and Suburban customers to begin paying and then truing up when more accurate information becomes available.

Agenda for July 28, 2011 Committee Meeting
The Committee reviewed, and approved the draft agenda for next month.

Adjournment
Mr. Bardin thanked staff members for excellent work and adjourned the meeting at 1:18 pm.

FOLLOW-UP ITEMS – Finance & Budget Committee (Meeting held June 23, 2011)

1. Provide the 8-page interest rate market update handed out by Mr. Adebo to all Board members and include similar updates in packages for next few Committee meetings as reqested by Ms. Nancoo. (Mr. Bardin)
2. Provide a one-page summary in the next Board package to update all BOD members regarding Multi-Jurisictional Cost Allocations between DC Retail Rate Payers and Suburban Customers and Mr. Hawkns' idea for improving the process (***Mr. Bardin)***
3. General Counsel should provide an explanation, as requested by Mr. Roth, of the legal basis for charging DC Water any District share of MWCOG's bills for staffing the BPRC. (Mr. Bardin) status: TBD
4. Staff will follow up consumption trends for the D.C. Housing. (Mr. Bardin) Status: TBD
5. Determine if there are opportunities for revising the existing small PI customer contracts/agreements. (Mr. Bardin) Status: TBD
6. Staff should look into reasons for below-budget IAC receipts in DC Housing Authority and Multi-Family categories, apprising the Committee in a month or two (***Mr. Bardin)***
7. Include a write-up be included in next month's committee package that reflects Mr. Adebo's explanation on steps that may increase interest revenues in the Investment Performance Report, as Dr Cotruvo suggested (***Mr. Bardin)***