



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

*Finance and Budget Committee
Thursday, September 23, 2010
9:30 AM*

MEETING MINUTES

Committee Members

Timothy Firestine, Committee Chairman
David J. Bardin

DCWATER STAFF

Avis M. Russell, General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Finance and Budget Director
Robert Hunt, Treasury Manager
Charles Kiely, AGM, Consumer Services
Linda R. Manley, Secretary to the Board

Other Board members in Attendance

Dr. Joseph Cotruvo
Paivi Spoon

Presenters

Mr. Daniel Hartman, Public Financial Management
Mr. David S. Goodman, Squire, Sanders & Dempsey, LLP

Call to Order

Committee Chairman Timothy Firestine called the meeting to order at 9:48 a.m.

August 2010 Financial Report & Year-End Projections

Ms. Yvette Downs, Director Finance and Budget, reported that as of the end of August 2010, or with 92% of the fiscal year completed, total revenues with the exclusion of the Other Revenue category were at 94%, operating expenditures at 83% and capital disbursements at 77% of the respective budgets. Ms. Downs reported that total revenues were lagging at 86% due to the Other Revenue category.

Next, Ms. Downs updated the Committee on year-end projections for the various revenue categories noting that \$28 million of the Rate Stabilization Fund (RSF) is scheduled to be drawn down in September to be included within the Other Revenues category. With the RSF and the anticipated execution of the MOU between DC Water and the District Government, staff anticipates the Other Revenue category to be at 102% by year-end. Mr. Bardin inquired about the impact on revenue projections and underlying assumptions if the proposed memorandum of understanding on the Fire Protection fee is not executed by the District. Mr. Olu Adebo, Chief Financial Officer, stated that the assumptions for FY 2010 budget would be rolled over to FY 2011 in anticipation of the timing delay in payments. The CFO also explained that DC Water has not made the 4th quarter PILOT payment to the District and approximately \$4.8 million in Fire Hydrant fees are outstanding from the District. It was noted that DC Housing Authority (DCHA) had an outstanding balance of approximately \$289,000, but representatives from DCHA have been in contact and are trying to correct the situation as expeditiously as possible. Mr. Bardin

requested that the Other Revenue paragraph of the report should be updated to depict the monthly and year-to-date information as regards to the developer fees.

In response to Mr. Bardin's inquiries on the 90 day delinquent accounts receivable report, Mr. Adebo stated that there were no federal accounts under delinquencies. He also indicated that although, there was currently an outstanding balance owed by the District on the fire hydrant fee, that category of billing was not included in the report. Mr. Bardin requested that the delinquent accounts receivables should be updated to reflect the total number of all retail accounts inclusive of federal, municipal and DCHA accounts, even if no delinquencies exist in those categories. He also requested that some distinction be made regarding the subset of delinquencies that may be driven by Impervious Only accounts. There was additional discussion on two large commercial customers with unpaid bills for sanitary sewer services and staff was requested to provide an update at the next Finance & Budget committee meeting.

Ms. Downs briefed the Committee on the year-end projections for operating budget noting that staff anticipates that expenditures would be at 93% of budget with savings mainly from the contractual services, utilities and chemicals expenditure line items. She reported that the status of the year-end projection for the capital disbursement would conservatively be 92%. Chairman Firestine requested an explanation on the correlation between under spending and implementation of the capital improvement program. The committee requested staff to provide a quarterly review/analysis of the budget to actual comparison of the capital improvement program and its status given the size and the ramping up of the program. Mr. Bardin also requested staff to include the prior year's actual comparison to budget on the capital disbursement chart, consistent with the revenue and operating budget charts.

In response to the Chairman Firestine's inquiry, Mr. Olu Adebo gave an overview on the treatment of year-end expenditures against encumbrances and the relevant budget. The committee requested staff to provide a write-up on the procedure for the treatment of the expenditures, accruals and encumbrances against the budget.

Bond Sale Briefing

The Committee received a briefing from the Chief Financial Officer, Mr. Olu Adebo, and Mr. Daniel Hartman, Manager Director, Public Financial Management, on Build America Bonds (BABS) and documents requiring Board review and approval for the upcoming bond issuance. CFO Adebo reported that the major projects to be funded with the proposed October 2010 issuance of \$300 million are the Long Term Control Plan (\$30 million), Blue Plains Total Nitrogen (\$40 million), Biosolids (Digester) Program (\$75 million) and Water and Sewer Infrastructure updates (\$100 million).

Mr. Bardin requested that the source of funds for the capital improvement program should be updated to reflect the amounts coming from wholesalers, EPA grants and congressional appropriations in order to have an overall picture of the CIP financing.

Mr. Hartman informed the Committee that the market rates are at historic lows with significant demands and minimized credit spreads from the dislocation of prior years' crisis. The current U.S. Treasury rates are at all time lows at near 0% for short term and long term rates of 2.5% in 10 years and 3.7% in 30 years. The achievement of AA level ratings for both the senior and subordinate liens have compressed the credit spreads for DC Water and given the Authority more flexibility to issue the subordinate liens at very attractive rates. There were further discussions on the current bond market conditions, how BABS are being sold in the current market versus tax-exempt bonds, what structure is being considered (maturity of 30 years or longer, optional redemption provision, 10 year par call versus a make-whole call) and legal considerations.

There was thorough discussion on the risks associated with issuing BABS regarding the U.S. Government's forward commitment to the program including the payment of the 35% subsidy for the entire period to maturity at the stated rate. Mr. Hartman explained that given the risks associated with the subsidy, an extraordinary call in addition to the make-whole call has been built into the structure should the subsidy be lost or reduced which gives DC Water the ability to call and refinance the outstanding debt at any time in a favorable way that reduces the costs. Mr. David Goodman, Bond Counsel, confirmed that the subsidy payment has an unusual status in the Federal budgeting and appropriation process and is in the same category as tax refunds and not a contractual entitlement or strict on-going entitlement; which is subject to being rescinded for the future or reduced both with respect to outstanding obligations and obligations issued in the future. He stated that the subsidy does not require a specific line item appropriation. The committee requested that the Bond Counsel provide a brief write-up on the associated risks of the BABS, as regards to appropriation, that were discussed during the meeting.

Mr. Adebo explained the various documents being presented, and the Committee reviewed and recommended for board consideration, the various bond sale-related documents. These documents included the Build American Bonds Policy, Draft Board Resolution, Preliminary Offering Statement (POS), Twelfth Supplemental Indenture and the Bond Purchase Agreement. The committee discussed the role and capability of staff with regards to due diligence and the reliance on data provided by the underwriter. Mr. Goodman, Bond Counsel, provided an overview of all the supporting documents highlighting major changes contained therein.

CFO Adebo informed the Committee that it is anticipated that after receiving Board approval on October 7, the Preliminary Offering Statement would be posted for marketing purposes and that pricing for the bonds would be scheduled for October 18 – 19 with closing on October 28, 2010.

Adjournment

Hearing no further business, Chairman Firestine adjourned the meeting at 11:59 a.m.

FOLLOW-UP ITEMS

1. Provide extensive or thorough elaboration of the Other Revenue paragraph to depict monthly and year-to-date information as regards to the developer fees (Mr. Bardin)
2. Provide brief write-up on the procedure for the treatment of year-end contract expenditures, accruals and encumbrances (Mr. Bardin)
3. Update the delinquent accounts receivable section of the report
 - a. to depict the total number of all the retail accounts of the Authority (Mr. Bardin)
 - b. with information/data relating to Impervious Surface Area Charge only accounts, on a routine basis (Mr. Bardin)
 - c. with any outstanding/unpaid bill for fire hydrant fees from the District (Mr. Bardin)
4. Provide briefing on the outstanding payment due from the two large customers being billed for sanitary services at the next Finance & Budget committee meeting (Mr. Bardin)
5. Provide explanation for the correlation of the under spending and implementation of capital projects (Chairman Firestine)
6. Provide prior year's actual comparison to budget on the capital disbursement chart, consistent with the revenue and operating budget charts (Mr. Bardin)
7. Provide quarterly review/analysis of the budget to actual comparison of the capital improvement program (Mr. Bardin)
8. Update the source of funds for the capital improvement program to reflect the amounts coming from wholesalers, EPA grants and congressional appropriations in order to have an overall picture of the CIP financing (Mr. Bardin)
9. Provide a chart to show a traditional market without the BABS approach to clarify the impact on the debt service in different years (Chairman Firestine)

10. Mr. Goodman, Bond Counsel, should provide a brief write-up on the risks of the BABS as regards to appropriation that were discussed during the meeting (Mr. Bardin)
11. Number the pages on the presentation slides before the October Board meeting for easy referencing (Mr. Bardin)