**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

**Board of Directors**

*Finance and Budget Committee*

*Thursday, September 10, 2015*

*11:08 a.m.*

**MEETING MINUTES**

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| **Committee Members in Attendance** | **DC Water Staff** |
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| Timothy L. Firestine, Committee Chairperson | Mark Kim, Chief Financial Officer |
| Robert Mallett, Committee Vice Chairperson | Gregory Hope, General Counsel |
| Sarah Motsch, Fairfax County | Linda Manley, Secretary to the Board |
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|  | **Other Presenters & Guests** |
|  | Dan Hartman, PFM |
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**Call to Order**

Chairperson Timothy L. Firestine called the meeting to order at 11:08 a.m.

**July 2015 Financial Report**

Mr. Kim reviewed the July Financial Report with the Committee. He noted that the financial report through August was not yet available due to the early Committee meeting date. However, Mr. Kim stated that management’s current year-end projections include total revenue to be above budget by approximately one percent and total operating expenses to be about three percent below budget.

Accordingly, FY15 financial results are expected to generate an operating surplus for the Authority with transfers to the Rate Stabilization Fund estimated at between $10-15 million. Mr. Kim highlighted that the current balance of the Rate Stabilization Fund is $22 million and that the financial plan assumed a withdrawal of $7.5 million, but that the Authority’s expected positive operating results no longer make that withdrawal needed. Any remaining surplus will be used to fund Pay-Go, which is projected at approximately $63 million up from an initial budget of $41 million.

Mr. Kim expressed two areas of concern on the operating budget – personnel services and utilities – both of which are experiencing budget pressures and expected to end the year slightly above budget. However, he noted that these overages will be compensated for by under spending on other line items, mainly in contractual services.

Chairperson Firestine requested an update on the Digester project and related fiscal impact. Mr. Kim gave a brief update noting that 100% of biosolids are now being “digested” and that initial operating performance has been better than expected. Total biosolid production in July was approximately 550 wet tons/day versus the 600 wet tons/day projection. In addition, enough digester gas is being produced to fire 2 of the 3 Combined Heat and Power turbines which generated approximately 1,500kWh of electricity in July. The strong performance of the digesters, if they continue at current levels, is expected to help offset some of the costs of the delay.

**Plan of Finance Update**

Mr. Kim and Mr. Daniel Hartman, DC Water’s financial advisor from Public Financial Management (PFM), briefed the Committee on the upcoming plan of finance which includes a $350 million new money revenue bond issuance, a $100 million short-term financing vehicle – Extendable Municipal Commercial Paper (EMCP), a Forward Purchase Agreement (FPA) related to the Authority’s debt service set-asides, and related changes to the DC Water Investment Policy and Guidelines.

The new money revenue bond issuance is planned for October 2015. DC Water is planning to issue $350 million in Subordinate Lien Revenue Bonds, with $100 million designated to finance a portion of the Clean Rivers Project and certified as Green Bonds by Vigeo, and $250 million to finance other capital improvements and to pay off existing tax-exempt commercial paper.

Mr. Kim and Mr. Hartman explained a new short-term financing option for the Authority - EMCP. The initial program would be offered at $100 million and add to our existing variable rate financing capability. DC Water currently has a commercial paper program of $150 million. The EMCP differs from the existing commercial paper program in that it does not require a bank letter of credit to support the issuance, which produces savings for the Authority as well as diversification of its short term financing program. The purchasers of the EMCP would rely on the credit quality and market access of DC Water. Management recommended related changes to the DC Water investment Policy and Guidelines regarding the EMCP and these changes were reviewed with the Committee.

Mr. Kim also discussed a Forward Purchase Agreement (FPA). Per the bond indenture, DC Water makes monthly payments to the bond trustee in advance of each semi-annual payment date. The Trustee then makes required principal and interest payments to the bondholders every six months from these monthly set-asides. The funds earn an effective rate of zero in the current interest rate environment. The FPA would allow DC Water to enter into an agreement with a bank counterparty to exchange a fixed rate of return on an agreed upon percentage of these funds for permitted securities (U.S. Treasuries and Agencies), which would mature on or before the payment date to the bondholders. The exchanged securities would yield an agreed upon interest rate to the Authority. It is anticipated that the agreement would result in an additional one million dollars of interest income per year for the Authority during the term of the agreement.

**Action Items**

Committee recommended the action items for the new money bond issuance, EMCP, FPA and related changes to the DC Water Investment Policy and Guidelines to the Board for approval.

**Follow-up Items**

1. Provide an update on the Digester project and fiscal impact analysis. (Chairperson Firestine)
2. Brief Committee and seek approval before executing final agreement with the District government regarding RFK bill dispute. (Mr. Mallet)
3. Provide Committee debrief on bond sale. (Chairperson Firestine)

**Adjournment**

Hearing no further business Chairperson Firestine adjourned the meeting at 11:52 a.m.