**DISTRICT OF COLUMBIA**

 **WATER AND SEWER AUTHORITY**

 **Board of Directors**

 *Finance and Budget Committee*

 *Thursday, October 22, 2015*

*11:04 a.m.*

**MEETING MINUTES**

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| **Committee Members in Attendance** | **DC Water Staff** |
| Timothy L. Firestine, Committee Chairperson | George Hawkins, CEO/General Manager |
| Matthew Brown, District of Columbia | Robert Hunt, Director, Finance |
| Obiora “Bo” Menkiti, District of Columbia | Gail Alexander-Reeves, Director, Budget |
| Sarah Motsch, Fairfax County | Meena Gowda, Principal Counsel |
| Adam Ortiz, Prince George’s County | Liliana Maldonado, Director, Engineering |
|  | Sarah Neiderer, Strategic Planning Officer |
|  | Tanya DeLeon, Manager, Risk  |
|  | Thomas Kuczynski, Chief Information Officer |
|  | Linda Manley, Secretary to the Board |
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|  | **Other Presenters & Guests** |
|  | Dan Hartman, PFM |

**Call to Order**

Chairperson Timothy L. Firestine called the meeting to order at 11:04 a.m.

**September 2015 Financial Report**

Ms. Gail Alexander-Reeves, Budget Director, provided an executive summary of the operating revenues, expenditures and capital disbursements. Ms. Reeves thanked the Committee for their continuing strong oversight of DC Water’s operations and financial performance. As a result, DC Water ended the fiscal year 2015 with strong financial performance and on target with previously reported year-end projections in all areas. Total revenues were slightly above budget at $546.1 million or 101.0 percent; operating expenditures were below budget at $458.2 million or 89 percent and capital disbursements totaled $589.2 million, or 94 percent of budget.

Referring to the Executive Summary Highlights of the report, Ms. Reeves noted that DC Water issued $350 million in tax-exempt fixed rate bonds, which includes a second green bond issuance of $100 million and indicated the FY 2015 financial statements audit is currently underway. Ms. Reeves also advised the CEO/GM’s Proposed FY 2017 Budget Workshop will be presented immediately following the November 5, 2015 Board meeting. A Wholesale Customer briefing of the budget proposal is scheduled for November 20, 2015.

In response to Mr. Firestine’s request for further explanation of the higher than expected capital labor charges, Ms. Reeves explained the process for tracking and monitoring of these costs. The process begins with the engineering department providing an estimate of capital direct and indirect cost estimates for projects underway in the beginning of each fiscal year. Staff monitor costs throughout the year and at year-end, the accounting department audits costs to determine the actual costs for capital labor.

Next, Mr. Robert Hunt, Treasury and Debt Manager, referred to the Cash Flow Summary of the report, which tracks expenses and revenues against the 10-year plan. Mr. Hunt reported that at the end of September, the beginning balance for the Operating Surplus totaled $111.4 million, which was used to restore the $7.5 million withdrawn from the Rate Stabilization Fund. The $7.5 million was restored with an additional $10 million. The balance of the Rate Stabilization fund was $32.5 million at the end of the year. The remaining surplus was used to fund Pay-Go.

**Series 2015 A/B Bond Issue Update**

DC Water’s financial advisor Mr. Dan Hartman, Managing Director, Public Financial Management (PFM), presented an update on the plan of finance and recent bond sale.  On October 15, DC Water closed on the bond sale for the Series 2015 A/B bonds in the amount of $350 million - $100 million in green bonds for Clean Rivers and $250 million for other capital projects.  The combined interest rate was 3.89% (TIC).  The green bond issuance was the second for the Authority and was well received in the marketplace allowing DC Water to lower the yields.

Mr. Hartman also discussed the very successful investor conference held in DC.  The conference was a joint effort by the DC Government, Metropolitan Airport Authority, Metro and DC Water to present each organizations’ credentials to those in attendance. At the conference, DC Water held one-on-one meetings with six individual investors and conducted a tour of the Blue Plains facilities for ten investors.  Mr. Hartman further commented on the Extendable Municipal Commercial Paper (EMCP) program, a new variable rate product being undertaken by the Authority and the Forward Purchase Agreement being executed to gain interest on debt service payments.  Both projects are expected to be completed in the next few weeks.

**Blue Horizon 2020 Progress**

Ms. Sarah Neiderer, Strategic Planning Officer, briefed the Committee on the Authority’s proposed revisions to the Blue Horizon 2020 Strategic Plan. A more comprehensive review will be provided at the Board Retreat on November 18, 2015. Ms. Neiderer continued with a brief overview of the Plan’s implementation progress and proposed revisions to Goal 5 (*Assure Financial Sustainability and Integrity*). All objectives of Goal 5 are 100 percent complete, with the exception of Goal 5.1 (*Develop alternative revenue sources and achieve realistic revenue projections*), which is at 85 percent completion.

Staff recommends the following changes to Goal 5 and its’ Objectives:

* Goal 5 (*Promote Financial Sustainability Integrity and Responsible Resource Allocation*)
* Objectives
	+ Achieve treasury, debt and risk management objectives
	+ Achieve an affordable and fair rate structure
	+ Ensure robust internal controls at DC Water
	+ Ensure timely preparation, adoption and administration of DC Water’s operating and capital budgets
	+ Ensure integrity of DC Water’s Financial Systems

The revised Plan is expected to go before the full Board for approval within the next few months.

**Capital Improvement Program Quarterly Report**

Ms. Liliana Maldonado, Director of Engineering and Technical Services, reported that current projections for the end of FY 2015 is in the 5 percent range. The 3rd Quarter projected CIP disbursements are $539,723,000, which is 8 percent below the baseline disbursement projections of $585,182,000. Projected disbursements for all major program areas were as follows: Wastewater ($194,956,000); Combined Sewer Overflow ($247,048,000); Storm Water ($885,000); Sanitary Sewer ($37,382,000); and Water Services ($59,452,000).

Ms. Maldonado briefed the Committee on recent improvements to the Key Performance Indicators (KPIs) within the report which should make it easier to track project performance. In response to Mr. Firestine’s question regarding the accuracy of the project delays, Ms. Maldonado explained that each project’s milestones and contractual requirements are tracked monthly with constant follow-up with project managers and the contractors.

**Risk Management Update**

*Update on ROCIP 4 Insurance Implementation*

Ms. Tanya DeLeon, Risk Manager, reported that ROCIP (Rolling Owner Controlled Insurance Programs) has successfully completed its eleventh year as of October 15, 2015. Ms. DeLeon provided a brief overview and progress update on ROCIP. ROCIP I, II and III are multi-year programs which started in 2004. With a few exceptions (approved by the carrier), ROCIP III project enrollment ends November 15, 2015.

Ms. DeLeon briefed the Committee on ROCIP’s program goals And shared the following performance highlights:

1. 85 ROCIP II & ROCIP III projects are enrolled to date
2. 1,216 ROCIP II & ROCIP III contractors are enrolled to date
3. 36 Prime contractors are MBE/WBE/LBE/LSBE certified
4. Insurance Cost Savings Opportunity of over $22 million

Ms. DeLeon concluded her ROCIP report with a recommendation to move forward with total insurance cost (pay-in) for ROCIP IV primary program with $200 million excess liability insurance protection to accommodate CIP construction.

*Cyber Insurance Update*

In light of the many cyber compromises around the globe, DC Water has undertaken a full review of its cyber protections. Staff is currently finalizing negotiations to purchase dedicated coverage for third-party cyber liability, notification/credit monitoring and other First Party Coverage. Staff is expecting to purchase coverage in October.

Mr. Ortiz inquired if any public utility companies have been targeted. Mr. Hawkins responded that DC Water has been attacked but unsuccessfully, and Mr. Thomas Kuczynski, Chief Information Officer, provided additional information regarding the cyber attacks.

**Action Items**

The Committee recommended to move the ROCIP IV Insurance Premium to the Board for approval.

**Follow-up Items**

None.

**Executive Session**

The meeting moved into Executive Session at 11:50 AM.