



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Thursday, September 27, 2012

11:00 a.m.

MEETING MINUTES

Committee Members in Attendance

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

DC WATER STAFF

George Hawkins, General Manager
Meena Gowda, Principal Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Finance and Budget Director
Robert Hunt, Treasury & Debt Manager
Tanya Deleon, Manager, Risk Management
Linda R. Manley, Board Secretary

Other Presenters & Guests

Bruce MacDonald, Albert Risk Management Consultants
Dan Hartman, Public Financial Management (PFM)
Chris Lover, Public Financial Management (PFM)

Call to Order

Chairperson Timothy Firestine called the meeting to order at 11:02 a.m.

August 2012 Financial Report

Ms. Yvette Downs, Finance and Budget Director, reported that with 92 percent of the fiscal year completed, revenues and expenditures were on track with budgetary expectations. Revenues and operating expenditures were at 94 percent and 82 percent of the revised budgets, and were anticipated to be at 100.1 and 92 percent, respectively, by the end of the fiscal year. Capital disbursements were at 80 percent of the revised budget, and were expected to be at 87 percent at fiscal year-end. The average daily balance for the month of August 2012 was above the target, at \$161.2 million.

Ms. Downs reported that the year-end revenues from the Residential, Commercial and Multi-Family customers are anticipated to be slightly under-budget, at 99.5 percent, while those from the District Government are also anticipated to be under-budget because of the consumption dispute with St. Elizabeth, but other revenue categories were on track. In response to Mr. Firestine's inquiry, Mr. Adebo, Chief Financial Officer, replied that the dispute was close to resolution. As St Elizabeth has agreed to make a payment to DC Water by the end of October, it will be treated as a receivable for year-end reporting. Mr. Adebo further added, replying to Ms. Nancoo's inquiry, that DC Water personnel were negotiating with the representatives from the District and Federal GSA, who were empowered to decide, and make the payments. Mr. George Hawkins, General Manager, elaborated further stating that a lot of technical evaluation had to be done before this matter can be concluded.

Continuing with the financial report, Ms. Downs reported that Operating Expenditures were \$339.6 million, or 82 percent of the budget, and that all categories, including overtime, are within budget expectations. It is anticipated that DC Water will end the year at 92 percent of the operating expenditure budget.

Ms. Downs reported that the capital disbursements were 80 percent of the budget through August 2012 and were expected to be only 87 percent of the budget at year-end. The major areas of under-spending are in the Sewer Area (due to re-sequencing of some of the work), Clean Rivers, and the Wastewater Service Area (delayed contract awards). However, there are no anticipated delays to project deliverables reflected by the project under spending. In response to Mr. Patteson's query about accelerating part of the work on the Clean Rivers Project in order to address the problems in the flood-prone areas, Mr. Hawkins, General Manager, clarified that the proposal was still in planning stages and that it had not yet been incorporated in the disbursements budget.

While discussing Electricity expenditures, Mr. Adebo concurred with Mr. Firestine's observation that we were paying higher than the spot market price by locking in a contract, but that was the premium paid to mitigate risk of a spike in prices, and provide budgetary certainty as desired by the Board. Mr. Adebo elaborated that the strategy was always evolving, and if the Board permitted more appetite for risk, a larger portion could be floated, rather than locked into a contract.

Mr. Adebo reported that the year-end operating surplus is now projected to be at \$55.7 million against the earlier projection of \$47.8 million: of this approximately \$4.4 million will be transferred to the PILOT escrow account, resulting in a net \$4 million increase in operating surplus (at \$51 million), which is essentially attributable to an increase in projected revenue by the same amount. Mr. Adebo added that the year-end cash balance is projected to be \$139.6 million, but almost \$11 million of this is committed to be disbursed in FY 2013 for refunds to wholesale customers and Board-approved rebates to customers. Mr. Seamon asked about the status of the PILOT negotiations. DC Water noted that staff continues to reach out to City officials.

Mr. Robert Hunt, Treasury and Debt Manager, presented the investment performance report stating that the portfolio is diversified, overall yield was 36 basis points and total value was at \$543.6 million for the month of August. Giving a further break-down of portfolio performance, Mr. Hunt reported that the portfolio was in compliance with the Authority's Investment policy.

Debt Policy and Guidelines Document

Mr. Robert Hunt presented the draft of a revised Debt Policy for the Boards' review, and approval. The draft incorporated a derivatives policy (as suggested earlier by Mr. Firestine), as well as a provision for the Bond Counsel serving as the Disclosure Counsel (suggested earlier by Ms. Nancoo). Mr. Firestine commended the Authority on preparing a very comprehensive debt policy. Ms. Nancoo pointed out that the debt policy should have a provision requiring a 10 (B) (5) opinion from a third party counsel (separate from the underwriter) stating that the information in the offering document is materially correct. A discussion ensued whether the Authority should retain its own Disclosure counsel to work on the offering statement rather than utilizing the underwriters' counsel. After an intense discussion, there was concurrence on Mr. Hawkins' suggestion that the Policy should provide for the Authority to retain its own counsel to work on the offering document, unless circumstances warranted otherwise. Ms. Nancoo suggested that, for continuing disclosure purposes, the Authority should retain an independent dissemination agent, unless circumstances warrant otherwise. Mr. Hunt noted that DC Water has already engaged a dissemination agent for disclosure purposes. Ms. Nancoo also suggested that the Authority should have a separate Swap / Derivatives policy. After lengthy discussion, Ms Nancoo was agreeable to Mr. Adebo's suggestion that before enunciating such a

policy, the Board members need to be provided more education on these issues, given the complexity involved.

Ms. Nancoo stated that given the low interest rate environment, the Authority should look into greater variable rate debt exposure, while defining the maximum variable rate debt exposure. After further discussion it was agreed that the percentage of variable rate debt provisions as contained in the draft policy were sufficient. Mr. Adebo welcomed Ms. Nancoo's suggestion to look at the operating cash reserve balance relative to the debt service obligation, and establishing a common reserve instead of a series-by-series reserve. Mr. Firestine reinforced Ms. Nancoo's suggestion that the policy should require that nine months prior to expiration of debt notes, the CFO should approach the Committee with a plan of action, which may include (among other options) a mini-RFP to elicit competitive interest from banks outside of the underwriters' pool.

Mr. Firestine suggested that, under the Refunding Guidelines, the target of a 3% present value savings threshold be specified as the minimum requirement of the total issue. Mr. Adebo assured the Committee that a fresh draft will be circulated incorporating all suggestions made by the committee members, and all changes will be black-lined in the document to make the changes conspicuous.

Rolling Owner Controlled Insurance Program (ROCIP) Briefing

The Committee agreed to skip the ROCIP presentation, noting that the program had been adequately covered in prior meetings. The Committee decided to move directly on to the action items.

Action Items

The Committee members recommended the following actions items for Board approval:

- Approval for electricity generation & transmission services Contract – HESS (**Attachment 5**)
- Bond Counsel Contract (**Attachment 6**)
- Recommendation for ROCIP 3 Broker Services (**Attachment 7**)

Other Business

Ms. Downs gave the Committee an update on the DC Incentive Program. In summary, DDOE has provided an updated proposal of its regulations and DC water has given its feedback. However, the regulations have not yet been published for public comment.

Adjournment

Hearing no further business, Chairperson Firestine adjourned the meeting at 1:09 p.m.

Follow up Items

1. Update the draft of the Debt Policy and Guidelines document to incorporate the committee members' suggestions.
2. Provide periodic financial update on the Biosolids Project. (**Ms. Nancoo**) **Status:** *On-going*