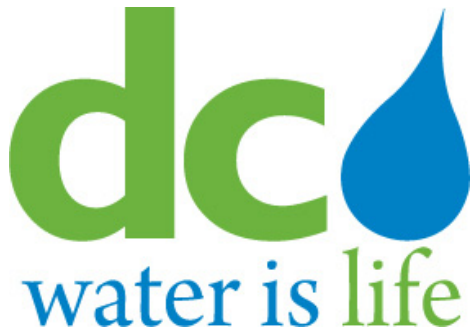




**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY
Board of Directors**

*Joint Meeting of the Finance and Budget Committee and
DC Retail Water & Sewer Rates Committees*

Thursday, May 26, 2011

11:00 a.m.

MEETING MINUTES

COMMITTEE MEMBERS IN ATTENDANCE

Timothy Firestine, Committee Chairperson
David J. Bardin – Committee Co-Chairperson
District of Columbia
Joseph Cotruvo – District of Columbia
Alan Roth- District of Columbia
Howard Croft - District of Columbia
Howard Gibbs- District of Columbia

DC WATER STAFF

George Hawkins, General Manager
Meena Gowda, Acting General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Finance & Budget Director
Linda R. Manley, Secretary to the Board
Leonard Benson, Chief Engineer

Call to Order

Committee Chairman Timothy Firestine called the meeting to order at 11:00 am.

April 2011 Financial Report - Operating Revenue and Expenditures

Mr. Olu Adebo reported that as of April 30, 2011, with 58 percent of the fiscal year completed, revenues and expenditures were within budgetary expectations. Revenues, expenditures, and capital disbursements were at \$221.3 or 55%, \$209.1 or 52%, and \$156.6 or 48% of the revised budgets respectively. The operating reserve averaged \$139.1M or \$13.6M above the required average of \$125.5M.

Mrs. Yvette Downs highlighted that the primary areas of the variance in the operating revenues as reflected in the April report continues to be in the Other Revenues category. The Rate Stabilization Funds transfer and the IMA indirect costs are not anticipated until the fourth quarter of the fiscal year. Therefore, it is anticipated that this category will be within 98% of the budgeted revenues. The other area contributing to revenue variance is the Wholesale Customers due to that fact that their payments are made quarterly (in May) and were not received during this reporting period. The Wholesale Customer payments will be reflected on the next monthly report.

Mr. Bardin reminded the Committee that at the last meeting there was a request that the details of the budgeted IAC revenues be incorporated into the report to enable Committee comparison of actual versus budgeted receipts. Mrs. Downs noted that the request was not overlooked but could not be accommodated within this report period and will be reflected in subsequent reports.

Major operating expenditures highlight included personnel services which are currently at 56% of budget with 1019 positions filled. Overtime is slightly high but is closely monitored and the year-end projections anticipate that the personnel services results will be within the budget.

As the Committee discussed Capital disbursements, Mrs. Downs made note of the update to this section of the report in response to Committee requests. Capital spending is \$28M behind the anticipated disbursements. This is due primarily to the OCIP accrual issue which will remain until the end of the year, outstanding negotiations (and payments) with the District regarding the Clean Rivers program, closeout work, temporary suspension of a rehabilitation project, some plant wide projects and under-spending of IT projects in the capital equipment area. Mr. Firestine inquired about the under-spending in IT projects and asked whether there is reason for concern. Mr. Adebo provided reasons for the IT non expenditure for this fiscal year 2011. He informed that the IT department had a leadership change and the department is reevaluating the enterprise systems so there is an ongoing reevaluation in regards to the new level of priorities. Mr. Firestine asked whether the projected \$5m million is included in the year-end cash flow results, to which Mr. Adebo reported affirmatively.

As of April 30th the actual operating cash balance was \$133.8M, well above the targeted amount of \$125.5M. The interest income year to date is \$494 thousand compared to the budget of \$543 thousand for the year. This month's report includes the new investment report format presented to the Committee in April. Investments continue to be in compliance with the investment policy and on track with budget expectations.

Mrs. Downs reviewed the electricity cost status and Mr. Firestine inquired whether the authority was looking to lock in the remaining 10%? Mrs. Downs noted that staff is looking for opportunities for additional lock-ins as appropriate up to the anticipated 10%.

In regards to Retail and wholesale accounts receivables there was a reduction in receivables by approximately \$400 thousand. Overall, the number of accounts is lower in all categories and the major funding improvement is in the commercial area.

Mrs. Downs closed the report discussion by noting that the cash flow balance is projected to be a little more than \$16M over the reserve target at the end of year if projections hold true. Additional details of the year-end projections are included in an additional agenda item.

Mr. Bardin noted to the members of both Committees that he had concerns that the ERU applicable to DC Water facilities, including Blue Plains, Bryant Street, and others, are not charged and billed by the authority as is done with ERUs of everyone else's properties. He suggested that these impervious area charges per ERU, as well as volumetric charges for water and sewer services, should be treated as other utility charges such as electricity and gas to reflect the true cost of each service. The General Manager noted that he will look into the possibilities and also assess the cost and report to the Board as part of the costs allocation follow-up at a future meeting.

FY2012 Revised Budget Presented by Mr. Olu Adebo

The presentation covered the FY 2011 financial performance projections and revised FY 2012 known assumptions, with discussion of potential options for the PAYGO and Rate Stabilization Fund decisions that the Committees must make in June in accordance with Board policies. Mr. Adebo reported that with more than 7 months of the year done, the Authority is anticipating there will be \$16.6M in excess cash over the operating reserve requirement of \$125.5 by the end of the year. Revenues are on track and we expect to end the year slightly under target by .07%. Operating expenditures are expected to be below budget by approximately 5% due mainly to lower spending in the categories of Water purchases, energy costs, contractual services and

debt. Revised FY 2012 assumptions include an additional \$1.5 million in revenues from miscellaneous fees in the event that the DC Retail Rates Committee approves the current proposal to increase various miscellaneous fees and charges currently posted in the DC Register.

The Joint Committee discussed in detail various options for use of the excess cash – noting that approximately \$2.9 million of the excess cash will be refunded to the Wholesale Customers in FY 2012 pursuant to contractual true-up provisions of the IMA. Options discussed included additional PAYGO, additional transfers into the Rates Stabilization Fund, lower FY 2012 retail rate adjustments, customer rebates, personnel performance based pay, establishment of an endowment fund where the interest would be used for future items (such as job training/education partnerships or new revenue generation strategies) to be identified by management and the Board. The DC members in attendance reviewed Schedule C to Resolution #11-20 (Approval of Fiscal Year 2010-2019 Ten Year Financial Plan) passed by the Board in February 2011 (and shown attached to these minutes). Generally, there appeared to be interest by the Joint Committee in reducing the average customer bill increase below 10% in FY 2012. There was also some discussion on the evaluation of PAYGO versus other uses. Staff will incorporate some of the comments and bring recommendations back to both Committees in June.

Metropolitan Washington Council of Governments (COG) overview

Mr. Leonard Benson referred to the attachment provided with the Joint Committee package regarding DC Water budgetary support for COG programs, noting that the total COG budgeted costs associated with IMA (\$795,000 in 2010) are higher than the value paid by DC Water (\$323,554). DC Water pays for the share associated with the District of Columbia and the remaining values are paid by the other IMA partners separately. He reported that all COG charges are administered by engineering and are all activities that are supporting the Engineering or Waste Water Treatment Department. Mr. Roth noted that DC Water pays the District of Columbia's share of COG's IMA budget even though DC Water does not appoint BPRC members. Mr. Bardin asked that the General Counsel provide an explanation of the legal basis upon which DC Water is charged by COG. Mr. Bardin suggested that it might be possible to staff IMA programs at less total costs to all IMA partners by economizing at COG or shifting some of the effort to DC Water staff. He requested that Mr. Benson suggest to the IMA group at the next COG committee meeting that they consider reducing their costs for these projects. He also proposed that a full presentation be made to the full Board.

Action Items

Mr. Firestine inquired whether the Aon Risk services contract goes to the Board and Mr. Adebo answered affirmatively because the cost meets the \$1M threshold. The Committee agreed to forward the Aon Risk Services contract to Board for approval.

Agenda for June 23rd Committee Meeting

The Committee reviewed the draft agenda. It was agreed that the Revised FY 2012 Budget be added as an action item.

Adjournment

The meeting was adjourned at 12:38 pm.

FOLLOW-UP ITEMS – Finance & Budget Committee (Meeting held May 26, 2011)

1. Staff will follow up consumption trends for the D.C. Housing receipts. **(Mr. Bardin)**

2. Provide progress report on the operating and capital cost allocations between DC Retail Rate payers and the suburban areas as called for by Board Resolution #11-12. **(Mr. Bardin)**
3. Determine if there are opportunities for revising the existing small PI customer contracts/agreements. **(Mr. Bardin)**
4. Incorporate the IAC revenue budget within the revenue report so that comparison of budget to actual can be made. **(Mr. Bardin)**
5. General Counsel should provide an explanation of the legal basis for charges by COG. **(Mr. Bardin)**