



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

*Finance & Budget Committee
Thursday, July 22, 2010
9:30 AM*

MEETING MINUTES

Committee Members

Timothy Firestine, Committee Chairman
Alethia Nancoo
David J. Bardin

DCWASA STAFF

Avis M. Russell, General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Finance and Budget Director
Lauren Preston, Director, Customer Service
Linda Manley, Secretary to the Board

Other Board members in Attendance

Dr. Joseph Cotruvo
Paivi Spoon

Call to Order

Committee Chairman Timothy Firestine called the meeting to order at 9:30 a.m.

June 2010 Financial Report

Ms. Yvette Downs, Finance and Budget Director, reported that at the end of June, with approximately 75% of the fiscal year completed, DC Water was on track with financial expectations, except for the 'Other Revenue' category, which continued to lag the revised budget.

All other revenue categories (excluding Other Revenues) are at 74% of the planned revenues and we anticipate ending the fiscal year at 99.6% of the revenue budget. We project that the capital budget will be at 92% of the anticipated disbursements at year-end. Preliminary year-end expenditure projections are that we will be at 93% of our operating budget, providing a positive year operating budget balance. Current projections are that the Authority will end the fiscal year with operating cash of \$145.5 million (or \$20 million over the \$125.5 million operating reserve requirement).

Mr. Bardin acknowledged the addition of a "FY10 Year End Projection" column in the cash flow summary. In response to a question from Mr. Firestine, Ms. Downs explained that the operating budget revenues correlate to the cash flow statement (cash-receipt basis), but budgeted expenditures are presented on an accrual basis. Ms. Downs noted that savings are projected in expenditures this fiscal year in most major categories, including water purchases from the Washington Aqueduct (WAD), lower debt service expense (because of moving forward of debt service payment to the next fiscal year), and lower electricity expense (because of favorably locked-in prices).

Mr. Adebo informed the Committee that multiple outstanding water projects completed under DDOT have been closed and settled, including the payment of inspection costs to DC Water under the

terms of the MOU. This resulted in more than \$2 million additional revenue in the "Other revenue" category, which was offset by a decline in revenue from developer charges under the same category. Also, based on current negotiations, it is anticipated that an additional \$2.3 million will be received in this category for the fire hydrant protection fee.

On comments from Mr. Bardin about revenue trends and projections, Mr. Olu Adebo, Chief Financial Officer, confirmed that consumption has been lower than anticipated in the budget. CFO Adebo advised that staff would continue to monitor the trend, for use in recalibrating assumptions for projecting next year's budgeted revenues. An extensive discussion followed on the "Other Revenue" category and use of the Rate Stabilization Fund (RSF). Several Committee members questioned the need to draw down the entire \$28 million from the RSF given the staff's \$20 million surplus projection. Members discussed that the draw-down from the RSF should be enough to keep books balanced rather than drawing down the entire \$28 million that was budgeted for, on the one hand, and showing an "apparent" surplus on the other. Mr. Adebo sought the Committee's guidance on the issue, and the Committee recommended that staff draw down only the amount needed to cover FY 2010 operating budget expenditures. The Committee asked staff to identify that amount and prepare a formal recommendation to the Board for September pending further input from the Retail Rates Committee and any special meetings that might be called of the Finance and Budget Committee prior to the September Board meeting. Ms. Russell suggested an amendment to the Agenda to include an Action Item to submit this recommendation to the full Board for consideration and the Committee agreed.

On the cash flow statement, Mr. Bardin suggested, and Mr. Adebo agreed, to split the "Other cash provided" line into two, clearly-distinguishing withdrawals: one from the RSF, and another from other-miscellaneous sources. Upon further questioning by Mr. Bardin, Mr. Adebo stated that the transfers to/from the RSF were not reflected in DC Water's GAAP based Financial Accounting, which is why the last two years DC Water has had negative net revenues from operations (since the expenditures exceeded revenues, excluding the RSF transfers. Mr. Adebo further responded to Committee's concern about the rating agencies' perception of negative net revenues, by explaining that rating agencies look at both cash and accrual based financial presentation and that since the use of RSF was planned, it did not raise undue concerns.

Ms. Nancoo requested, and Mr. Adebo agreed, to share copies of the rating agency presentations with board members.

Responding to a question from Ms. Spoon regarding Grants Expenditures for FY 2010 versus other fiscal years, Mr. Adebo noted that there is a more detailed attachment in the report that demonstrated detailed spending of each grant and year of issuance. However, to provide additional information, a new column will be added next quarter to show current fiscal year expenditures along with cumulative grant expenditures.

In reviewing invoice payment performance, Mr. Bardin expressed his concern that DC Water was falling behind in its goal of paying 97% of all undisputed invoices within 30 days. Mr. Adebo acknowledged his responsibility as part of a joint effort with the General Manager and department heads for achieving this goal. CFO Adebo explained that DC Water meeting this goal is a part of each Department Head's performance plan.

Mr. Bardin also suggested that a new line be added for displaying delinquent accounts from the Federal Government, etc., and still display a zero (if there was no delinquency), or display the delinquent amount. The Chairman agreed.

The Committee members discussed with staff how to best present capital disbursements data graphically, especially in correlating disbursements with project implementation. Mr. Adebo

explained that portraying implementation of projects graphically in correlation with spending has been a challenging task. CFO Adebo added that several capital performance measures have been discussed with the Environmental Quality & Operations Committee and that perhaps those graphs should be included within the monthly financial report to this Committee as well. Mr. Firestine suggested that the capital disbursements chart show the projected and actual expenditures for the fiscal year, rather than the 12-month rolling as currently depicted.

Investment Portfolio Management Update

The Chairman tabled this item.

Delinquent Accounts Receivable

Ms. Preston provided a detailed presentation on the overall accounts receivable and delinquency, and credit risk management strategy of DC Water. She noted that the accounts receivable had increased this month and explained the factors that contributed to this including:

- A rise in unauthorized use by customers which DC Water is investigating and back-billing in such cases.
- Meters with no registration, or low registration are being identified, and replaced.
- Impervious area only accounts that are billed every 6 months. Liens have been or are being placed on many of these properties in accordance with current practices.

The Committee asked how DC Water could collect from delinquent customers who happened to be non-profits. Ms. Russell, General Counsel, agreed to prepare a response for the Committee's review. Mr. Bardin noted that this presentation was very useful, and suggested that this be done on a regular basis.

Update on Status of Fire Hydrant Fee Negotiations

Mr. Adebo provided a presentation, reminding the Committee of the history of the fee and the salient terms of the relevant memorandums of understanding (MOUs). In response to a question from Mr. Cotruvo, Mr. Adebo confirmed that the fire hydrant charge of \$680 was an all inclusive charge that included the amortized capital costs, estimation of water availability and use and other costs of maintaining fire hydrants. In response to a question from Mr. Bardin, Mr. Adebo clarified that DC Water would have preferred the reimbursement of the \$30 million in capital costs that have been expended on the program but not reimbursed to date. However, after long negotiation an amortized amount will be recommended to the Board. Mr. Adebo clarified that under the new MOU proposed to be submitted for the Board's consideration, the District will cap the level of service for the Fire Hydrant program to a maximum of \$6.2 million per year so that the payment will fit the services that DC Water provides. The current negotiations include release of the outstanding payments on the PILOT fee from FY 2008 and 2009. A new cost-of-service will be conducted in FY 2011 in order to true-up costs from FY 2009-FY 2011.

Mr. Adebo advised the Committee that Board intervention will be needed on the Financial MOU to authorize the General Manager to unfreeze the Payment in-Lieu of Taxes (PILOT) remittances to the District. Mr. Bardin noted that given a specific provision in DC Water's enabling legislation, that it can not be taxed by the District, a legal opinion would be in order, to ascertain if DC Water was in violation of the terms of its enabling legislation by making such payments. The chairman agreed with Mr. Bardin and asked Ms. Russell, General Counsel, to provide the Board with an opinion as to whether the approval of the new MOU would be consistent with the provisions, and meet all legal requirements. Ms. Russell responded that there was no legal requirement for DC Water to pay the PILOT, but as a policy the Board had decided to enter into (the earlier) MOU, which authorized

payment of PILOT. Mr. Bardin reiterated that the Board still needed to ensure that there was no legal prohibition to DC Water's payment of PILOT.

Ms. Nancoo expressed her unwillingness to support the staff's recommendation on the MOU as she received the dense presentation material at the start of the meeting, and further asked that all presentation materials related to any action items should be sent to the members in advance of the meeting. The Chairman also agreed. Mr. Bardin asked Mr. Adebo whether the issue was to be voted by the entire 11-member Board, or only the 6-DC members, Mr. Adebo deferred this question to Ms. Russell who agreed to research the matter and provide a response to the Committee.

Update on Federal Government and Impervious Area Charge

Chairman Firestine asked Ms. Russell for an update on the Federal Government and Impervious Area Charge (IAC). Ms. Russell reported that Senator Benjamin Cardin of the State of Maryland had introduced a bill that will require the federal government to pay impervious area charges, but nothing concrete had been heard as of yet.

Action Items

Committee members supported and referred to the full Board for consideration the following action item:

- Recommendation that only an amount that is sufficient to balance the books be transferred from the Rate Stabilization Fund

Adjournment

Hearing no further business, Mr. Firestine adjourned the meeting at approximately 11:50 am.