

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

**MEETING MINUTES
THURSDAY, JULY 3, 2014**

Present Directors

Edward L. Long, Second Vice Chairman, Fairfax County
Nicholas Majett, Prince George's County
Robert Mallett, District of Columbia
Timothy Firestine, Montgomery County
Obiora "Bo" Menkiti, District of Columbia
Rachna Butani, District of Columbia
Robert Hoyt, Montgomery County
Alan J. Roth, District of Columbia
Ellen Boardman, District of Columbia

Present Alternates

Adam Ortiz, Prince George's County
Bonnie Kirkland, Montgomery County
Howard Gibbs, District of Columbia
James Patteson, Fairfax County
Keith Anderson, District of Columbia
Brenda Richardson, District of Columbia

DC Water Staff

George S. Hawkins, General Manager
Mark Kim, Chief Financial Officer
Randy Hayman, General Counsel
Linda R. Manley, Board Secretary

Second Vice Chairman Long called the 200th Meeting of the District of Columbia Water and Sewer Authority's Board of Directors to order at 9:31 a.m. The roll was called and a quorum established.

Approval of the June 5, 2014 Meeting Minutes

Second Vice Chairman Long asked for a motion to approve the June 5, 2014 minutes. Mr. Hoyt moved that the minutes be approved and the motion was seconded. The minutes were approved unanimously by the Board of Directors.

Chairman's Overview

Second Vice Chairman Long noted that this was the 200th meeting of the Board of Directors which was a milestone. He asked Ms. Manley how many of the meetings she had attended and she replied that it was 200. Mr. Hawkins indicated that Ms. Manley's 200 meetings represents 18 years of service, an unassailable record and her unblemished participation. He also commented that Ms. Manley's tenor and nature of support to the Board, calm demeanor, manner in which she takes every request in stride, and quick and professional response, represent all that is best about D.C. Water. Mr. Hawkins presented Ms. Manley with a service award plaque and a Macy's gift for shopping enjoyment for her dedicated public service.

Second Vice Chairman Long asked General Manager Hawkins to speak about the Summer Internship Program and the interns in attendance at the meeting. He welcomed the interns and stated that there are 60 interns from Howard University, the University of the District of Columbia, Georgetown University, George Washington University, Princeton University, and North Carolina A&T. They represent globally the United States, England, China, Japan, India, Ethiopia, Nigeria, and Ghana. Second Vice Chairman Long also welcomed them to D.C. Water.

Second Vice Chairman Long thanked the staff for the recent Board Retreat and commended them on a great job and quality day.

Human Resources and Labor Relations Committee

Reported By: Edward L. Long, Chair

Mr. Long reported that the Committee met on June 13, 2014 and received an overview of the human resources profile from Otho Milbourne, Benefits Manager. He recommended that everyone visit the D.C. Water website to review the profile which includes extensive information on the workforce and how the unions are organized.

In the Committee's September meeting Mr. Hawkins will provide information on D.C. Water's succession planning. Mr. Long indicated that this is a big effort because of the number of eligible employees who are qualified to retire and the number of vacant positions to fill.

Mr. Long stated that the Committee also spent considerable time discussing the policy of engagement with the unions, since they believe that in the past they have been prematurely involved at a level which was unnecessary. The Committee wanted the unions to understand clearly that they are open to hearing any concerns the unions have and the formalized guidelines that will be adhere to starting with the Committee's September meeting. Mr. Long stated that there are a lot of issues in the works, such as those being grieved, bargained, and dealt with in disciplinary proposals, that in the past the Board inappropriately addressed at their level. He indicated that this is a new direction and if issues cannot be worked out long term, the Board can certainly get involved and work on them.

Mr. Long reported that the last issue was on the Workplace Violence Policy that is being worked on and which is part of the Strategic Plan. Some union members have expressed concerns that labor relations

is threatened. General Manager Hawkins clarified that at D.C Water everything such as the amount of salaries and benefits, the water and sewer rates, and the amount expended for construction or operations are all threatened in bad financial times. It is not intended that unions and employees be targeted but that D.C. Water's finances are in order so that it can function well and can look for sustainability going forward.

Environmental Quality and Sewerage Services Committee

Reported By: Robert Hoyt, Chair

Mr. Hoyt indicated that the Committee met on June 19, 2014 and received an update on plant performance from Walter Bailey, Assistant General Manager for Wastewater Treatment. All parameters were met in June. Average monthly flow was 351 million gallons a day which was up due to the 5 inches of rain that fell in May. Mr. Bailey reported that for the year 54 inches of rain brought the ground water levels up and caused monthly averages to increase. The average nitrogen concentration was 4.1 milligram per liter (mpl) for the month which is within the permit limits. It was 4.4 mpl for the year which is a little higher due to plant shutdowns for maintenance, but well within permit limits.

Mr. Hoyt stated that the U.S. Environmental Protection Agency approved the Blue Plains NPDES permit modification for Enhanced Nitrogen Removal (ENR) facilities of the operational date by 90 days. This does not change the overall date of compliance with the new permit limit which is January 1, 2015.

The Committee and staff talked about the Maryland Department of the Environment's biosolids regulations that were finalized in May which put a lot of restrictions on land application biosolids. This does not affect D.C. Water's land applications since all sites are in Virginia, but it is part of the message that states will be driving biosolids to become Class A. D.C. Water's CAMBIA technology puts its biosolids at the Class A rating, so these new regulations allow D.C. Water to manage its biosolids as compost.

Mr. Hoyt stated that he was part of the presentation update on the Blue Plains major products status update and he read the benefits of the CAMBIA Project and recommended that the Committee's minutes be reviewed in terms of the update. Under the CAMBIA Project, the digester will reduce the volume of biosolids by 50 percent, cut line usage to almost zero, and expand opportunities for local usage for things like using it in D.C. and on LID projects. This reduces D.C. Water's carbon footprint, lowers application unit costs and reduces operating costs by \$8 million. Mr. Hoyt indicated that the project is a great investment and D.C. Water is ahead of the curve on the issue.

David McLaughlin, Director of the Engineering and Technical Services Department, reported that under the Potomac Interceptor Odor Abatement Sites Project there is still a challenge with the odors at the Old Angler's Inn. D.C. Water is working with the owners of the Inn and has brought WSSC into the conversation to determine if there is some source from the pipes of WSSC. Hopefully the summer will pass without incident.

Mr. Hoyt reported that the Committee is recommending Board approval of three joint use and one non-joint use action items. There was ample justification provided to the Committee following long discussion on the non-joint use action item, Approval to Execute Purchase of Real Estate Property, Resolution No. 14-47.

Water Quality and Water Services Committee

Reported By: Rachna Butani, Chair

Ms. Butani reported that the Committee received the update on water quality monitoring from Charles Kiely, Assistant General Manager, Customer Care and Operations. He stated that in May there were two positive test results for coliform, which represents less than one percent of the samples taken. In terms of Lead and Copper Reporting (LCR) testing, they are preparing the first LCR monitoring period report for 2014 covering January 1 through June 30. The results were at 2 parts per billion which is the lowest in D.C. Water's history and well under EPA's requirement of 15 parts per billion.

Ms. Butani indicated that the Fire Hydrant Update Program update provided by Mr. Hall showed that 74 out of over 9,400 public hydrants were out of service, which is under the target set by the Board of 1 percent.

The next presentation was provided to the Committee by Lauren Preston, Manager of Customer Services, and involved Strategic Goal No. 4 to conduct the Customer Satisfaction Survey. The survey was developed by IMPAQ, an independent, international firm. The following five customer categories will be included in the survey: Retail water and wastewater customers who pay their bills; customers who benefit from services but do not necessarily pay bills (visitors, business owners); residents of multi-family apartment buildings; commercial and office building associations, as well as restaurant operations; and environment advocacy and public health groups. Ms. Preston stated that the first three groups will be surveyed by telephone, internet, or mail. The other two groups will be surveyed by utilizing focus groups and specific mail surveys.

Ms. Butani reported that the Committee made two good suggestions. Mr. Gibbs recommended that they reach out to the construction community who actually utilizes D.C Water services through the permitting process. The second suggestions was that they utilize social media to reach the younger generation of customers who may not respond to typical mail surveys.

Mr. Kiely presented contracts for approval. The Committee spent some time discussing the fact that one of the contractors who is being awarded a contract also was part of a bid by another prime as a subcontractor. The Committee discussed whether that kind of interdependence was okay and whether it should be acceptable. They recommended that the issue be referred to the Governance Committee for consideration.

Audit Committee

Presented By: Edward Long

Mr. Long indicated that the Committee received an audit update and that nine reports were issued during 2014. Everything is in order for the overall plan in terms of the completion plan for the year. The Committee received a presentation on four audits. The Sewer Services Construction Repair Audit showed that only one trained crew was available. General Manager Hawkins reported that a second crew will be added in FY 2015. The second audit was for outside contractor management under which it was pointed out that if insurance certificates are not filed, there will be a breach of contract and action will be taken. The third was the Continuity of Operation Audit where there were some staff vacancies which had contributed to the project being behind. Staff indicated that this would receive increased attention during the rest of the year. The fourth is the Safety Compliance Audit in which it was determined that the staff is following up on identified areas. The Committee was comfortable with the progress.

On the Waste, Fraud, and Abuse Hotline, 16 of the 19 cases have been investigated and 3 are still under review.

Finance and Budget Committee

Report By: Timothy Firestine, Chair

Mr. Firestine reported that the Committee reviewed the May 2014 Financial Report and that with 67 percent of the fiscal year completed, the receipts are on target at 68 percent. Operating expenditures are about 63 percent. The Capital Improvement Program expenditures are ahead of schedule at 83 percent. Cash reserves are at \$183.5 million, with the policy level being ahead at \$125 million.

The projections for 2014 are showing a projected operating surplus of about \$29.8 million and the Committee reviewed management's recommendations for using the overage. They include increasing the wholesale customers refund by \$400,000; transferring \$7.7 million to the PILOT Reserve Fund; transferring an amount to make the Right-of-Way Fund equal \$5.1 million; increasing contributions to PayGo by \$600,000; and taking the balance and maintaining working capital of \$16 million by having that above the normal Operation and Maintenance (O&M) Reserve. Mr. Firestine stated that the Committee recommended approval of the plan.

The Committee received an update on D.C. Water's participation in the PEPCO rate increase. D.C. Water is working with PEPCO to try to make rate increases more realistic in terms of relating to an overall rate of return of 8.03 to 8.23 percent, based on an increase in return equity of 9.5 to 10.25 percent. Mr. Firestine reported that the challenge with that is the way the rate structure currently works. For PEPCO to get that return on investment, the commercial customers subsidize the rate increase so that there is less of an impact on residential. Mr. Firestine indicated that the outcome was that PEPCO pared the rate increase and increased the burden on the residential to try to start working on eliminating some of that subsidy.

General Manager Hawkins added that if requested, this can be discussed in more detail at the upcoming Governance or Finance and Budget Committee meetings so that the existing concerns and confusion can be resolved. He clarified that the issues that are being taken on were taken on by the Public Services Commission and supported by D.C. Water. They have been concerned with the rate of return PEPCO guarantees to its investors, not to rate payers.

Mr. Firestine reported that the Committee discussed an amendment to the Ceridian contract related to upgrading the HR Payroll System. This is a sole source request because it is the most cost effective approach since there is some urgency to migrate to the new system by January 2015. The full procurement would have taken 18 to 24 months. The Committee recommended Board approval.

On the insurance renewal, the renewal on all property, workers compensation, public officials' liability, excess liability, and crime and fiduciary insurance coverage was up on July 1, 2014. Staff had anticipated a rate increase of about nine percent, but based on good negotiating, it came in at about one percent.

Mr. Firestine stated that the Committee reviewed the bond financing documents and recommended that the bond financing and all the resolutions associated with it be approved. All three rating agencies have confirmed D.C. Water's rating and given a stable outlook.

Mr. Roth raised an issue concerning the request to approve transfers to the Pilot Reserve Fund and the Right of Way Fund which will mean that \$30 million will be in one fund and \$5.1 million in the other. The Right of Way Memorandum of Understanding expired in 2013. Mr. Roth stated that negotiations

and discussions on both funds with the District Government have been going on since 2007 when he joined the Board. He asked that the staff prepare a chronology of at least two years containing dates of actual meetings, actual emails correspondence, discussions that reflect the negotiations for presentation at the July 22nd meeting of the Retail Water and Sewer Rates Committee. Mr. Roth said that he was concerned that the negotiations seem to go nowhere and since there would be a change in Administrations, he wanted D.C. Water and the District Government to focus on the issue. He asked that everyone be prepared to discuss these issues at the July 22nd meeting and to postpone voting on the two renewal resolutions on the funds.

General Manager Hawkins reported that in the last ten days there has been tremendous progress made and that he is hopeful that they will have something to report at the July 22nd meeting. He agreed to provide an update then.

Mr. Roth also asked for a briefing on the PEPCO issue and why D.C. Water was involved so that there will be a better understanding. He asked if this could be presented at the end of the next Governance Committee meeting. Second Vice Chairman Long asked if this was agreeable and the reply was affirmative.

Mr. Anderson spoke about the PEPCO issue and the fact that Exelon Energy was acquiring PEPCO within the year. He stated that the District Department of Energy (DDOE) has been tasked with ensuring that the District gets essentially the best deal possible out of the process. As Director of DDOE, he invited D.C. Water to join in the first working group meeting on July 8th as they bring together the sister agencies and other important stakeholders to discuss the acquisition. Mr. Hawkins thanked him and indicated that as one of PEPCO's largest customers, it is very important that the acquisition be done properly since the energy costs are passed on to everyone several times over.

General Manager's Report

Presented By: George Hawkins, General Manager

Mr. Hawkins thanked the Board members for their support of the First Street Tunnel Project making the it possible and the Mayor and other city officials who attended the First Street Tunnel kickoff. He stated that the project highlights how everyone works together on these major challenges and delivers for the people D.C. serves.

Mr. Hawkins announced that he and Chief Financial Officer Kim were flying out to meet with investors to persuade them to invest in the Enterprise, following the Board and staff's tremendous in-depth work to get the rating agency reviews that were sought.

With the conclusion of the D.C. town halls, the staff is working to respond to every question and issue raised by customers. Mr. Hawkins stated that the responses will be sent out to everyone who provided contact information. This will be provided to the Retail Rates Committee for their July meeting.

General Manager Hawkins stated that it was his privilege to welcome new members of the management team through promotions within and new hires. New management team members include Karl Jameson promoted to Foreman in the Electrical area, Department of Maintenance Services; and William Adams, promoted to Supervisor in Process Control Maintenance, Department of Maintenance.

Consent Items (Joint Use)

Second Vice Chairman Long asked for a motion to approve the joint use items. Mr. Firestine moved to approve Resolutions Nos. 14-38 through 14-46 and it was seconded. The motion to approve Resolution Nos. 14-34 through 14-46 was unanimously approved by the Board.

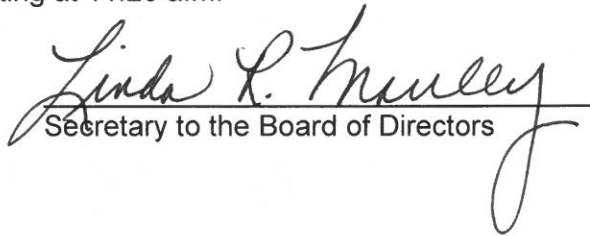
Consent Items (Non-Joint Use)

Second Vice Chairman Long asked for a motion to approve non-joint use items. Mr. Roth moved to approve Resolution Nos. 14-47, 14-48, and 14-49 and it was seconded. The motion to approve Resolutions Nos. 14-47, 14-48, and 14-49 was unanimously approved by the District members of the Board.

Mr. Hayman, General Counsel, stated that a motion was needed to move into Executive Session to discuss legal, confidential, and privileged matters pursuant to Section 2-575(b) of the D.C. Official Code. Following a vote by roll call, it was so moved. The Board went into Executive Session at 10:16 a.m.

The Board reconvened the public meeting at 11:15 a.m.

Second Vice Chairman Long adjourned the meeting at 11:20 a.m.


Secretary to the Board of Directors