



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Thursday, July 26, 2012

11:00 a.m.

MEETING MINUTES

Committee Members in Attendance

Timothy L. Firestine, Chairperson
James Patteson
Alethia Nancoo
Samuel Wynkoop

DC WATER STAFF

George Hawkins, General Manager
Randy Hayman, General Counsel
Olu Adebo, Chief Financial Officer
Leonard Benson, Chief Engineer
Robert Hunt, Treasury & Debt Manager
James Myers, Capital Budget Manager
Salil Kharkar, Process Engineering Manager
Chris Peot, Biosolids Manager
Linda Manley, Board Secretary

Other Presenters & Guests

Chris Lover, Public Financial Management (PFM)

Call to Order

Chairperson Timothy Firestine called the meeting to order at 11:00 a.m.

June 2012 Financial Report

Mr. Olu Adebo, Chief Financial Officer, reported that with 75 percent of the fiscal year completed, revenues and expenditures were on track with budgetary expectations. Revenues were at \$39.9 million or 72.7 percent, operating expenditures at \$271.6 million or 65.4 percent and capital disbursements at \$347.7 million or 65.4 percent of the respective revised budgets.

With the Committee's approval, Mr. Adebo continued the financial report by exception, highlighting relevant variances in the Operating Revenues and Receipts. Mr. Adebo reported one major variance in revenues was within the Residential, Commercial and Multi-Family category which were slightly under budget due to lower consumption but anticipates some recovery during the upcoming peak months. Therefore there is no major concern at this time. Mr. Adebo also indicated the Rate Stabilization Fund category continues to lag below budget but is anticipated to be transferred in August.

In response to Mr. Firestine's inquiry on the status of the disputed payments from the District Government, Mr. Adebo reported that staff continues to meet with the District to resolve this dispute and he anticipates a resolution of this issue before the end of the fiscal year.

Continuing with the financial report, Mr. Adebo reported that there are no particular issues or concerns so far regarding Operating Expenditures and Capital Disbursements.

Mr. Adebo reviewed the rest of the report with particular note to the recently issued Request for Proposal (RFP) for bond counsel services, which generated nine responses from interested firms. All responses are being reviewed by the evaluation panel.

Mr. Robert Hunt, Treasury and Debt Manager, presented the investment performance report stating that the portfolio continues to be diversified, overall yield was 35 basis points and total value was at \$552 million for the month of June.

Debt Policy & Market Update

Mr. Hunt provided a brief overview of DC Water's Debt Policy and Guidelines, highlighting that this is a draft document still being edited by staff and the consultants. In light of the extensive documentation and to provide board members time to review the draft, the policy will be presented to the Finance and Budget committee again in September. At the suggestion of Mr. Firestine, this document should be brought forward to the full board for approval once completed and vetted by the Finance and Budget committee.

Mr. Chris Lover, Sr. Consultant with Public Financial Management (PFM) provided an update on the Municipal Bond Market and current events affecting the financial markets. Mr. Lover explained the current interest rate environment for municipal issues. Tax-exempt rates continue to be at an all time low. DC Water issued variable rate bonds in 2012 with interest set at spread to the SIFMA Index. The current SIFMA index is at .16 bps. DC Water three-year SIFMA notes are trading at .16 bps plus .48 bps = .64 bps and our four-year SIFMA notes are trading at .16 bps plus .58 bps = .74 bps. The SIFMA Index rate resets each week. Mr. Lover also commented on the recent municipal bankruptcies in California and Rhode Island. These bankruptcies were caused mostly by pension burdens, labor costs, the impact of the downtrend in the economy and potential malfeasance. Thus far, the bankruptcies have had little or no affect on the financial markets and no affect on DC Water credit. Staff will continue to monitor the situation and when appropriate communicate DC Water's strong credit position to investors. In addition, Mr. Lover commented on the recent LIBOR rate fixing in England. Barclays and other banks have admitted or alleged to have engaged in fixing of LIBOR at below-market rates beginning in the 2005 – 2010 timeframe. This has limited impact on DC Water. Staff will continue to monitor the situation including any potential lawsuits affecting banks in our underwriting pool.

Biosolids Project Financial Update

Mr. George Hawkins, General Manager, introduced and thanked the Biosolids teams and continued to provide the background overview on the Biosolids project. Mr. Hawkins indicated that DC Water treats 300 million gallons of wastewater per day that generates approximately 1200 wet-tons of biosolids. The Authority spends approximately \$37 million for treatment and disposal of biosolids, which includes \$20 million alone in transportation cost. Mr. Hawkins continued by briefly providing highlights of the benefits to be undertaken by this project, which includes an operating savings of \$15-\$30 million per year.

Mr. Salil Kharkar, Process Engineering Manager, Mr. James Myers, Capital Budget Manager and Chris Peot, Biosolids Manager, continued the presentation by providing a project schedule status, the financial impacts and future opportunities for the production of the Class A biosolids. Mr. Kharkar

provided an overview of DC Water's Biosolids Management Program and reviewed the project status, indicating that through the third quarter of FY 2012, all construction contracts have been awarded with final contract completion scheduled for late FY 2014. Mr. Kharkar discussed the cone of estimate uncertainty, pointing out that original estimates made during the design phase, offered less certainty as compared to the FY 2012 project estimates that benefit from experience learned throughout the design phase and now into the construction phase, where project estimates are more precise. Mr. Myers provided an overview of the current projections, which are approximately \$53M above the original FY 2009 estimate. Although capital costs have increased, based on a more favorable financing market, estimated debt costs have decreased by \$7.8M. Mr. Myers noted that this is the first zero base cost model for Biosolids and this model will be replicated plant wide. The prior 2009 comparative model was built to compare different biosolids treatment alternatives and accordingly costs common to all alternatives were not considered. Mr. Kharkar provided greater detail on estimated variances which included increases of \$5M for Combined Heat and Power Operations; staffing and material increases \$3M; electricity usage estimated for additional process (\$1M); increased chemical dosage and additions \$.5M, and land application costs remain the same. Finally, Mr. Kharkar provide comparisons of the FY 2012 project model vs. Lime (2009 Model) for operations and maintenance costs and capital costs, all of which still endorse the value of the biosolids program and significant savings when compared to the lime option model. Chris Peot discussed future opportunities for Class A Biosolids, the result of the biosolids program, risk mitigation, and challenges associated with reliance on land application. He discussed the potential to market Blue Plains Class A biosolids, uses and potential revenue sources.

Agenda for September Committee Meeting

The Committee approved the September agenda as presented.

Adjournment

Hearing no further business, Chairperson Firestine adjourned the meeting at 12:30 p.m.

Follow up Items

1. Expand and incorporate a comprehensive derivatives policy within the Debt Policy and Guidelines document. **(Mr. Firestine)**
2. Consider the Bond Counsel to include serving as the Disclosure Counsel as well to the Authority. **(Ms. Nancoo)**
3. Provide financial update on the Biosolids Project. **(Ms. Nancoo)**