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**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

Finance and Budget Committee

## Thursday, July 24, 2014

*11:00 a.m.*

MEETING MINUTES

**Committee Members in Attendance DC Water Staff**

Timothy L. Firestine, Committee Chairperson George Hawkins, General Manager

James Patteson, Fairfax County Mark Kim, Chief Financial Officer

Robert Mallett, District of Columbia Randy Hayman, General Counsel

Gail Alexander-Reeves, Director, Budget

Robert Hunt, Director, Finance (Acting)

Linda Manley, Secretary to the Board

**Other Presenters and Guests**

Daniel Hartman, Public Financial Management (PFM)

**Call to Order**

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

**June 2014 Financial Report**

Ms. Gail Alexander-Reeves, Budget Director, provided several highlights for the month, including the first week of E-payables enrollment, which kicked off in June, and resulted in 25 vendor payments. The Wholesale Customers Briefing meeting held on July 18th, which included a riding tour of the digester facilities and a briefing of the FY 2014 performance and FY 2015 projected budgets, was well attended.

Ms. Alexander-Reeves reported that with approximately 75 percent of the fiscal year completed, receipts and operating expenditures were within budgetary expectations with capital disbursements trending higher than budget. As of the end of June 2014, cash receipts totaled $347.1 million, or 74 percent of the revised FY 2014 budget and operating expenditures totaled $316.8 million, or 72 percent of the revised budget. The spending trend for capital disbursements totaled $507.6 million or 91 percent of the disbursement budget and are consistent with projections reported in prior months.

Additional electric loads were purchased by staff with approximately 90 percent of the Authority’s electric needs purchased for the remainder of FY 2014 and 50 percent for FY 2015. Staff continues to monitor the futures market with intent to purchase additional electric loads for FY 2015.

**Cash Reserves and Investments**

Mr. Robert Hunt, Acting Finance Director, reported that as of June 30, 2014, Operating Cash balance (including the Rate Stabilization Fund) was $190.3 million. The total of all funds available is $252.6 million, consisting of $190.3 million in operating cash, $23.5 million in the Debt Service Reserve, $1.7 million in capital interest, and $37.1 million in CSO Grant Fund. He noted that operating reserve balance remained at $135.2 million which is above the reserve objective level of $125.5 million. Public Financial Management – Asset Management (PFAM) has now invested approximately $60 million of operating reserve funds and will manage the proceeds from the 2014A&B bond sales. The Authority’s staff will continue to manage the bank depository accounts. All investments are in compliance with the Authority’s investments policy and the investments exceed the short and long term funds.

**Revised FY 2015 Budget Proposal**

In presenting the Revised FY 2015 Budget, Mr. Kim, Chief Financial Officer, reported that the revised budget is the same as the Board-approved budget that had was adopted in December 2013. He noted that no additional Board action was needed; however he did want to provide an update. General Counsel, Randy Hayman concurred that no additional Board action was needed based on his research. Mr. Kim explained that while the expenditures and projections remained consistent with what was reported earlier in the year, the revenue projection increased slightly above what was reported by approximately 4 percent. Chairman Firestine requested that FY 2014 revenue projections be included when presenting the FY 2015 revised budget going forward.

Mr. Kim noted that the revised CIP projected disbursements had been updated with the most current figure but essentially remained consistent with the initial CIP disbursements projections. He stated that the 10 year CIP plan (FY 2015 – FY 2024), inclusive of the updated figures, will be presented to the Committees and the Board later this fall. Finally, Mr. Kim explained that the three primary areas of operational risks from a cash flow standpoint, in FY 2015, are as follows:

1. Chemicals and utilities (higher price volatility and Plant flows),
2. Contractual services (biosolids production and hauling, claims and litigation), and
3. Debt service due to bond deal (higher interest rates).

Mr. Kim reported that an update on contractual services budget is planned for the Committee meeting in September regarding some of the delays that have been noted with the Digester Project and the potential impact on the FY 2015 operating budget, if any.

General Manager, George Hawkins noted that the DC Retail Water & Sewer Rates Committee approved the retail rates and fees that support the FY 2015 revised budget.

**Bond Financing**

The Committee received an update on the recent bond sale for the Series 2014A&B bonds from CFO Mark Kim and the Authority’s financial advisor Daniel Hartman of Public Financial Management (PFM).  The 2014 bond sale was a tremendous success and has received much publicity.  The 2014A bonds have a maturity of 100 years and are referred to as “century bonds”.    DC Water is the first public utility to issue century bonds and the first certified “Green Bond” sold in the U.S.  The offering was for $350 million and over $1 billion in orders from 36 investors were received.  As a result, DC Water achieved an interest rate of 4.814 percent on the 2014A bond series.  The Authority also sold $100 million in variable rate demand bonds which were also very attractive to investors.  The initial interest rate on the 2014B bonds is seven (7) basis points = .0007 percent.  Interest rate on the variable rate bonds is reset each week based on the SIFMA index rate.

**Follow-up Items**

1. Provide copies of the write-ups from investors regarding the century bonds **(Mr. Firestine)**
2. Provide a breakdown of expenses related to the bond sale **(Mr. Firestine)**

**Adjournment**

Hearing no further business, Chairperson Firestine adjourned the meeting at 12:48 p.m.