



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Thursday, June 28, 2012

11:00 a.m.

MEETING MINUTES

Committee Members in Attendance

Timothy L. Firestine, Chairperson
James Patteson
Joseph Cotruvo
Alethia Nancoo

DC WATER STAFF

George Hawkins, General Manager
Randy Hayman, General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Finance and Budget Director
Robert Hunt, Treasury & Debt Manager
Tanya Deleon, Manager, Risk Management
Rosalind Inge, Procurement Director

Other Presenters & Visitors

Joe Underwood, Albert Risk Management Consultants
Bruce MacDonald, Albert Risk Management Consultants
Ms. Suzanne Shank, President/CEO of Seibert Brandford Shank & Co. LLC

Call to Order

Chairperson Timothy Firestine called the meeting to order at 11:05 a.m.

May 2012 Financial Report

Ms. Yvette Downs, Finance and Budget Director, reported that with 67 percent of the fiscal year completed, revenues and expenditures were on tract with budgetary expectations. Revenues were at \$287.3 million or 67.4 percent, operating expenditures at \$240.1 million or 57.8 percent and capital disbursements at \$300.5 million or 56.5 percent of the respective revised budgets. The average daily balance for the month of May 2012 was above the target at \$159.3 million.

Ms. Downs reported that revenues from the Residential, Commercial and Multi-Family customers continue to trend below budget due to lower consumption but anticipates some recovery during the summer months. In response to Ms. Nancoo's inquiry on the status of the disputed payments from the District Government, Mr. Adebo, Chief Financial Officer, reported that staff continues to work with the District to resolve the questions surrounding the consumption at St Elizabeth's Hospital versus consumption attributable to the ongoing construction activities. CFO Adebo stated that DC Water's engineering staff is currently reviewing the District's engineering assessment of the water usage and he anticipates resolution of the issue before the end of the fiscal year.

In response to Committee questions regarding the PILOT expenditure accruals, it was noted that an update of the PILOT payment and rates was provided to the DC Retail Water and Sewer Rates Committee. Mr. George Hawkins, General Manager, added a short briefing to the Finance and Budget

the Committee on the status of the PILOT negotiations. Mr. Hawkins reported that all parties to the agreement are aware that the current MOU will expire in 2013. The cash PILOT payment to the District continues in line with Board's directive to remain at the FY 2007 level. However, the PILOT expenditure budget has increased over the years, with the costs accrued and the variance held in escrow pending resolution of outstanding concerns. The DC Retail Water and Sewer Rates Committee has recommended that the FY 2013 budget be frozen at the FY 2011 budget level. Ms. Nanchoo inquired about Management's contingency plan should the MOU expire without any resolution. Mr. Hawkins reported that the options would be to either continue making payments at the FY 2007 level or stop making payments to the District. Mr. Adebo reported that in addition to the PILOT, the District now charges DC Water for permits and other activities that were exempt in the past, which essentially constitutes duplication of payment by DC Water. CFO Adebo also reported that the District has been notified of the Board's decision to lower the FY 2012 budget for the PILOT fee.

Continuing with the financial report, Ms. Downs explained that the lag in the capital disbursements spending is in the Wastewater Treatment, Sanitary Sewer and Washington Aqueduct service areas. Under spending in the Wastewater service area is the result of spending variations in the solids processing program, specifically in the digesters project. Ms. Downs reported that all contracts have been awarded for the Digester Project and an update on projected spending would be included in the revised CIP budget proposal to the Committee in the fall.

Ms. Downs reported that accounts receivable was at \$5.5 million and is below the target of 3 percent at 1.7 percent of total billable.

Mr. Robert Hunt, Treasury and Debt Manager, presented the investment performance report stating that the portfolio is diversified, overall yield was 34 basis points and total value was at \$598.7 million for the month of May.

FY 2013 Revised Budget

General Manager Hawkins presented an overview of the revised FY 2013 budget proposals. He updated the Committee on the recommendation from the DC Retail Water and Sewer Rates Committee's for PILOT collection at the FY 2011 level, which totals \$16.9 million. With this recommendation, the revised FY 2013 budget would be lower than the proposal originally transmitted to the Committee at \$440.3 million rather than \$442.7 million. A revised FY 2013 budget of \$440.3 million represents a \$16.5 million decrease from the Board-approved budget of \$456.8 million. The reductions are primarily from lower debt service, electricity and water purchase costs consistent with current projections. Mr. Hawkins stated that the revised FY 2013 budget proposal is \$25 million above the revised FY 2012 budget of \$415.4 million. The major drivers are the increased debt service cost (\$18.7 million) associated with the expanding capital improvement program and personnel services cost (\$5.5 million) attributable to in-sourcing proposals in support of the capital program. These increases are offset by a decrease in utilities (\$3.3 million) consistent with revised projections.

Mr. Adebo reviewed the various expenditure and revenue assumptions included in the budget proposal. Responding to Ms. Nanchoo's question, Mr. Adebo stated that staff anticipates new bond issuance in the latter part of 2013 contingent upon the spending under the capital improvement program.

In response to Mr. Cotruvo's inquiry, Mr. Adebo provided detailed explanation on the drivers of the projected FY 2012 cash surplus of \$20.5 million above the operating reserve requirement. Mr. Hawkins stated that the DC Retail Water & Sewer Rates Committee approved management's recommendation for use of the excess cash as follows:

- \$5.8 million refund to wholesale customers;
- \$5.0 million transfer to PAYGO;
- \$5.5 million transfer to the Rate Stabilization Fund; and
- \$4.2 million in rebates to retail customers.

Mr. Hawkins explained that the rebates are anticipated in the form of a credit on customers' bills in late calendar year 2012 or early 2013. Mr. Cotruvo suggested that since the rebate program is a stellar event for the Authority, management should ensure public awareness of steps taken by the Authority to reduce customer financial impacts during these tough economic times.

Mr. Hawkins stated that the reduced FY 2013 revenue requirement is \$10.5 million below the Board-approved operating revenues of \$460.2 million (prior to adjustments for the lower PILOT budget and offsetting revenues). This would result in:

- \$2.5 million reduction in the wholesale customers' share of cost;
- \$3.9 million permanent reduction to buy down Clean Rivers IAC by \$1.1 million and retail rates by \$2.8 million (from 6.5 percent to 5.5 percent); and
- \$4.1 million transfer to RSF.

Chairman Firestine inquired about the impact of the reduced revenue on the PILOT based on the recommendations. Mr. Adebo stated that DC Retail Water & Sewer Rates Committee adjusted the recommendation on the FY 2013 PILOT rate from \$0.52 per Ccf to \$0.50 per Ccf.

Mr. Adebo informed the Committee that the FY 2014 Proposed Operating Budget development is underway and management anticipates submitting its proposal to the full Board at its October 4, 2012 meeting, with subsequent reviews by the respective committees through December 2012.

Insurance Renewal Update

Ms. Tanya DeLeon, Manager Risk, provided a summary of the insurance renewal program. Chairman Firestine asked about the basis for the \$100 million excess liability policy relative to the cost of insurance. Mr. Joe Underwood, Albert Risk Management Consultant, explained that the considerations include cost affordability for the carrier and benchmarking DC Water with similar entities both locally and nationally. Mr. Underwood also reported that based on the risk assessment evaluation of exposure undertaken, the insurance advisors noted that DC Water, unlike other utilities, does not have a cap on lawsuits that can be brought against it.

Ms. Nancoo asked about the impact of the insurance renewal effective July 1, 2012 on prior year's insurance premiums. Ms. Tanya DeLeon reported that the 6 percent increase is driven by the increasing operational exposures consistent with personnel services budget increase year to year.

Rolling Owner Controlled Insurance Program (ROCIP) Briefing

Ms. Tanya DeLeon reported that a Broker/Administrator has been selected for the ROCIP 3 and management anticipates a 2-3 year program to commence in October 2012. Ms. DeLeon provided highlights of the ROCIP 3 tasks and milestones, reporting that management plans to submit the premium cost of the program for the Committee's review and recommendation in September 2012.

Mr. Patteson asked about the frequency of reporting to the Committee on the estimated savings from undertaking the ROCIP program versus the contractors purchasing their individual insurance coverage. Mr. Adebo explained that in addition to collection of data, a stewardship report is issued quarterly to management, which forms the basis of the program performance briefing to the Committee, which is provided once a year. Mr. Adebo asked whether the Committee would prefer to receive more frequent reports that once a year, to which Mr. Patteson responded that once a year is acceptable.

Action Items

In discussing the Insurance Brokerage and Administrative Services for ROCIP III action item, Mr. Cotruvo asked about the wide range of the bid proposals received, the basis for selection of the final bidder and the high cost of the broker services. CFO Adebo explained that the cost also includes services for safety & loss prevention and that the final bid selection is based on the best value for the service and not necessarily the broker cost. Ms. Rosalind Inge, Procurement Director, further explained that the procurement process is transparent and includes technical evaluation of all responsive bids and a separate competitive range from which the selected contractor was the lowest bidder.

The Committee members recommended all the actions items for Board approval, with comments for staff to update the PILOT estimate in the FY 2013 budget proposals and confirm the user share allocation on the ROCIP fact sheets. The recommended action items were:

- FY 2013 Revised Operating Budget (**Attachment 2-A**);
- FY 2012 Rate Stabilization Fund Transfer and PayGo (**Attachment 2-B**);
- Rolling Owner Controlled Insurance Program Insurance Broker Services (**Attachment 5**); and
- Insurance Brokerage and Administrative Services for a Rolling Owner Controlled Insurance Program (ROCIP III) (**Attachment 6**)

Other Items

Mr. Hawkins acknowledged the presence of the senior underwriters to DC Water's March 2012 bond issuance at the meeting. Ms. Suzanne Shank, President/CEO of Seibert Brandford Shank & Co. LLC, reported that the significance of the successful bond issuance at the lowest cost of borrowing ever achieved on record for a similar term transaction was as a result of a targeted approach driven by the determination of DC Water's management and the Board for a rating upgrade. Ms. Shank also noted that the issuance was successful in securing at least six new investors who had never purchased bonds prior to this issuance. On behalf of the financing team, she applauded and thanked the DC Water team, and presented a plaque to Committee Chairman Firestine and General Manager Hawkins.

Adjournment

Hearing no further business, Chairperson Firestine adjourned the meeting at 12:53 p.m.

Follow up Items

1. Provide explanation for the lag in the Small Diameter Water Main Rehabilitation project in the Water service area (Mr. Firestine)
2. Provide information on the Federal Home Loan Bank (FHLB) tap bonds and the higher coupon rate of 3.125 than other funds in the portfolio. (Mr. Firestine)
3. Provide updated action items reflecting the revised budget proposals before the July 2012 board meeting (Mr. Firestine)
4. Provide summary presentation of the FY 2013 budget proposals from both Committees at the July 2012 Board meeting (Ms. Nancoo)
5. General Counsel to research into exclusion of DC Water for possibility of cap legislation on insurance lawsuits (Mr. Cotruvo)
6. Confirm if the user share allocations on the ROCIP fact sheets are in line with actual results based on the year-end audit (Mr. Firestine)
7. Provide the history of actual user allocations (Mr. Firestine)
8. Correct February to July on the agenda for the September Committee Meeting (Ms. Nancoo)