



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Board of Directors

*Finance and Budget Committee*

*Thursday, May 23, 2013*

11:00 a.m.

## MEETING MINUTES

### **Committee Members in Attendance**

Timothy L. Firestine, Committee Chairperson  
James Patteson, Fairfax County  
Adam Ortiz, Prince George's County  
Alethia Nancoo, District of Columbia  
Bradford Seamon, Prince George's County

### **DC Water Staff**

George Hawkins, General Manager  
Mark Kim, Chief Financial Officer  
Tanya DeLeon, Risk Manager  
Yvette Downs, Director Finance & Budget  
Meena Gowda, Principal Counsel  
Randy Hayman, General Counsel  
Robert Hunt, Treasury and Debt Manager  
Linda Manley, Secretary to the Board  
David McLaughlin, Director of Engineering

### **Other Presenters & Guests**

Joe Underwood, Albert Risk Management

### **Call to Order**

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

### **April 2013 Financial Report**

Ms. Yvette Downs, Finance and Budget Director, reported that with 58 percent of the fiscal year completed, revenues and expenditures were on track with budgetary expectations.

Revenues through April totaled \$260.7 million or 58 percent of the revised budget. Ms. Downs noted that the DC Municipal account is below target and it is anticipated that this account will remain lower than expectations due to the transfer of the meter from the District Government to a commercial account held by the federal government (GSA on behalf of Homeland Security). Mr. Firestine requested that staff identify the exact amount of the St. Elizabeth revenue that is now reflected in the Commercial account and requested a DC Government revenue account reconciliation to fully understand the effects of this dispute on District revenue and any other items that are affecting the District revenues and revenue projections.

Ms. Downs reported that Operating Expenditures were \$217.1 million or 49 percent of the budget with 58 percent of the fiscal year completed. Ms. Downs noted that overtime continues to trend high, but that budget staff is closely monitoring the situation and projects that total expenditures for personnel services will be within budget.

Capital spending through April was \$276.2 million or 43 percent of budget. The spending variance between the FY 2013 revised budget and actual was primarily due to decreased spending on a year to date basis in all service areas.

At the end of April, DC Water had an operating reserve balance of \$149.7 million. The average daily operating reserve balance was \$172.8 million. The Rate Stabilization Fund remained unchanged at \$27.9 million; the DC PILOT Fund also remained at \$14.5 million. Total cash balances (including construction funds) were \$369.9 million.

Mr. Robert Hunt, Treasurer and Debt Manager, reviewed the monthly investment report with the Committee. The portfolio is properly diversified and in conformance with the Board adopted Investment Policy. The monthly overall return for April was 0.38%. During April the Authority purchased \$30 million of commercial paper with maturities of 2 to 5 months with an average yield of 0.18%. So far in May the Authority has purchased \$20 million commercial paper with maturities of 90 – 120 days with an average yield of 0.16% and a 3 year federal agency note at 0.423%.

### **FY 2013 Projections**

Mr. Mark Kim, Chief Financial Officer, reported that through April revenues totaled \$260.7 million or 58.3% of budget and projected total operating revenue for FY 2013 at \$453.9 million or 101.2% of budget. Mr. Kim further reported that expenditures totaled \$217.1 million or 49% of budget and projected total operating expenditures for FY 2013 at \$399.9 million or 91% of budget.

The three largest sources of the variance were contractual services, utilities and debt service. Lower spending on contractual services was primarily due to contract bids coming in lower than anticipated. Utility expenditures, primarily driven by electricity costs, were another large source of variance, as was debt service expenditures due to interest rate assumptions. Ms. Nanchoo questioned whether there was a historical trend of over budgeting for contractual services and Mr. Kim responded that more accurately budgeting contractual services is a top priority for the FY 2014 revised and FY 2015 proposed budgets. While acknowledging the variance as too large, Mr. George Hawkins, General Manager, noted with the concurrence of Mr. Firestine that the Authority must, to some degree, budget conservatively due to the nature of DC Water's Congressional budget approval process and the inherent uncertainty in certain line items.

Mr. Firestine asked for an explanation of why the variance in personnel services charged to capital projects was so high. Ms Downs responded that labor is charged to capital projects based on the projects to which staff are assigned, as well as charges made directly to capital job numbers for special assignments. The budget was developed based upon past experience, as well as anticipated new hires. To the extent that vacancies exist in positions that were to support the capital program, then associated personnel charges to capital will also fall below expectations. Mr. Firestine requested that a review of the charges be conducted to ensure that personnel services are properly be accounted for between operating and capital budgets.

Regarding capital disbursements, Mr. Kim reported that through April actual disbursements totaled \$276 million or 43% of the budget. He noted that the FY 2013 projection is \$549.1 million which is 15% or approximately \$95-\$100 million below the FY 2013 revised budget. Mr. Firestine asked questions concerning the contracting delays at the Washington Aqueduct. Ms. Downs responded that manpower and contracting issues delayed several contracts most likely into the next fiscal year which contributed to the projected variance.

Mr. Kim concluded that higher revenues (1.5% over budget) combined with lower than anticipated expenditures (9% under budget) are the primary drivers of the \$40 million in projected excess cash and that recommendations for redeploying this operating surplus will be made at the Committee's next meeting in June.

### **CIP Quarterly Update**

Mr. David McLaughlin, Director of Engineering & Technical Services, reported that current projected CIP disbursements are \$525,844,000, which represents 87% of the baseline disbursement projections of \$606,716,000. This represents an \$81 million shortfall. He reported that current disbursements are slightly lower across all major program areas: wastewater (\$313,172,000 or 87%); CSO (\$145,810,000 or 89%); storm water (\$2,670,000 or 82%); sanitary sewer (\$24,456,000 or 84%); and water services (\$39,736,000 or 76%).

Mr. McLaughlin reported that the Waste Water Treatment Service Area disbursements have been lower than forecast for all programs in this area. The principal drivers are the Enhanced Nitrogen Removal Facilities (ENRF) and the Solids Processing Programs (Digester Project). He noted that all major components are on schedule and that it is only a shift of when those activities are taking place. Some non-critical activities will be delayed until the next fiscal year while all critical-path activities remain on track. All major components are also on schedule for completion per the original baseline schedule.

Other significant disbursement shortfalls are attributable to the following areas:

- Clean rivers program variances are largely due to schedule delays associated with concrete quality issues on the Blue Plains tunnel.
- Sewer services project variances are primarily a result of increased in-house sewer lateral rehabilitation.
- Water services disbursement variances are primarily driven by lower than anticipated breaks, as well as on-going water distribution and DDOT water programs delays.

Mr. McLaughlin reported that only one of the CIP's Key Performance Indicators (KPI), which measures the completion of critical project milestones for large capital projects during the year, was not met. The Construction Substantial Completion Milestone for Biosolids Final Dewatering contract 1C was not met due to failure of the chemical metering pumps within the odor control system. However, he noted that this delay had no impact on the overall Biosolids Program.

Critical project milestones include: design starts, construction starts, and construction substantial completions. Mr. Bradford Seamon requested that a new KPI be presented with the next quarterly CIP update showing the number of projects failing to achieve Critical Project Milestones.

### **Insurance Renewal Update**

Ms. Tanya DeLeon, Risk Manager, reported that the Authority is on track to renew its Property & Equipment, Excess Auto/General Liability, Workers Compensation, Public Officials' Liability, Crime and Fudiciary insurance by July 1, 2013. She also reported that an anticipated 16% increase in total premiums at the beginning of the fiscal year is now expected to be approximately 11%.

## **Legal Update**

General Counsel, Randy Hayman briefed the Committee on the current status of procuring legal services. Mr. Hayman noted that certain goods are exempt from the competitive bidding process per DC Water's Procurement Regulations. Legal Services are included as one of the services that is exempt. He added that other jurisdictions and utilities follow a similar practice including: Fairfax Water, WSSC, Loudon, Fairfax County and Prince George's County. Further, he noted that exemptions are necessary because of the unique nature of the services (i.e., DC Water needs flexibility to select lawyers whose experience best fits the various, diverse issues it confronts in a timely manner). Mr. Hayman noted that for the past two years OGC has used a selection process that allows outside firms to demonstrate their expertise and how they can best serve the Authority based primarily on: 1) Experience of the firm in the specific required area; 2) Depth of experience of the attorneys handling the matter; and 3) Hourly rates. Mr. Hayman indicated that OGC contacts firms to request proposals when needed. Ms. Nancoo expressed concern that the Authority may not receive the most competitive rates, the most experienced counsel or provide the best access to potential, qualified vendors since DC Water does not solicit competitively. Ms. Nancoo indicated that a public RFP would address these concerns. Board member Bradford Seamon agreed, and noted that an RFP process would allow DC Water to have a "bench" of qualified applicants from which to choose from. Mr. Hawkins expressed concerns with changing the process and noted logistical challenges associated with a bidding process, and also raised concerns with shifting firms away from counsel with demonstrated knowledge, experience and history with ongoing issues. When asked by Ms. Nancoo, Chief Financial Officer, Mark Kim, indicated that attorneys associated with the bond deals are selected through an RFP process because it is a limited project, requiring a specific skill set over a set period of time. Mr. Hayman noted that this is not the case in general civil litigation matters, where a bidding process can lock-in a limited number of firms and hinder DC Water from being able to remain nimble in reviewing the unique facts associated with each case and ultimately selecting the firm with the best experience and track record confronting a given specific legal issue. Ms. Nancoo repeated that an RFP process would open opportunities. Mr. Hayman indicated that the Authority can switch to an RFP type process whereby a solicitation for legal services under various categories can be distributed.

## **FY 2013 Bond Update**

Mr. Kim briefed the Committee on the upcoming bond financing, which is scheduled for a mid-July pricing. Bond related documents will be presented to the Committee for approval at the next meeting in June. The size of the bond sale was originally set at \$400 million. Given the magnitude of under-spending in capital disbursements to date, finance staff is actively monitoring the situation and will recommend a target deal size at the next meeting.

## **Action Item**

### **Approval for Legal Services**

The Committee recommended the contract action for Dorsey & Whitney be forwarded to the Board for approval pending clarification to the fact sheet.

## **Adjournment**

Hearing no further business, Chairperson Firestine adjourned the meeting at 12:45 p.m.

### **Follow up Items**

1. Provide Committee with a reconciliation of the revenues associated with the St Elizabeth's account. (Mr Firestine)
2. Provide the Committee with a historical review of Contractual services budgets versus actual. (Ms. Nancoo)
3. Provide the Committee with a review of labor charges to the capital program. (Mr Firestine).
4. Include KPI charts by critical project milestone along with the current KPI charts by project in future quarterly capital reports. (Mr. Seamon)
5. Solicit a qualified group of Lawyers and create a panel or a bench from which to choose from. (Ms Nancoo)