



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Thursday, November 29, 2012

11:12 a.m.

Committee Members

Timothy L. Firestine, Chairperson
Alethia Nancoo
Bradford Seamon

DC WATER STAFF

George Hawkins, General Manager
Yvette Downs, Chief Financial Officer, Acting
Randy Hayman, General Counsel
Robert Hunt, Treasury & Debt Manager
Linda Manley, Board Secretary

Other Board Member

Joseph Cotruvo

Other Presenters & Guests

Dan Hartman, Public Financial Management (PFM)
Chris Lover, Public Financial Management (PFM)

Call to Order

Chairperson Timothy Firestine called the meeting to order at 11:12 a.m.

October 2012 Financial Report

Ms. Yvette Downs, Chief Financial Officer, Acting, reported that with approximately 8 percent of the fiscal year completed, revenues totaled \$41.9 million or 9.4 percent of the revised budget; expenditures were \$30.3 million, or 6.9 percent of the revised budget; and capital disbursements were \$59.7 million, or 9.3 percent of the capital disbursements budget. Ms. Downs noted that the year-to-date revenues were tracking favorably and that capital disbursements were higher than the same period in FY 2012. Absent questions from the Committee, Ms. Downs continued the financial report by exception, highlighting relevant variances in operating expenditures. Of mention were higher overtime expenditures attributed primarily to staffing for Hurricane Sandy.

At the end of October 2012, the operating reserve balance was \$137.9 million, which is above the \$125.5 million operating reserve objective. Interest income for October 2012 (on a cash basis) was tracking well with budget expectations at 8.2 percent or \$44.3 million. At the conclusion of the financial report, Ms. Downs noted other items to be discussed in the report including, the overall investment portfolio performance, debt policy and guidelines, a request for qualifications of bond underwriters, and expenditures during Hurricane Sandy for which DC Water will seek reimbursement from Homeland Security.

In response to Mr. Firestine's inquiry on the dollar amount of expenditures related to Hurricane Sandy, Ms. Downs noted that \$75 thousand is what has been reported to date. George Hawkins, General Manager, stated that the total expenditures would be verified.

Ms. Downs moved on to electricity costs, with all-in costs reported at \$76.93 per mWh. Accounts receivable, showed a slight increase in the month of October.

In response to Mr. Firestine's inquiry on FY 2012 year end closing, Ms. Downs, reported that the external auditors have started their field work of the Financial Audit and are on track to completion by mid-December. With no further questions from the Committee on the Financial Report, Ms. Downs welcomed Mr. Hunt to review the Investment Report.

Investment Report

Mr. Robert Hunt, Treasury & Debt Manager, reviewed the portfolio recap contained in the monthly investment report. He reported that the portfolio is in compliance with the Authority's investment policy and the overall yield on the entire portfolio for October was 0.42%. Mr. Hunt also reported on individual investments made thus far in November for operating funds and the construction fund. Absent questions on the Investment Report, Mr. Hunt moved on to the proposed DC Water Debt Policy and Guidelines document for the Committee's approval.

Debt Policy and Guidelines

Mr. Hunt presented a revised Debt Policy document, incorporating changes as requested from the Committee in a black lined version. Chairperson Firestine solicited the Committee for any further questions or changes to the document. Ms. Nancoo asserted that the document reflects the comments/changes as requested and supported submission to the Board for full approval. With no further concerns from the Committee, The DC Water Debt Policy with Glossary, Multi-modal (SIFMA Index) Bonds Policy, and Use of Proceeds Checklist were supported for submission to the Board for full approval.

Request for Qualifications (RFQ) – Bond Underwriters

Mr. Hunt presented, for information and discussion, a revised process for selection of underwriters in each bond transaction, noting that the RFQ has been advertised on November 29, 2012. During the RFQ process the Authority has set goals to promote competition between Senior and Co-managers to improve flexibility for each transaction and encourage innovative solutions to our financing needs. The new pool of underwriters will consist of five senior managers and ten co-managers for a total of fifteen banks. Not every bank will participate in each transaction and a total of ten banks will be selected for each transaction. Co-Managers may be elevated to the Senior pool based on their on-going support to the Authority.

FY 2014 Proposed Budget Discussion

Mr. Hawkins provided a general overview of the budget proposal included in the Committee package. The proposed FY 2014 operating budget totals \$479.5 million including capital charge backs. The FY 2014 capital lifetime budget totals \$8.4 billion, disbursements budget totals \$3.8 billion for FY 2012 – 2021, and authority request totals \$407 million. The additional FY 2014 revenue requirement would be funded through retail revenue increase of \$22.6 million. Ms. Downs provided further detailed explanation of key budget components. The proposed FY 2014 operating budget is a \$39.2 million increase above the revised FY 2013 budget of which the major drivers are debt service (\$29.1 million), personnel services (\$3.8 million), and PILOT (\$3.2 million) increases. The proposed FY 2012 – FY 2021 CIP disbursements at \$3.8 billion are the same as the Board-approved FY 2011 – FY 2020 CIP disbursements. The proposed lifetime budget of \$8.4 billion is an increase of \$429.3 million over last year's Board-approved plan and primarily adjusted for the Sanitary Sewer and Water service areas. The proposed FY 2014 authority request of \$407 million is a decrease of \$199.1 million over the FY 2013 authority request.

In response to Chairperson Firestine's inquiry for details on the headquarters building proposal, Mr. Hawkins noted that a presentation will be completed and delivered to the Committee in December. **(Follow Up)**

In response to Mr. Cotruvo's question about the basis for the PILOT assessment, Ms. Downs explained that the current budget reflects the amount as determined by the existing Memorandum of Understanding (MOU). The MOU is tied to DC Water's percentage of rate increases for water and sewer services but not distinct consumption.

In regard to debt service assumptions, Ms. Nancoo inquired if the budget assumed a fixed rate of \$300 million in each year. Ms. Downs explained that the budget does assume a fixed rate. However, the composition of each issuance is based on anticipated capital spending each year and the proportion required to be debt financed. On average that dollar amount ranges between \$300-400 million. However in terms of frequency, issuances have not been anticipated for each fiscal year. More reasonably, the expectation is every year and a half to two years for a major issuance. Mr. Firestine asked for further detail on long-term projection for debt service requirements. **(Follow Up)**

Related to healthcare costs, Mr. Firestine asked if DC Water: 1) has wellness programs, 2) opted out or participates in mental health parity, and 3) participates in pool bidding for selection of healthcare providers. Further, Dr. Cotruvo asked how DC Water compares to US Office of Personnel Management (OPM) negotiated rates for Federal Government employees. Mr. Seamon also asked about Healthcare Reform's impact. Ms. Downs responded that she will invite the Healthcare and Benefits team to present detailed information at the Committee's next meeting. **(Follow Up)**

Mr. Firestine inquired about the revenue increase for Washington Suburban Sanitary Commission (WSSC). Ms. Downs explained that the financial presentation is intended to reflect DC Water's actual costs for biosolids hauling, and therefore the additional expense offsets the additional revenue requirement. This does not increase the total cost to WSSC. Mr. Firestine requested that this be expressly footnoted on the revenues detail page. **(Follow Up)**

Mr. Hawkins responded to Mr. Firestine's inquiry regarding DC Water's Collective Bargaining Agreement (CBA), noting the timeline is quickly approaching a conclusion of either an agreement or moving into mediation/arbitration.

Lastly, Ms. Nancoo raised a question on the status of DC Water's CFO search. Mr. Hawkins responded that DC Water has a great set of initial candidates, which the staff is in the process of narrowing down to a smaller pool. The Board will review the final pool of candidates after several rounds of vetting the by DC Water staff.

Adjournment

Hearing no further business, Chairperson Firestine adjourned the meeting at 1:15 p.m.

FOLLOW-UP ITEMS (November 29, 2012)

1. Presentation for Headquarters building proposal including justification of \$62 million proposal, funding source, an estimated completion date, and alternative solutions (leasing/phased build). **(Mr. Firestine)**
2. Graphical detail of \$105 million debt issuance assumed in FY 2015 of 10 year financial plan. Show proportion of variable rate debt in dollars, as well as, a percentage. **(Mr. Firestine)**
3. Provide details on healthcare providers, cost benchmark information, and healthcare reform impact. **(Mr. Firestine, Mr. Cotruvo, Mr. Seamon)**
4. Footnote explanation of increased revenues from WSSC on revenues detail page. **(Mr. Firestine)**