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**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

Finance and Budget Committee

## Friday, November 22, 2013

11:00 a.m.

MEETING MINUTES

**Committee Members in Attendance DC Water Staff**

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

Robert Mallett Mark Kim, Chief Financial Officer

Adam Ortiz Meena Gowda, Principal Counsel

Linda Manley, Secretary to the Board

**Call to Order**

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

**October 2013 Financial Report & Cash Reserves and Investments**

Mr. Mark Kim, Chief Financial Officer, reported that at the end of October, with approximately 8 percent of the fiscal year completed, revenues are slightly ahead with a total of $46.4 million or 10 percent of the revised budget; expenditures are slightly under budget with $31.9 million, or 7 percent of the revised budget; and capital disbursements were higher than projected with $78.7 million, or 14 percent of the capital disbursements budget. CFO Kim reported that the higher than planned capital disbursements were attributable to year-end invoices processed during the month as part of the closing process.

The operating reserve balance was $141.5 million, which is above the $125.5 million operating reserve objective. Mr. Kim completed the financial report by exception, and informed the Committee that the Wholesale Customer Briefing and Tour held on November 15, 2013. The briefing provided wholesale customers an overview of the Proposed FY 2015 Budget and update on construction activities at DC Water. In conclusion, Mr. Kim reported that the investment portfolio yielded 33 basis points in the month of October.

**Proposed FY 2015 Budget**

Mr. Kim provided a general overview of the budget proposal included in the Committee package, which included the:

* Proposed FY 2015 operating budget of $516 million
* FY 2014 – 2023 capital lifetime budget of $9.359 billion
* FY 2014 – 2023 capital disbursements budget of $3.8 billion
* Proposed FY 2015 operating revenues of $514.9 million

The major operating budget drivers which were attributable to personnel services, chemicals and supplies for new capital facilities anticipated for completion in FY 2014 and FY 2015, debt service to support the various capital projects, and Cash Financed Capital Improvements (CFCI). CFCI is a newly recommended line item to help ensure transparency, accountability and control within the budgeting process.

Mr. Firestine inquired about the increase of $4.3 million in the Personnel Services Charged to Capital Projects and whether the capitalized labor costs should be incorporated within the total personnel services operating budget. Mr. Kim explained that labor charges to capital projects are monitored and tracked for reporting purposes with year-end allocation of indirect labor costs from operating to capital budgets. He noted that staff will continue to explore improvement processes to ensure transparency in the development and monitoring of these costs.

In response to Mr. Firestine’s inquiry about the FY 2015 vacancy rate assumptions, Mr. Kim reported that the budget assumes a 3 percent vacancy rate compared to the FY 2013 actual vacancy rate of 13 percent. He further explained that while the budget proposal did not include new positions above the FY 2014 authorized headcount, staff is confident of achieving a single digit vacancy rate while using existing aged vacancies to meet new position requests.

Next, Mr. Kim provided an overview of the Proposed FY 2015 operating revenues and ten-year financial plan. With reference to the proposed operating revenue budget increase for Washington Suburban Sanitary Commission (WSSC), Mr. Firestine inquired as to the basis for the increase considering that the financial plan included a refund to wholesale customers. Mr. Kim explained that the budgeted revenue is based on WSSC’s share of the projected operating costs and that historically this is the manner in which the share had been calculated with regard to the refund, but acknowledged that there could be an argument for budgeting it differently. Mr. Kim noted that staff will review the budgeting process/billing for the wholesale customers and report back to the Committee.

**FY 2015 Budget Action Items**

The Committee recommended the following action items, subject to staff providing response on follow-up items, for Board approval:

* FY 2015 Proposed Operating Budget
* FY 2014 – 2023 Ten Year Financial Plan
* FY 2014 – 2023 Capital Improvement Program (Lifetime & Cash)
* FY 2015 Capital Authority Request
* Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing

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

**FOLLOW-UP ITEMS**

1. Provide explanation of the Personnel Services Charged to Capital Projects line in the budget. **(Mr. Firestine)**
2. Provide the FY 2015 vacancy rate assumptions with associated funding and the breakdown of the Regular Pay increase of $12.3M. **(Mr. Firestine)**
3. Confirm the Pay-Go Financing on the Source of Funds chart (Slide 17) and update the referenced footnote. **(Mr. Firestine)**
4. Provide a breakdown and explanation for the increase in the comparative operating revenues between the Revised FY 2014 and Proposed FY 2015 Budgets for the wholesale customers (inclusive of the projected refunds) **(Mr. Firestine)**
5. Identify the Specific Service Area and amount included in the Proposed FY 2015 Capital Budget for the New Headquarters Building. **(Mr. Firestine)**