



**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS**

DC Retail Water and Sewer Rates Committee

Tuesday June 26, 2012

MEETING MINUTES

COMMITTEE MEMBERS

Howard Gibbs, Chairman
Alan Roth

DC WATER STAFF

Randy Hayman, General Counsel
Linda Manley, Board Secretary
Olu Adebo, Chief Financial Officer
Yvette Downs, Director of Finance & Budget
George Hawkins, General Manager (via Telephone)

Call to Order

Chairman Gibbs called the Committee meeting to order at 9:33am.

Monthly Update

Howard University (HU)

General Counsel Randy Hayman gave the Committee a brief update on the status of Howard University. As noted in the package, DC Water General Counsel presented a counter-offer to Howard University on April 18, 2012. Mr. Hayman is awaiting a response to this offer, and both general counsels are planning to meet next month. Mr. Hayman indicated that he will continue to pursue billing resolution with Howard University and if resolution is not timely he will seek outside counsel to pursue collections on behalf of DC Water.

Soldiers Home

On the status of negotiations with the US Airmen and Soldiers Home, DC Water General Counsel noted that Soldiers Home does not have the rights to free sewer services. DC Water sent out billing statements to Soldiers' Home, commencing the week of April 9, 2012 although costs have accumulated and are recorded for all prior periods. As of January 1, 2012 two new meters have been installed which is registering approximately \$25,000 per month for sewer services. Each month Soldier's Home sends a letter contesting the billing for all services, pending resolution of our negotiations. Concurrently, DC Water has acknowledged that placing additional DC Water facilities on the Soldiers' Home property is not a viable option at this time.

FY 2012 Cost of Service Study Status Update

Ms. Downs updated the Committee on the FY 2012 Cost of Service Study. Ms. Downs stated that Raffelis Financial Consultants, Inc. (RFC) will review existing rates and charges for sufficient cost recovery, class differentiation, and alternatives for volumetric sewer fees and metering fees. A draft has been received and is under review by staff. The study results will be presented at the July 2012 Committee meeting.

FY 2013 Management Recommendation on Retail Rates

Mr. Adebo reviewed the public hearing comments and provided some discussion on the salient comments prior to presenting management revised retail rate recommendations for FY 2013.

Payment in Lieu of Taxes (PILOT) Review (Attachment C)

Mr. Adebo gave the Committee an historical update on PILOT & Right of Way (ROW) Fees, noting that the actual payments to the DC government have remained constant since FY 2007 pursuant to directive from the DC Water Board. The payment was frozen pending receipt of satisfactory certification of the cost of the services from the District of Columbia. To date, appropriate substantiation has not been provided. DC Water continues to engage the District in discussions on this issue.

Mr. Adebo noted that DC Water Board took another step in 2011 and froze the PILOT budget in revised FY 2012 operating budget. This action resulted in maintenance of the level of revenue collected from the retail customers for this fee. Through FY 2011, there is approximately \$10 million that has been collected above the amounts paid to DC thus far in anticipation of resolution of the outstanding issues. However, the maintenance of the PILOT budget at the FY 2011 level slows the rate of accumulation of revenues for this purpose. Chairman Gibbs and Mr. Roth indicated that DC Water should not overburden Districts customers with, passed thru, charges that have not been substantiated by a Cost of Service Study.

Impervious Area Charge (Attachment D)

Mr. Adebo mentioned that three questions were raised in reference to the Impervious Area Charge:

1. Disclose the amount of impervious area in public space
 - a. Approximately 40 percent of the impervious surface area within the District of Columbia is within a Public Right of Way.
2. Reduce the Clean River IAC for residential Customers only
3. Provide a 50% discount on the Clean Rivers IAC to eligible low-income customers.

Mr. Adebo reviewed the data provided to the Committee at the March 2012 meeting, which included an additional impact analysis of a potential discount of 50% upon the CAP budget.

With regards to the differential rate for residential customers, it was noted that customer segmentation discussions would be incorporated within the upcoming cost of service study to be presented in July and that currently no basis exists to support a lower differential rate for residential customers.

Mr. Adebo mentioned that DC Water CAP (Customer Assistance Program) customers received a larger discount in comparison to other local utilities. There was a detailed discussion of the public comments and the status of the current CAP. . Also, it was determined that additional information on the CAP customer group was required to make an informed opinion on any changes to the existing CAP program such as a transition from volumetric discounts to discounts on fixed fees or conservation programs, etc.

A lively discussion occurred regarding alternative applications of the Clean Rivers IAC and public space, including private utilization of public space (which is currently exempt from the Clean Rivers IAC), identification of a public versus private portion of each ERU rate and assessment of public space to each individual property.

Alternative Management Proposal (Attachment E)

Mr. Adebo provided an overview of the FY 2013 Retail Rates & Fees recommendations. The recommendation takes into account the projected FY 2012 year-end expenditure and revenue expectations as well as a reduced FY 2013 operating budget recommendation. This will provide approximately \$22.7 million in cash surplus and/or reduced revenue requirement attributable to retail rate customers for years FY12 (\$14.7) and FY 13 (\$8.0). The management team provided the Board with multiple options to consider in utilizing the FY 2012 excess cash and lower FY 2013 revenue requirement. Management recommendations include a reduction in the retail water and sewer rates (1% less than the original recommendation), a \$1.1m reduction in revenue requirements (and therefore ERU rate) for the Clean Rivers IAC due to favorable bond financing and refinancing activities in FY 2012, freezing the PILOT budget at the FY 2012 level, thus lowering the PILOT increase and a slight decrease in the recommended Fire Protection Service Fee due to slightly lower projected expenses. Management also recommended a retail customer rebate of \$4.2 million dollars. Finally, Mr. Adebo indicated that the staff recommendations on the impervious only property billing frequency and the pretreatment fees associated with permits has not changed.

Action Items

The consensus of the Committee was to move all of the action items to the full board, including the revenue reduction of \$2.3 million in PILOT fees and the first time ever customer rebate.

Retail Rates Committee Workplan

Mr. Adebo mentioned that all major activities are on track and Cost of Service Study will be done in July 2012.

Emerging Issues/Other Business

No Discussion

Agenda for July 24, 2012 Committee Meeting

Chairman Gibbs approved the agenda for the next meeting.

Adjournment

Hearing no further business the meeting was adjourned at 11:56am.

FOLLOW-UP ITEMS – Retail Rates Committee Meeting (June 26, 2012)

1. Provide an example of the updating required and quality controls available to reconcile non-residential data found in the DCGIS 2005 flyover information and a more recent update to the flyover data. This example should be provided at a future Retail Rates Committee meeting (Mr. Bardin) Status: FY 2012
2. Review of the Potomac Interceptor contracts to see if there are opportunities to modify contracts to be similar to the IMA contracts (Mr. Bardin) Status: Defer Pending Final IMA
3. Add an action item to the Board from the Committee recommended that a retail customer rebate be provided using approximately \$4.2 million of the available FY 2012 operating cash excess. (Mr. Gibbs) Status: Done
4. Provide a legal opinion on the DC Laws requiring a discount program for both the DC Water and DDOE impervious area based fees (Mr. Roth)
5. Review the presentation of “average” use by CAP customers compared to the average residential customer given that the averages are not the same (Mr. Roth)