



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY
Board of Directors**

Meeting of the Finance and Budget Committee

Thursday, September 22, 2011

11:05 a.m.

MEETING MINUTES

Committee Members in Attendance

Timothy L. Firestine, Committee Chairperson
Alethia N. Nancoo – District of Columbia

DC WATER STAFF

George Hawkins, General Manager
Randy Hayman, General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Finance & Budget Director
Debra Mathis, Executive Assistant to the Board Secretary

Call to Order

Committee Chairperson, Mr. Timothy L. Firestine, called the meeting to order at 11:05 am, which began with the Investment Policy Revisions presentation as outlined on the agenda.

Investment Policy Revision, Investment Report and Market Outlook

The Treasury and Debt Manager, Mr. Robert Hunt and Mr. Nelson Bush, DC Water's financial adviser from Public Financial Management (PFM), stated that the August 8, 2011, Standard & Poor's downgrade of U.S. Government debt and subsequent downgrade of Federal Agency Obligations (debt issued by Fannie Mae, Freddie Mac and FHLB) impacts DC Water's ability to invest in these instruments in the future. Since these obligations are a substantial part of DC Water's investment portfolio, staff and our financial advisors have reviewed the current Statement of Investment Policy and determined a policy change in the credit rating requirement for Federal Agency Obligations is required. Consultant and staff discussed several policy change options and recommended the following: (1) reduce the current "AAA" credit rating requirement with a possible 100% allocation in the portfolio to a rating of "AA" by two major rating agencies with an 80% allocation in the portfolio; (2) allow for the purchase of FDIC insured Certificates of Deposit thru placement services such as the Certificate of Deposit Account Registry Service (CDARS) and (3) the addition of acceptable collateral for bank deposits of a letter of credit from a Federal Home Loan Bank (FHLB) in the amount of 102% of the deposit. After extensive conversation and confirmation that the policy changes were still consistent if not more conservative than other comparable bodies, the committee agreed to the recommendations. Subsequently, staff presented the investment report and market outlook.

August 2011 Financial Report - Operating Revenue and Expenditures

Finance & Budget Director, Ms. Yvette Downs, reported that at the end of August, with approximately 92% of the fiscal year completed, operating revenues, expenditures and capital disbursements were on target with budgetary expectations. Ms. Downs provided the following report relative to operating revenues & receipts, operating expenditures, and capital disbursements for FY 2011.

Operating Revenues & Receipts

Operating revenues are projected to be slightly higher at \$404.3 million or 101.3 percent of the revised budget at year-end. The projected increase results from increased water consumption during the summer months, primarily in the residential, commercial and multi-family categories. The Other Revenue category is expected to end the year slightly under the revised budget at \$33.9 million or 97 percent. This includes the rates stabilization transfer completed in August. The slight revenue shortfall in this category is attributable to delays in executing a Memorandum of Understanding (MOU) for the DC Fire Protection Fee for \$2.34 million. In response to a question from Chairman Firestone related to the PILOT payment, Mr. Adebo, Chief Financial Officer, explained that an escrow account has been established for portions of the PILOT payment that are currently being withheld pending resolution of ongoing dispute with the District.

Operating Expenditures

Operating expenditures (O&M) (including debt service and the right of way and PILOT fees) totaled \$333.8 million, or 83 percent of the FY 2011 revised budget of \$403.3 million. Ms. Downs reported that she anticipates completing the fiscal year at approximately 93 percent of the total O&M budget. Savings in operating expenditures were primarily attributed to: delays in hiring and other savings within personnel services area; water purchases related to delays in the go live date for the new Sodium Hypochlorite facility project coupled with federal freeze in employee salaries at the Washington Aqueduct; lower than anticipated chemical costs; favorable electricity rates due to DC Water's electricity lock strategy; and lower debt service payment due to lower interest rates. With respect to personnel services costs, Mrs. Nanchoo asked if we incurred additional costs due to the recent earthquake and if the stated personnel numbers include these additional costs? Mr. Hawkins, Mr. Adebo, and Ms. Downs responded in affirmative that some costs (including overtime) were incurred as a result of both the recent earthquake and Hurricane Irene events and that these costs are presently included in the reported expenditure numbers, and may be reimbursed.

Capital Disbursements

Year-to-date disbursements totaled approximately \$273 million, or 84 percent of the revised (annual) disbursements budget. Planned capital disbursements through August 2011 were \$293 million or 90 percent of the FY 2011 revised disbursements budget. All major projects are currently on target, though actual expenditures lag due to delayed invoicing and OCIP accruals of approximately \$11 million. The revised FY 2011 year-end projection for capital disbursements is \$303.4 million or 93 percent of the FY 2011 revised budget. The CSO LTCP appropriations account balance remained unchanged at \$61.3 million from July.

Cash Reserves and Investments

At the end of August 2011, our operating reserve balance remained unchanged from the previous month at \$140.5 million as compared to the FY 2011 operating reserve level objective of \$125.5 million. The balance in the Rate Stabilization Fund (RSF) at the end of August is \$16.7 million after the \$9.5 million transfer out of the RSF in accordance with the financial plan and a subsequent transfer of excess cash into the Fund in accordance with Board Resolution 11-75, taken in July.

GFOA Budget Award

Mrs. Downs informed the Committee that DC Water, once again, has received the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award for our FY 2011 budget. She thanked staff and management for their contributions and dedication to development of this budget and the Board for its vision, strategic goals and dedication throughout the budget preparation process. Chairman Firestone expressed appreciation to DC Water management staff in achieving this award.

FY 2011 Year-End Projections

Mr. Adebo continued with a report on FY 2011 year-end projections. The CFO reported that we expect to end Fiscal Year 2011 at approximately \$41 million in net operating surplus, resulting in approximately \$24 million in excess cash over the \$125.5 million operating reserve requirement. This surplus as supported by current projections is from: (1) revenues being over budget by \$6 million; (2) operating cash used (expenditures) below budget by \$21 million; (3) PILOT payment below budget by \$10 million; and (4) debt service payments below budget by \$4.3 million.

With the General Manager's concurrence, CFO Adebo recommended that the \$24 million cash balance be used as follows: (1) \$5.25 million to refund wholesale customers in FY 2012 (this refund is required by the current Intermunicipal Agreement with the wholesale customers); (2) additional \$6.5 million be added to Pay-Go financing in FY 2011, bringing the total to approx. \$9 million; and (3) transfer additional \$12.25 million to the RSF in FY 2012.

The Committee accepted and agreed to forward these recommendations to the full Board for consideration at their meeting in October.

FY 2013 Proposed Budget Update

Mr. Adebo informed the Committee that the FY 2013 Proposed Budget development is on track. The General Manager will present the proposed budget to the full Board in October, with briefings and discussion with the various Committees in the subsequent weeks.

DC Water Procurement Policies and Practices Regarding Local Participation

The General Manager, Mr. Hawkins, gave a brief introduction on the subject and informed the Committee that it would be premature to bring this to item to the Board Meeting on October 6th due to the depth and breadth of the issues and numbers of items that needed addressed. The Committee agreed to table this and refer it as a possible Board retreat item.

Action Items

The Committee agreed to move the following action items for Board consideration:

1. Human Resources /Payroll System – Ceridian
2. Changes to Investment Policy

Agenda for October 27, 2011 Committee Meeting

The Committee reviewed and approved the draft agenda.

Adjournment

Mr. Firestine thanked the staff members for an excellent job, and the meeting was adjourned at 12:48 pm.

FOLLOW-UP ITEMS – Finance & Budget Committee (Meeting held September 22, 2011)

1. In discussing construction contractors' workforce, Mrs. Nancoo requested for information on local firms hiring practices and a breakdown of DC Water employees by jurisdictions (Mrs. Nancoo).