



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Board of Directors

*Finance and Budget Committee*

*Thursday, September 26, 2013*

11:00 a.m.

## MEETING MINUTES

### Committee Members in Attendance

Timothy L. Firestine, Committee Chairperson  
James Patteson, Fairfax County  
Bradford Seamon, Prince George County  
Adam Ortiz, Prince George County

### DC Water Staff

George Hawkins, General Manager  
Mark Kim, Chief Financial Officer  
Randy Hayman, General Counsel  
Gail A. Reeves, Budget Director  
Robert Hunt, Treasury and Debt Manager  
David McLaughlin, Director, Engineering & Technical Services  
Katy Chang, Acting Director of Procurement  
Linda Manley, Secretary to the Board

### Call to Order

Chairperson Timothy Firestine called the meeting to order at 11:02 a.m.

### August 2013 Financial Report

Ms. Gail A. Reeves, Budget Director, reported that DC Water's financial performance remained strong with approximately 92 percent of the fiscal year completed. Ms. Reeves reported that through the end of August 2013, revenues totaled \$428.5 million or 95.8 percent, operating expenditures totaled \$348.6 million or 79 percent and capital spending totaled \$494.9 million or 77 percent of the respective revised FY 2013 budgets.

Ms. Reeves noted that in May 2013, Mr. Mark Kim, Chief Financial Officer, reviewed the FY 2013 year-end projections in detail with the Committee, and that those assumptions have been updated and reflected in current projections provided in this month's report. She reviewed in detail the relevant variances in revenues, operating and capital expenditures in comparison to the respective budgets.

Mr. Firestine inquired as to why the year end projected revenues for the District Government was lower than the year-to-date receipts. Mr. Kim explained that the lower than budgeted revenues in this category were attributable to the settlement adjustment to the St. Elizabeth hospital account for FY 2012; which also impacted the budgeted revenues for this account in FY 2013.

In response to the Committee's inquiry concerning capitalized wages, Ms. Reeves reported that a working team comprised of staff from the Accounting, Budget and Engineering and Technical Services

Departments reviewed personnel services costs charged to capital projects. The review process resulted in identification of \$3.4 million operating personnel services costs that would be reclassified to capital costs as part of the year-end closing to ensure costs are appropriately charged to capital projects. Mr. Firestine expressed concerns about the Revised FY 2014 budget of \$12.9 million for this line item; to which Ms. Reeves noted that given the outcome of the review process undertaken, the costs will be adequately tracked and reported in FY 2014.

Mr. James Patteson asked about the process and breakdown between personnel services time charged to the operating and capital budgets. Ms. Reeves explained that while some employees work 100% of the time on a single capital project, others work on several capital projects. In addition, some projects can entail both operating and capital work. The working team was tasked with both streamlining and ensuring improved monitoring of the cost classification process. This process would result in improved reporting of costs throughout the fiscal year.

In response to Mr. Firestine's question regarding the FY 2014 electricity budget, Ms. Reeves stated that approximately 67 percent of the Authority's monthly electric load has been locked from October 1, 2013 to January 31, 2014, in order to take advantage of the current low future market price. Mr. Kim reported that the Authority's current electric contract and associated hedging program with Hess will expire in January 2014. CFO Kim reported that the panel is currently reviewing bid solicitations and will propose a vendor to the Committee for review and consideration at the October 24, 2013 meeting.

Mr. Robert Hunt, Treasury and Debt Manager, reported on the cash reserves and investments. As of August 31, 2013, the average year-to-date cash balance is \$169.4 million compared to the operating reserve objective of \$125 million. The total of all funds available is \$601.8 million, consisting of \$205.0 million in operating cash, \$23.4 million in the 1998 Debt Service Reserve, \$333.5 million in construction fund proceeds, \$3.0 million in capital interest, and \$36.9 million in CSO Grant Funds. Mr. Hunt also reported that all investments are properly diversified and the portfolio is in compliance with the Authority's Investment Policy with the overall yield-to-cost of the portfolio at 0.27 percent.

Mr. Hunt also provided a report concerning DC Water's Build America Bonds (BABs). He reported that the Authority received an IRS BABs subsidy payment of \$248K lower than the projected amount due to the current Federal budget issues.

### **Capital Improvement Program (CIP) Quarterly Update**

Mr. David McLaughlin, Director Engineering & Technical Services, presented the Capital Improvement Program Performance to the Committee. The presentation included an overview of capital programs progress planned vs. completed and large contract actions anticipated within the next six months. Mr. McLaughlin reported that though the projected FY 2013 disbursements were lower than budget with the major lags in the Combined Sewer and Wastewater Treatment service areas, all projects remain on schedule.

Mr. McLaughlin concurred with Mr. Firestine that under spending in the Sanitary Sewer service area are true savings to the Authority. These savings result from the increased in-house sewer lateral rehabilitation using trenchless technology; which is less costly than excavations.

Mr. Kim explained that the spending delay regarding the Washington Aqueduct was a procurement issue which had already been resolved and is expected to catch up starting in 2014 and 2015.

### **Disposal of Inventory**

Ms. Katy Chang, Acting Director of Procurement, briefed the Committee on the disposal of obsolete inventory estimated at \$1.1 million. The proposed write offs were in line with DC Water's internal audit asset disposal policies and procedures.

### **Executive Session**

The Committee moved into Executive session and received an in-depth review of the fiscal impact of the Union Compensation Agreement.

The Committee reconvened into an open session and is recommending the associated increase.

### **Action Items**

The following items were reviewed and recommended by the Committee for Board action:

- A. Disposal of Obsolete Inventory
- B. Extension of the Electricity Generation & Transmission Services Contract with Hess Corporation
- C. Contract Modification for Legal Services with Beverage & Diamonds PC for Board approval

### **Agenda for October Committee Meeting**

Chairperson Firestine approved the agenda for the October Committee meeting with the following time change for the Finance and Budget Committee meeting from 11 AM to 9:30 AM and no Audit Committee meeting.

### **Adjournment**

Hearing no further business, Chairperson Firestine adjourned the meeting at 1:24 p.m.