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**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

Finance and Budget Committee

## Thursday, September 25, 2014

 *11:00 a.m.*

 MEETING MINUTES

**Committee Members in Attendance DC Water Staff**

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

 Robert Mallett, District of Columbia Mark Kim, Chief Financial Officer

 Randy Hayman, General Counsel

**Via (Conference – Call)** Gail Alexander-Reeves, Director, Budget

James Patteson Fairfax County Robert Hunt, Director, Finance (Acting)

 David McLaughlin, Director, Engineering

 Linda Manley, Secretary to the Board

 **Other Presenters and Guests**

Daniel Hartman, Public Financial Management (PFM)

**Call to Order**

Chairperson Timothy Firestine called the meeting to order at 11:05 a.m.

**August 2014 Financial Report**

Ms. Alexander-Reeves, Budget Director, reported that with approximately 92 percent of the fiscal year completed, receipts and operating expenditures were within budgetary expectations with capital disbursements trending higher than budget. As of the end of August 2014, cash receipts totaled $445.7 million, or 95 percent of the revised FY 2014 budget and operating expenditures totaled $383.9 million, or 87 percent of the revised budget. The spending trend for capital disbursements totaled $622.0 million or 112 percent of the disbursement budget and are consistent with projections reported in prior months. In response to Chairman Firestine’s question, Ms. Reeves noted that the year-end projected expenditures had been updated with the most current figures but essentially remained consistent with the initial mid-year operating projections. Mr. Kim concurred with Mr. Patteson regarding the high vacancy rate in the Authority and explained targeted management steps to bring the rate down to a high single digit in line with industry norms.

Ms. Reeves also informed the Committee that the Authority received the Government Finance Officers’ Association (GFOA) award for the fiscal year starting October 1, 2014 (FY 2015) for the fourteenth consecutive year. She also noted that staff continue with the FY 2014 year-end close out process, start up of FY 2015 and budget planning for FY 2016.

**Cash Reserves and Investments**

Mr. Hunt, Acting Finance Director, reported that as of August 30, 2014, the operating reserve balance was $152.9 million well above the reserve level objective of $125.5 million.   There have been two withdrawals from the 2014A&B constructions funds to reimburse the Authority for capital expenses.  The remaining balance in the construction funds is $303.3 million and it is projected that these funds will be sufficient until the next bond sale scheduled for July 2015.   With DC Water’s investment portfolio now being actively managed by Public Financial Management – Asset Management (PFAM Group), the overall yield on investments for August was 0.37%.

Mr. Hunt also stated that the approved year-end cash transfers are being executed in September to utilize the projected cash surplus for FY 2014 comprising of $6.5 million transfer from the Rate Stabilization Fund to the Concentration account (operating funds) and $7.6 million transfer from the Concentration account to the PILOT reserve. He stated that the PILOT reserve balance will be $30.1 million with anticipated transfer of 50% to the District Government early in FY 2015 consistent with the Memorandum of Understanding (MOU).

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

Mr. David McLaughlin, Director of Engineering and Technical Services, reported that current projected CIP disbursements are $646.3 million or 23 percent above the baseline disbursement projections of $524.7 million for capital construction projects. This represents cash disbursements budget shortfall of $121.6 million due impact of prior year invoice payments in FY 2014 and the shift in the timing of delayed projects in FY 2014. He explained that higher than planned disbursements for major program areas above the baseline are as follows: Wastewater ($76.2 million mainly attributed to the Digester and Enhanced Nitrogen Removal Programs); Combined Sewer Overflow ($59.5 million).

Mr. McLaughlin reported the status of all Priority 1 Projects, which are on schedule and within budget. He also stated that the CIP’s Key Performance Indicators (KPI), which measures the completion of critical project milestones for large capital projects during the year, were met during the third quarter. In response to Chairman Firestine’s enquiry on the overall CIP projections, Mr. Kim noted that these projected costs are exclusive of the Washington Aqueduct and Capital Equipment cost estimates.

**Digester Project Financial Impact**

Mr. McLaughlin briefed the Committee on the status of the Digester Project and on-going monitoring plan to mitigate major fiscal impacts. He explained the reasons for the project delay were due to scope changes, instrumentation challenges for complex interfaces, weather impacts, seeding delays and contractor performance issues. Mr. Kim explained the three primary areas of budgetary risks, due to the delay and the potential impacts on the FY 2015 operating budget are as follows and there exists conservatism within the budget to accommodate any budget shortfall:

1. Hauling cost - 50% biosolids reduction,
2. Chemical cost - elimination of the lime stabilization process, and
3. Electricity savings – generation of energy from the digester

Chairman Firestine enquired about the net cost impact to FY 2015 budget. Mr. McLaughlin estimated the costs to be at $2 to $3 million subject to the success of on-going mitigation plans. Chairman Firestine requested that Management should prepare a written action plan to track accomplishments relative to the impact of the delay of the project. In response to Mr. Patterson’s question on independence of the contractor and commissioning agent, Mr. George Hawkins, General Manager, explained that staff will be reviewing liquidated damages available on the contract.

**Financing Update**

The Committee received an update from Mark Kim, CFO and Daniel Hartman, Managing Director, Public Financial Management DC Water’s financial advisor.  Mr. Kim and Mr. Hartman presented a plan to refund DC Water bonds issued in 2007, 2008, and 2009.  Interest rates are currently extremely low and it is an opportune time to refund these bonds for significant savings to benefit DC Water ratepayers.  It was also proposed that we refund the Series 2012B-1 bonds which are short-term variable rate bonds due to be refunded between December 2014 and June 2015.  A draft Board Resolution to authorize the refunding of these bonds was recommended by the Committee for Board action.

**Follow-up Items**

1. Provide a written plan of the of the potential cost and risk of the digester delay to the FY 2015 budget **(Chairman Firestine)**
2. Independent review of the contractor and commissioning agent should be undertaken in assessing liquidated damages **(Mr. Patteson)**

**Adjournment**

Hearing no further business, Chairperson Firestine adjourned the meeting at 12:04 p.m.