



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

**BOARD OF DIRECTORS
239th MEETING
THURSDAY, FEBRUARY 1, 2018**

MINUTES

Present Directors

Tommy Wells, Chairman, District of Columbia
Adam Ortiz, Alternate for Nicholas A. Majett, Prince George's County
Rachna Butani Bhatt, District of Columbia
James Patteson, Fairfax County
David Franco, District of Columbia
Bradley Frome, Prince George's County
Ivan Frishberg alternate for Emile Thompson, District of Columbia
Anthony Giancola, Alternate for Ellen Boardman, District of Columbia
Timothy Firestine, Montgomery County
Ellen Boardman, District of Columbia (via telephone)

Present Alternate Directors

Howard C. Gibbs, District of Columbia
Shirley Branch, Prince George's County
Rev. Kendrick Curry, District of Columbia
Bonnie Kirkland, Montgomery County
Sarah Motsch, Fairfax County
Krystal Brumfield, District of Columbia
Jed Ross, District of Columbia

DC Water Staff

Henderson Brown, IV Interim CEO/General Manager
Meena Gowda, Acting General Counsel
Matthew Brown, Chief Financial Officer
Linda R. Manley, Board Secretary

Chairman Wells called the 239th meeting of the District of Columbia Water and Sewer Authority's Board of Directors to order at 9:34 a.m. Ms. Manley called the role and a quorum was established.

Approval of the January 4, 2017 Minutes

Chairman Wells asked for a motion to approve the January 4, 2017 minutes. The motion to approve the January 4, 2017 minutes was moved, seconded, and unanimously approved by the Board of Directors.

Chairman's Overview

Chairman Wells informed the Board that two new members would be sworn in to represent the District of Columbia. The District Government official then swore in Krystal Brumfield and Jed Ross.

Chairman Wells stated that as Chair of the Board's Search Committee he wanted to report that the work had been proceeding quickly but thoroughly. The application deadline is Friday, February 2, 2018. POLIHIRE is D.C. Water's highly qualified search company. One hundred candidates have applied. The Committee will engage the Board after they have weeded through the candidates. It is their desire to have a selection made no later than mid-March. Chairman Wells stated that the participation of the Search Committee members has been terrific. Mr. Giancola wanted to know if there was a plan for bringing the candidates to the Board. Chairman Wells replied that there is a plan and that the timeline would be set up at the convenience of the Board.

Human Resources and Labor Relations Committee

Reported by: Bradley Frome, Chair

Mr. Frome stated that the Committee met on January 17, 2018 and were joined by D.C. Water's labor leaders for their designated opportunity to share their concerns with the Committee. Barbara Milton, President of AFGE Local 631, voiced her concerns about the strained relationship between her union and management. She felt that this was beginning to impact relations between the other unions and management. Mr. Frome reported that they had good discussion about this and it was expressed that nothing was personal and that all was business related. Barry Carey, President of AFSCME Local 2091, expressed concerns relating to hiring practices. Calvert Wilson, President of AFGE Local 2553, voiced no concerns but did commend former Board Chairman Brown for resolving matters that had been previously presented to the Board. Mr. Frome stated that he wanted to thank Interim General Manager Henderson Brown, for his outreach to the union leaders.

The meeting concluded with a discussion of the Advancing Blue Performance Management System. The unions wanted to make sure that D.C. Water differentiated between the different types of positions so that the nuances were captured. Interim General Manager Brown expressed his confidence that the issues would be resolved, and everything will be finalized by the April 1 deadline.

Governance Committee

Reported by: Bonnie Kirkland

Ms. Kirkland indicated that the Committee met on January 17, 2018 and had one agenda item, a discussion of the Blue Drop Program. She stated that the meeting was lengthy in that there were many questions and lots of discussion. Alan Heyman, Chief Marketing Officer, highlighted some of the significant reasons why Blue Drop was established and spoke about the governing structure. Ms. Kirkland reported that Mr. Heymann spoke about the business lines, revenue streams which included existing and prospective consulting projects, and the marketing and selling of Bloom, the Class A biosolids product.

Mr. Heymann described Blue Drop's current consulting projects with the Springfield Water and Sewer Commission and the Upper Blackstone Water Pollution Abatement, Blue Drop's first rebranding project. He spoke about how Blue Drop acquires its consulting projects, largely by word of mouth at conferences, trade shows, and other marketing activities. The compensation is roughly between \$25,000 and \$150,000 per project. Mr. Heyman pointed out that although most of their customers are in North America, they participated in a brief engagement with a Canadian municipality.

Blue Drop has a Shared Services Agreement with D.C. Water that describes the nature of personnel exchanges and compensation for time D.C. Water employees spend on Blue Drop projects.

Ms. Kirkland reported that there was discussion about protecting D.C. Water employees from being acquired by clients of Blue Drop. Their intellectual property must be protected also. Chair Boardman suggested that there be a contract added to protect D.C. Water on these issues.

Mr. Heymann spoke about prospective clients and the fact that contract durations may be five to six months with one client and a multi-year contract for another client valued at between \$500,000 and \$1 million. The focus for Blue Drop has been in communications and marketing opportunities.

Bloom's marketing and sales in FY 2017 were discussed. Approximately \$336,000 of expenses have been saved by D.C. Water because land application of material has been diverted. If trucking costs of \$50,000 and marketing fees of \$31,000 are subtracted, cost savings is \$254,511. Sales revenue for Bloom was \$26,746 for FY 2017. Mr. Heymann reported that Blue Drop is planning to contract with a large wholesaler customer to dry, bag, and distribute Bloom to the retail market by the Spring. He noted that the bagged Bloom product is the most cost-effective way to sell Bloom over a larger regional area. He described other research and marketing efforts and the Committee viewed a video clip from NBC4 News Washington which was broadcast December 17, 2017 about Blue Drop and D.C. Water's new revenue strategies.

Ms. Kirkland stated that in addition to Mr. Heymann, the staffing for Blue Drop consists of four D.C. Water employees who contribute on a part-time basis, and two full time Blue Drop employees. Approximately 75 percent of Mr. Heymann's time is spent on Blue Drop and 25 percent on services in an advisory to D.C. Water. Board member Butani Bhatt is now a member of Blue Drop's Board of Director and Interim General Manager Brown is now the Board's Chairman and D.C. Water's representative to Blue Drop's Board.

Environmental Quality and Operations Committee

Reported by: James Patteson, Chair

Mr. Patteson stated that the Committee met on January 18, 2018 and the meeting lasted three hours because of the Capital Improvement Program (CIP) update and discussion. Leonard Benson, Chief Engineer, Craig Fricke, Director of Engineering and Technical Services Department, and Matthew Brown, Chief Financial Officer, presented the CIP update and a summary of D.C. Water's proposed ten-year CIP.

Mr. Patteson reported that one of the big questions was what is in the ten-year CIP budget and would it ensure that the Authority's infrastructure remains in a good state of repair. He read the Board the following definition of "good state of repair," which was presented by Mr. Benson: "For the purpose of D.C. Water, an asset or system is in a good state of repair when no backlog of needs exists, and no component is beyond its useful life." Mr. Benson stated that state of good repair projects corrects past deferred projects and replaces capital assets.

The ten-year CIP developed within the current year's budget guidelines and constraints is projected to be approximately \$3.7 billion. Two other budget scenarios were presented—an alternative option called constrained budget that would provide \$80 million per year above the baseline of the asset management and the other scenario is an Asset Management or AM Ramp-up budget option which would be \$160 million per year above the baseline.

Mr. Benson reported that the proposed baseline ten-year CIP would not enable all the Authority's infrastructure to remain in a good state of repair. Under the baseline budget, the following projects would be fully or generally funded: D.C. Clean Rivers Project under a consent order, wastewater treatment under the NPDES permit requirements, water pumping station and storage facilities, small and large diameter water main replacement, non-process headquarters buildings. Mr. Patteson indicated that there was much discussion with Mr. Benson about what generally funded meant, Asset Management Ramp Up, project constraints and impact on emergency repairs and preventive maintenance.

Mr. Patteson reported that CFO Brown summarized the three options—baseline, constrained, and asset management budget options, and their comparative impacts to the customers on an annual basis. He encouraged the Committee to take additional time to consider the options and what decisions would cost D.C. Water in the future. He indicated that in the near-term two-year budget there is no change between the three options but further out there are more impacts. The Committee will continue to consider and discuss this in the March meeting.

The Committee considered the action items and recommended Board approval of six joint use and one non-joint use items.

Mr. Giancola pointed out that during the meeting Committee members expressed their wishes for the current budget, constrained or asset management levels of funding. He suggested that everyone go to the PowerPoint provided in the report for more detailed information including great graphics and comparative things on the three spending levels and their impacts. Mr. Giancola stated that they also discussed the current consent decree and its impact on the budgets.

D.C. Retail Water and Sewer Rates Committee

Reported by: Rachna Butani Bhatt, Chair

Ms. Butani Bhatt stated that the Committee also met for three hours because they completed the Retail Rates meeting and then went into the joint meeting of the D.C. Retail Water and Sewer Committee and the Finance and Budget Committee. She reported that they also received an update from CFO Brown on the budgets and fees and discussed the three possible levels of funding. Ms. Butani Bhatt stated that most of their discussion was on rates and ratepayers, especially with regards to CAP customers, customers who do not qualify for CAP by a small amount of income, and the impact rates would have on them. They also discussed the Rate Stabilization Fee and its potential uses to fund the Capital Improvement Plan.

The Committee also discussed the System Availability Fee (SAF) and they spoke about the action item to extend the effective date of the SAF from January 1, 2018 to June 1, 2018. Ms. Butani Bhatt reported that they had not received comments from the community when the SAF was published and none when they announced the extension. The Committee spoke about how they could get feedback from the community. It was announced that there would be an open house to discuss the SAF with the public on Friday, February 9, 2018. She noted that they are expecting a lot of people to attend and to provide their opinions. The Committee recommended the action item to the full Board for approval.

Joint Meeting of the D.C. Retail Water and Sewer Committee and the Finance and Budget Committee

Reported by: Rachna Butani Bhatt, Chair

Ms. Butani Bhatt stated that the joint committees received a budget proposal presentation that went in-depth about the Capital Improvement Plan. The presentation was made by Craig Fricke, Director of the Engineering and Technical Services Department. He gave the overview of the ten-year CIP options by service area—Clean Rivers, wastewater, water, sewer, and non-process facilities. Ms. Butani Bhatt reported that there was an in-depth discussion of the risks relative to the current state of the capital infrastructure, the limited funding received from the Federal and District Governments, possible renegotiation of the extension of the consent decree, additional revenue requirements to support the Clean Rivers Program, and other issues.

Ms. Butani indicated that the Joint Committee did not come up with a recommendation but asked that members study the materials prepared by the CFO's team. The Committee asked D.C. Water management to review their recommendation which is based on constraints put forth by the Board and rethink it without the Board's constraints. A discussion point was the thought process that rates are raised for the community every year and then failures occur in the sewer system and then the community must be told that their rates were not raised enough to solve potential disasters. She stated that she is looking forward to the February meeting because they are getting closer to the deadline to establish the budget and everyone is very focused on the important issues.

Audit Committee

Reported by: Anthony Giancola, Vice Chair

Mr. Giancola reported that the Audit Committee met on January 25, 2018. He briefed the Board on the Audit Report which contains three areas—the 2017 Financials provided by the Financial Director, the External Audit provided by contractor KPMG, and the Internal Audit provided by contractor RSM. CFO Brown informed the Committee that the financial statements showed the total net position as \$1.9 billion and it remains strong with an increase of \$194.6 million from last year. Operating revenues increased by 8.0 percent, while operating expenses increased by 5.1 percent. Standard and Poor's Investors Services upgraded D.C. Water's credit rating for senior lien revenue bonds from AA to AAA, the highest rating available. Moody's investors upgraded D.C. Water's credit rating for senior lien bonds from Aa2 to Aa1. For debt financing, the Authority issued \$100 million in 2017 Series A and \$200 million in 2017 Series B senior lien revenue bonds last year. The Authority's net capital assets value has continued to increase dramatically. Operating revenues have doubled over a ten-year period, average monthly bills increased just short of 90 percent, and inflation was 18 percent in the same ten-year period. Mr. Giancola noted that this shows how rates have gone up significantly over that period.

Mr. Gibbs and other Committee members expressed their concern over the pain experienced by ratepayers over their increasing monthly bills. Mr. Giancola stated that this will be discussed further next month.

In the External Auditor's Report, KPMG indicated that they will issue a clean, unmodified opinion of the Authority's fiscal year 2017 financial statements. No material weaknesses or significant deficiencies were identified and there were no instances of noncompliance noted. D.C. Water has requested that they issue a management letter which identifies a couple of control deficiencies and material weaknesses. KPMG also did the Single Audit where they tested a certain provision of the Safe Water Drinking Act in FY 2017 and they expect to issue a clean opinion with no material or significant deficiencies.

For the Internal Audit for years prior to FY 2015, there are three open items, including water services and GSI mapping, which are in progress. For 2015 there are two open items related to network security and one for intellectual property. The Committee went into closed Executive Session to talk about the Network Security Assessment Audit.

For 2016 the testing shows 29 items closed, 8 pending testing, and 14 items remaining open. The Committee will continue to monitor the timeliness of completing reports.

Mr. Giancola reported that RSM provided an update on contracting officer's technical representative (COTR) training and compliance monitoring. Phase One is completed, Phase Two has delivered 50-55 total COTRs training, along with 37 non-COTRs that were proactively trained as potential future COTRs. Interim General Manager Brown indicated that there is adequate staffing (87 trained COTRs) in D.C. Water's program to meet the anticipated needs.

For the Construction Plan Review and Permitting Internal Audit, things are progressing, and testing is underway. There were two high-risk observations related to projects in the Departments of Engineering and Technical Services and Wastewater Treatment and one related to Permit Operations. RSM recommended implementation of an electronic tracking system. The second observation related to Engineering and Wastewater being noncompliance

with their standard operating procedures (SOP). Management is in the process of revamping their SOPs and will remove the design lock-in form that was used on an inconsistent basis.

Mr. Giancola indicated that RSM reported on the Fleet Accident and Incident Reporting Internal Audit. The GeoTab is a GPS tracking system that has been installed in all but 70 of the Authority's 609 vehicles. The installation of the remaining 70 requires union notification that has been completed. Within 60 days of the notification the rest of the installation will be completed.

An update on the Fraud, Waste, and Abuse Hotline was presented. The Hotline received five calls since the last Committee meeting. Three were fraud-related but were deemed to be unsubstantiated.

The Committee went into Executive Session and there are two follow-up items. One is to provide a management letter and a note to KPMG asking that all appendices they supply be illegible and readable.

Issues of General Issues

2018 Anacostia River Tunnel System Commissioning

Presented by: Carlton Ray, Director of the Clean Rivers Project

Mr. Ray stated that his purpose was to provide some background about the long-term control plan of the Clean Rivers Project and to talk about the initial Consent Decree requirements of 2005 and modifications of 2016, the status of active contracts, and the commissioning coordination. He reported that it took five years to modify the Consent Decree and to include green infrastructure. Originally the completion deadline for all work was March 23, 2025. A decision was made to concentrate first on the Anacostia River section of the Clean Rivers Project with the March 23, 2018 deadline.

The Anacostia River Tunnel System requires that all facilities from south of RFK down to the Blue Plains Wastewater Treatment Plant are online and operating by March 23, 2018. Mr. Ray reported that they have completed all the concrete work, the two tunnels, and the microtunnels. He indicated that they are not there yet but that there is still time left. The Northeast Boundary Tunnel has been awarded, the design efforts are being completed, and they are marching ahead. The 1st Street Tunnel Project went online a year and a half ago and is now being used as a large underground cistern. When there was a large rain storm last August, Bloomingdale did not flood, so the 1st Street Tunnel did its job. The Potomac Tunnel is a smaller tunnel that runs from Hains Point to the Potomac River, up past the Lincoln Memorial to the Kennedy Center and Rock Creek Tunnel Dewatering Pumps – Commissioning testing on schedule – Substantial completion/acceptance July 7, 2018

Mr. Ray stated that they will continue to push construction and continue commissioning coordination meetings.

The "place in operation" concept is important in the Clean Rivers Project. It means that steady state operation is achieved to operate consistently in such a way to accomplish the intended function, even though construction closeout activities such as completion of a punch list and resolution of contract disputes or close-outs may not yet be completed. Mr. Ray stated that there will be things that must still be negotiated with the contractors. The bottom line is to have things operating, capturing sewage, conveying sewage to Blue Plains, pumping sewage at the treatment facility, and treating it.

Mr. Ray stated that they are doing well and getting very, very close. For the last year they have been having commissioning awareness meetings with contractors to reach consensus on different issues and eliminate finger pointing and things possibility falling through the cracks. This is progressing quite well.

Mr. Ray completed his presentation by introducing three of his outstanding staff members. They are Dr. Wang, Tunnel Design Manager; Jeff Peterson Construction Manager under Chris Allen; and Bethany Bezak, Green Infrastructure Manager. He stated that they have done a marvelous job. Chairman Wells agreed and stated that on behalf of the Board, it was an honor to be in a position of leadership and witness a major infrastructure project like Clean Rivers and Washington, D.C. becoming a modern city. Chairman Wells indicated that they are proud of their safety record which is important to the Board. He also stated that it was noteworthy that they were working so hard to stay within the budget. He thanked Mr. Ray for his update.

Mr. Giancola asked about the location of the commissioning ceremony. Would a valve be turned by somebody? Who is invited? He said it should be a political event because ratepayers had spent their money over the years. Mr. Ray informed everyone that they were planning a giant party to celebrate but he was not sure where it would be held. John Lisle, External Affairs Manager, is coordinating it, so everyone should stay tuned.

Mr. Franco wanted to know if Mr. Ray was 100 percent confident that the milestone can be achieved by March 23rd, and what the implications will be if not. Mr. Ray replied that he was confident. If not, there are financial penalties for D.C. Water. There is some wiggle room about forfeiture and other penalties. Mr. Ray stated that he would not have accepted the job if he did not think they would make it. He stated that the financial penalties start out small but after a month or two increase. Mr. Franco wanted specifics to be provided to the Board.

Mr. Ortiz wanted to know that even with the great team and contractors, if there was something in the structure of the contracts, performance based, that so many things on such scale are being delivered. Mr. Ray said, yes, there is a laundry list of reasons. Procurement allows a lot of good things to happen that save ratepayers a great deal of money. D.C. Water is a good place to do business, fair with contractors, hard outreach to minority business entrepreneurs (MBE) and women business entrepreneurs (WBE). They have 250 MBE/WBE firms show up at the industry outreach meetings. Great networking occurs.

Mr. Gibbs stated that he did not want Chris Allen to be overlooked. He believes that when Mr. Allen came onboard it guaranteed success for this project. Mr. Gibbs was sorry that Mr. Allen was not around to see the fruits of his labor. Mr. Ray thanked him and stated that Mr. Allen was in charge of the project's construction. He passed away several months ago from ALS.

General Manager's Report

Reported by: Henderson Brown, Interim CEO/General Manager

Interim General Manager Brown began his report by thanking the hardworking people who responded to the state of emergency water main breaks over the periods of single digit temperatures that just concluded with highs in the 50s. He stated that they received 830 emergency calls and that they repaired 200 emergency responses. The Incident Management Team was utilized extensively over a period of 11 days, the longest in history. Interim General Manager Brown reported that he listened in on several calls and was impressed by the professionalism and precision of the operations. He listed the following offices and departments

that participated in these efforts: Office of Emergency Management, Department of Sewer Services, Customer Services, the Command Center, Department of Distribution and Conveyance Systems, Department of Engineering and Technical Services, Procurement, External Affairs, Department of Water Services, Fleet, Facilities, Information Technology, Safety, Security, Risk Management and the District Government. He gave them all a round of appreciation.

Interim General Manager Brown reported that D.C. Water received a letter from Councilmember Cheh relating to the Clean Rivers Impervious Area Charge (CRIAC) that was very thoughtful and was crafted from the comments received at the public hearing in December. She advanced nine different alternatives for D.C. Water to consider and Mr. Brown believes that Mr. Cheh provided a chance to have D.C. Water lead the conversation about the solution needed. He indicated that much work is continuing and that meetings are scheduled for February with city representatives. They are planning to provide a thoughtful reply. They are studying the problem and getting the right data to come up with the right solution. Some options raised in Councilmember Cheh's letter make sense and some are not available. They include the following: a hardship exemption for people and organizations who are being fiscally impacted in a negative way; discounting CRIAC charges for certain customers; increase incentives for the elimination of pervious areas on lots; a two-tiered rate system for multi-family houses; abandon the ERU calculation or surrogate in favor of an actual calculation for storm water contributions on each property; exempt private roads that are open to the public; the District of Columbia submitting or contributing to making payments to CRIAC; renegotiating the Intermunicipal Agreement to increase the contribution from the suburbs; and obtaining a federal contribution to some of this.

Interim General Manager Brown stated that he got the opportunity to speak to the union membership at Bryant Street the past Monday. Mr. Shanks indicated that there were 200 people there. The exchange and conversation were open and honest. Interim General Manager Brown indicated that it was an excellent encounter. He also reported that on the past Wednesday he met with about 75 members of D.C. Water's Command Center and Customer Service groups in three meetings and had open communication. He also attended the Union Management Safety Committee meeting and he noted that safety is one thing that union and management can win on together. He plans to have similar meetings with other union members with the theme of changing the conversation of us versus them.

Interim General Manager Brown concluded his report by thanking the Board for all that was covered during six committee meetings over the last two and a half weeks. Much data was presented and there remains a lot of work to be done. He commended CFO Brown's team for all the good data they made available and Rachna Butani Bhatt for challenging them about what is really needed. The next round of committee meetings will produce some answers.

Mr. Giancola wanted to obtain a sense of where the City Council was on rates, charges, and billing. He also wanted to get an update of the Saint Elizabeth Water Storage Tower Project, Anacostia Second High Pressure Reducing Valve System. Some property owners have not yet signed to get the new valves. Mr. Giancola also wanted an explanation of a big red asterisk on the dashboard emergency response time bullet.

Consent Items (Joint Use)

Chairman Wells asked for a motion to approve joint use contract action items. Mr. Giancola moved to approve Resolution Nos. 18-09 through 18-14, and it was seconded. The motion to

approve Resolution Nos. 18-09 through 18-14 was unanimously approved by the members of the Board.

Consent Items (Non-Joint Use)

Chairman Wells asked for a motion to approve non-joint use action items. Ms. Boardman moved to approve Resolution Nos. 18-15 and 18-16, and it was seconded. The motion to approve Resolution Nos. 18-15 and 18-16 was unanimously approved by the members of the Board.

Chairman Wells asked for additional comments or concerns and there being none, the meeting was adjourned at 11:05 a.m.


Secretary to the Board of Directors