

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

 **BOARD OF DIRECTORS**

 **240th MEETING**

 **THURSDAY, MARCH 1, 2018**

 **MINUTES**

**Present Directors**

Tommy Wells, Chairman, District of Columbia

Nicholas A. Majett, Prince George’s County

Rachna Bhatt, District of Columbia

Sarah Motsch, Alternate for James Patteson, Fairfax County

David Franco, District of Columbia

Bradley Frome, Prince George’s County

Ivan Frishberg, Alternate for Emile Thompson, District of Columbia

Ellen Boardman, District of Columbia

Fariba Kassiri, Alternate for Timothy Firestine, Montgomery County

Bonnie Kirkland, Montgomery County

**Present Alternate Directors**

Howard C. Gibbs, District of Columbia

Adam Ortiz, Prince George’s County

Krystal Brumfield, District of Columbia

Anthony Giancola, District of Columbia

Jed Ross, District of Columbia

**DC Water Staff**

Henderson Brown, IV Interim CEO/General Manager

Matthew Brown, Chief Financial Officer

Meena Gowda, Acting General Counsel

Linda R. Manley, Board Secretary

Chairman Wells called the 240th meeting of the District of Columbia Water and Sewer Authority’s Board of Directors to order at 9:34 a.m. Chairman Wells stated that he wanted to proceed immediately with the swearing in of two new members of the Board of Directors. Mr. Roary of the District Government administered the oath to Bonnie Kirkland and Fariba Kassiri, both from Montgomery County.

Ms. Manley called the role and a quorum was established.

**Approval of the February 1, 2018 Minutes**

Chairman Wells asked for a motion to approve the February 1, 2018 minutes. The motion to approve the February 1, 2018 minutes was moved, seconded, and unanimously approved by the Board of Directors.

**Environmental Quality and Operations Committee**

Reported by: Howard Gibbs, Vice Chair

Mr. Gibbs stated that the Committee met on February 15, 2018 and began with a review of the action items, four joint use and one non-joint use, that were recommended for Board approval.

Chief Financial Officer Matthew Brown presented management’s recommendations for the Capital Improvement Program (CIP) budget and the Ten-Year Financing Plan. The Plan proposed has a baseline of $4 billion and a ten-year CIP, as well as advance asset management principles, while addressing customer affordability. The Plan proposes to explore investment in infrastructure, exploration of alternative revenue sources, community outreach and education, and to impact the financial plan and customer affordability.

Mr. Gibbs indicated that management is going to propose work plans for each Board committee in March. The committees will review and implement those plans in the coming year.

The Committee then received an update on the status of the Blue Plains Advanced Wastewater Treatment Plan from Aklile Tesfaye, Assistant General Manager for Wastewater Treatment. He reported that the performance of the plant is excellent, meeting all permit requirements.

Paul Guttridge, Manager of Program Services, gave an update on the first quarterly report, CIP Report for Fiscal Year 2018. FY 2018 CIP disbursements through the end of December 2017 were five and a half percent above baseline. The four overage areas were in wastewater treatment, storm water, sanitary sewer, and water services.

Mr. Gibbs stated that Diala Dandach, Director, Wastewater Engineering, presented a report concerning the 500-Year Flood Plain Protection Plan for the Blue Plains Plant. The 100-Year Plan is an elevation of 10-feet above sea level and the 500-Year Plan projection is 14.2 feet above sea level. The existing flood walls provide protection up to 13 feet above sea level, so under a 500-year flood condition, the majority of the facility would be under water. The plan is to increase the height of all existing gates and flood walls to 17.2 feet.

**D.C. Retail Water and Sewer Rates Committee**

Reported by: Rachna Bhatt, Chair

Ms. Bhatt indicated that the Committee met on February 20, 2018. Matthew Brown, CFO, provided an update on the System Availability Fee open house that was held on February 9, 2018. Out of the 24 individuals who signed up to attend, 10 participated. Many of the comments made had previously been heard during other outreach activities, but it was good to hear directly from those concerned.

CFO Brown provided an overview of the Cost of Service Study and then presented Mr. David from Raftelis to describe the existing and proposed rates. He informed the Committee that the next steps are to take questions and feedback from the Committee, finalize the rate recommendations and the Cost of Service Study, and present it to staff.

A Committee member inquired about D.C. Water expanding the Cost of Service Study to include a what if scenario under which the District pays its fair share of the Clean River Impervious Area Charge (CRIAC). Mr. Brown indicated that Councilmember Cheh had asked about this issue. Based on calculations, they believe the District should pay between $40 and $45 million. He stated that the next step is to have conversations with the District. Ms. Bhatt stated that the Committee asked about how the discussions would take shape.

Ms. Bhatt reported that the next issue pertained to the Fiscal Year 2019 and 2020 proposed rates, charges, and fees. Mr. Brown briefed the Committee on the multi-year rate proposal and provided an overview of national regional utilities with single and multi-year rates. He presented management’s recommendation to adopt the proposed FY 2019/2020 rates, charges and fees and adopt the Financial Plan, which includes the 10-Year CIP disbursement budget and projected water and sewer rate increases.

Consultants from Amawalk updated the Committee on the Fire Protection Cost of Service Fees. There is a shortfall in the amount the District needs to reimburse D.C. Water. So, for Fiscal Years 2019 to 2021 the service fee for the District would be approximately $12.5 million, to be paid quarterly.

The last presentation was on the System Availability Fee (SAF). Mr. Brown stated that the recommended changes to the regulation incorporate the comments from the public open house, the Board of Directors, and the District through the Deputy Mayor for Planning and Economic Development’s Office. He noted that the SAF is designed to recover the proportionate share of the system cost for new developments or redevelopments that require additional system capacity. The fee is based on meter size and average flow per meter size. The changes include adding affordable housing credit procedures and requirements, clarifying the documents needed to qualify for grandfathering projects, and clarifying that any overdue payments or payment plan agreements would be subject to the D.C. Water collection process.

Ms. Bhatt reported that CFO Brown also updated the Committee on the new process for the additional CIP spending for FY 2021 that is outside the current two-year rate structure. The new process will start in March and management will continue to review and improve it.

Board member Franco stated that he continues to have concerns about the new proposed rate structure for 2019. He indicated that while the reduced CRIAC fee addresses affordability for some customer classes, D. C. Water has not fully contemplated the impact on other classes. He raised the point that even though management and the Board have calculated the average bill to increase by 5.9 percent, and they did not illustrate the different impacts on different classes. Mr. Franco proposed that the Rate Stabilization Fund be used to reduce the sewer rate to no more than 5 percent which would mean that every customer would be ensured of a cap on the bill increases. Chairman Wells stated that he will speak with the General Counsel and that this request is best dealt with when the Board votes on the rates at the Board level.

He indicated that he would remove four action items from the non-joint use consent agenda for further debate and discussion. An extensive, in depth discussion continued on this issue between Chairman Wells, CFO Brown, Mr. Franco, and Ms. Bhatt. One clarification was that even though there is a 13 percent increase in the FY 2019 budget, parts of the rate fees and structures have gone down and some parts have gone up, and what is now requested is a 5.9 percent increase, a function of the moving parts of the rate. So, while the water and sewer rate increases by 13 percent, there is a decrease in the EIC charge.

Mr. Franco wanted to ensure that the Board kept focus on the affordability of the rates and on the use of the Rate Stabilization Fund to offset some of the increase in the CRIAC. There will be further discussion of these issues.

**Finance and Budget Committee**

Reported by: Matthew Brown, Chief Financial Officer

Mr. Brown indicated that he was presenting the report because Mr. Firestine, Committee Chair, was absent. He stated that the Committee met on February 22, 2018. CFO Brown provided the monthly financial report. With approximately 33 percent of the fiscal year completed, total operating revenues were at $200.3 million or 32.5 percent of the budget, operating expenditures at $168.9 million or 30.1 percent of the budget, and capital disbursements at $205 million or 52.9 percent of the approved budget. The lag in residential, commercial, and multi-family revenues was a result of delayed billing due to the implementation of the new Customer Information System. Other revenues from federal and wholesale customers are received quarterly. Higher spending and personnel services costs were due to the impact of the Board ratified union labor contract, other sales adjustments, increased overtime costs due to the cold winter season for emergency work and historically high water main breaks, and the AMR Program.

The Committee received an overview of the FY 2019 Proposed Operating Budget and the budget adoption calendar. Also provided was a progress report on the review by the various Board committees and their recommendations. The Finance and Budget Committee was the third and final committee to approve the recommendations made in the budget. The FY 2018 through 2017 CIP baseline was the program proposed, and recommended by the Committee. The baseline proposal includes disbursements of $4 billion, $250 million higher than the previously approved Capital Improvement Program. This includes a total lifetime budget of $11.1 billion.

Mr. Brown provided to the Committee an overview of the operating revenue budget proposal which includes the revised 2018 budget of $620 million, the proposed FY 2019 budget of $649.5 million, proposed two-year water and sewer rate increase of 13 percent in 2019 and 5 percent in FY 2020, and a reduction in the monthly Clean Rivers Impervious Area Charge to $23 in 2019 and $25.58 in 2020.

The Committee meeting also included a CIP Quarterly Update by Paul Guttridge, Department of Engineering and Technical Services, and an overview of the disbursement projections by various service areas. Ed Markus and Shan Lin from Amawalk Consulting Group provided an overview of the purpose of the historical performance approach; findings, comparisons, and recommendations from the Cost of Service Study of operating revenue reserves and replacement; and the Rate Stabilization Fund. Mr. Markus stated that the operating reserves serve a dual purpose of additional sources of liquidity and contingency funds to meet any significant unanticipated events for D.C. Water. He reported that D.C. Water has exceeded its board policy, maintained excess liquidity in excess of the $125.5 million reserve requirement and projected to continue that level in the future. They made a recommendation that the Board codify the higher balance of $140 million in cash balances in order to receive credit for the rate from the rating agencies.

The Committee recommended Board approval of action items related to financial staff augmentation services as well as the budget items.

**New Member Committee Assignments**

Presented by: Tommy Wells, Board Chairman

Mr. Wells reported that after confirming with the members involved, he had made the following committee assignments and changes: Krystal Brumfield, Finance and Budget Committee and the Human Resources and Labor Relations Committee; Jed Ross, Environmental Quality and Operations Committee and the Finance and Budget Committee; Fariba Kassiri, Human Resources and Labor Relations Committee and the Strategic Planning Committee; Sarah Motsch, Vice Chair of the Finance and Budget Committee; and Emile Thompson, Vice Chair, Strategic Planning Committee.

**General Manager’s Report**

Reported by: Henderson Brown, Interim CEO/General Manager

Mr. Brown stated that he was providing an update on discussions and activities associated with issues previously discussed in Board meetings and for the D.C. Council oversight hearing scheduled during the week. The first issue was the Clean Rivers Impervious Area Charge and the exchanges of correspondence between Councilmember Cheh and the D.C. Water Board, and management about proposals to reduce and mitigate the impact of CRIAC charges on certain elements of the community. On January 16, 2018 Chairman Cheh wrote a letter containing the nine solutions to mitigate those impacts and create a more sustainable situation. Among them are the following: to provide a hardship fund funded by the Council, to provide discounts to customers with larger green space, and to increase incentives to those who replace the impervious areas on the property, for the District to pay for its roadways, and to increase federal funding to the Clean Rivers Project.

Mr. Brown reported that D.C. Water had responded to the best ideas and supports creation of a hardship fund with the highest possible amount. He stated that D.C. Water would contribute if possible to providing some relief to cemeteries, since the fiscal impact would probably be insignificant. However, he indicated that D.C. Water was operating under some constraints and did not want to risk the $20 million contribution from the federal government.

Mr. Brown reported that he was invited to participate in an idea summit with the Mayor. The CRIAC was one of three issues, including how the retirement funds were managed in the city, and school attendance. Some of the best thinkers in the District Government were brought together, put in a room, and could not leave until they came up with some solutions. The hardship fund and relief for cemeteries were supported and action will proceed through the Mayor’s Office. Mr. Brown stated that he believes the fact that D. C. Water is not solely responsible for solving the problem is gaining traction.

Interim General Manager Brown indicated that on February 28 he had a meeting with Reverend Willie Wilson who was scheduled on March 1 to have a rally at his church on CRIAC. There was a two-hour conversation and ideas and information were exchanged. He reported that they have a basis for going forward, that the solutions to these challenges should be holistic and that they are not the enemy in their conversations.

Interim General Manager Brown stated that in support of D.C. Water’s efforts to monetize its innovation programs, Biju George, Chief Operating Officer, had the idea to recruit some of the world’s best people at innovation to come to D.C. Water for ten days to help figure out how innovation should be done in the right way. Mr. Brown introduced the guests from the 3M Corporation who are international contributors from an international, multinational corporation. He thanked all of them for devoting their time.

Mr. Brown highlighted an in-house initiative called Women of Water who will have their second annual conference on March 20, 2018. The conference enjoys the support of the Executive Team and they are inviting women in the industry to come and talk about spears of influence and to share how they can help one another. This is the first employee research resource group created by D.C. Water. He encouraged everyone to attend.

Interim General Manager Brown announced that on March 23, 2018 the Anacostia River Tunnel and the Blue Plains Tunnel will be connected. The two tunnels will be dewatering with the dewatering pump station and connected to an enhanced treatment facility on the Blue Plains Plant. This represents a milestone in the consent decree that the CRIAC supports. When connected, 80 percent of the combined sewer overflow by volume to the Anacostia River will be eliminated. Mr. Brown stated that they are working toward 98 percent. He thanked Carlton Ray, Director of Clean Rivers, the entire team, and the Board who supported the entire endeavor. This is the first small measure of success.

**Consent Action Items and Non-Consent Items**

Chairman Wells stated that he was moving on to the consent agenda. He explained that the consent agenda is broken down into the joint use action items for all user jurisdictions and non-joint use action items for the District. Under joint use is where the Capital Improvement Program and overall budgets are approved. Under the non-joint use fees and rates are discussed that concern the District. Chairman Wells indicated that he was removing the vote from the consent agenda to approve the FY 2019 Proposed Operating Budget because of the severe impact of the overall rates, the Impervious Area Charge and the others. It will be put on the non-consent agenda so that it can be discussed further. This is being done to show that the Board will have sufficient discussions and take careful consideration of any rate increase. Chairman Wells indicated that this was Agenda Item IX. He asked if there were other items which the Board wanted removed and Board member Franco asked that the System Availability Fee, Agenda Item X, be removed from the consent agenda, non-joint use. Chairman Wells stated that it would also be removed from the consent agenda, non-joint use, so that the Board can vote on it separately also after further Board discussion.

For clarification purposes, Chairman Wells listed each item on the consent agenda, joint use, that would be voted for approval. With the exception of Agenda Item IX, No. 8, Agenda Item IX, Nos. 1 through 9 were unanimously approved by the Board. Chairman Wells stated that the Board would vote on Agenda Item X, non-joint consent items, and then come back to Agenda Item IX, No. 8, Resolution 18-24, joint-use, Approval of the FY 2019 Proposed Operating Budget after further discussion. Chairman Wells listed each non-joint use action item on the agenda that would be voted on, No. 1, Approval to Execute Additional Funding for contract – Aclara Technologies; and No. 3, Approval of Proposed Notice of Rulemaking to Amend the District of Columbia Fire Protection Service Fee. Chairman Wells called for the vote on No. 1, Resolution No. 18-26, and No. 3, Resolution No. 18-28. The Board voted unanimously to approve those resolutions.

Chairman Wells asked for discussion on Agenda Item X, No. 2, Approval of Proposed Fiscal Year 2019 and Fiscal Year 2020 Metered Water and Sewer Services Rates, Right-of-Way (ROW), Payment-in-Lieu of Taxes (PILOT) Fee, and Clean Rivers Impervious Area Charge (CRAIC), Resolution 18-27. Approval of this Resolution will result in a 5.9 percent rate increase for the average household customer. Mr. Franco stated that he did not have a problem with the overall rate increase of 5.9 percent but did have a problem with customers paying a significant portion of their bill in the CRAIC portion. As proposed, he believes a 13 percent increase in this line item indicates instability in the rates. Mr. Franco thought it justified using the Rate Stabilization Fund to get the line item back to a stable increase. Chairman Wells stated that he thought Mr. Franco’s suggestion should be taken up when they address Agenda Item IX, No. 8, the operating budget. He then asked for a vote on Agenda Item X, No. 2, Resolution 18-27 and the Board voted unanimously to approve Resolution 18-27.

Next was Agenda Item X, No. 4, Approval of Publication of the Notice of Proposed Rulemaking to Amend System Availability Fee (SAF), Resolution 18-29. Ms. Bhatt reminded everyone that this was supposed to go into effect January 1, but they changed the course of that action to begin June 1 to account for affordable housing concerns. This had been discussed with the Mayor’s Office and additional entities.

Mr. Franco commended the management of the CFO’s office for addressing the affordability

issue with the System Availability Fee. He stated that he still could not support the fee because he had serious concerns with the economic impact on future rate payers in the District, future homeowners and apartment dwellers that will live in new projects that are subject to up to a $796,000 fee. Mr. Franco believes that D.C. Water has not really studied the impact of this fee on future rate payers. By his calculation there could be a $30 per month increase in housing costs of the typical District resident. Mr. Franco stated that he thinks when they have such a potential impact on the rate payers, it warrants a third party independent study.

Chairman Wells pointed out that up for vote was approval to publish the proposed rulemaking and not to approve the fee which would require another vote. He then asked for a vote on approval of the publication of the proposed rulemaking. The DC members of the Board unanimously voted approval of Resolution 18-29.

Next up for consideration is Agenda Item IX, No. 8, Approval of the FY 2019 Proposed Operating Budget, Resolution No. 18-24. Chairman Wells asked for discussion and suggested that this was the time for Mr. Franco to present his issues. Mr. Franco asked for a motion to delay implementation of the System Availability Fee from June 1, 2018 to September 1 to provide adequate time to do an economic impact study. Chairman Wells asked for a second to the motion and there being none, the motion failed.

Mr. Franco then made a motion to use the Rate Stabilization Fund to stabilize the sewer portion of the proposed rates from 13 percent to 5 percent. Chairman Wells seconded the motion and asked for discussion. Mr. Franco stated that he was confirmed to be a Board member to look out for the best interest of D.C. Water, as well as the rate payers. He sees an imbalance where certain classes of rate payers will have an increase in their bill of 10 percent. Mr. Franco said this was toward the fulfillment of his fiduciary responsibility to the rate payers. He said the Rate Stabilization Fund was established by the Board and should be used to stabilize the rate. Chairman Wells asked Matthew Brown, CFO, how the Fund would be utilized. Mr. Brown stated that the Rate Stabilization Fund balance was currently $61 million and that its stated purpose is to help offset peaks and rate increases. It is obviously one-time dollars. If $5 million is applied this year, next year rates would not only need to recover that $5 million but meet the expenditure needs and the rate increase. It is a delay in a rate increase. Mr. Brown reported that to keep the sewer fee increase to 5 percent instead of the proposed 13 percent, it would require a withdrawal from the Rate Stabilization Fund of $16.3 million for one year.

Mr. Gibbs stated that this would mean $16 million would have to be withdrawn each year until the Fund runs out and then the big increase to the sewer rate would still be required. The increase is due to the cost of service and D.C. Water has not been charging what it costs to run the sewer system. It is more of a true-up to what the actual costs are than an idea of shifting funds from one part of the budget to another. Mr. Giancola asked about the purpose of the fund and that he sees a valid issue of using it for at least one year and then see what happens. Mr. Gibbs stated that in the past it has been used when there was going to be a large increase in debt service and instead of borrowing money, they used the Fund to pay cash for construction, thus avoiding additional costs of borrowing debt service.

After more discussion among the Board members, Mr. Franco asked if CFO Brown would make a recommendation and tell them how best the Board could achieve its intents in a manageable way that utilizes the Fund to create more balance. Mr. Brown informed the Board that his recommendation was the budget proposed by management to the Board. He stated that it had been the thinking of the Board that the Rate Stabilization Fund would be used when Clean River expenditures peak in 2026. There has been discussion at the committee level about other uses for the Fund and another conversation is slated to begin in March. Mr. Brown believes a piece of the puzzle is figuring out how to deal with asset management activities. He recommended that the Board not withdraw the $61 million from the Fund now but stated that the Board does have the discretion to take out some amounts. He stated that he needed some direction from the Board on the budget immediately since D.C. Water was scheduled to go to the capital markets to continue funding the Capital Improvement Program in April.

Discussion continued among the Board and the CFO about the withdrawal and how much it should be. Board member Frishberg raised issues about the long process the Board had gone through to reach this point and the fact that everyone is in a tough situation and trying to make the best of it. He reminded everyone that as the Interim General Manager stated everyone including the Mayor’s Office and others are engaged in looking at the affordability and how to best make use of the resources. These efforts will continue, and the work of the Board committees will intensify. He indicated that he is reluctant to make the kinds of changes raised because it will not be the solution. D.C. Water should figure out who are the customers and/or the places where there is actual relief needed and figure out as D.C. Water goes through the process how to accomplish it. This is the process that the Board has outlined, that the General Manager has proposed, that the Board has approved, and that everyone is about to conduct.

Mr. Frishberg said that on the last day of a many-month process numbers should not be thrown around on the fly and this was not how business should be conducted. Ms. Boardman agreed and said she was seriously uncomfortable with doing anything on the fly. She stated that everyone is here and took the oath to act in the best interest of the rate payer and she thinks it would now be imprudent to pull money out of the Rate Stabilization Fund.

Chairman Wells welcomed the very healthy robust discussion. He stated that he knows that the rise in fees and rates for customers has been extraordinary and that the impact is disproportionate.

After further discussion, Chairman Wells called for a vote on Mr. Franco’s amendment motion to utilize up to $16 million, or the calculated amount, from the Rate Stabilization Fund and apply it to the water and sewer rate increase of 13 percent to decrease it to 5 percent in the FY 2019 Operating Budget. The Board Secretary conducted a roll call vote and the vote was 2 Yes, 8 No, and 1 abstain. Chairman Wells stated that the motion failed.

Chairman Wells called for a joint use vote on Agenda Item IX, No. 8, Approval of the FY 2019 Proposed Operating Budget, Resolution 18-24. The Board voted to approve the resolution, with 1 No vote.

There being no additional concerns, Chairman Wells adjourned the meeting at 11:10 a.m.

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 Secretary to the Board of Directors