



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

Finance and Budget Committee

Thursday, January 22, 2015

11:00 a.m.

MEETING MINUTES

Committee Members in Attendance

Robert Mallett, Acting Committee Chairperson
Matthew Brown, District of Columbia
James Patteson Fairfax County, via conference call
Obiora "Bo" Menkiti, District of Columbia, via conference call

DC Water Staff

George Hawkins, General Manager
Randy Hayman General Counsel
Gail Alexander-Reeves, Director, Budget
Robert Hunt, Director,
Finance
Linda Manley, Secretary to the Board

Call to Order

Mr. Robert Mallett called the meeting to order at 11:00 a.m.

December 2014 Financial Report

Ms. Alexander-Reeves, Budget Director, reported that with approximately 25 percent of the fiscal year completed, we are on track with budgetary expectations and targeted performance metrics. Total revenues are at \$147.5 million or 27 percent of budget, operating expenses at \$108.1 million or 21 percent of budget and capital disbursements at \$166.4 million or 27 percent of budget in the respective category. Ms. Alexander-Reeves noted that this month's report includes the quarterly reports for Accounts Payable performance and Grants.

Mr. Mallett enquired about DC Water's dispute with the DC Government regarding the RFK Impervious Area Charges (IAC). Ms. Reeves explained that the \$2.4M dispute involved various federal and District entities regarding payment of the IAC. Customer Service staff continue to work with all parties to resolve. Mr. Syed Khalil, Financial Planning and Revenues Manager, added that the unpaid bill is due to ownership dispute between the Federal and District governments. In response to Mr. Mallett's question regarding the Authority's electricity hedging practices, Ms. Reeves stated that 20MW or approximately 67 percent of the Authority's electricity load has been locked at an average Western Hub unit price of \$45.92/MWh from January 2015 through September 2015. She also noted that with the current decline in electricity prices, additional loads of 15MW and 5MW have been hedged for FY 2016 and FY 2017 respectively. Staff are routinely monitoring the market for opportunities to lock additional loads and to mitigate future costs.

Ms. Reeves reported that the Authority received \$14 million wire transfer from the District for the CSO Appropriations. General Manager George Hawkins explained that though these funds are not included in the proposed ten-year financial plan, they will be committed to fund the Clean Rivers project.

FY 2016 Proposed Budget

Ms. Reeves provided an overview of the budget proposal which includes the Proposed FY 2016 operating budget of \$541.6 million, FY 2015 – 2024 capital lifetime budget of \$10.1 billion, FY 2015 – 2024 capital disbursements budget of \$3.8 billion and Proposed FY 2016 operating revenues of \$570.2 million.

The major operating budget drivers are attributable to personnel services, utilities and, debt service to support the various capital projects. In response to Mr. Mallett's inquiry about how often we evaluate our ten year capital estimates, Mr. Len Benson, Chief Engineer, noted that the review is undertaken by staff on an annual basis. Ms. Reeves reported that the FY 2016 Proposal includes 1260 budgeted positions, with no increase in positions above the FY 2015 authorized level, until single digit vacancy rate is achieved by the Authority. Mr. Matthew Brown inquired about the high vacancy rate and if it had any operational impacts. Mr. Hawkins explained that the FY 2016 budget proposal strategically did not include any new positions above the FY 2015 Board-authorized headcount. However, the FY 2016 budget provides funding to ensure no procedural delays in filling vacant positions.

Mr. Mallett noted that the decline in electric prices is not reflected in the budget proposals. Ms. Reeves explained that new Plant facilities are projected to drive overall costs higher, however, staff will continue to monitor and lock future loads, where practicable, to help mitigate costs. Mr. Hawkins added that the Authority's utility costs are actually declining in relationship to what it would have been if the Digester project was not coming on line with the additional new Plant processes anticipated.

Mr. Hawkins noted that since last week's Joint's meeting of the Environmental Quality and Sewerage Services and the Water Quality and Water Services Committees, the Lifetime Project Budget has been revised. Slight changes were made in the Sanitary and Combined Sewer Overflow service areas, with the total budget remaining at \$10.1 billion.

Ms. Reeves continued with an overview of the Proposed FY 2016 operating revenues and explained that the major drivers of the retail revenues are primarily attributable to the new \$40 million infrastructure fee, residential and commercial customer categories and the Impervious Area Charges. These increases are offset by decreases in the wholesale revenues due to the change in billing estimation methodology and other revenues. Mr. Mallett asked if these revenue proposals were inclusive of the new rate structure charges to be reviewed by the DC Retail Water and Sewer Rates Committee which was affirmed by Ms. Reeves.

Regarding the Proposed FY 2016 operating revenues, Mr. Mallett noted that while the retail customers are significantly impacted, it appears that the wholesale customers are getting a relief in their share of the revenues. Mr. Hawkins explained that the projected decrease in wholesale revenues of \$12 million is attributable to the change in billing estimation methodology starting in FY 2016. The General Manager noted that historically, the wholesale customers' share of the costs was allocated based on the operating budget, while this proposal reflects a change in methodology incorporating a 3-year average of actual costs.

Mr. Brown inquired about the \$7.5 million decrease in the Rate Stabilization Fund (RSF) included in the budget proposal. Mr. Hawkins explained the reasons for the \$7.5 million drawdown in FY 2015 and that the purpose of the RSF is to ensure rate stability. He noted that a review of the fund is conducted annually. Mr. Syed Khalil further explained that the current FY 2016 proposal does not include any anticipated drawdown from the RSF.

Proposed Series 2015A Refunding Transaction

The Committee received an update from Mr. Robert Hunt, Director of Finance, on the proposed Board Resolution authorizing the Refunding of DC Water Bonds from the 2007A, 2008A, and 2009A Series, which total approximately \$390 million. This represents the balance of the bonds not refunded during the October 2014 refunding. The estimated savings from this refunding is \$36.1 million or 9.2% of refunded par. He noted that the goal is to price the bonds between February and the first week in March 2015.

Action Items

The Committee members recommended the following action items for the Board's approval

- FY 2016 Proposed Operating Budget
- FY 2015 – 2024 Ten Year Financial Plan
- FY 2015 – 2024 Capital Improvement Program (Cash & Lifetime)
- Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing
- Approval of the Sale and Setting Terms and Details of the Series 2015 Refunding Bonds
- Approval for Financial Services – SPS Consulting

Follow-up Items

There are no follow-up items.

Adjournment

Hearing no further business Vice Chairperson Mallet adjourned the meeting at 11:35 a.m.