

# **DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

## **BOARD OF DIRECTORS**



*Finance & Budget Committee  
Friday, December 18, 2009  
9:30 AM*

## **MEETING MINUTES**

### **Committee Members**

Timothy Firestine

### **DCWASA STAFF**

George Hawkins, General Manager  
Avis Russell, Interim General Counsel  
Olu Adebo, Chief Financial Officer  
Linda Manley, Secretary to the Board

### **Other Board members in Attendance**

David J. Bardin  
David Byrd  
Joseph Cotruvo  
Howard Gibbs  
Alan Roth  
Beverly Warfield  
Paivi Spoon (phone-in)

### **Presenters**

Ms. Karin DeMoors, Public Financial Management  
Mr. Nelson Bush, Public Financial Management

### **Call to Order**

Committee Member Timothy Firestine, who chaired the meeting on behalf of Chairman Walker, called the meeting to order at 9:33 a.m.

### **November 2009 Financial Report**

Mr. Olu Adebo, Chief Financial Officer, presented the November 2009 Financial Report. At the end of November, with approximately 17% of the fiscal year completed, DC WASA is on track with financial expectations. Revenues were at \$63.7 million approximately 0.4% above the projection; Expenditures are at \$55.9 million; and Capital Disbursements are at \$51.8 million. Mr. Adebo explained that certain customers make payments on quarterly basis, which accounts for the favorable revenue performance. DC WASA has received the first quarterly payments from both the wholesale customers and the Federal Government. Capital Disbursements are slightly ahead of schedules and staff will continue to monitor all the categories as we proceed into the fiscal year. Operating Cash Reserves continues to meet the Board's objective of \$125.5 million, with the actual average daily balance of \$136.8 million or 11.3% above the objective.

Due to the volume of agenda items, with the Committee's approval, Mr. Adebo presented the remainder of the financial report by exception. Mr. Firestine asked for explanation of federal

revenue receipts to which Mr. Adebo responded that the Federal Government's 1<sup>st</sup> Quarter payment was short paid by \$0.8 million in November. Based on information provided by the U.S. Treasury, the federal agency responsible for paying all federal water bills, this short payment was a result of adjustments made by the Department of Navy for their share of the bill. Subsequently, DC WASA received \$0.4 million or 50% of the short paid amount in early December and is currently working with the U.S. Treasury who is coordinating with the Department of the Navy to remit the outstanding balance.

Mr. Bardin asked for clarification and specific information on what the Mayor of DC submitted to Congress on behalf of DC WASA, for the FY 2010 operating and capital budgets and requested that staff email the information to all Board members as soon as possible. Additionally, he asked for an explanation of how that number (the Mayor's submission of DC WASA's budget for appropriation) is reflected in statutory appropriations language.

Mr. Firestine requested for additional information on electricity pricing and DCWASA lock-in rates. Specifically, he wanted the assumptions used for the FY 2010 budget and any potential savings assumed in the current budget proposal. Ms. Spoon also requested for similar information over the phone, which included the average lock-in price for the 50 percent of the electricity load from November 2009 to June 2010.

### **Financing Options**

Ms. Karin DeMoors and Mr. Nelson Bush from Public Financial Management (PFM) presented a bond market update and various financing options to the Committee. The consultants' presentation included a review of historical and current tax-exempt and taxable bond interest rates, a discussion of the importance of maintaining DC WASA's strong credit rating, and financing alternatives for DC WASA's proposed Capital Improvement Program (CIP). Several options for short-term and long term financing were presented including tax-exempt bonds, taxable Build America Bonds (BABs), commercial paper and a master equipment lease program (MELP).

Dr. Cotruvo asked if DCWASA should fully maximize its use of pay-go funds to which Mr. Adebo explained that this issue, which was previously raised by Mr. Firestine, has a fundamental policy question that needs to be addressed by the Committee and the Board as to what constitutes an appropriate level of pay-go financing. Mr. Adebo indicated that staff would explore how other agencies are handling their financial strategies between pay-go and debt financing and develop some policy decisions on how much of DCWASA's capital program should be paid from pay-go. Presently, approval for the level of pay-go financing is addressed annually when staff presents the annual budget to the Committee and the Board.

The consultants advised the Committee that WestLB Bank, DC WASA's current letter of credit provider for the commercial paper program had decided not to renew the letter of credit as of July 1, 2010. Staff has been aware of this possibility and is preparing a request for proposal (RFP) for a new letter of credit, master equipment lease and new commercial paper broker/dealers. The RFP will be sent out before the end of December. Since the current program allows for \$100 million in commercial paper, the Committee was advised it may be advantageous to expand the program up to \$300 million. The Committee requested details of the Build America Bond sale by the District of Columbia government and information regarding the availability of Recovery Zone Bonds from the District's allowance.

The master equipment lease program was presented as an alternative to pay-go financing for capital equipment. Following the presentation, Mr. Firestine suggested that DC WASA coordinate its activities with the Washington Suburban Sanitary Commission (WSSC) to eliminate potential

duplication of issuing bonds to lease similar equipment. The Committee agreed to forward this item to the Board for consideration at the meeting in January 2010.

### **Budget Review of Revised FY 2010 and Proposed FY 2011 Budgets**

General Manager Hawkins and Mr. Adebo presented information on the Revised FY 2010 and Proposed FY 2011 budgets. As presented at their December 17<sup>th</sup> meetings of the Environmental Quality and Operations Committee and the DC Retail Services Committee, the General Manager presented two alternatives (Alternative 1 and Alternative 2) for the Finance and Budget Committee's consideration. Alternative 1, which recommends an 18% retail water and sewer rate increase, includes the projects staff believes are necessary for the enterprise. Alternative 2 provides for 13% retail water and sewer rate increase and does not include all projects that staff believes are necessary for the enterprise. Based on information provided by Chief Engineer Leonard Benson, Mr. Hawkins reported that he believes DCWASA has the capability to handle the operational risks that are involved between Alternative 1 and Alternative 2. A summary of the salient differences between the two alternatives was provided by category. The difference between the two alternatives is approximately \$13.5 million, which is categorized into O&M (\$4 million), debt service (\$4 million), and Pay-Go Financing (\$5.5 million).

Mr. Firestine stated that the conservatism on some of the economic estimates on interest rate assumptions is pressing for a policy decision on budgetary items that perhaps may not be necessary as the items established here as "cuts" could be put back into the budget or have a different rate adjustment. According to Mr. Firestine, with the decisions the Board makes now because of conservatism, it could do reallocation after the fiscal year starts with the appropriation to fund some of the "cut" items if there is an overestimate on the interest cost side, but at that point, we have locked in on the rate increase. He indicated these are the decisions the Board has to make: perhaps to accept conservatism and make tough decisions now with the possibility that later on, we could adjust those items to restore some of the capital items adjusted on the list. But the first thing, Mr. Firestine indicated, is the acceptance of the rate increase. However, he saw this as more of a District issue than a Suburban issue.

Next, Mr. Firestine questioned the 5% general wage adjustments in both alternatives (1 and 2) and Mr. Adebo explained that it includes wage increases to accommodate existing union agreements, including pay for performance and step increases for 75% of the Authority's workforce. Ms. Barbara Grier, Assistant General Manager for Support Services, confirmed Mr. Adebo's response relative to the union contract. Mr. Firestine and Mr. David Byrd indicted their lack of support for the wage adjustments.

Referring to the Capital Budget, Mr. Firestine stated that he is not prepared to support the Digester Project until he receives feedback from WSSC on how they would finance this project and would defer the Digester Project until he receives feedback from WSSC on how the project affects their capital program. Mr. Bardin requested for written presentation if the Digester Project is deferred for one year and how it would impact the retail and wholesale rate payers. Additionally, Mr. Bardin wanted an explanation why the suburban jurisdictions are getting a break in the \$7 million reduction between the FY 2010 approved and revised budgets.

After further discussion Mr. Firestine (the only committee member present) stated that he would only support Alternative 2, with elimination of the collective bargaining and general wage increases. He also indicated that he is not currently supporting the Digester Project.

Although, not a member of the Finance and Budget committee, Board member Alan Roth spoke in favor of the Alternative 1 budget proposal. Mr. Roth reminded the committee of the issues Metro is currently having due to disinvestment in the system. He indicated his believe that the current Metro

issue was as a result of members of the Metro board being unwilling to tell riders that they have to bear some of the burden/costs now if they want that system to continue to be invested in properly. To avoid similar mistakes like Metro, he advocated that the DC WASA board members consider adopting Alternative 1 which would provide for continuing infrastructure investments.

Mr. Bardin asked to meet with the General Manager and his staff to discuss and review the underlining assumptions of the ten year financial plan. He also suggested that it would be good if all the Board members are in accord before this item comes to the full Board for action in January. Mr. Hawkins suggested a conference call before the January meeting to provide the additional information requested.

### **Action Items**

The Committee agreed to move the Commercial Paper Program forward to the Board for consideration to proceed with an RFP to expand the program.

The Committee also agreed to recommend to the Board for action, approval of Alternative 2 of the Revised FY 2010 and Proposed FY 2011 budgets, with further discussion on general wage increases and the Digester Project.

### **Adjournment**

Hearing no further business, Mr. Firestine adjourned the meeting at 11:48 a.m.