



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY
Board of Directors**

Meeting of the Finance and Budget Committee

Thursday, April 25, 2013

11:03 a.m.

MEETING MINUTES

Committee Members in Attendance

Timothy L. Firestine Committee Chairperson
James Patteson – Fairfax County
Adam Ortiz – Prince George's County
Alethia Nancoo- District of Columbia

DC Water Staff

George Hawkins, General Manager
Meena Gowda, General Counsel
Mark Kim, Chief Financial Officer
Yvette Downs, Finance & Budget Director
Robert Hunt, Treasury and Debt Manager
Linda Manley, Secretary to the Board

Call to Order

Timothy L. Firestine, Committee Chairperson, called the meeting to order at 11:03 a.m.

March 2013 Financial Report

Ms. Downs, Finance & Budget Director, presented the March 2013 Financial Report. Ms. Downs reported that halfway through the fiscal year:

- Revenues and expenditures were within budgetary expectations but capital spending continues to lag. Operating cash receipts totaled \$220.4 million or 49 percent of the revised FY 2013 budget. While the Other Revenue category appears low (due to anticipated fourth quarter receipts), all remaining revenue categories are 51 percent of targets. Mr. Firestine inquired about the status of the St Elizabeth's dispute noted within the write-up. Ms. Downs responded that the dispute was resolved in late September, with the account balances adjusted in December 2012. The District Government's responsibility for this account ended at the end of FY 2012 and they made final payment in March 2013. The federal government (GSA) has agreed to take over payments beginning in FY 2013 on behalf of Homeland Security (which now occupies property where the meter is located). The meter will be billed and paid as a commercial customer until the premise can be added to the FY 2015 federal bill process. The downward adjustment to the DC Municipal account reflects the final agreement and will continue to show behind target in future reports. Though the dispute has been resolved, Mr. Firestine requested that this information be included within future explanations for clarity.
- Operating expenditures were \$187.9 million or 43 percent of the FY 2013 revised budget. The underspending was in various categories throughout the Authority. The electricity expenditure is tracking favorable to budget and the actual cost of \$73.49/mWh is slightly higher than the Spot Market price of \$71.44/mWh, but greatly lower than the Standard Offer Services (S.O.S.) rate of \$125.76/mWh and below the budget of \$93.73/mWh. There are no electricity block purchases for the Authority as of March 2013, but staff continues to monitor the futures market with intent to purchase some load when market conditions are appropriate.

- Actual capital disbursements totaled \$233.7 million, but lagged the planned disbursements budget of \$323.3 million. The lag in actual disbursements was attributed to Wastewater Treatment, Combined Sewer Overflow and Water Services areas. Mr. Firestine requested additional information on the delayed invoicing on the Water Distribution and DDOT Water Programs. Ms. Nancoo also questioned the wisdom of embarking on new bond issuance while capital disbursements were lagging. In response, Mr. Mark Kim, Chief Financial Officer, explained that the capital program is growing and that the engineers plan to spend those funds; the question is one of timing. He noted that the monthly capital disbursement burn rate may likely increase as the tunnel boring machine is in operation and as the summer months progress. Given DC Water's financial schedule, Mr. Kim indicated that the optimal time to go to the bond market would be in mid July or early 2013, however the anticipated spend rate appears to indicate a need for an influx of new financing prior to 2013. Therefore, the July time frame is the best time for the next issuance. The size and structure is included within another agenda item.
- Operating cash reserve balance was \$151.3 million as compared to the FY 2013 reserve level objective of \$125.5 million
- DC Water has been awarded a total of \$324.6 million in federal funds (grants) for active projects (including the CSO appropriation). It is anticipated that additional funds will be made available through the FY 2013 Congressional budget. However, DC Water will be affected by sequestration through a reduction in the amount of special appropriations and EPA funding received for Clean Water, Safe Drinking Water and The CSO LTCP appropriations. Ms. Downs noted that DC Water anticipates closing eight grants in 2013. Four of those eight have been closed in FY 2013. on accounts payable performance, approximately 94 percent of the undisputed invoices were paid within 30 days compared to 93.8 percent paid within 30 days during the same period in FY 2012.

Investment Performance Report

Mr. Hunt, Treasury Manager, reviewed the investment portfolio as of March 31, 2013. Mr. Hunt stated that the portfolio remains properly diversified and in compliance with all aspects of the Authority's Investment Policy. The overall yield-to-cost of the portfolio is 0.39 percent. Mr. Hunt further stated that currently, \$30 million of the Authority's operating funds have been invested in qualified commercial paper with short-term maturities earning from 0.12 percent to 0.23 percent.

New Headquarters Building

Mr. Hawkins gave a presentation on a proposal to revise the Master Facilities Plan and to Build a Headquarter Facility. Highlights of the presentation include:

- a reduction in the current facility needs from \$105 million to a revised master plan of \$98 million;
- construction of a headquarter facility at the existing "O" Street property to provide a centrally-located, sustainable work environment for all DC Water's administrative personnel. This includes:
 - DC Water engineering staff consolidation into one facility, thereby creating additional space in Blue Plains;
 - consolidation of Water Services and Sewer Services administrative operations to gain efficiencies as well as eliminate the need for future leased office space;
 - incorporation of Customer Service and Command Center into a headquarter to eliminate the need for future leased office space;
 - alleviation of parking woes and traffic concerns currently prevalent in Blue Plains;
- creation of an additional acre space (40,000 square feet) without "building up"; and
- funding allocation for the new proposal would range between \$72 to \$78 million for the District and \$19 – \$25 million for Wholesale customers, which is in line with the current funding needs to facilitate the existing Master Facilities Plan concept.

Mr. Patteson commented about the need to be aware of public perception when designing the facility and to ensure that long term space needs are considered. He also advised that future critical needs for the existing water facility be considered when building above the existing infrastructure. In response to a question from Mr. Ortiz's, Mr. Hawkins will provide the number of employees expected to relocate from Blue Plains and other facilities into the proposed Headquarter Building.

The Committee agreed to keep this item moving and advised that the GM's presentation be shared with other DC Water Board Committees with a definitive request to revise the Master Facilities Plan to be presented in the future.

Bond Financing Update

Mr. Kim provided an update to the Committee on the bond financing anticipated for July 2013. Eight banks have been identified from the available pool to work on the deal with Loop Capital and Barclays to be co-book runners. The financing plan will include approximately \$350-\$400 million in fixed rate, subordinate lien debt. The Committee will receive regular updates leading up to the bond issuance.

Financial Policies

Mr. Kim made a presentation on DC Water's Financial Policies, which included a review of two studies recently completed by an independent consultant in accordance with the Board's policies and results in the following actions and recommendations:

- Maintain the existing Operating Cash Reserve Requirement of 120 days of budgeted O&M expenses or \$125.5 million;
- Re-affirm the current policy and maintain the Renewal and Replacement Reserve at \$35 million and review that determination at least every five years in conjunction with the indenture required system assessment;
- Remove the requirement for a DC General Obligation Debt Reserve as this debt was extinguished in FY 2012 with a reserve balance of \$0; and
- In keeping with the Authority's rebranding, the Financial Policies should be updated to replace "WASA" with "DC Water".

Action Items

Revised Financial Plan Policies

The Committee agreed to move this item as presented by Mr. Kim to the Board for approval.

Approval for ROCIP II Broker Services

The Committee agreed to move to the Board, to approve execution of ROCIP Insurance Broker Services with AON Risk Services, Inc.

Approval of Legal Services for Douglas & Boykin PLLC

The Committee requested additional information and deferred this item to their next meeting.

Other Business

- Ms. Downs informed the Committee that the next Wholesale Customer Semi-Annual Briefing is scheduled for June 14, 2013, and invited all interested Committee members to attend.
- Ms. Downs also informed the Committee that the FY 2015 Federal Bill has been completed and was submitted timely in accordance with federal legislation.

Agenda for May 23, 2013 Committee Meeting

The Committee reviewed and approved the draft agenda.

Adjournment

Hearing no further business, Chairperson Firestone adjourned the meeting at 12:30 p.m.

FOLLOW-UP ITEMS (Meeting held February 28, 2013)

1. Provide additional information in the meeting minutes on the delayed invoicing dispute resolution with the District on water consumption at St. Elizabeth Hospital. **(Mr. Firestine)**
2. Provide additional explanation as to the reason for delayed invoicing on the capital Water Distribution program and the quantity. **(Mr. Firestine)**
3. Provide additional information on the number of employees expected to relocate from Blue Plains and other DC Water facilities to the proposed Headquarters Building. **(Mr. Ortiz)**
4. Provide an update of the procurement process for legal services at the next Committee meeting. **(Ms. Nancoo)**