



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

Finance and Budget Committee

Thursday, April 28, 2011

11:00 a.m.

MEETING MINUTES

Committee Members in Attendance

Timothy Firestine, Committee Chairperson

David J. Bardin

Other Board Member

Joseph Cotruvo

DC WATER STAFF

George Hawkins, General Manager

Randy Hayman, General Counsel

Olu Adebo, Chief Financial Officer

Yvette Downs, Finance & Budget Director

Linda Manley, Secretary to the Board

Robert Hunt, Treasury Manager

In Attendance

Nelson Bush, PFM Asset Management, LLC

Call to Order

Committee Chairman Timothy Firestine called the meeting to order at 11:03 am.

March 2011 Financial Report - Operating Revenue and Expenditures

Ms. Yvette Downs reported that as of March 31, 2011, with 50 percent of the fiscal year completed, revenues and expenditures were on track with expectations. Revenues were at 47.6 percent, operating expenditures at 44.6 percent, and capital disbursements at 41.1 percent of the budget. The average daily cash balance exceeded the operating reserve target by \$12.9 million. In addition, Ms. Downs reported that at next month's meeting, management will provide the Committee with preliminary year-end projections for FY 2011. Ms. Downs also mentioned that under the operating revenues, the major variance in this area would be for Other Revenues, mainly contributed by the IMA Indirect Cost Reimbursement for Capital Projects, and the Rate Stabilization Fund Transfer, both of which were not anticipated until the fourth quarter of the fiscal year. Ms. Downs explained that the federal payment variance is due to the ongoing issue related to the FY 2011 federal appropriations, and having operated under the federal government's continuing resolution.

In referring to the "Operating Receipts by Customer Category" contained in the Revenue Variance by Category Table, page 2 of the report, Chairman Firestine asked if Residential, Commercial & Multi-family receipts category was on track with budget, considering the projected 2 percent decline in annual consumption. In response, Ms. Downs explained that consumption overall was at the projected budget level and that we were on target with the budget. Mr. Bardin

commented on lower than anticipated consumption for the DC Housing Authority to which Ms. Downs responded that staff are working to gain a better understanding of the factors contributing to this decline in consumption. Mr. Bardin also asked that the finance staff keep track of the revenue side of the IAC of what the budget assumed versus actual. Mr. Adebo responded affirmatively.

Next, Ms. Downs provided the Committee with a report on Operating Expenditures, which totaled \$179.7 million at the end of March. Personnel Services are on track with 1,018 filled positions. Overtime expenditures are tracking higher than expectations, primarily due to emergency response to water main breaks and snow removal. Ms. Downs also mentioned that under the area of Water Purchases, we are under budget primarily due to timing of billings, seasonal variation on water demand, and a delay in the operations of the hypochlorite project. This new facility is now scheduled to go live in early FY 2012. Chemical and Supplies are tracking lower than budget; however, Ms. Downs reported that some recent chemical contracts have been priced higher than expected. Mr. Firestine asked what the budget for gasoline purchases is. In response, Ms. Downs explained that the number was relatively low at \$800 thousand compared to the overall operating budget, but running approximately 15% over the FY 2010 level.

At the end of March, Capital Spending totaled \$133.5 million or 41 percent of the annual budget. Ms. Downs explained that a major reason for the variance was under spending of the OCIP accrual (\$10-\$11 million). In addition, there was delay for permits related to the startup of some projects. Mr. Firestine mentioned that he would like a more simplified version of the Capital Spending report with focus on spending as it relates to project performance and key deliverables. Mr. Bardin asked that major project variances be shown at the top of the worksheet and have these issues flagged with descriptive detail still provided. Given the long-term nature of capital projects and minimal changes in some cases from month to month, Mr. Firestine suggested that staff may want to consider presenting the capital updates quarterly.

Continuing with her report, Ms. Downs discussed the area of Cash and Investment Balances, for which the operating reserve balance was \$131.1 million, and the total cash available was \$478 million at the end of March, 2011. Year-to date electricity cost was \$ 84.69 per mWh, below our budget of \$95.14 per mWh. The Accounts Receivable balance declined by approximately \$200 thousand. In discussing the Grants Report, Ms. Downs explained that DC Water received an additional \$4.8 million in the continuing resolution for Clean Rivers in February 2011, bringing the life-to-date amount to \$150.6 million. Accounts Payable performance through March, was 91 percent compared to the target of 97 percent.

Investment Portfolio Review

Mr. Robert Hunt, Treasury Manager referred to Attachment 2 of the report and provided an overview of the Authority's current Investment Portfolio and the Cash Flow Statement as of March 31, 2011. Mr. Hunt then introduced Mr. Nelson Bush, Financial Advisor from PFM Asset Management, LLC, who walked the Committee through the newly revised investment reports. Given the economic condition, Mr. Bush reported that short term interest rates have been very low and would remain low throughout the remainder of calendar year 2011. Also, Mr. Bush indicated that the spread between Treasury securities and agency securities are also low. Mr. Bardin asked Mr. Bush if he would have any insight into the value of the U.S. dollar versus others. Mr. Bush noted that DC Water must keep a large amount of its cash available for operations payments, thereby limiting its ability to take advantage of a greater quantity of the longer, higher yield investments. Mr. Firestine commented that DCWater's investments have been conservative and reflective of the current economic environment. Mr. Bardin wanted to know the wisdom behind investment in Federal Agencies versus U.S Treasury notes and the thinking behind it. Mr. Hunt responded by saying that there is a higher return with the Federal

Agency notes and that he believed that the investments are as safe as U.S. Treasuries, since they have the implied backing of the federal government. Mr. Bush added that the investment industry would be close to viewing this investment as a Treasury security. Dr. Cotruvo asked if it would be prudent to reinvest a portion of DCWater cash portfolio into other investment vehicles. Mr. Firestine stated that, based on his experience in the public sector, it would be unwise at this time to move cash into other investment vehicles other than what is approved in the investment policy. Mr. Hawkins mentioned that the presentation was provided to inform the board on the investment portfolio of the Agency and not to debate how monies were to be invested.

Agenda for May 26th Committee Meeting

The Committee reviewed the draft agenda and agreed to a joint committee meeting with the DC Retail Rates Committee in May 2011.

DC Water Funded Grants/Research Projects

As a follow up to an inquiry, Mr. Hawkins noted that DC Water does not give out grants. We currently conduct research projects for specific items and the established procurement process is utilized, but this is a fee for a service provided. Mr. Hawkins stated that DC Water has done a large amount of fee for service research. There have been two recent projects (Robert Wood Johnson and George Washington University Water Study) being funded through the GM's office, and not through the regular venue of the operating departments. Mr. Hawkins also indicated that grant potential for items such as CSO_LTCP compliance with LID projects is under review and that the funding criteria would be one of the items to be discussed at the next board retreat. In response, Mr. Bardin wanted to know what legal policies/opinion related to grants. Mr. Hawkins provided Mr. Bardin with a response. Mr. Bardin wanted a response related to the Board Statue, Board Policies and the Budget Process related to the item being discussed.

Adjournment

The meeting was adjourned at 12:38 pm

FOLLOW-UP ITEMS – Finance & Budget Committee (Meeting held April 28, 2011)

1. Staff will follow up consumption trends for the D.C. Housing receipts. **(Mr. Bardin)**
2. Provide details regarding payments to the Metropolitan Washington Council of Governments (COG) and if those payments are being properly allocated within the cash flow data between retail and wholesale customers. **(Mr. Bardin)**
3. Provide progress report on the operating and capital cost allocations between DC Retail Rate payers and the suburban areas. **(Mr. Bardin)**
4. Revised capital section of the report. Focus on performance as related to budget. **(Mr. Firestine)**
5. Determine if there are opportunities for revising the existing small PI customer contracts/agreements **(Mr. Bardin)**