



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Friday, December 21, 2012

9:30 a.m.

Committee Members

Timothy L. Firestine, Chairperson
Alethia Nancoo (teleconference)

DC WATER STAFF

George Hawkins, General Manager
Yvette Downs, Chief Financial Officer, Acting
Randy Hayman, General Counsel
Robert Hunt, Treasury & Debt Manager
Maureen McGowan Holman, Program Manager Sustainability
Otho Milbourne, Manager, Benefits
Debra Mathis, Executive Assistant
to the Secretary to the Board

Call to Order

Chairperson Timothy Firestine called the meeting to order at 9:32 a.m.

November 2012 Financial Report

Ms. Yvette Downs, Chief Financial Officer, Acting, reported that with approximately 17 percent of the fiscal year completed, revenues totaled \$84.7 million or 19 percent of the revised budget; expenditures were \$61 million, or 14 percent of the revised budget; and capital disbursements were \$80.1 million, or 12 percent of the capital disbursements budget. Ms. Downs noted that the year-to-date revenues and expenditures were tracking favorably compared to similar period in FY 2012. She also noted that the actual year-to-date capital disbursements were lower than the planned FY 2013 disbursements budget due to under-spending in both the Enhanced Nitrogen Removal Facilities (ENRF) Project and the DC Clean Rivers Project under the Combined Sewer Overflow Service Area. Mr. Firestine and Ms. Nancoo requested additional explanation for the delayed spending in these two projects. (**Follow Up**) Ms. Downs continued the financial report by exception, noting relevant variances in overtime expenditures which she attributed primarily to staffing for Hurricane Sandy.

At the end of November 2012, our operating cash reserve balance was \$180.4 million as compared to the FY 2013 operating reserve level objective of \$125.5 million. The balance in the Rate Stabilization Fund, the DC PILOT Fund, and the CSO LTCP Appropriations Account, remained unchanged at \$27.9 million, \$14.5 million and \$40.1 million, respectively, from October through the end of November 2012. The interest income for November (on a cash basis) was \$132,971, with year-to-date totals of \$177,228 as compared to the budget of \$539,336 for the year.

Investment Report

Mr. Hunt stated that DC Water's non-interest bearing accounts at TD Bank – used to offset bank fees – have been covered by unlimited FDIC insurance under the Transaction Account

Guarantee Program (TAG) enacted in 2008. The TAG program expires on December 31, 2012. TD Bank will now purchase an additional letter of credit from the Federal Home Loan Bank (FHLB) of Pittsburgh to collateralize these deposits at 102% of the market value of the principal in accordance with the DC Investment Policy at no additional cost to DC Water.

Mr. Hunt also stated that DC Water staff and our financial advisors will continue to monitor the pending federal legislation that may reduce the value of the municipal income tax exemption for tax-exempt bonds, such as those typically issued by DC Water.

FY 2014 Proposed Budget Discussion

A. New Headquarters Building

Ms. Maureen McGowan Holman, Program Manager Sustainability, gave a presentation on the Facilities Master Plan Update – “Administrative Headquarters Building over O Street Pump Station.” As background information, Ms. Holman discussed staff space needs at the Central Operations Facility (COF) and other DC Water Facilities as the thrust for the project and identified the options of building a new facility, expanding the COF, or leasing existing facilities as potential solutions. The recommendation was to locate a new administrative headquarters building over the O Street Pump Station at a total cost of \$63 million, as compared to expansion of the existing COF and building a customer service space at the Anacostia Pump Station (for a total of \$47.5M). The options were discussed at length and Mr. Firestine requested the following additional information:

- What was driving the need for additional space needs at COF? (**Follow Up**)
- What additional options are available to accommodate COF space needs instead of building a new facility? (**Follow Up**)
- Provide an estimate of the user-share cost of this facility among the wholesale customers (**Follow Up**)
- Separate the cost to renovate existing facilities from the additional cost borne from this project (**Follow Up**)

Based on the discussion, the Committee declined to increase the budget for the New Headquarters Building (project HQ) and restore projects proposed for closure related to the proposed building. Mr. Hawkins stated that the proposed CIP would be revised as noted, however, proposed that the total CIP would remain the same as the funds for the New Headquarters Building would be reprogrammed to support the other projects restored within the Master Plan.

B. DC Water Healthcare Benefit Plan

Mr. Otho Milbourne, Manager of Benefits, gave a presentation on the Authority’s healthcare benefit plan, which in sum, states that DC Water pays 80 percent of the cost of health insurance costs for approximately 700 employees. The remaining employees are either civil servants covered by federal programs or declined insurance. The Authority offers flexible healthcare plans at very competitive rates that are in line with industry average. A number of benchmarks were provided.

It was noted that DC Water healthcare costs have been declining since the peak costs experienced in FY 2010. Mr. Milbourne noted that in recent years DC Water implemented two cost containment programs: (1) a Wellness Program, which offered free health screening, seminars, and fitness challenges; and (2) a dependent eligibility audit in FY 2012 that resulted in the removal of 296, or 19 percent of enrolled dependents, thus, providing \$618,000 annual savings (cost mitigation) to the Authority.

Continuing his presentation, Mr. Milbourne stated that through the recent Healthcare Reform Act, which deals with medical loss ratio rebates, the Authority received a \$564,793 rebate. A portion of these funds (\$112,958) was rebated to eligible employees while the balance was used to offset DC Water's healthcare costs.

C. General Manager's FY 2014 Budget Proposal

Ms. Downs indicated that the FY 2014 budget proposal before the Committee for action has one change since the original presentation to the Board on October 4, 2012; that is a revision to the Capital Authority Request from \$407 million to \$557 million. This revision reflects the recent recommendations to accelerate the Northeast Boundary Tunnels under the DC Clean Rivers Project.

FY 2014 Budget Action Items

The Committee took the following action relative to these items:

- Action Item 5A: Fiscal Year 2014 Proposed Operating Budget – The Committee agreed to move this item forward to the Board for approval (proposed FY 2014 operating budget of \$479,543,000);
- Action Item 5B: Fiscal Year 2012 – 2021 Ten Year Financial Plan - The Committee agreed to move this item forward to the Board for approval;
- Action Item 5C: Fiscal Year 2012 – 2021 Capital Improvement Program (Lifetime & Cash) - The Committee agreed to move this item forward to the Board for approval (Project Lifetime Budget of \$8.449 billion and Disbursements-based CIP of \$3.849 billion), revising project sheets as discussed by the Committee;
- Action Item 5D: Fiscal Year 2014 Capital Authority Request - The Committee agreed to move this item forward to the Board for approval (proposed FY 2014 Capital Authority Request of \$557,036,000); and
- Action Item 5E: Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing - The Committee agreed to move this item forward to the Board for approval (an amount not to exceed \$358,000,000 to pay the cost of capital projects)

Other Business

Ms. Downs noted that DC Water received its 16th consecutive unqualified audit opinion of its financial statements on December 17, 2012 from Bazilio Cobb Associates. The financial statements will be presented at the next Audit and Finance and Budget Committee meetings.

Adjournment

Hearing no further business, Chairperson Firestine adjourned the meeting at 11:15 a.m.

FOLLOW-UP ITEMS (December 21, 2012)

1. Provide additional information/explanation for capital under-spending on the ENR and Clean Rivers project noted in the November report. **(Mr. Firestine and Ms. Nancoo)**
2. Provide additional information on the proposed Headquarters Building to explain expanded space requirements and other facility work that will be accomplished/eliminated within this project, other options available, and user-share estimates. **(Mr. Firestine and Ms. Nancoo)**