



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Thursday, February 28, 2013

11:00 a.m.

Committee Members

Timothy L. Firestine, Chairperson
Bradford Seamon – Prince George’s County
James Patteson – Fairfax
Adam Ortiz – Prince George’s County

DC WATER STAFF

George Hawkins, General Manager
Yvette Downs, Chief Financial Officer, Acting
Randy Hayman, General Counsel
Robert Hunt, Treasury & Debt Manager
David McLaughlin, Dir. of Engineer & Tech Svc
Carlton Ray, Director of LT Control Plan
John Madrid, Controller
Rosalind R. Inge, Director of Procurement
Linda Manley, Secretary to the Board

Other Presenters & Guests

Daniel Hartman, Public Financial Management (PFM)

Call to Order

Chairperson Timothy Firestine called the meeting to order at 11:10 a.m.

January 2013 Financial Report

Ms. Downs, Acting Chief Financial Officer, reported that with 33 percent of the fiscal year completed, revenues totaled \$151.5 million, or 34 percent of the revised budget; expenditures were \$124.8 million or 28 percent of the revised budget; and capital disbursements were \$153.7 million, or 24% of the capital disbursement budget. Year-to-date revenues and expenditures are tracking favorably as compared to similar period in FY 2012. Ms. Downs also reported that actual year-to-date capital disbursements are lower than the planned FY 2013 disbursements budget due to under-spending in three service areas: Wastewater Treatment, Combined Sewer Overflow, and Water Services. In response to Mr. Firestine’s question regarding reimbursement for DC Water’s assistance with the Presidential Inauguration, Ms. Downs indicated that the approximate \$250 thousand bill has been submitted to the District for reimbursement.

At the end of January 2013, DC Water’s operating cash reserve balance was \$147.6 million as compared to the FY 2013 operating reserve level objective of \$125.5 million. The balance in the Rate Stabilization Fund, DC PILOT Fund, and the CSO LTCP Appropriations Account, are as follows: \$27.9 million, \$14.5 million and \$35.7 million, respectively through the end of January 2013. In summary, Ms. Downs reported that the over-all investment performance is good. Next, Ms. Downs discussed the Electricity Report. FY 2013 electricity expenditures continue to track favorably to budget, and market conditions are favorable. For the month of January 2013, the average all-in-cost paid were \$75.76/mWh with the YTD average price of \$74.53/mWh. The Accounts Receivable balance declined from December to January. Mr. Firestine asked a

question regarding a collections issue with Howard University, and asked if it had been resolved. In response, Mr. Hayman said that the issue was satisfactorily resolved.

Investment Report

Mr. Hunt, Treasury & Debt Manager, reviewed with the Committee the Investment Performance Report for February 2013 reporting that the overall yield to cost of the portfolio is 30 basis points and DC Water's investment portfolio remains properly diversified and is in compliance with the DC Water's established Investment Policies. In response to Mr. Firestine's question regarding the Certificate of Deposit Registry Service (CDARS), Mr. Hunt reported that we currently have \$20 million in CDARS in the portfolio. Mr. Hunt briefly discussed of the 2013 Plan of Finance Update regarding the letters of credit providing liquidity for the Commercial Paper program and the timing of the next bond transaction. Mr. Hunt introduced Mr. Daniel Hartman, of Public Financial Management, to present additional details regarding options for the letters of credit.

Mr. Hartman stated the current market for letters of credit is somewhat constrained by new international regulatory capital requirements for banks, referred to as Basel III. To cope with this issue Mr. Hartman presented two options (1) DC Water could renegotiate and extend the Letters of Credit (LOC) with the current banks, JP Morgan and US Bank, or (2) issue a new request for proposal to obtain new offers. Mr. Hartman discussed the benefits and risks of each option and recommended that DC Water extend the existing program at re-negotiated rates for two year period. Mr. Hartman indicated that DC Water has utilized about \$41.2 million of the total \$225 million authorized commercial paper, and that the LOC negotiated in 2010 is to expire on May 31, 2013. DC Water staff and financial advisors have engaged in discussion with the current LOC providers and will proceed to finalize an extension of the letters of credit. This will result in a saving of approximately \$1 million annually. Committee action will be requested at the March 2013 meeting for this extension.

In addition, Mr. Hartman updated the Committee on the calendar for the next bond issuance anticipated in July 2013. DC Water staff is currently in the process of evaluating responses from underwriters for the Senior and Co-manager underwriting pools. Recommendations will be made to the Committee at its meeting in March with final issuance scheduled for July 2013.

Capital Improvement Program Quarterly Report and Clean Rivers Update

Mr. McLaughlin, Engineering & Technical Services Director, briefed the Committee on the Capital Improvement Program (CIP) Quarterly Report. This report does not include capital equipment or Washington Aqueduct capital expenditures. Mr. McLaughlin discussed the program's current performance spending, and summarized the large contract actions that are anticipated and key performance indicators of the program for FY 2013.

Mr. Carlton Ray, Clean Rivers Director, briefed the Committee on the status of the Clean Rivers Project and elaborated on the three major tunnels being built the Blue Plains Tunnel, Anacostia River Tunnel, and NE Boundary Tunnel with their various schedules, budgets and timelines. Mr. Ray indicated that the Blue Plains Tunnel, with a projected cost of \$330 million, was slightly behind schedule due to the poor quality of concrete used for a portion of the shaft wall. Mr. Ray explained that the issue had been resolved, and the contractors plan to work an additional day each week to catch up with the schedule. He also described a construction delay at CSO 019 which required the replacement of the superintendent and transfer of some project scope from that contract into the upcoming Anacostia River Tunnel Contract in order to ensure that no delays are incurred.

Mr. Ray provided an update on the NE Boundary Tunnel, and indicated that recently DC Water has realigned and evaluated fairly aggressively with contractors to move forward with the tunnel construction project. He also discussed the First Street Tunnel that will be built in the

Bloomington area in advance of the NE Boundary Tunnel to mitigate some of the issues within that area.

Briefing on the FY 2012 Comprehensive Annual Financial Report (CAFR) and Audit Opinion

Mr. John Madrid, Controller, reported that DC Water has received its sixteenth consecutive “unqualified” audit opinion from Bazilio, Cobb and Associates. All Board members have received a copy of the full report. Over all, DC Water had a very strong year of financial performance in FY 2012 and reports the following financial factors:

- Operating Revenues for the year were \$440.6 million with an increase of \$32.3 million or 7.9 percent over prior year.
- Operating expenses for the year were \$321 million with an increase of \$1.8 million or .06 percent over prior year.
- Income from operations for the year was \$119.5 million with an increase of \$30.5 million or 34.3 percent over prior year.
- Unrestricted cash and investment balances were \$195 million with an increase of \$12.3 million or 6.7 percent over prior year.
- Capital Assets including construction in progress were \$3.5 billion with an increase of \$412 million or 13.5 percent over prior year.
- Long term debt including current maturities was 360 percent

Mr. Madrid also indicated that DC Water received a Certificate of Achievement for Excellence Award from the Government Finance Officers Association for FY 2011, and staff plans to apply for the award again next year for its FY 2012 strong financial performance.

Action Items

Ms. Rosalind Inge, Procurement Director, provided the Committee with an update on the goods and services contract modification with regards to project management and software implementing Lawson Procurement and Finance modules. Ms. Inge reported that, as opposed to having certain implementation services provided by Lawson/Infor, (as proposed last spring) Kinsey & Kinsey, Inc. was retained a few months ago to provide the implementation, training, testing, and deploying of the new processes. The additional funds required for this contract are \$800,000. Ms. Inge noted that the \$800K was already approved by the Board and Committees for the Lawson (Infor) contract but will not be completed by a Lawson partner – Kinsey & Kinsey.

Adjournment

Hearing no further business, Chairperson Firestine adjourned the meeting at 12:15 p.m.

FOLLOW-UP ITEMS (December 21, 2012)

1. 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):**
To be discussed at the March Committee meeting