



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Board of Directors

*Finance and Budget Committee*

*Thursday, February 23, 2012*

11:00 a.m.

### **Committee Members**

Timothy L. Firestine, Chairperson  
James Patteson  
Samuel Wynkoop  
Bradford Seamon  
Joseph Cotruvo

### **DC WATER STAFF**

Olu Adebo, Chief Financial Officer  
Yvette Downs, Finance and Budget Director  
Robert Hunt, Treasury & Debt Manager  
Tanya DeLeon, Risk Manager  
Ayodele McClenney, Occupational Safety & Health Director  
David McLaughlin, Engineering & Technical Services Director  
Linda Manley, Board Secretary  
Laveeda Garlington, Principal Counsel

### **Presenters**

Dan Hartman, Public Financial Management  
David Goodman, Squire Sanders and Dempsey  
Nicholas Penn, Leftwich & Ludaway  
Bruce MacDonald, Albert Risk Management

### **Call to Order**

Chairperson Timothy Firestine called the meeting to order at 11:00 a.m.

### **January 2012 Financial Report**

Ms. Yvette Downs, Director of Finance and Budget, reported that with 33 percent of the fiscal year completed, revenues totaled \$139.8 million or 33 percent of the revised budget; expenditures were \$119.9 million, or 29 percent of the revised budget, and capital disbursements were \$141.9 million, or 27 percent of the capital disbursements budget.

With the Committee's approval, Ms. Downs continued the financial report by exception, highlighting relevant variances in operating revenues and expenditures categories. Ms. Downs reported the major variance in revenues was within the Residential, Commercial and Multi-family category which were slightly under the straight-lined budget due to winter consumption. Federal Government receipts were slightly lower than planned at the end of January due to on-going issues regarding a payment from the Navy Department. Staff has been coordinating the issue with the Navy and Treasury departments. As previously reported, one DC Government account continues to lag due to a dispute which involves the St. Elizabeth's Hospital campus. Ms. Downs noted that DC Housing Authority revenues are higher than anticipated due to payment of an FY 2011 bill in FY 2012. Wholesale Customer receipts are not expected until the second quarter,

during the month of February and will be reported in March. The IMA indirect cost and Rate Stabilization Fund is anticipated in the fourth quarter of the fiscal year.

### **Investment Report**

Mr. Robert Hunt, Treasury & Debt Manager, reviewed with the Committee the Investment Performance Report for January 2012 reporting that the overall yield to cost of the portfolio is 55 basis points. DC Water's investment portfolio remains properly diversified and is in compliance with the Authority's established Investment Policies. In January, DC Water purchased \$20 million of commercial paper at the average yield of 17 basis points. As previously reported to the Committee, Mr. Hunt noted that DC Water purchased bank certificates of deposit using the CDARS (Certificate of Deposit Account Registry Service) totaling \$5 million with the average yield of 70 basis points. Also, DC Water purchased \$10 million of commercial paper at an average yield of 11 basis points.

### **FY 2012 Financing Plan Update and Document Review**

Mr. Adebo introduced members of the financing team present at the meeting after which, Mr. Adebo provided an update on the marketing plan and schedule. As part of the marketing plan for the upcoming bond issuance and to generate interest DC Water hosted an investor outreach in New York on February 16<sup>th</sup>. The session was very well attended by approximately 20 institutional investors most of which do not currently hold DC Water bonds. The investors expressed interest in DC Water's financial operations, performance, and efficiency. Feedback from investors appeared to be positive due to DC Water's performance versus other agencies. Also in February meetings were held with all three Rating Agencies. These meetings were held to highlight DC Water credit strengths, request consideration for an upgrade to DC Water AA credit and to brief the agencies about DC Water's upcoming bond issuance.

Mr. Dan Hartman, Managing Director, Public Financial Management, provided an update on the economic and market update and structure. Mr. Hartman reported to the Committee that tax-exempt interest rates continue to be at all-time historic low and the demand for Municipal Bonds continues to be greater than supplies, which is in DC Water's favor. Mr. Hartman continued to summarize the financing plan and bond documents that reflect \$300 million new money proceeds, which includes \$200 million of fixed rate bonds and \$100 million of variable rate bonds. In addition, the plan assumes up to \$170 million in refunding within the 2003 bond series. Mr. Hartman went in to some detail in discussion of the use of subordinate lien and refinancing opportunities.

Mr. David Goodman, co-bond counsel, Squire Sanders and Dempsey and Mr. Nicholas Penn, co-bond counsel, Leftwich & Ludaway explained the bond documents presented to the Committee for review highlighting the request to authorize the \$300 million new money proceeds, with the \$100 million of variable rate debt, and the refunding component where he explained in detail the refunding savings threshold. Mr. Penn concluded by explaining the various bond documents submitted for approval.

### **Rolling Owner Controlled Insurance Program Briefing**

Ms. DeLeon, Risk Manager, provided the Committee an overview of DC Water's Rolling Owner Controlled Insurance Program (ROCIP) covering the program's history, goals, the program's current results and the staffs' recommendation to extend the program. ROCIP 1 will end April 15<sup>th</sup> and ROCIP 2 will conclude October 15<sup>th</sup> 2012, however extensions are in place for certain projects through 2016. In response to questions from the Committee, Mr. Adebo further discussed the benefits of the program and excellent performance to date. With the Committee's

approval to move forward, management will proceed with ROCIP procurement activity and provide an action item for the Committee later in the fiscal year.

### **Quarterly Capital Improvement Program Report**

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 programs current performance spending (83% of the Approved Budget), versus the current year-end spending projections (96%). In response to Mr. Firestine's question regarding the issues pertaining to the performance of the Potomac Pumping Station, Mr. McLaughlin informed the Committee that engineers are still working to resolve these issues and will be engaging an effort to increase the pumping station to firm pumping capacity. The Environmental Quality and Sewage Services Committee receive a monthly report on the status of this issue.

Mr. McLaughlin summarized the large contract actions that are anticipated, and key performance indicators of the program for FY 2012, which indicates that all planned milestones were achieved. Concluding the report, Mr. McLaughlin reported that project KPIs are on schedule and within budget for the 1<sup>st</sup> quarter.

### **Action Items**

The Committee agreed to move the following action items for Board consideration:

- A. Draft Board Resolution
- B. Preliminary Offering Statement (POS)
- C. Thirteenth Supplemental Indenture
- D. Bond Purchase Agreement
- E. Escrow Agreement

### **Adjournment**

Hearing no further business, Chairperson Firestine adjourned the meeting at 12:25 p.m.

### **FOLLOW-UP ITEMS (February 23, 2012)**

1. Staff to provide actual claims and cost to date on each of the programs under ROCIP.
2. **(Mr. Firestine)**
  
2. Staff to provide the division between water and sewer capital projects for the new debt.
3. **(Mr. Wynkoop)**