



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS**

Finance and Budget Committee

Friday, December 17, 2010

9:30 AM

MEETING MINUTES

Committee Members in Attendance

Timothy Firestine, Committee Chair
David J. Bardin

Other Board Members in Attendance

Dr. Joseph Cotruvo
Paivi Spoon

DC WATER STAFF

George Hawkins, General Manager
Randy Hayman, General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Finance and Budget Director
Linda R. Manley, Secretary to the Board

Call to Order

Mr. Timothy Firestine, Committee Chairman, called the meeting to order at 9:30 a.m.

November 2010 Financial Report

Ms. Yvette Downs, Finance and Budget Director, provided the monthly financial report for November 2010. Ms. Downs reported that with approximately 17% of the fiscal year completed, DC Water is on track with budgetary expectations. Since we are in the early stages of the fiscal year, Ms. Downs provided a summary of the Authority's financial performance to date. Operating revenues & receipts are 19% of the proposed budget as all DC Water's customers who make quarterly payments have made their payments for the first quarter. Operating expenditures are approximately 14% of budget and, capital expenditures are 12% of budget.

Following Ms. Downs' report, Mr. David Bardin requested that the Delinquent Accounts Receivable table (page 11) be modified in future meetings to include the Federal, District Government and DC Housing Authority categories. He also requested for inclusion of a footnote to provide disclosure on issues related to the current disputed exempt account balances. Mr. Olu Adebo responded that he understood the board's interest in maintaining visibility on the progress of this issue and that staff would make certain to continuously advise the Board on its status and would work on the best way disclose such information in periodic financial reports.

In response to an inquiry by Chairman Firestine, Mr. Adebo provided an update on the status of the year-end financial closeout. According Mr. Adebo, the year-end closeout is on schedule. The related fieldwork by the auditors has been completed, and their "opinion" letter will be issued early next week, ahead of schedule. CFO Adebo also reported that the Management Representation letter has been signed by the General Manager and the Chief Financial Officer, and that all the financials appear to be in line with previous estimates.

Budget Review of Revised FY 2011 and Proposed FY 2012 Budgets

Mr. George Hawkins, General Manager (GM), provided an overview on the Revised FY 2011 and Proposed FY 2012 Budgets and informed the Committee that the budgets being proposed have been revised to reflect input received during the various committee deliberations and also updated assumptions based on the passage of time. He also advised the Committee that staff has responded to all Board member questions received regarding the proposed budgets. He then deferred to Mr. Adebo to proceed with the budget presentation.

Mr. Adebo explained that the GM's new proposed budget is a downward revision from the original proposal submitted in October 2010. Mr. Adebo highlighted the following budgetary information:

- (a) the proposed Revised FY 2011 Operating Budget totals \$403.4 million, which is \$1.4 million less than the October proposal and \$4.7 million below the Board-approved FY 2011 budget;
- (b) the new proposed FY 2012 Operating Budget totals \$425.9 million, which is \$4.1 million less than the October proposal;
- (c) the Capital Budget remained the same at \$7.9 billion in lifetime budget and \$3.8 billion in the ten-year disbursements plan; and
- (d) the Capital Authority Request for FY 2012 remained the same at \$752.5 million.

Mr. Adebo attributed the changes in the GM's new proposed budgets to additional information received subsequent to the October 2010 budget proposal. The adjustments included: planned receipt of additional \$2.5 million in Impervious Surface Area Charge (IAC) due to the Federal Government's acknowledgment of responsibility for their share of charges; increase in the CSO federal appropriation based on receipt of additional \$3.5 million from the feds in October; decrease in debt service estimates due to better than anticipated results of the Series 2010 bond issuance (combined decrease of \$5.2 million for FY 2011 and FY 2012); PILOT adjustments to reflect lower rate proposal in FY 2012; and minor adjustments in contractual services for the Low Impact Development (LID) grant.

Following Mr. Adebo's presentation on the operating budget proposals, Ms. Paivi Spoon questioned the flow assumptions used in deriving the wholesale revenue estimates between our wholesale and residential customers. Ms. Spoon also requested an explanation for the changes in the other revenues categories to which Mr. Adebo responded that it was primarily due to a one time infusion of approximately \$4 million for fire service fee.

Mr. Firestine inquired about the amount allocated in the personnel services budget for pay increases and how much of that amount is attributable to general wage adjustments. Specifically, he wanted to know the amount that is allocated for merit increases, cost of living adjustments and step increases. He indicated his unwillingness to support any across the board wage increases. He indicated that in Montgomery County, like in many other jurisdictions experiencing tight budgets or projected budget deficits, across the board wage increases were not approved in the budgets. Mr. Adebo responded that the amount is less than \$4 million for FY 2012 and that most of it is for performance increases. Mr. Firestine requested that information be provided relative to the portion of the increase that is not performance base related. On a related note, Mr. Firestine requested information on the budgetary impact of personnel services related to in-sourcing indicated in the budget.

Mr. Adebo then gave an overview of the CIP with the following highlights: (a) proposed 10 year CIP Disbursements budget of \$3.8 billion, which is almost same as the Board-approved FY 2001-FY 2018 CIP; (b) proposed lifetime budget of \$7.9 billion, an increase \$402.1 million over last year's Board-approved plan; and (c) proposed capital authority request of \$752.5 million for FY 2012.

Mr. Bardin requested modifications to the Ten-Year Financial Plan, including graphic presentations before the Board takes action on the budget. For example, Mr. Bardin said, "the

Ten Year Financial Plan presents "12.5%" as "Proposed Water/Sewer Rate Increase" for FY2011 whereas, outside the Plan, staff reports "17.0%" as that same year's "Increase in Total Bill" for the average residential customer." The GM recommended that staff be given an opportunity to look at other formats for presenting the information requested by Mr. Bardin without necessarily changing the current ten-year financial plan as the Board is slated to take action on the budget in January 2011. Mr. Bardin requested information regarding the flow assumptions used in revenue projections and suggested semantic change in a subtitle (in the Financial Plan) from proposed to assumed water/sewer rate increases.

The Committee agreed to forward the Revised FY 2011 and Proposed FY 2012 budgets to the Board for action with caveat that the GM and CFO provide supplemental information on: the \$4 million increase related to general wage adjustments; the fiscal impact of in-sourcing; supplemental information including graphs to expand on the ten-year financial plan; and the flow assumptions used in developing the retail and wholesale revenues.

PAYGO Policy Presentation

Mr. Adebo stated that the PAYGO policy study was conducted at the request of the Committee Chairman, to ascertain the purpose of the PAYGO policy and its consistency with DC Water's financial plan. Mr. Adebo introduced consultants, Mr. Paul Bender and Karen Demoors (with introduction of Dave Pittman) of PA Consult to give the presentation. Following a lengthy discussion on the definition, purpose and uses of PAYGO financing, the definition of PAYGO was accepted as "the practice of funding capital expenditures with available 'excess' cash rather than borrowing," and where "excess cash is any cash not required for other purposes or restricted in use, such as defeasance of debt, funding reserves, and operation."

The Committee accepted the PA Consultant's recommendations with various key policy tenets and agreed to move forward to formalize the recommendations into a Board-adopted policy that relates to the use of excess cash and PAYGO financing at the next Committee meeting.

Other Agenda Items

Mr. Bardin requested that staff prepare a description on how the four contracts with the small Potomac Interceptor (PI) customers would work. He stated that the information is needed because the Committee has oversight responsibility of the four contracts. Mr. Adebo responded that the information would be provided in February 2011, following Board adoption of the budget.

Adjournment

Hearing no further business, Mr. Firestine adjourned the meeting at 11:09 a.m.