



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Thursday, January 26, 2012

11:00 a.m.

Committee Members

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

DC WATER STAFF

George Hawkins, General Manager
Olu Adebo, Chief Financial Officer
Yvette Downs, Finance and Budget Director
John Madrid, Controller
Robert Hunt, Treasury & Debt Manager
Linda Manley, Board Secretary
Laveeda Garlington, Principal Counsel

Presenters

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

Call to Order

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

December 2011 Financial Report

Ms. Yvette Downs, Director Finance and Budget, reported that with 25 percent of the fiscal year completed, revenues totaled \$103.9 million or 24.4 percent of the revised budget; expenditures were \$87.5 million, or 21.1 percent of the revised budget, and capital disbursements were \$132.2 million, or 21.1 percent of the capital disbursements budget.

For the month of December 2011, the average daily operating cash reserve, (\$160.9 million) was above the \$125.5 million operating reserve target by \$35 million. 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 is within the "Other Revenues" category, due to the Rate Stabilization Fund and the estimated IMA capital overhead reimbursement. Both of these items are not anticipated until the fourth quarter of FY 2012. Ms. Downs noted that the DC Government accounts were low by approximately six hundred thousand dollars as they were disputing consumption on one account and withheld the payment for that particular account. Mr. Adebo, Chief Financial Officer, provided additional information to the Committee on this account. The specific dispute involves the St. Elizabeth's Hospital campus which is owned by the District Government. In FY 2011, there was high water use, and DC Water and St Elizabeth's (DC Government) are in disagreement as to whether the high usage was due to a water main break or to other

construction disruptions currently taking place on their campus. Mr. Adebo stated that the matter is being investigated by DC Water and that the District Government has paid all other water bills except for this one. Mr. Firestine inquired whether this was the driver for the 1.3 percent lag in retail revenue receipts. Mr. Adebo responded that the FY 2012 retail receipts are on schedule, closely monitored and (with the exception already noted) are approximately at the same level as the previous year.

Ms. Downs reported that overtime is currently within budget for FY 2012 and cautioned that this is the winter season and potential spikes could happen.

Mr. Firestine inquired about the favorable variance between actual and budgeted O&M costs for FY 2011. He stated that the actual FY 2011 O&M was only 91 percent of budget. While the final results are positive, Chairman Firestine expressed concern that this higher budget number was used to create rates that are charged to customers; and that the FY 2012 budget was \$9 million higher than the FY 2011 budget. Chairman Firestine asked whether staff have been too conservative in their budgeting practices. Mr. Adebo noted that this was primarily due to the fact that the budget is developed so far in advance that market sensitive line items such as electricity and other utilities are budgeted based on prevailing market conditions at that time the budget is prepared and are subject to full exposure to the market. Prior to finalizing rates, the budget is adjusted if appropriate to mitigate rate impacts and better reflect the market. However, market sensitive items, such as utilities, are still subject to fluctuation and therefore can be positive or negative within any given year. For instance, in FY 2012, the electricity pricing has been locked for 67% of the estimated annual use which may result in substantial savings. In another area, gas prices have soared over the last six months and may result in under-estimation of that particular portion of the utility category.

Mr. Wynkoop asked whether the A/P performance goal of 97 percent of payments made within 30 days or less was a reasonable goal given that DC Water has not historically been able to meet that goal. Mr. Hawkins, General Manager, stated the belief that prompt payment to our vendors must be given continuous attention. DC Water views the current goal as a challenge goal and has been consistently above 90 percent over the years. Payment to our vendors help lower overall costs as vendors provide pricing that reflects their knowledge and expectation that DC Water will pay its bills on time. Mr. Adebo noted the cost of late payments was demonstrated in DC Water's early history through time wasted by accounting staff chasing down approvals and vendors that hired personnel whose job it was to walk through payments from DC Water. Those costs are passed on to DC Water through higher bids and fees. Mr. Adebo and Mr. Hawkins agreed to analyze the issue further and continue to look at strategies that would potentially close the gap.

Investment Report

Mr. Hunt reviewed with the Committee the Investment Performance Report for December 2011. DC Water's investment portfolio remains properly diversified and is in compliance with the Authority's Investment Policy. Mr. Hunt reported that the overall yield to cost of the portfolio is 55 basis points, and performance of short and longer term investments continue to exceed their established benchmarks as shown in the monthly report. During the current month of December, three commercial paper purchases were made at interest rates ranging from 4 to 30 basis points. In addition, Mr. Hunt noted that in January, DC Water purchased bank certificates of deposit using the CDARS (Certificate of Deposit Account Registry Service) totaling \$5 million - \$2.5 million for one year at 50 basis points and \$2.5 million for two years at 90 basis points. Mr. Hunt reported that these were very favorable rates considering the current investment environment and would be included within the next month's financial report. Mr. Hunt advised the Committee that DC Water will continue a preference for commercial paper issued by U.S. Corporations with

U.S., Canadian or Asian parent companies rather than U. S. subsidiaries of European Banks, etc. until the European economic climate improves.

Bond Issuance

In March 2012, DC Water plans to issue approximately \$300 million in revenue bonds to support the capital improvement program. Mr. Adebo introduced members of the financing team present at the meeting. Mr. Dan Hartman, Managing Director, Public Financial Management, provided an update on the progress of the bond working group. Mr. Hartman gave a market update, and then briefed the Committee on the financing plan, a possible refunding of bonds issued in 2003 for significant savings in debt service, and a variable rate component of the new bonds to be issued. Current planning includes \$200 million in fixed revenue bonds, (Series 2012A), \$100 million in SIFMA indexed bonds (Series 2012 B) and up to \$170 million in fixed rate refunding revenue bonds (Series 2012 C). Mr. Hartman went in to some detail in discussion of the SIFMA indexed bonds and their associated benefits and risks.

CFO Adebo explained that prior to issuing the new bonds in March the Committee and Board of Directors will review the bond documents for the sale. Mr. David Goodman, co-bond counsel, Squire Sanders and Dempsey and Mr. Nicholas Penn, co-bond counsel, Leftwich & Ludaway explained which documents will be presented for review and how they may differ from previous documents due to the variable rate component.

Briefing on 2012 CAFR and Financial Audit

Mr. Madrid, Controller, briefed the Committee about DC Water's FY 2012 financial results and also about the unqualified audit opinion issued by its external auditors, Thompson, Cobb, Bazilio & Associates, PC. Mr. Madrid further explained that preparation of the Comprehensive Annual Financial Report (CAFR) is underway and this document, which provides more detailed information about the authority financials and results of operations, will be published by January 30th and presented to the Board. In conclusion, Mr. Madrid informed the Committee that DC Water received the Government Finance Office Association (GFOA) award for excellence in financial reporting for its FY 2011 CAFR, an award that the Authority has received every year since its existence.

Action Item

The Committee is recommending Board approval for the Verizon Federal contract modification.

Adjournment

Hearing no further business, Chairperson Firestine adjourned the meeting at 12.30 p.m.

FOLLOW-UP ITEMS (January 26, 2012)

1. Staff will include project updates in the Capital Spending Discussion section by exception only. Unless there is an issue regarding spending, a shortfall or a difference there is no need to include project updates going forward. **(Mr. Firestine)**
2. Instead of a Combined Heat and Power Financial briefing, which was removed from the January Committee meeting, a full briefing on the updated economic model for the Digester project will be provided to the Committee in the spring.