



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

Finance and Budget Committee

Thursday, January 28, 2016

11:00 a.m.

MEETING MINUTES

Committee Members via (Conference- Call)

Timothy L. Firestine, Committee Chairperson

Committee Members in Attendance

Sarah Motsch, Acting Chairperson

Ana Harvey

DC Water Staff

George Hawkins, CEO & General Manager

Gail Alexander-Reeves, Director, Budget

Robert Hunt, Director, Finance

Meena Gowda, Acting General Counsel

Otho Milbourne, Manager, Benefits

Diala Dandach, Supervisor, WWT Plant Design

Linda Manley, Secretary to the Board

Other Presenters and Guests

Chris Lover, Public Financial Management (PFM)

Call to Order

Chairman Firestine via of teleconference requested that Sarah Motsch Chair the meeting. Ms. Motsch called the meeting to order at 11:00 a.m.

December 2015 Financial Report

Ms. Gail Alexander-Reeves, Budget Director, reported that first quarter financials are on track with budgetary expectations and targeted performance metrics. Total revenues are at \$148.9 million or 26 percent of budget, operating expenses at \$112.3 million or 21 percent of budget and capital disbursements at \$168.2 million or 31 percent of budget in the respective category. This month's report includes the quarterly performance reports for accounts payable and grants. The grants report excludes funding for the Congressional CSO appropriation of \$14 million that has not been received.

The Authority's financial results for FY 2015 were all favorable to budget and the financial audit completed. An unmodified (clean) opinion was issued on December 18, 2015. Staff will continue to monitor the financial impacts of emergency response to water main breaks and snow removal during the historic storm event. Ms. Reeves mentioned that the detailed documents of the Board-approved FY 2017 budgets have been published on the website.

Ms. Reeves, provided feedback from staff's visit to some random Alternative Payment Sites (APS) within the District to check the quality of their customer service. The report from the visit was favorable, and staff will continue to conduct impromptu site visits.

Financing Update/PJM Presentation

Mr. Robert Hunt, Finance Director and Mr. Chris Lover of Public Financial Management, DC Water's financial advisor, briefed the Committee on the recent bond refunding. The deal syndicate was led by Loop Capital Markets along with Goldman Sachs and Ramirez & Co. as Senior Managers and Fidelity Capital Markets, Siebert Brandford Shank & Co, US Bancorp and Wells Fargo Securities as Co-Managers.

The bond sale was a tremendous success due to the work of the Finance staff, our financial advisors, bankers and favorable market conditions at the time of the sale. The new 2016A bonds refunded a portion of the 2007A, 2008A, and 2009A bonds. The total par amount of the new bonds was \$389,110,000 and all in total interest rate of 3.53 percent. The net present value savings to the Authority is estimated at \$56.8 million over the life of the bonds with an average annual debt service savings of \$3.3 million. The net present value savings as a percentage of par was 14.1 percent. Included in the sale was a tender/exchange offer by Citigroup to exchange bonds being refunded they held with a comparable amount of new 2016A series bonds at a rate favorable to DC Water. The bonds received a strong demand in the market with many new first time investors in DC Water bonds.

Mr. Hawkins, CEO & General Manager, commented that the timing of the refinance was perfect, as the execution was on a day that interest rate was at the lowest in the past two years. The return on investment of the deal was at 10 percent compared to the Board's threshold of 5 percent. He also commended the financing team's accelerated efforts to take advantage of the market opportunity which resulted in this tremendous deal for the rate payers.

Digester Project Update

Ms. Diala Dandach, WWT Plant Design Supervisor, provided an overview of the cost/benefits analysis of the estimated operational savings from the Digester project in comparison to the original project assumptions. Ms. Dandach reviewed in detail the underlying assumptions, including construction cost uncertainties, for the major program phases – concept phase (2009), after bid phase (2012) and current phase (2016). She also explained that the 2009 O&M costs update were mainly based on a conceptual and comparative model which did not include all costs common to the alternatives.

Mr. Firestine inquired about the major drivers of the increased capital costs from the conceptual phase. Ms. Dandach explained that the variation between the \$475.7 million in 2012 and \$504.2 million in 2016 was mainly for low NOx emissions turbines and required conditioning of the gas in order to meet DC's non-attainment emissions regulatory requirements which was not planned for in 2009. This variation, at 25 percent of the initial cost, is lower than the 40-50 percent allowed for by the cone of uncertainty for engineering and construction projects at concept level design (1% to 5% design). Mr. Hawkins explained further that the largest variation was in the CHP, and it was driven by regulatory decision by the Department of Energy and Environment to continue with the non-attainment designation to achieve best level of air standards and thereby making DC Water

the leader with this kind of cleanest turbines in the world. Ms. Dandach also highlighted the second major cost difference in the Site preparation contract; this was decrease mainly due to more efficient substructure design and detailed layout of the buildings' footprints.

Ms. Dandach also explained the underlying assumptions for the operations and maintenance savings estimate of \$20.3 million highlighting that the savings estimated in the Zero base model are defined against the lime alternative and remain a significant benefit of the project. Mr. Hawkins further explained that had the digester project not been undertaken, it would have cost the Authority more to operate and maintain the lime stabilization process in addition to increased hauling costs and other risk concerns related to land application of Class B biosolids. He also noted the estimates do not include the debt service cost relating to capital expenditures to upgrade the lime system.

Mr. Hawkins will follow up with CFO Mark Kim to determine whether or not staff can provide debt service finance cost comparisons of the Digester project versus the old lime stabilization process.

Health Cost Presentation Update

Mr. Otho Milbourne, Benefits Manager, presented an overview of the Authority's health benefits and potential exposure to the excise tax which has been delayed from 2018 to 2020. He explained that this tax will be imposed on organizations with high-value health care plans where premiums exceed certain thresholds. DC Water's sponsored medical plans are considered high-value health care plans with high premiums and low deductibles. To avoid this potential excise tax estimated at \$5.5 million (cumulative from 2019 to 2023), the Authority initiated a gradual redesign of its medical plans which includes the following:

- Multiyear strategy to reduce healthcare premium
- Gradual plan design changes
- Increase copays, coinsurance and deductibles

Chairman Firestine inquired about the impact of these plan changes on union negotiations. Mr. Mustaafa Dozier, Chief of Staff, responded that the current compensation agreement that expired September 2015 with a duration clause does not have to be negotiated. However, these plan changes must be included in the upcoming bargaining with the unions.

Mr. Milbourne reported that the final rates negotiated for the 2016 healthcare employee benefits renewals were lower than both the initial rates and national averages.

Executive Session

The Committee moved into Executive Session at 12:25p.m., and reconvened into open session at 12:50 p.m.

Adjournment

Hearing no further business Acting Chair, Sarah Motsch adjourned the meeting at 12:44 p.m.

Follow-up Items

1. Determine whether or not staff can provide debt service finance cost comparisons of the Digester project versus the old lime stabilization process. **(Chairman Firestine)**