DISTRICT OF COLUMBIA

WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Thursday, May 26, 2016

11:00 a.m.

MEETING MINUTES

Committee Members	**DC Water Staff**
Timothy L. Firestine, Committee Chairperson	George Hawkins, CEO & General Manager
Matthew Brown	Mark Kim, Chief Financial Officer
Sarah Motsch	Len Benson, Chief Engineer
Adam Ortiz	Henderson Brown, General Counsel
	Tanya DeLeon, Manager, Risk
	Liliana Maldonado, Director, DETS
	Linda Manley, Secretary to the Board

Other Presenters and Guests
Joe Underwood, Albert Risk Management

Call to Order

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

April 2016 Financial Report and Year End Projections

Mr. Mark Kim, CFO, reported that with 58% of the fiscal year completed, financials are on track with budgetary expectations and targeted performance metrics through this reporting period. Total revenues are at $334.9M or 58% of budget, operating expenses at $266.6M or 49% of budget and capital disbursements at $343.8M or 63% of budget in the respective categories.

Operating revenues are projected to be slightly below budget at 0.2%. Mr. Kim noted that the lag in Water System Replacement Fee (WSRF) receipts is due to collection timing for the new fee that was implemented in FY 2016, which once reconciled will be reflected in FY 2017. This also reflects non-receipt of WSRF from the federal government, which is typically billed two years in advance. Chairman Firestine enquired about the accounting treatment for revenue recognition. Mr. Kim discussed both the cash basis and accrual basis of accounting that is used by the Authority. He further explained that while the non-receipt of WSRF from the federal government in the current fiscal year will negatively impact revenue on a cash receipts basis, the revenue will be duly recognized/accrued for year-end financial reporting purposes.

Operating expenditures are projected to be 8.3% below budget with savings largely driven by the Digester with less spending in chemicals, electricity and hauling. As a result of this savings at Blue Plains, the projected refunds to IMA customers has increased. Mr. Kim reported that the projected overspending in personnel services is attributed to increased hiring efforts to lower vacancy rate. Mr. Ortiz asked whether there is a lapse in vacancies for projecting costs. Mr. Kim explained that vacancies are not fully funded but have enough funding to allow for recruitment of all vacant positions.

Total capital disbursements are projected to be below budget at 1.5%, with overspending in capital projects offset by underspending in capital equipment. Mr. Kim noted that the overspending in the capital projects will be reviewed in more detail as part of the second quarterly report delivered by Ms. Liliana Maldonado. He explained that the underspending in the capital equipment programs is due to contract delays mainly for IT related work such as the customer billing system and meter replacement program which are large scale projects that have taken more time than expected to kick off due to the level of complexity.

Mr. Kim's stated that the year-end surplus is projected to be approximately $17M and that staff will be making its recommendation on the use of that surplus at its the scheduled committee meeting in June. Chairman Firestine asked for a more detailed explanation of the basis of accounting used to calculate the surplus, which Mr. Kim offered to provide at the June committee meeting.

Mr. Kim briefly reviewed the performance of the investment portfolio which is currently earning 0.74% noting that all investments are consistent with the Board adopted Investment Policy. He reported that the current contracts with the Authority's financial advisors and investment advisor will expire in December 2016. The Authority has issued a joint Request for Proposal (RFP) for both financial advisory and investment advisory services and the responses are due June 1, 2016. The responses will be evaluated, oral interviews are planned for July, and a recommendation will be presented to the Finance and Budget Committee thereafter. Mr. Kim mentioned his visit to Harrisburg, PA, along with members of the financing team last month to conduct due diligence with the Authority's asset manager. They met with the Authority's portfolio manager as well as trading desk personnel, and reviewed the performance of the Authority's investments.

Insurance Renewal Update

Ms. Tanya DeLeon and Mr. Joe Underwood, Independent Insurance Advisor from Albert Risk Management presented the insurance options available to DC Water and provided an update of the market conditions. Ms. DeLeon reported that the Authority's broker has indicated that combined premium costs are projected to exceed the $1M threshold for the Excess liability and Property Insurance coverage, therefore a request for approval to purchase the mentioned coverage costing up to $2.9M.

Ms. DeLeon presented an executive summary with an action item to allow for the purchase of Excess Liability and Property Insurance. It was mentioned that the current carrier no longer provides underwriting services to the public sector thus requiring a search for new carrier. She noted that a full and hopefully final update will be provided at the June Finance & Budget Committee meeting.

Chairman Firestine inquired about the basis for the $100M coverage purchase limit. Mr. Underwood and Ms. DeLeon explained that although there is an annual evaluation in cost, the continued purchasing limit amount was based on exposures and benchmarking data from 2002 and 2007. The goal is to align with the Authority's policy of getting the best value, which is obtaining the best coverage at the lowest premium cost.

<u>Capital Improvement Program Quarterly Report</u>

Ms. Liliana Maldonado presented an overview of the capital projects with a current forecast of 3% above the baseline capital disbursement budget. She explained that the overspending is mainly in the Sanitary Sewer Service area due to better than anticipated progress of the construction contract during the fiscal year, offset by the underspending for the New Fleet Management Facility due to delayed agreement between the DC Water and the District government. Many of the large contracts requiring action from the Board in the near future are for small diameter watermain program. The small diameter program is in its 6^{th} year. It was noted that they continue to achieve the 1% goal of updating the water lines.

<u>New Headquarters Building Update</u>

Mr. George Hawkins, CEO & General Manager, provided an overview of the new headquarters (HQO) building project with detailed comparison of the underlying assumptions in the Pre-2013 and Revised Master Plans for the Non-Process Facilities Service Area. He explained that the goal of the HQO project is to move all non-process oriented personnel from a series of locations in Blue Plains and around the District to a centralized location. This plan among other benefits will reserve the office facilities at Blue Plains for process personnel and existing land in use for office trailers for potential future waste water treatment process needs, and also eliminate rental expense for Customer Service staff space. The HQO building, which is at 80% design completion, has more environmental components and less operational cost thereby making it very sustainable. The construction is anticipated to being in June 2016, after Board approval, and substantial completion is scheduled for November 2017.

Mr. Leonard Benson, Chief Engineer, presented an overview of an additional budget request of $4.5M above the current Board-approved FY 2016 budget for the HQO project, which is within the GM's authority for reprogramming within the CIP Service Areas. Mr. Benson discussed that the increase from $71.1M to $75.6M is consistent with the Design-Build contract requirement for the Guaranteed Maximum Price (GMP) for construction of $65M. The initial budget for the building did not include an escalation cost, and the size of the building has increased to include additional employees from Bryant Street and accommodate internal and external auditors.

In response to Chairman Firestine's ~~e~~nquiry concerning the Owner Contingency/Soft Cost of $10.6M, Mr. Benson stated that this line item includes the contingency and other costs for project management, advertisement, stipends, legal fees and insurance.

Mr. Brown asked about the performance of the contractor in the completed Design – Phase 1 of the contract with regards to MBE/WBE compliance, and the anticipated participation of minority and local businesses in the Construction - Phase 2. Mr. Benson responded, stating that the project's compliance with MBE/WBE requirements will be monitored by the project management team and the contractor has assured participation of sub-contractors from the minority firms in the area to meet the goals.

Action Items

The Committee recommended the following action items for the Board's consideration:

- Property and Casualty Insurance Brokerage Services
- New Headquarters Building

Adjournment

Hearing no further business Chairperson Firestine adjourned the meeting at 12.32pm.

Follow-up Items

1. Provide additional details regarding the basis of accounting used to calculate the projected FY2016 surplus.
2. Review fact sheet to clarify whether the Phase 1 costs should be included in the total requested contract amount and provide original target M/WBE participation percentages as well as actual results.