



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Finance and Budget Committee

Thursday, April 23, 2015

11:00 a.m.

MEETING MINUTES

Committee Members in Attendance

Timothy Firestine, Committee Chairperson
Matthew Brown, District of Columbia
Adam Ortiz, Prince George's County
James Patterson, Fairfax County
Robert Mallett, District of Columbia (via conference call)

DC Water Staff

George Hawkins, CEO/General Manager
Mark Kim, Chief Financial Officer
Randy Hayman, General Counsel
Gail Alexander-Reeves, Director, Budget
Robert Hunt, Director, Finance
Annie Fulton-George, Manager, Capital Budget
Len Benson, Chief Engineer
Walt Bailey, AGM - Wastewater Treatment
Linda R. Manley, Secretary to the Board

Other Presenters & Guests

John Clark (ConEdison Solutions)
Eric Newell (ConEdison Solutions)

Call to Order

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

March 2015 Financial Report

Ms. Gail Alexander-Reeves, Budget Director, provided an executive summary of the operating revenues, expenditures and capital disbursements due to the extensive agenda items for discussion at the meeting. With approximately 50 percent of the fiscal year completed, Ms. Alexander-Reeves reported we are on track with budgetary expectations and targeted performance metrics. Total revenues are at \$274.0 million or 51 percent of budget, operating expenses at \$222.9 million or 43 percent of budget, and capital disbursements at \$280.1 million or 45 percent of budget in the respective category. Preliminary year-end projections will be provided to the committee at their meeting in May.

Mr. Firestine inquired about DC Water's dispute with DC Government regarding the RFK Impervious Area Charges (IAC) and the District's reasoning for not making payment. Mr. Syed Khalil, Financial Planning Manager, explained that the dispute involved various Federal and District Government entities disputing ownership of the property. DC Water's Customer Service and General Counsel staff continues to work with all parties involved and management will continue to provide the Committee with will updates until resolved.

CASH AND INVESTMENTS

Mr. Robert Hunt, Finance Director, reviewed the cash balances in the various operating and reserve accounts of the Authority. As of March 31, 2015, the operating cash balance totaled \$169.5 million our debt reserve and construction funds totaled \$285.1 million, the total cash for all funds was \$454.6 million. The ending operating cash balance of \$146.0 million was well above the targeted reserve level of \$125.5 million. The investment portfolio is properly diversified and in compliance with the Authority's Investment Policy. The overall yield-to-maturity on cost of the portfolio is 0.42%.

Biosolids Management Program: Fiscal Impact Analysis

Mr. Mark Kim, Chief Financial Officer, explained that this presentation is an update from last month's Committee meeting. The presentation essentially details the Biosolids program fiscal impact from the 7-months delay of the digester project, with responses addressing 3 major questions from the committee:

1. Capital cost to build to date versus the capital budget
2. Hypothetical loss in savings from the delay
3. What costs are included in the operating and maintenance budget and what were the assumptions that went into the budget

Mr. Len Benson, Chief Engineer, and Mr. Walt Bailey, AGM - Wastewater Treatment, provided the update. Mr. Benson explained that the estimated cost of the delay was determined comparing the costs of operating the alternative lime system, which produced class B biosolids and the costs of operating the new Digester/CHP system, at a total cost of delay estimated at \$9.1 million.

Mr. Benson noted that the biosolids capital program costs in 2009 were estimated at about \$406.6 million including program management costs. As of FY 2015, the biosolids program cost is estimated to be about \$499.1 million. This is approximately 23 percent increase, but well within the benchmark guidelines as established by the American Association of Cost Engineers (chart presented in the slides). Most of the increase is attributable to the CHP segment, which increased from \$38 million in 2009 to the current \$98 million in 2015 due to scope change between the concept and final design associated with emissions regulatory requirements.

Mr. Bailey explained that the delay in operation has been estimated at about seven months, much of which is attributable to a late seeding of the Digesters. Mr. Bailey presented a summary of the assumptions made when developing the approved FY 2015 and 2016 operating budgets and a comparison to current estimates with the corresponding anticipated underspending for both fiscal years. The budget and current assumptions presented focused on budget line items for chemical use, biosolids production and hauling, contractual fees; and most significantly; power consumption, and on-site power generation through CHP. The variances in the estimates are based on these revised operations assumptions, FY 2015 ramp up delay, anticipated full biosolids operation in FY 2016, and the better-than-expected performance of the digesters and other new solids processing facilities. The impacts on operating budget, or anticipated underspending, were estimated at \$4 million and \$10.8 million in FY 2015 and 2016 respectively.

In response to Mr. Mallett's inquiry, if there are any federal standards set to classify between Class A & Class B biosolids, Mr. Benson reported that DC Water has met the Class A requirements (*E-coli levels below 1000*) and has started the certification process. Currently, DC Water is working with the Virginia Department of Environmental Quality to certify our results and accept our biosolids as a Class A product.

Mr. Hawkins, CEO/General Manager, responded to a question from Mr. Ortiz on the Class A distribution network. Mr. Hawkins stated that DC Water is currently in several pilot programs for developing several

products options that can be used for free organic agricultural fertilizer and options for marketable products as well.

FY 2014 IMA Annual Operating Settlement

Mr. Kim introduced Annie Fulton-George, Capital Budget Manager, and commended her on her performance since transitioning from the Treasury & Debt team. One of Ms. Fulton-George's assigned tasks was to modify the IMA Annual Operating Settlement process. Mr. Kim stated that past practice for billing IMA customers was to base the bill on the approved budgets, which were much smaller at the time. Due to our budget increases this method has resulted in larger variances between what is budgeted versus actual performance. This method in turn led to the estimated bills to IMA suburban customers being overstated and resulted in larger refunds due. In FY 2012 and FY 2013, a total of \$8.9 million and \$9.3 million were overbilled respectively. DC Water has now revised its billing methodology to decrease this overbilling, have tighter budgeting and reduce the variances between the budget and actual performance. For FY 2014, the suburban customers were actually under billed by \$4.1 million. Staff will continue to work towards a target rate of 3 percent of the actual results billed to customers.

Electric Power Supply Strategy & Support

Mr. Kim introduced Mr. John Clark, and Mr. Eric Newell, of ConEdison Solutions (the Authority's service provider) presented details regarding DC Water's electricity power supply strategy. They also provided the Committee with a market performance update and reiterated ConEdison's role in supporting DC Water maintaining its electricity supply budget goals.

Action Items

The Committee members recommended moving the Substitute Letters of Credit for the Commercial Paper Program and Increase and Decrease of the Amounts by Series

Agenda for May Committee Meeting

With no changes recommended by the Committee, Chairperson Firestine approved the agenda for the May Committee meeting.

Follow-up Item

1. Provide policy and practices regarding billing disputes with DC Water's large IAC customers. **(Mr. Firestine)**
2. Will the RFK IAC dispute with the District lead to a refund liability to DC Water, if so, how much and who will be billed? **(Mr. Mallett)**

Adjournment

Hearing no further business, Chairperson Firestine adjourned the meeting at 12:27 p.m.