

WASHINGTON SUBURBAN SANITARY COMMISSION

MINUTES OF THE COMMISSION MEETING

Wednesday, November 16, 2016
Laurel, Maryland

Chair Fausto R. Bayonet called the meeting to order at 10:05 a.m. in the Auditorium of the Washington Suburban Sanitary Commission (hereinafter "WSSC") Richard G. Hocevar ("RGH") Building, 14501 Sweitzer Lane, Laurel, Maryland, 20707, with due notice having been given to all members of the Commission and the public. In addition to Chair Bayonet, Commissioners Omar M. Boulware, Howard A. Denis, T. Eloise Foster, Chris Lawson and Thomasina V. Rogers, were present at the meeting, reflecting the presence of a quorum. Also in attendance were WSSC General Manager and Chief Executive Officer Carla A. Reid, General Counsel Amanda Conn, Senior Counsel Russel Beers and Corporate Secretary Sheila R. Finlayson, Esq., who recorded the minutes of the meeting. Other members of WSSC management were also called upon, during certain portions of the meeting, to provide information to the Commission.

PLEDGE OF ALLEGIANCE

Chair Bayonet opened the meeting by welcoming everyone and asking Commissioner Denis to lead the pledge of allegiance.

AGENDA APPROVAL

Commissioner Boulware moved to adopt the Commission's Public Meeting Agenda of November 16, 2016, as drafted, to which Commissioner Denis seconded the motion. The motion carried unanimously with six affirmative votes.

APPROVAL OF MINUTES

Commissioner Boulware moved to approve the open session minutes of the October 19, 2016 Regular Commission Meeting, as drafted. Commissioner Foster seconded the motion. The motion carried with five affirmative votes; one abstention. Commissioner Lawson abstained as he was absent from the October 19th meeting.

A motion was then made by Commissioner Boulware, and seconded by Commissioner Denis, to approve the open session minutes of the Commission's September 30, 2016 Special Commission Meeting, as drafted, to which the motion carried unanimously by a vote of six-to-zero.

WSSC RETIREES

Richard Baker, Executive Director of the WSSC Employees' Retirement Plan, recognized the following WSSC Retirees for the month of November 2016:

Teresa McCarter, Project Delivery Support Technician, Project Delivery Group, retires with 31 years and 5 months of service;

Quoi Ngo, Utility Technician III, Utility Services North Group, retires with 33 years and 8 months of service.

COMMUNICATIONS VIDEO

Communications and Community Relations Director Jim Neustadt presented the video for the month which was a PSA to WSSC customers on "Preparing Your Home Pipes for Winter."

Mr. Neustadt also shared that WSSC Chief Engineer Gary Gumm will be appearing on Channel 4 Local News on Thursday, November 17, 2016 [tomorrow], and speaking on the importance of "Canning the Grease" as WSSC customers approach and celebrate the holidays.

COMMISSIONER/PUBLIC COMMENTS

Commissioner Comments. Commissioner Denis commended Mr. Neustadt and his team for the recent coverage on zinc pipes, noting it was an excellent piece that came at the right time, alluding to the recent spending affordability meetings with the counties and the importance of WSSC sharing the major costs involved for its infrastructure projects. Montgomery and Prince George's Counties unanimously approved spending limits at 3.5% with WSSC requesting significantly higher levels (i.e., 6.9% increase).

Commissioner Denis also raised some additional questions/concerns regarding the HomeServe partnership, requesting that staff provide additional information on whether HomeServe would be subject to WSSC Ethics, auditing and SLMBE contracting requirements and asking for further clarification around the selection of plumbers under the contract.

Commissioner Boulware acknowledged the recent Veterans Day holiday, thanking all veterans for their service and sacrifice.

Public Comments. None.

GENERAL MANAGER'S REPORT

General Manager ("GM") Carla Reid was recognized to provide her monthly report. The GM's full report can be found in the corresponding segment of the archived meeting video and the written "General Manager's Report" provided in the meeting materials, and both are referred to for that purpose. However, highlights are as follows:

Progress is being made with Potomac Water Filtration Underdrain Replacement Project; currently 22 of 32 filters are back in service with 3 more scheduled to be rehabilitated by end of November. The capacity of both plants is up to 210 MGD with both plants meeting demands.

WSSC is the first water utility in the nation to use zinc-coated ductile iron pipes as its standard material. This newer material is expected to last 100 years or more as opposed to 50-75 years for traditional ductile iron, which will mean fewer breaks and lower associated costs of repair in the long term.

GM and staff visited Riverdale Park Station which will be the first lead [free] certified community in Maryland, and where WSSC has partnered with the new Whole Foods Market on sustainability. Construction scheduled to be completed in 2018; Prince George's County will enjoy job growth from this endeavor (almost 2,000 jobs to be created) and \$4.9 million in recurring tax revenues.

WSSC has replaced almost 23 miles of its 61-mile water main replacement goal with 9 miles out of 43-mile goal for sewer replacements. WSSC is also gearing up for the cold winter weather and increase in water main breaks/leaks. Additionally, management has reviewed its snow preparation plans and impact/effect for each department.

GM is committed to enhancing customer service, sharing improvements that have been made since last meeting (per Commissioner Rogers' request at the last commission meeting), some of which included: WSSC H2O People Pledge-to-Serve; Hiring of Workforce Quality Assurance Manager and Senior Manager for Customer Service; Implementation of Meter-to-Cash Lifecycle Business Process; and plans moving forward with Call Management

System Upgrade and new tracking system for customer compliments and complaints.

Water production and WSSC revenues remain stable with no areas of concern. WSSC however did experience a spike in delinquencies over past month primarily due to a delinquent government account. Good News: WSSC's AAA-bond rating has been reaffirmed by all three rating agencies.

With regard to rate structure study, the stakeholder representative group (20 members) - comprised of a cross section of civic federations, industry representatives, environmental groups and individual citizens, held its first meeting on November 1st ; will meet three additional times to examine and consider alternatives to WSSC's 16-tier conservation-based rate structure.

WSSC exceeded its \$70,000 goal for this year's United Way Campaign, raising \$81,800 with an additional \$6500 going towards the Water Fund. WSSC also participated in several community events over the past month to include the Wonders of Water Journey on October 15th where 50 area Brownies learned the importance of environmental stewardship and participated in various water-oriented activities.

WSSC's new General Counsel (GC) Amanda Stakem Conn joined the Commission on November 14th, becoming the Commission's first female GC in WSSC's 98-year history. Ms. Conn brings a wealth of governmental, legislative and legal experience, having previously served in the capacities of Director of Education Policy and Government Relations at the Maryland State Department of Education and as Deputy Secretary, Principal Counsel and Assistant Attorney General, at the Maryland Department of Planning.

Chief Financial Officer (CFO) Joseph Beach recognized the Budget Group team leader and its staff members on winning the Distinguished Budget Presentation Award from the Government Finance Officers' Association, noting that this is a peer-evaluated award with a difficult standard to meet. WSSC has received the award for the past twenty years in a row.

Following Commissioner questions, the General Manager's Report was received as information.

INTERNAL AUDIT REPORT

Monthly Activity Report. Internal Audit Director Maxene Bardwell reported on the monthly activities of the Internal Audit Office (IAO) for the period of October 10, 2016 to November 4, 2016.

FY 2017 Audit Projects: One audit, Basic Ordering Agreement (BOA), has commenced and is in the field work stage.

FY 2016 Carryover Audit Projects: All in the field-work stages.

FY 2015 Carryover Projects: Construction Contracts Change Orders Audit in report phase.

System Development Charges Audits: No SDC Reports issued; 16 SDC audit requests in process with 13 active and 3 inactive.

Internal Audit Follow-up: No management action items closed since last status report of October 11, 2016. Thorough review underway for 2 implemented pending Internal Audit verification action items with one management plan of action 125-days delinquent (General Services).

Hotline. Next quarterly status report to be presented at January meeting.

Ethics Office. The Board of Ethics held its regularly-scheduled meeting on October 13, 2016; several open and closed items were reviewed. New hire orientation/code of ethics training was provided to 8 new employees on October 24, 2016. Ethics Officer in process of finalizing ethics training module with vendor for WSSC Annual Ethics Training for this year.

External Auditors. BCA Watson Rice LLP will present findings from Commission's financial statements audit at today's meeting (See summary immediately following IAO Monthly Report).

External Auditors' Annual Financial Report for Year Ended June 30, 2016. Messrs. Marshall Blair (Engagement Partner) and Al Lucas (Quality Control Partner) of BCA Watson Rice LLP, provided a summary of the firm's independent audit results of WSSC's financial statements for the year ended June 30, 2016. Specific details can be found in the presentation handout ("2016 Independent Audit Results") and the "Annual Financial Report for

the Year Ended June 30, 2016," contained in the board materials and incorporated herein by reference.

Before the presentation began, Commissioner Lawson [again] disclosed that BCA Watson Rice, LLP, is a client of his insurance brokerage firm.

In summary, BCA Watson Rice issued unqualified opinions (i.e., good/clean reports) for the WSSC June 30, 2016 year-end financial statements audit; the Office of Management and Budget (OMB) Circular A-133 audit - Report on Internal Control Over Financial Reporting and Other Matters; and the Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance and Report on Schedule of Expenditures of Federal Awards in Accordance with the Uniform Guidance.

Unqualified opinions were also issued for the WSSC Retiree Other Post-Employment Benefits (OPEB) Trust and the WSSC Retirement Plan financial statements with no significant deficiencies or material weaknesses found in internal controls report.

The external auditors also reviewed WSSC's annual financial reports and management discussion and analysis (MD&A) for consistency with financial statements and no significant deficiencies or material weaknesses in internal controls were reported although certain other control deficiencies were identified (specifically, on page 18 of presentation).

Capital assets increased by \$580.7 million. WSSC issued \$535.0 million in bonds for consolidated public improvement and 181.0 million in bonds for refunding; and redeemed \$90.0 million in notes. Operating revenues increased by \$3.4 million and operating expenses increased by \$31.2 million. Capital contributions were \$134.7 million, an increase of \$54.6 million from prior year. Operating activities provided over \$275.1 million in net cash, an increase of \$14.8 million as compared to prior year and cash used in capital and related financing activities was \$328.8 million, a decrease of \$15.1 million as compared to prior year.

The external auditors shared significant audit adjustments and passed adjustments for 2016 along with the required communications (required to be discussed) with the Commission. The auditors also

reviewed in detail their 2016 report on internal controls and other matters, explaining the control deficiencies that were cited in the report.

Commissioner Foster asked whether there were any repeat control deficiencies findings in the report. Mr. Blair responded that three of the noted deficiencies were repeats from 2015 (strengthen controls over receiving and issuing of materials and supplies; strengthen controls over P-Card activities; and develop and/or update comprehensive policies and procedures). Commissioner Lawson asked Mr. Blair to explain the cited deficiency for controls over contract approval and record retention. Mr. Blair stated that the finding was based on the fact that certain reviewed files had not contained all of the required documentation, appropriate approvals or exemptions.

Chair Bayonet asked the reason for the \$4.2 million decrease in the OPEB Trust funds. Mr. Blair replied that a particular investment was involved in investigations and had, therefore, been considered a loss.

Following discussion, the reports of the Internal Audit Office and External (Independent) Auditors, were received as information.

OTHER REPORTS

Finance

2017 Front Foot Benefit Rates and House Connection Charges. CFO Joseph Beach presented the proposed rate calculations for the 2017 Front Foot Benefit and House Connection Rates. The CFO reported from a power point presentation circulated to Commissioners in advance and incorporated herein by reference. Specific details can be found in the presentation handout and the corresponding segment of the archived meeting video and both are referred to for that purpose.

In summary, management is not proposing any changes from the prior year to the Proposed 2017 Front Foot Benefit Rates (i.e., Maximum Front Foot Benefit rates per foot of \$4.80 for water and \$7.18 for sewer to be paid annually over a period of twenty years). For the House Connection Charges, the proposed rates are included on a chart provided in the aforementioned presentation - no changes from current charges on unimproved charges however changes/increases are being recommended for proposed improved

charges on sewer rates. No changes from current rates are being recommended for the non-residential small and large size water and sewer and rights of ways charges.

A public hearing on the proposed rates is scheduled to take place today (November 16, 2016) in the WSSC Auditorium at 2:30 p.m. and the record will remain open for public comments through December 20, 2016. The proposed 2017 rates will be presented to Commissioners for approval at the December Commission Meeting, with the rates to become effective on January 1, 2017.

In response to Commissioner questions, management to provide follow-up information on legislative history, and impact on unserved and underserved communities.

Following discussion, the Commission received the Briefing on the Proposed Rate Calculations for the 2017 Front Foot Benefit Rates and House Connection Charges, as information.

Approval of Amendments to Investment Policy. CFO Beach explained the current investment policy needed to be revised to allow management to invest funds under the newly proposed community banking small lending program (presented to Commissioners at the September 2016 commission meeting with new proposed Standard Procedure (SP) for Local Business, Investment and Growth (BIG) Program to be presented for Commission approval immediately following this item).

Whereupon, a motion was made by Commissioner Foster and seconded by Commissioner Boulware, to approve the proposed Amendments to the WSSC Investment Policy of Surplus Funds (SP/Regulation), as recommended by management. Such amendments will allow for an exception to the investment policy to permit the Finance Team to invest funds with local community banks to support local businesses and generate jobs for residents of Montgomery and Prince George's County. Terms for investment are set forth in the Proposed Local BIG Program Regulation to be considered by the Commission following this action. Such Regulation(s) to be effective on or about December 16, 2016 following the required public notification period.

The motion carried unanimously by a vote of six-to-zero.

Approval of New SP/Regulation - Local BIG Program. CFO Beach walked through the new SP/Regulation being proposed for adoption, explaining that such new regulation sets forth the eligibility requirements and administrative, investment and reporting process for the newly-proposed BIG program.

Following discussion and on motion made by Commissioner Boulware and seconded by Commissioner Denis, the Commission unanimously voted six-to-zero to approve the new SP/Regulation entitled "Local Business Investment and Growth (BIG) Program," as recommended by management. Such new Regulation to be effective on or about December 16, 2016 following the required public notification period.

CONSENT CALENDAR

Contracts for Approval

The Chair asked if there were any contracts that Commissioners would like removed prior to consideration of the Consent Calendar Resolution, to which there were none.

Whereby, a motion was made by Commissioner Denis and seconded by Commissioner Lawson, to adopt Resolution 2017-2144, approving the seven contracts included on the Consent Calendar for the November 16, 2016 Commission Meeting, as follows:

A. Engineering and Construction

Construction Contracts:

1. AM4991B09, RGH Building Data Center Upgrades, to Meltech Corporation, Inc., with contract term of five (5) years in an amount not to exceed \$6,000,000.00.
2. BE4473A06, Olney Standpipe Replacement, to CB&I, LLC, in the amount of \$5,032,200.00, with substantial completion time of 900 calendar days.
3. CP4231G05, Broad Creek Improvements and Force Main, to Norair Engineering Corporation, in the amount of \$31,624,455.00, with substantial completion time of 913 calendar days.
4. BL3192B01, Oak Grove/Leeland Road 24-Inch Water Transmission Main Replacement, to Allan Myers MD, Inc., in the amount of \$2,993,777.00, with substantial completion time of 540 calendar days.

B. General Services

1. Contract 7058, **Underground Service Brass Fittings**, to HD Supply Waterworks, Ltd., in an amount not to exceed \$6,000,000.00 for the period starting November 22, 2016 through November 21, 2019. Contract to be used by Anacostia Warehouse, for base term of three years with a one (1) one-year option term.

2. Contract 7015, **Mechanical Joint Gate Valves**, to Ferguson Waterworks, in an amount not to exceed \$7,052,119.50, for base term of three years, with a one year option term. Contract to be used by Anacostia Warehouse.

C. Information Technology

1. Contract 6537, **Change Order No. 2, Avaya Professional Services and Products**, to: Arrow Systems Integration in the amount of \$200,000.00; Carousel Industries of North America in the amount of \$200,000.00; and ConvergeOne, Inc. in the amount of \$200,000.00. Change Order No. 2 increases the contract value by \$600,000.00 for new total contract award of \$1,200,000.00.

The motion carried unanimously by a vote of six-to-zero.

ADDITIONAL BRIEFINGS

IRO Legislative Update. Intergovernmental Relations Office (IRO) Director Karyn Riley provided an update of the IRO activities for the month, including a report on the proposed bills currently moving through the 2017 Maryland General Assembly Session that would affect the Commission. Ms. Riley thanked the members of the Legislation Committee, Commissioners Boulware and Denis, for their guidance and active support. Ms. Riley had met with the Legislation Committee on November 9th to apprise the Committee of the proposed bills and obtain feedback on how best to move forward. Ms. Riley had planned to report on the pending legislation and management's recommended positions at the December Commission meeting; however, Commissioner Boulware suggested that a special meeting be held prior to the Montgomery and Prince George's County Delegation hearings (set for the first week in December) in order to gain the Commission's support of proposed bill recommendations prior to such hearings.

In response to the proposed non-WSSC sponsored legislation on System Development Charge Exemptions; Commissioner Lawson asked for follow-up information on the process for receiving an SDC exemption (management to provide).

The Commission received the IRO update on proposed legislation as information.

COMMISSION OFFICE

Corporate Secretary Report. Corporate Secretary Sheila Finlayson provided an overview of her activities for the month as set forth in her report provided in the advance board materials; no questions were raised by Commissioners.

The Commission received the Corporate Secretary's report as information.

WSSC Retirement Plan Board of Trustees. Commissioner Foster reported on the recent meeting of the Board of Trustees held on October 26, 2016, noting that as of September 30, 2016, the Plan's assets were \$746.7 million which represents an investment gain of \$51.0 million or an increase of 7.6% since December 31, 2015. A full summary of the September 2016 Retirement Plan Investment Performance Results was also included in the advance board materials.

The Commission received the report of the Retirement Plan Board of Trustees, as delivered by Trustee Foster, as information.

Personnel and Governance Committee. Chair Bayonet reported that the Committee is in the process of performing evaluations for two of its direct reports.

The Commission received the report of the Personnel and Governance Committee, as information.

Legislation Committee. Nothing additional to report.

Audit Committee. The Chair called for a motion to adopt the minutes of the October 19, 2016 Audit Committee Meeting, whereby a motion was made by Commissioner Boulware and properly seconded by Commissioner Rogers to approve the Audit Committee Minutes of October 19, 2016. The motion carried with five affirmative votes, one abstention (Commissioner Lawson abstained from the vote as he was not present at the meeting).

The Chair then announced that the Morning Open Session business had concluded and called for a motion to go into Closed. The

Commission will go back into Open following Closed to conduct any unfinished business, if required.

After noting his approval of the written closing statement, the Chair called for a vote.

CLOSED SESSION

Whereby at 12:20 p.m., Commissioner Lawson moved that the Commission go into Closed Session pursuant to Maryland Code Annotated, General Provisions Article: Section 3-305(b)(13) to approve the September 21, 2016, September 30, 2016 and October 19, 2016 Closed Session Minutes; Section 3-305(b)(7) and Section 3-305(b)(8) to consult with counsel to obtain legal advice and discuss pending or potential litigation for attorney/client privileged legal matters; and Section 3-305(b)(1) to discuss personnel matters relating to Commission Office direct reports.

Commissioner Denis seconded the motion. The motion carried unanimously with six affirmative votes.

The Chair declared the meeting was Closed at 12:20 p.m.

The Chair then called for a lunch recess.

Following lunch, the meeting reconvened in Closed in the Commissioners' Large Conference Room at 1:42 p.m.

ATTENDEES: Chair Fausto Bayonet; Commissioners Omar Boulware, Howard Denis, Eloise Foster, Chris Lawson and Thomasina Rogers. Staff present: General Manager Carla Reid, Corporate Secretary Sheila Finlayson, General Counsel Amanda Conn, Senior Counsel Russel Beers, Associate Counsel Heather Ashbury, Associate Counsel Danny O'Connor, Deputy General Manager for Operations Joe Mantua, Deputy General Manager for Strategic Partnerships Monica Johnson, Deputy General Manager for Administration Thomas Street, Senior Staff Director Jaclyn Vincent, IRO Director Karyn Riley and Chief of Customer Relations Crystal Knight-Lee.

Closed Session Minutes - On motion made by Commissioner Lawson and seconded by Commissioner Boulware, the Commission voted six-to-zero, to adopt the closed session minutes of its September 21, 2016, September 30, 2016 and October 19, 2016 Meetings, as drafted.

Legal Matters - Commissioners were briefed by WSSC Counsel and management on confidential legal matters affecting the Commission, which included attorney/client privileged legal and pending litigation matters.

Personnel Matters - All members of management were excused at 3:15 p.m. while the Commission met in executive session to discuss personnel matters relating to performance evaluations for two of the Commission Office's direct reports.

At 4:35 p.m., the Chair called for a motion to end closed, whereby a motion was made by Commissioner Boulware and seconded by Commissioner Foster, to end the Closed Session. The motion carried unanimously with six affirmative votes.

OPEN SESSION

At 4:35 p.m., the Commission reconvened in open session.

ADJOURNMENT

There being no additional business, the Chair called for a motion to adjourn, to which Commissioner Boulware moved to adjourn the meeting. Commissioner Foster seconded the motion. The motion carried unanimously with six affirmative votes.

At 4:35 p.m., the meeting was declared adjourned.

Respectfully submitted,

//signed//

Sheila R. Finlayson, Esq.
Corporate Secretary