

WASHINGTON SUBURBAN SANITARY COMMISSION

MINUTES OF THE COMMISSION MEETING

**Wednesday, November 15, 2017
Laurel, Maryland**

Chair Thomasina V. Rogers called the meeting to order at 10:09 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 Rogers, Commissioners Fausto R. Bayonet, Omar M. Boulware, Howard A. Denis, T. Eloise Foster and Chris Lawson, 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 Stakem Conn 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 Rogers opened the meeting by welcoming everyone and asking Commissioner Boulware to lead the pledge of allegiance. Following the pledge, the Chair asked General Manager Carla Reid to lead the Commission in the recitation of its mission and vision statements.

AGENDA APPROVAL

Commissioner Boulware moved to adopt the Commission's Public Meeting Agenda of November 15, 2017, as drafted, to which Commissioner Denis seconded the motion. The motion carried unanimously with six affirmative votes.

APPROVAL OF MINUTES

Commissioner Bayonet moved to approve the open session minutes of the September 20, 2017 Regular Commission Meeting, as drafted. Commissioner Lawson seconded the motion. The motion carried unanimously with six affirmative votes.

Commissioner Foster then moved to approve the open session minutes of the September 13, 2017 Special Commission Meeting on Rate Structure, as drafted. Commissioner Boulware seconded the motion. The motion carried unanimously with six affirmative votes.

WSSC RETIREES

WSSC Retirement and Investments Division Manager Richard Baker recognized the following Retirees for the month of November 2017:

Oscar Gillum, Utility Technician III, Utility Services Central Division, retires with 30 years and 11 months of service.

Darryl Estep (present), Utility Technician III, Utility Services Central Division, retires with 33 years of service.

Jerry Harley (present), Utility Technician III, Utility Services South Division, retires with 30 years and 8 months of service.

Deena Joyce (present), Utility Services Contract Coordinator, Utility Services Department, retires with 16 years and 8 months of service.

Charles Vaughn, Plumbing Inspector, Regulatory Services Division, retires with 11 years of service.

Ronald West, Systems Construction Inspector I, Pipeline Construction Division, retires with 34 years and 2 months of service.

Charles Windsor, Utility Technician III, Utility Services Central Division, retires with 32 years of service.

COMMISSIONER/PUBLIC COMMENTS

Commissioner Comments. Commissioner Denis requested follow-up information regarding two witnesses that spoke at the October Public Hearing in Rockville. The first was a woman from

Dickerson who gave testimony about alleged out of area companies coming into Montgomery County and taking *our* water with billing arrangements worked out later. Commissioner Denis inquired about the alleged honor system arrangement, requesting more information from management. The second witness was a single parent with a special needs child who asked about her high water bill and according to Commissioner Denis, made a very compelling case as to why she thought the bill was excessive and erroneous.

Public Comments. Mr. Chris Haynes of Haynes Plumbing, a WSSC licensed plumber from Prince George's County, provided testimony regarding his relationship and experience working with HomeServe, expressing that he found HomeServe to be a very reputable company who is providing a great service to the community and small businesses such as his, also noting that his interactions with HomeServe have been very positive and his business has doubled since partnering with them.

CHAIR REPORT

Chair's Report. No Report.

GENERAL MANAGER REPORT

Monthly Report. General Manager ("GM") Carla Reid provided her monthly report, reporting from a power point presentation displayed at the meeting and incorporated herein by reference. The GM's full report can also be found in the corresponding segment of the archived meeting video and written "General Manager's Report" and both are referred to for this purpose. However, highlights are as follows:

Protect Our People, Infrastructure, Systems and Resources

Snow Summit:

- WSSC participated in 2nd Annual Prince George's County Snow Summit Series; highlighted home winterization and what to expect with water main breaks.

Protecting People and Waterways:

- Participated in Annual Drug Take Back Day; collected 850lbs of pharmaceuticals;

- ALICE training for employees completed.

Improve Infrastructure

Patuxent WFP Expansion Project:

- \$64M project began in 2014 - expected to be completed in 2018; capacity to increase to 72 MGD with emergency capacity up to 110 MGD. Also to include ultraviolet light treatment for added disinfection.

Broad Creek Sewer Augmentation:

- Project plan began in 2014 - three projects almost complete with pumping station rehab to be completed in 2020.

Enhance Customer Experience and Community Engagement

HomeServe Satisfaction (of those customers who filed claims):

- 82% settled in one submission
- 83% very satisfied with service provider
- 86% very satisfied with quality of work.

Achieve Business Process Excellence and Maintain Financial Stability

WSSC Rate Structure Alternatives:

- Received Public, Customer, Stakeholder Input
- WSSC Management Recommendations provided to Commissioners on November 1st.

Financial Excellence:

- AAA Rating affirmed by Moody's, Standard & Poor's and Fitch
- Received GFOA Distinguished Budget Presentation Award for FY' 17

Inspire Employee Engagement

- #H2OPeople Giving Campaign - Goal \$90,500; currently at \$94,400 (104%)
- Conducted Annual Health Fairs at RGH, plants and depots

Following Commissioner questions, the GM's Monthly Report was received as information.

Monthly Activity Report. Internal Audit Director Maxene Bardwell reported on the monthly activities of the Internal Audit Office (IAO) for the period of October 9, 2017 through November 3, 2017.

Achieve Business Process Excellence and Maintain Financial Stability

FY 2018 Audit Projects: Three in fieldwork phase; two in report phase.

Carryover Audit Projects: Both in report phase.

Internal Audit Follow-up: No management action items closed since last report. One requires Internal Audit verification. Five delinquent management plans of action (Customer Service, Police & Homeland Security Services, Payroll).

External Auditors. BCA Watson Rice LLP to present findings from Commission's financial statements audit at today's meeting (see summary immediately following IAO Monthly Report). External Auditor Solicitation is in progress.

Improve Infrastructure

System Development Charges (SDC) Audits: Total fiscal year-to-date actual financial adjustments of \$503,877.11. No reports issued during reporting period. 20 SDC audit requests in process with 17 active and 3 inactive.

Protect Our People, Infrastructure, Systems and Resources

FWA Hotline. FWA training provided to 15 new employees.

Ethics Office. The Board of Ethics held its regularly-scheduled meeting on October 12, 2017; several open and closed items were reviewed. New hire orientation/code of ethics training provided to 15 new employees on October 23, 2017.

Board of Ethics Position. Search Committee submitted its nomination to Montgomery County Commissioners. Full Commission to consider recommendation at this meeting.

Fiscal Year 2017 Annual Report. Internal Audit Division Manager Dana Whiting delivered the IAO's Annual Report for Fiscal Year 2017. Specific details can be found in the written report and presentation handout contained in the advance board materials (incorporated herein by reference), and the corresponding segment of the archived meeting video. In summary, the report included: overview of IAO's fiscal activities for the year, history / purpose of office, vision, mission, organizational structure, key performance indicators and other highlights.

External Auditors' Annual Financial Report for Year Ended June 30, 2017. 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, 2017. Specific details can be found in the presentation handout "2017 Independent Audit Results" and the "Annual Financial Report for the Year Ended June 30, 2017," contained in the board materials and incorporated herein by reference.

In summary, BCA Watson Rice issued unqualified opinions (i.e., good/clean reports) for the WSSC June 30, 2017 fiscal year-end financial statements audit and the Office of Management and Budget (OMB) Circular A-133 audit. Certain control deficiencies were identified on page 18 of the power point presentation but such deficiencies were not classified as significant or material weaknesses.

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.

Balance Sheet. Capital assets, net of accumulated depreciation, increased by \$437.6 million. WSSC issued \$382.0 million in consolidated public improvement bonds and redeemed \$12.4 million in Notes. No refunding bonds were sold in 2017.

Statement of Revenues, Expenses and Changes in Net Position.

Operating revenues increased by \$76.8 million due to a 2.9% increase in water and sewer rates and operating expenses increased by \$39.0 million. Capital contributions were \$84.0 million, a decrease of \$50.6 million from prior year.

Statement of Cash Flows. Operating activities provided over \$297.0 million in net cash, an increase of \$21.9 million as compared to prior year and cash used in capital and related financing activities was \$216.9 million, a decrease of \$111.9 million as compared to prior year.

OPEB Trust. Net position available for benefits as of December 31, 2016 totaled \$94.3 million, an increase of \$18.4 million or 24% from prior year.

Retirement Plan. Net position available for benefits as of December 31, 2016 totaled \$733.5 million, an increase of \$31.0 million or 4.4 % from the prior year.

The external auditors shared audit adjustments and passed adjustments for 2017 for financial statements audit and 2016 audit adjustments and passed adjustments for OPEB Trust and Retirement Plan, along with the required communications (required to be discussed with the Commission).

The auditors also reviewed internal controls deficiencies as documented in their full written Internal Controls report and on page 18 of their presentation.

Commissioners expressed concerns regarding repeated internal control deficiencies cited in report, directing management to take a more expedient approach to improve the deficiencies.

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

Resolution 2018-2173 - Appointment of Regular Member to WSSC

Board of Ethics. Ms. Bardwell provided an overview of the process for recommending the nominee for the Montgomery County Board of Ethics Regular Member opening, explaining that the Search Committee had interviewed candidates and had recommended a nominee to the Montgomery County Commissioners and such nominee is now being recommended to the full Board for approval. Current Board of Ethics regular member Steven Hausman is the candidate. His term expired in May 2016 and the Montgomery County Commissioners are thereby recommending his reappointment.

Whereby, a motion was made by Commissioner Bayonet and seconded by Commissioner Boulware, to adopt Resolution 2018-2173, reappointing Steven J. Hausman as a Regular Member of the WSSC Board of Ethics, for an additional three-year term beginning November 15, 2017, as recommended by the WSSC Montgomery County Commissioners.

The motion carried unanimously with six affirmative votes.

OTHER REPORTS

Finance - Rate Structure Alternatives Recommendation. CFO Joseph Beach reviewed management's recommendation, originally presented to the Commission on November 8, 2017 during a Special Commission Meeting on the Rate Structure, and contained in an Interoffice Memorandum from the General Manager to Commissioners dated November 1, 2017 - Recommended Rate Structure Alternatives (incorporated herein by reference), requesting that the Commission approve management's recommendation to transmit the three proposed rate structure alternatives for WSSC to the Prince George's and Montgomery County Governments for review.

Whereupon, a motion was made by Commissioner Bayonet and seconded by Commissioner Lawson, to accept the recommendation of WSSC management to submit for review to the two County Governments of the WSSC Sanitary District of Prince George's and Montgomery, the

three proposed rate structure alternatives for WSSC - 3-Tier Inclining Block Rate Structure Alternatives 3A and 3B and 4-Tier Inclining Block Rate Structure Alternative 4A, as recommended by management at the Commission's Special Rate Structure Meeting of November 8, 2017 and as contained in management's "Recommended Rate Structure Alternatives" Memorandum to Commissioners dated November 1, 2017.

The motion carried unanimously with six affirmative votes.

Following the Bi-County review, the Commission plans to select the new WSSC rate structure in June 2018.

Finance - 2018 Front Foot Benefit Rates and House Connection

Charges Work Session. CFO Joseph Beach presented the proposed rate calculations for the 2018 Front Foot Benefit Rates and House Connection Charges, reporting from a power point presentation contained in the advance materials 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 2018 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 Proposed 2018 House Connection Charges, the proposed rates are included on a chart provided in the aforementioned presentation. No changes from current charges on unimproved charges. Changes/increases are being recommended for proposed 2018 charges on water and sewer improved rates. No changes from current rates for non-residential small and large size water and sewer and right of way charges.

A public hearing on the proposed rates is scheduled to take place today (November 15, 2017) in the WSSC Auditorium at 2:30 p.m. Record to remain open for public comments through December 20, 2017. The proposed 2018 rates will be presented to Commissioners

for approval at the December 20th Commission Meeting, with the rates to become effective on January 1, 2018.

Following discussion, the Commission received the Briefing on the Proposed Rate Calculations for the 2018 Front Foot Benefit Rates and House Connection Charges, as information.

Customer Service - HomeServe USA Contract Renewal. Director of Customer Service Crystal Knight-Lee had briefed Commissioners in September and October on the renewal options for the HomeServe USA contract. Today's briefing includes management's recommendation, whereby, in a Memorandum to Commissioners dated November 3, 2017 - "HomeServe Contract Renewal Recommendation (contained in the board materials and incorporated herein by reference)," management is recommending that the Commission renew the HomeServe contract for a one-year term, with current pricing to be maintained through May 2019.

Ms. Knight-Lee walked through the rationale for management's recommendation, which included several factors, such as, how well initial objectives were met, data analysis and customer feedback.

As of September 30, 2017, approximately 73,726 customers have enrolled in one or more service plans and participation and enrollment continues to increase. A total of 110,930 service plans have been purchased. HomeServe reported that through September 2017 - 2,819 customers have submitted claims and have benefited from covered repairs resulting in customer savings of over \$2,300,000. Customer feedback has also been very positive with nearly 70% of customers either satisfied or completely satisfied with HomeServe. Additionally, nine out of every ten policy holders believe the product(s) they purchased and services received met their value expectations.

Management also considered the time required to manage the program, which has been extensive, along with concerns expressed by other key stakeholders, such as, elected officials, members of the plumbing community and Commissioners. Implementing the

program during the same time as some other key initiatives (such as the rate structure change, an enhanced customer affordability program and a new billing system), is challenging; however, management believes the benefits at this stage outweigh the challenges and criticisms.

Following discussion, a motion was made by Commissioner Boulware and seconded by Commissioner Bayonet, to authorize management to notify HomeServe USA, Inc., of WSSC's intent to renew the HomeServe contract for a one-year term, effective May 17, 2018, provided the current pricing is maintained through May 2019, as recommended by management.

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

General Counsel's Office - Resolution 2018-2174 - Authorization for Condemnation Proceedings - 15505 Bond Mill Road, Laurel, MD (Arthur and Eva Black - Owners). The General Counsel's Office is seeking condemnation authority for a 30-foot wide water main easement for the aforementioned property as part of the Patuxent 48-Inch Raw Water Transmission Main Project to transmit raw water from WSSC's Rocky Gorge Raw Water Pumping Station to the Patuxent Water Filtration Plant in Laurel. A section of the 48-inch pipe will have to be installed through the back of the Black property, which is approximately five acres and used for commercial purposes (plumbing business). Negotiations to secure the easement have failed and the Blacks have retained counsel (who is present, along with the Blacks, at today's meeting). WSSC and the Black's counsel have not been able to agree on an acceptable value for the easement.

Following discussion, which included testimony from the Black's counsel, the Commission decided to table consideration of the proposed action until a later time. The Commission asked WSSC counsel to provide alternatives for its consideration.

Additional discussion to take place during today's closed session.

ADDITIONAL BRIEFINGS**Intergovernmental Relations Office (IRO) - Legislative Update.**

IRO Director Karyn Riley provided an update of IRO's legislative activities and pending legislation for the 2018 Maryland General Assembly Session, including a status report of WSSC-Sponsored and Non-Sponsored/Related Legislation.

The Commission received the Legislative Update, as information.

COMMISSION OFFICE

Corporate Secretary Report. Corporate Secretary Sheila Finlayson reported on her recent activities, referring to her written report provided in the advance board materials, to which no questions were raised.

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

WSSC Employees' Retirement Plan Board of Trustees. Commissioner Foster reported on the recent meeting of the Board of Trustees held on October 25, 2017. As of September 30, 2017, the Plan's assets were \$813.7 million which represents a year-to-date investment gain of \$86.0 million or an increase of 12.0% since December 31, 2016.

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

Governance & Strategic Visioning Committee. No report.

Legislative & Compliance Committee. Nothing additional to report outside of IRO briefing.

Audit Committee. Quarterly meeting to be held this afternoon following Committee reports.

Customer and Other Stakeholder Relations Committee. No report.

Innovation & Infrastructure Committee. No report.

Quarterly Audit Committee Meeting. The Commission officially convened in open session as an Audit Committee at 1:40 p.m. to conduct its quarterly meeting. Business related to the Audit Committee concluded at 1:59 p.m. Minutes of this proceeding were recorded separately and can be found in the Audit Committee Minutes, incorporated herein by reference. Additional details can also be found in the corresponding segment of the archived meeting video.

The Chair announced that the Morning Open Session business has concluded and called for a motion to go into Closed. After noting her approval of the written closing statement, the Chair called for a vote.

CLOSED SESSION

Whereby at 1:59 p.m., Commissioner Foster moved and Commissioner Boulware seconded, that the Commission go into Closed Session pursuant to Maryland Code Annotated, General Provisions Article: Section 3-305(b) (13) to approve the September 20, 2017 Closed Session Minutes, Sections 3-305(b) (7) and 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 and staffing.

The motion carried unanimously with six affirmative votes.

The Chair declared the meeting was Closed at 1:59 p.m. The Commission then recessed for lunch. The Closed Session portion of the meeting to reconvene at approximately 3:00 p.m. in the Commission Office Large Conference Room.

Chair Rogers had to depart during lunch due to a previous commitment (2:30 p.m.). Vice Chair Foster to preside as the Acting Chair for the remainder of the meeting.

The meeting reconvened at 3:00 p.m. in the Commission Office Large Conference Room.

ATTENDEES: Vice Chair Eloise Foster (serving as Acting Chair), Commissioners Fausto Bayonet, Omar Boulware, Howard Denis and Chris Lawson. Staff present: General Manager Carla Reid, Corporate Secretary Sheila Finlayson, General Counsel Amanda Conn, Senior Counsel Russel Beers, Associate Counsel James O'Day, Associate Counsel Danny O'Connor, Associate Counsel Rahel Kifel, Associate Counsel Julianne M. Montes DeOca, Deputy General Manager Monica Johnson and Chief of Staff Jaclyn Vincent.

Closed Session Minutes - On motion made by Commissioner Boulware and seconded by Commissioner Lawson, the Commission voted five-to-zero (with one absent), to approve the closed session minutes of its September 20, 2017 regular meeting, as drafted.

Legal Matters - Commissioners were briefed by the General Counsel and members of her team on confidential attorney/client privileged legal matters affecting the Commission, including the pending condemnation matter discussed earlier in open session and an outstanding Police Department investigation matter, which counsel advised has now been closed.

Personnel Matters - Due to time constraints, no personnel matters were discussed.

At 4:05 p.m., the Vice Chair called for a motion to end closed, whereby a motion was made by Commissioner Boulware and seconded by Commissioner Lawson to end the Closed Session. The motion carried with five affirmative votes.

OPEN SESSION

At 4:05 p.m., the Commission reconvened in open session.

ADJOURNMENT

There being no additional business, the Vice Chair called for a motion to adjourn, to which Commissioner Boulware moved to

adjourn the meeting. Commissioner Lawson seconded the motion.

The motion carried with five affirmative votes.

At 4:06 p.m., the meeting was declared adjourned.

Respectfully submitted,

//signed//

Sheila R. Finlayson, Esq.
Corporate Secretary