DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Joint Meeting
Environmental Quality & Operations,
District of Columbia Retail Services and
Finance & Budget Committee
Thursday, November 19, 2009
8:30 AM

MEETING MINUTES

Board members in Attendance
David W. Lake, Meeting Chair
David J. Bardin
David J. Byrd
Howard C. Gibbs
Paivi Spoon
Beverly Warfield
Jimmie D. Jenkins

DCWASA STAFF
George S. Hawkins, General Manger
Avis Russell, General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Director, Finance & Budget
Robert Hunt, Treasury Manager
Linda R. Manley, Board Secretary

Presenters
Daniel Hartman, Public Financial Management
Karin DeMoors, Public Financial Management

Call to Order
Meeting Chairman, David W. Lake, called the meeting to order at 8:50 a.m.

October 2009 Financial Report
Ms. Yvette Downs, Director of Finance and Budget, presented the October 2009 Financial Report by exception. Ms. Downs noted that since the financial report was circulated before the meeting, it shall be deemed as read in order to allow for adequate time to discuss other agenda items. Ms. Downs entertained board member questions relevant to the report.

Mr. Bardin asked about the current volume of water sales deliveries, the historical trend and outlook for the remainder of fiscal year 2010. Mr. Olu Adebo, Chief Financial Officer, responded that although one month's data does not provide enough information to confirm the trend for FY 2010, data is consistent with FY 2009 consumption trends. Staff will continue to provide the Finance and Budget Committee with regular updates on water sales throughout the fiscal year.

Ms. Downs informed the joint committee of a recent presentation of DCWASA's Operating and Capital budgets to the wholesale customers held on November 9, 2009 at Blue Plains. The turnout was good and salient matters and questions relating to impact on wholesale customers were addressed.

Financing Options Briefing

Mr. Olu Adebo introduced the team of financial advisers (Mr. Daniel Hartman, Ms. Karin DeMoors, and Zachary Bucknoff) from Public Financial Management (PFM). In his opening remarks, Mr. Hartman informed the Committee that he has assumed responsibilities as lead advisor on the DCWASA account due to Ms. Barbara Bisgaier's planned retirement from Public Financial Management. Mr. Lake welcomed the team and requested them to proceed with their presentation. Mr. Hartman provided the Committee with a market update reporting that DCWASA did very well in 2009 when they went to bond market amidst market uncertainties. The market for municipal financing is robust at this time and DCWASA with its AA rating should fare well. Mr. Hartman reported that both short- and long-term borrowing rates are at an all time low, but cautioned that credit quality is extremely important at this time.

Ms. DeMoors continued with an assessment of DCWASA's Ten-Year Capital Improvement Program. Revenue bonds or some other form of debt would finance sixty-three percent of the $3.8 billion capital expenditure, of which the Blue Plains Wastewater Treatment Plant and the Long-Term Control Plan are the major drivers. On the timing of the next issuance, Ms. DeMoors reported that based on the fact that DCWASA spends approximately $20 million per month and that there are still funds from the 2008 issuance, a late 2010 or early 2011 issuance is likely. Ms. Paivi Spoon asked why proceeds for the digester project were shown twice on the 'Annual Capital Spending' chart to which Mr. Adebo responded that since this project was going to be constructed over multiple years, it is anticipated that two rounds of financing will be needed.

The next phase of the presentation focused on the three proposed financing options – Build America Bonds (BABs), Commercial Paper (CP), and Master Equipment Lease Program (MELP). Mr. Hartman highlighted the pros and cons and the general suitability of each of the options for DCWASA's capital program financing needs. BABs are a taxable fixed rate instrument, which is currently only available through 2010. This option with its thirty-five percent interest rebate from the treasury would net DCWASA significant savings compared to traditional tax-exempt Bonds. Based on DCWASA's financial needs for 2011, it would be advisable to consider the use the BABs prior to there expiration in 2010. There is currently no guarantee that the program would be extended, or that the rebates would be maintained at the thirty-five percent interest subsidy rate. BABs would be of substantial cost benefit to DCWASA and it is advisable to go to market before the December rush period.

Ms. DeMoors advised that it would be good to consider expanding the current $100 million Commercial Paper (CP) program which now has a balance of about $29.2 million, to $200 - $300 million to meet projected capital needs, including potential Washington Aqueduct financing, and capital equipment financing. Another reason for addressing this issue at this time is that WestLB, who is the current Letter of Credit provider for DCWASA's CP Program, has an option to terminate this agreement in July 2010; the cost of any new program would be high compared to the current WestLB costs. Ms. Spoon wanted to know why was there a need to increase the $100 million, which currently is being under-utilized. Mr. Hartman responded that the need was mainly due to the size of the current capital needs.

Ms. DeMoors further explained that MELP is a short to medium term financing option for items like software or other capital equipment needs. The interest rates on this option are based on the commercial bank's lending rate and are fixed once the amended lease terms are put in place for the new equipment.

Mr. Adebo briefed the Committee on the financing calendar, action items, D.C. auditor requirements, and other protocols for the issuance of any new debt including evaluation of the Master Equipment Lease Program. Mr. Adebo explained that if the process begins in January as planned, final documents would be ready for Committee and Board approval by June/July 2010.

Mr. Adebo also informed the Committee that as part of the budget request there are plans to revise the Pay Go financing structure to be able to debt finance some of the Washington Aqueduct capital costs and equipment. Mr. Jimmie Jenkins asked if financing was a joint-use or District only issue, to which Mr. Adebo responded that financing is a full Board issue.

In closing, Mr. Adebo informed the Committee that the Net Present Value and discount information pertaining to the digester project, a Committee request, was included with the materials distributed for this meeting. As no members of the Budget and Finance Committee were present, the joint committee deferred comments to a later date.

Budget Review of Revised FY 2010 and Proposed FY 2011 Budgets

General Manager George Hawkins began by thanking the CFO and his staff and the General Counsel, for all their efforts in successfully producing the budget request. Mr. Hawkins presentation focused on the strategic planning aspects of the budget request. Mr. Hawkins explained that the budget book represents a series of choices for a budget and before going into the details in the book, he wanted to summarize for the Committee what those choices are and how the drivers of the Board's decisions will ultimately lead to the adoption of the current budget proposal or a different one.

The General Manager's presentation covered several topics including the context for the budget proposal, budget drivers, choices and decisions needed, and a new approach to communicating with stakeholders regarding DCWASA's budgets and underlying rates. General Manager Hawkins noted that D.C WASA's rate proposals are relatively low, when compared to other large Combined Sewer Overflow communities. With the exception of the Boston Water and Sewer Commission, all other utilities have relatively high rates. Mr. Hawkins further explained that the customer bill impact based on the proposed rate increases would be marginal; however he expressed sensitivity to the fact that even a marginal increase may be a burden to some segment of DCWASA's customers. It was noted that previous year rate proposals that were approved at lower levels have resulted in a lower revenue base by several million each year; the cumulatively effect of these actions results in a need to raise rates at a greater amount simply to attain the FY 2010 revenue base. Additionally, the current revenue requirement has been underwritten over the last several years by the existence of the Rate Stabilization Fund which is expected to be down to $8m at the end of FY 2010. In continuing his presentation, Mr. Hawkins compared the DCWASA average residential monthly bill to that of other utilities including Electricity, Cable, Gas and others. This comparison showed that DC WASA's monthly bill was much lower than other household bills. Mr. Hawkins stressed the need for increased investment in the Authorities critical infrastructure and highlighted one of the findings of the Independent Budget Review – 'D.C. WASA is a lean and efficient operation'.

The presentation summarized the revised FY 2010 and proposed FY 2011 operating budgets, capital budgets, and additional FY 2011 retail revenue requirements. Mr. Hawkins informed the Committee that the revised FY 2010 operating budget has been reduced by $11.3 million in the submitted budget compared to the Board approved FY 2010 budget, and that the proposed FY 2011 operating budget increased by $30 million compared to the revised FY 2010 budget; key expenditure and revenue drivers were also highlighted. Mr. Hawkins noted that the need exists for DCWASA to consider undertaking some of the capital improvement programs now as opposed to later as delays would result in higher operations and maintenance costs now and higher capital costs later. An example was given of recent activity surrounding the work at the Arboretum and the additional operating costs involved. Some of the projects that should move forward now are currently included in the later years of the submitted 10 year CIP. As the budget proposals move forward, Mr. Hawkins may recommend deferral of some projects and advancement of others.

In referring to the credit and discount programs, Mr. Hawkins informed the Committee that DCWASA will need to continue to evaluate its credit and discount programs to ensure that the stakeholder group that is most impacted by our rate increases are addressed. He stressed the need to develop a similar program like the electric and gas utility which has a federally backed low Income Assistance Program. He then highlighted a proposal to reduce the amount of impervious area as an incentive to customers which would result in a $0.5 million cost; Mr. Bardin said he thought that incentive would be coming from the D.C. Department of the Environment (DDOE). Mr. Adebo clarified the point stating that while it is anticipated that DDOE would be responsible for managing the programmatic aspect of the incentive program, the actual incentives would come from reductions or rebates in both the DCWASA and DDOE impervious area charge. Mr. Bardin asked that various Board committees in addition to the Budget and Finance Committee receive a briefing on the proposed incentive program; Mr. Adebo responded in the affirmative.

Mr. Bardin noted that he plans to recommend to the Board through the Retail Rates Committee that it extend the customer assistance program to all volumetric rates (including PILOT and ROW). He asked that staff provide an analysis of the impact that this would have on overall revenue projections. Mr. Adebo said he will provide the Committee with this information.

Mr. Hawkins concluded his presentation with a short summary and then invited questions/comments; there were none. Ms. Russell then advised that since no members of the Finance and Budget Committee were in attendance at today's meeting, it would be in order for action item 'A' (Recommendation for Change in Fire Protection Fee Regulation) to be transferred to the Retail Rates Committee for action at their upcoming meeting scheduled for Tuesday, November 24.

Fire Hydrant Fee Update

Mr. Adebo informed the Committee that the Authority plans to continue with implementation of Phase II of the fire hydrant upgrade program on the assumption of a full recovery from the District of Columbia. Currently a revenue gap of $4.2 million exists, which is the difference between what DCWASA is being reimbursed now and what the Authority is supposed to be reimbursed. The joint committee referred this action item to the Retail Rates Committee.

Other Agenda Items

None.

Adjournment

Hearing no further business, Mr. Lake adjourned the meeting at 11:10 pm.

FOLLOW-UP ITEMS

1. A review of the Rate Stabilization Fund including its nomenclature. **(Mr. Bardin)**
2. Compile financial data comparing the cost of emergency repairs at the Arboretum versus the cost of timely upgrades made under the Capital Improvement Program (CIP). Present analytical review of potential savings under CIP. **(Ms. Spoon)**
3. Specify, by writing on Slide 16 in the Executive Summary Budget Presentation, whether the $300 million budget change in the CSO LTCP is indeed an increase or decrease. **(Ms. Spoon)**
4. What would be the effect on overall revenues if the Board were to extend the customer assistance program to both fixed and volumetric customers? **(Mr. Bardin)**
5. Provide review of IAC credit/incentive program to other committees in addition to the Budget and Finance Committee. **(Mr. Bardin)**