



District of Columbia Water and Sewer Authority

MINUTES

***118th Meeting of the Board of Directors
Thursday, February 8, 2007***

Present Directors

Chairman Glenn Gerstell, District of Columbia
Paivi Spoon, Alternate for Dr. Jacqueline Brown, Prince George's County
F. Alexis Roberson, District of Columbia
David J. Bardin, District of Columbia
Kenneth Davis, Alternate for Vacant Position, District of Columbia
Bruce Romer, Montgomery County
James Caldwell, Montgomery County
Anthony Griffin, Fairfax County
David Byrd, Prince George's County
Lisa Morgan, District of Columbia

Present Alternate Directors

Brenda Richardson, District of Columbia
David Lake, Montgomery County
Joseph Cotruvo, District of Columbia
Paul Folkers, Montgomery County
Howard Gibbs, District of Columbia
Steven McLendon, District of Columbia

WASA Staff

Jerry N. Johnson, General Manager
Avis M. Russell, General Counsel
Linda R. Manley, Secretary to the Board of Directors

Chairman Gerstell called the 118th meeting of the District of Columbia Water and Sewer Authority's Board of Directors meeting to order at 9:55 a.m.

Ms. Manley called the role to establish a quorum.

Approval of Minutes of January 4, 2007 Meeting

It was Moved and Seconded that the minutes of the Board of Directors' meeting of January 4, 2007 be approved. The motion carried. The minutes of the January 4, 2007 meeting were unanimously approved.

Environmental Quality and Operations Committee

Reported by: James Caldwell

The Committee met on January 18th.

The Committee received a status on plant performance. The average flow at Blue Plains for the month of August was 293 MGD. All permit parameters were met. Excess flow of approximately 21 million gallons due to wet weather events was treated through primary treatment, disinfection, and dechlorination.

The Biosolids production was on the high end of normal, but it was still within the range and well within the nitrogen goal.

The Committee reviewed a new chart in the General Manager's report on Greenhouse Gas Balance. The chart reflects the benefits of the WASA Biosolids Recycling Program on avoided greenhouse gas emissions over the one-month period of the report.

The Committee discussed the water service program. The Sampling Program for the Lead/Copper Rule continues and WASA has not been over the action level for the last three consecutive semesters.

The Committee was informed that two items have been revised in the CIP: 1) A line item was added under Combined Sewer Overflow of \$30 million including \$2 million for preliminary design, for a WASA headquarters building. It was added to the CSO service area because the building would be at the O Street Main Pumping site; and 2) Added \$20 million in spending authority; this does not effect the budget.

The Committee recommended eleven contracts for Board approval.

Under emerging issues, the Committee was informed that the Virginia General Assembly currently has seven bills proposed that deal with disposal of biosolids within the Commonwealth. One bill would transfer the oversight of the program from the Department of Health to the Department of Environmental Quality. Several propose to give local authority (counties) the right to review and reject sites, some dealing with application sites, and others dealing with storage sites. One proposes a Commonwealth study of the health effects of biosolids land application (WASA intends to support this bill, as no study has found health hazards from land application). WASA is following those bills closely. WASA continues to look at other options including traveling to mine areas in order to keep the land application biosolids moving forward.

Ms. Roberson asked the General Manager if there would be a cost increase associated with the legislation. Mr. Johnson stated that there will be some increase. There is already a per-ton fee that WASA pays. Chris Peot, Biosolids Manager, stated that the fee is \$7.50 per dry ton, which is about \$2.00 a wet ton the same as Maryland charges. The cost would increase the annual budget by \$0.5 million.

Ms. Roberson asked how WASA would absorb the cost. The General Manager stated that the cost could be managed within the current budget.

Finance and Budget Committee

Reported by: Anthony Griffin

The Finance and Budget Committee met on January 25th.

The Committee received an update from Mr. Adebo. Mr. Adebo reported that WASA collected 25.5 percent of its revenue per the budget. Mr. Adebo summarized operating revenues and receipts for the month of December. At 25.5 percent of budget, revenues are slightly ahead of budget and all revenue and receipts categories are on track with budgetary expectations.

The Committee focused on the fact that the Authority has an 18 percent vacancy rate, with 110 unfilled positions, and expressed concerns on the long-term impact to the Authority if that trend continues.

Year-to-date contractual services spending totals 22 percent of budget with 25 percent of the fiscal year completed. One area of concern identified by Mr. Adebo was related to the price of chemicals which is running slightly higher than expected and at the current trend line that budget line item might exceed what is budgeted by \$2 million. Mr. Adebo stated to the Committee that the Authority could manage the chemical cost and will continue to monitor it.

Capital disbursements are running at 21 percent of the budget with 25 percent of the year completed. A more detailed report will be provided to the Environmental Quality and Operations Committee and the Finance and Budget Committee in March.

Cash reserves are slightly ahead and the Authority is doing slightly better on the yield in terms of interest earnings.

Electricity prices are running slightly below what was anticipated. Electricity seems to be moderating a little bit and staff continues to do all the appropriate things in terms of potentially partnering and aggressively watching what the prices are to make sure that the Authority does its best in this area.

The FY 06 audit has been completed. The Authority received an unqualified opinion. The audit will be discussed during a separate briefing of the Audit Committee in February.

Mr. Adebo reported that the Bond Counsel request for proposals process is on track and management plans to recommend a firm to the Finance and Budget Committee in February with Board action in March.

John Dunn, Chief Engineer, provided the Committee with an update on two emerging issues with significant budgetary impact. The Total Maximum Daily Load (TMDL) issue was originally scheduled to be resolved by the U.S. Environmental Protection Agency in June 2008; however discussions appear to be moving more quickly than originally anticipated. WASA's environmental attorneys attended a court-mandated meeting in January during which WASA stated that the June 2008 deadline is not realistic. Legal representatives from the USEPA Region III and the Department of Justice also attended the meeting. Management will continue to monitor this issue and report back to the Board with developments.

The Committee reviewed the revised FY 2007 and proposed FY 2008 Budget action items and is recommending action items 07-17 through 07-20 for Board approval.

Mr. Lake stated that he did not have a question on the Finance and Budget Committee report, but he did want to bring to the Board's attention an article that was in last week's Engineering News Record. It is specifically on surety companies and how it relates to large construction projects particularly in the municipal arena, and is of special interest since with the digester project, one of the issues that certainly caused concerns were issues with sureties. Mr. Lake requested that the article be emailed to Board members.

Ms. Spoon asked what the Authority's commitment is to renewal and clean energies in its energy acquisition program. Chairman Gerstell stated that this is a topic for the Environmental Quality and Operations Committee. Mr. Caldwell agreed to add the topic to the agenda for the next meeting.

Retail Rates Committee

Reported by: Chairman Gerstell

The Committee met on January 4th and today February 8th.

The Committee is concerned most particularly with adopting rates for FY 08. The FY 07 rates have already been implemented and came into effect October 1, 2006. The question is, what should the rates be for FY 08. The starting point of that analysis is to take a look at the proposed budget. As you recall, the FY 07 operating budget decreased from what had been proposed to what had been implemented by a very small amount, but nonetheless it was a decrease.

The proposed FY 08 budget has an increase of about \$30 million. The vast bulk of that \$30 million is attributable to debt service because the Authority is assuming that some time this spring or summer, the Authority will issue about \$300 million in long term bonds which will take out some commercial paper that the Authority has outstanding or will have outstanding at that time and will also provide funds for additional expenditures going forward. Assuming that the Authority has an interest rate of 6.5 percent on that debt if that is in fact what happens, the Authority can come up with the estimate of how much is needed in order to address this \$30 million gap.

Staff has proposed a 7.5 percent increase to address this gap which would generate \$11.2 million of incremental revenues, raising WASA's rate base up by \$11 million on a permanent basis because that goes forward every year, and then a one-time infusion of cash by withdrawing money from the Rates Stabilization Fund of almost \$18 million. Put the two of them together and you have the approximately \$30 million shortfall needed.

The Committee examined a draft discussion of principles for the Rate Stabilization Fund. The Committee will recommend a formal policy in the future.

The Committee made a recommendation on the proposed rate increase of approximately 7.5 percent and proposed pilot right-of-way increase of approximately a 6.8 percent increase. This right-of-way fee appears separately on each customer's bill and is consistent with an MOU between WASA and the District Government requiring the Authority to collect and remit that fee.

The adoption of the proposed 7.5 percent will permit the General Manager to commence the public comment and notification period. The consensus of the Committee was that the Committee would in fact, lower the proposed rate when they get to that point in September when they are actually approving the actual increase and requested that the press release states that the Board would be looking carefully at a possible reduction.

Mr. Bardin stated that he will vote in favor of management's proposal to publish and go to public hearing on the proposed increased rates, but wanted to state for the record some reservations in addition to the ones that the Chairman expressed. He stated that the present rates that the retail rates customers pay in the District of Columbia are not quite right in several respects. One respect is the fact that the services that WASA renders by taking groundwater that would otherwise leak into the deep basements of

office buildings and other buildings and putting it in the combined sewers and then taking it to Blue Plains and treating the groundwater. Without charging those building owners for the unmetered groundwater they pump into the sewers.

Another service which WASA does not directly charge for is taking the rainwater off impervious surfaces, notably parking lots, which typically do not have any water meter and therefore do not pay anything. The third area has to do with the District of Columbia Right-of-Way Occupancy/ PILOT fee. That fee is assessed to recover the cost of fees charged by the District of Columbia to the Water and Sewer Authority for use of District of Columbia public space and rights of ways.

Mr. Bardin stated, on the other hand, that throughout WASA's history, WASA has charged none of this fee to the wholesale customers and 100 percent of this fee to the retail customers and is hoping that the issue is resolved before October 1. Because of those kinds of reasons and other reasons that the Chairman has suggested, the actual rate increase should be less than 7.5 percent.

Mr. Bardin further stated that the Authority is facing various demands such as the issue that Mr. Griffin reported on vis a vis nitrogen in Chesapeake Bay which might cost \$800 million to \$1 billion which is not now in the budget and the reference you heard to the TMDL's, and there is a lot of uncertainty as to what the Authority will have to spend.

General Manager's Report

Reported by: Jerry Johnson, General Manager

The General Manager presented his report by exception and is pleased to respond to any questions. He noted that WASA continues to be actively engaged with the District of Columbia and their emergency planning efforts along with the Office of Homeland Security. WASA has a small grant that it received from the Office of Homeland Security that is allowing WASA to do some additional assessments and training.

The General Manager reported that there is \$12 million in the President's budget for the Water and Sewer Authority; however the \$12 million is in two trenches. One is \$5 million and the other is \$7 million that is consistent with the prior year's appropriations for the CSO long-term control plan. Management has not been able to sort out where the other \$5 million came from. Staff will report back to the Finance and Budget Committee once a determination is made.

The General Manager reported that there are additional items on the agenda. Items Nos. 19 and 20 are Resolutions 07-24 and 07-25. After consultation with the members of the Environmental Quality and Operations Committee, this was added to the agenda and it provides for an extension of the current biosolids hauling contract. WASA was scheduled to go to court for an injunction hearing. The judge was ill and has reset that date and the purpose of these additional items is to extend the contract beyond the court date so that WASA is able to continue to manage the biosolids program appropriately.

Mr. Dunn provided the Board with a briefing on the dry weather overflow. He informed the Board that the Authority had a screen failure while doing some repair work. In the course of repairing the screen, the workers ended up dropping part of the screen mechanism down into the wetwell. The workers had to isolate the wetwell to retrieve the screen mechanism. They inadvertently shut off all the pumpage from that station. The station has basically an automatic backup. From the point that the level builds up around New Jersey Avenue it diverts over and flips to the main pump station, and it ended up with a screen failure. As the system backed up, there was an overflow that was not recognized. The overflow continued for an extended period of time until the rest of the system built up. The overflow in Georgetown is not alarmed and that is how this issue continued for quite a period of time until the levels got up at overflows 21 and 22 which are down the river.

Mr. Dunn reported that when the levels got high enough, the dams deflated and the alarms went off. Immediate corrective action was taken. The overflow extended at 24 for about three hours, resulting in about a 4.8 million gallons overflow and the two overflows, points at 020 and 021, accounted for about 1.2 million gallons.

Chairman Gerstell asked what measures are being taken to prevent this error. Mr. Dunn stated that the standard protocol was reiterated that no actions should be taken with tank facilities out of service, without consulting the supervisor.

Mr. Dunn stated that EPA was notified. In addition, a letter was transmitted to the Board.

Mr. Lake suggested that the Environmental Quality and Operations Committee discuss the notification procedures for dry weather overflows.

Chairman Gerstell requested that Mr. Caldwell have the Environmental Quality and Operations Committee look at the public notification procedures for dry weather overflows.

Consent Agenda (Joint-Use Items)

1. Approval to execute Option Year Two of Contract No. FCWA-05-01(E), Kuehne Chemical Company, Inc.– **Resolution No. 07-06** (Recommended by the Environmental Quality and Operations Committee 01/18/07)
2. Approval to execute Option Year One of WAS-06-008-AA-ND, Carter & Carter Enterprises, Inc. – **Resolution No. 07-07** (Recommended by the Environmental Quality and Operations Committee 01/18/07)
3. Approval to execute Option Year Two of Contract No. FCWA-05-01(C), Colonial Chemical Solutions, Inc.– **Resolution No. 07-08** (Recommended by the Environmental Quality and Operations Committee 01/18/07)

4. Approval to execute Option Year Two of Contract No. FCWA-05-01(F), J&K Distributors – **Resolution No. 07-09** (Recommended by the Environmental Quality and Operations Committee 01/18/07)
5. Approval to execute Option Year Two of Contract No. FCWA-05-01-(G), J&K Distributors – **Resolution No. 07-10** (Recommended by the Environmental Quality and Operations Committee 01/18/07)
6. Approval to execute Option Year Two of Contract No. FCWA-05-01-(K), J&K Distributors – **Resolution No. 07-11** (Recommended by the Environmental Quality and Operations Committee 01/18/07)
7. Approval to execute Option Year Two of Contract No. FCWA-05-01(L), J&K Distributors – **Resolution No. 07-12** (Recommended by the Environmental Quality and Operations Committee 01/18/07)
8. Approval to execute Option Year Two of Contract No. FCWA-05-01(1), Hardy & Son Trucking, Inc – **Resolution No. 07-13** (Recommended by the Environmental Quality and Operations Committee 01/18/07)
9. Approval to execute Option Year Two of Contract No. FCWA-05-01(B), Tricon of Washington, D.C. – **Resolution No. 07-14** (Recommended by the Environmental Quality and Operations Committee 01/18/07)
10. Approval to execute Option Year Two of Contract No. FCWA-05-01(J), PVS Chemical Solutions, Inc. – **Resolution No. 07-15** (Recommended by the Environmental Quality and Operations Committee 01/18/07)
11. Approval to execute Option Year Two of Contract No. FCWA-05-01, Allegiance Chemicals, LLC – **Resolution No. 07-16** (Recommended by the Environmental Quality and Operations Committee 01/18/07)
12. Approval of Fiscal Year 2007 Revised Operating Budget – **Resolution No. 07-17** (Recommended by the Finance and Budget Committee 01/25/07)
13. Approval of Fiscal Year 2008 Proposed Operating Budget – **Resolution No. 07-18** (Recommended by the Finance and Budget Committee 01/25/07)
14. Approval of Fiscal Year 2008 Capital Authority Request – **Resolution No. 07-19** (Recommended by the Environmental Quality and Operations Committee 01/18/07 and the Finance and Budget Committee 01/25/07)
15. Approval of Fiscal Year 2006-2015 Ten Year Financial Plan – **Resolution No. 07-20** (Recommended by the Finance and Budget Committee 01/25/07)
16. Approval of Fiscal Year 2006-2015 Capital Improvement Program – **Resolution No. 07-21** (Recommended by the Environmental Quality and Operations Committee 01/18/07 and the Finance and Budget Committee 01/25/07)

17. Approval of Fiscal Year 2007 Stormwater Permit Compliance Enterprise Fund Budget – **Resolution No. 07-22** (Recommended by the Finance and Budget Committee 01/25/07)
18. Approval of Intent to Reimburse Capital Expenditures with Proceeds of a Borrowing – **Resolution No. 07-23** (Recommended by the Finance and Budget Committee 01/25/07)
19. Approval to execute a modification of Contract No. WAS-01-023-AA-DW, ERCO, Inc. – **Resolution No. 07-24** (Recommended by the Environmental Quality and Operations Committee 02/07/06)
20. Approval to execute a modification of Contract No. WAS-01-023-AB-DW, JABB II, LLC – **Resolution No. 07-25** (Recommended by the Environmental Quality and Operations Committee 02/07/06)

Mr. Bardin requested that Item No. 12 Resolution No. 07-17, Approval of Fiscal Year 2007 Revised Operating Budget, be removed from the Consent Agenda for modification.

The motion to Adopt Consent Items (Joint-Use) with the removal of Item No. 12 – Resolution No. 07-17 for modification was Moved and Seconded with unanimous approval.

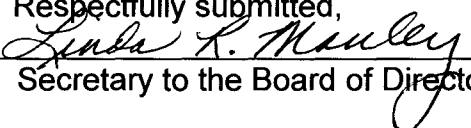
After some discussion the Board agreed to the modifications to Resolution No. 07-17, Approval of Fiscal Year 2007 Revised Operating Budget. The motion to Adopt the revised Resolution No. 07-17 was Moved and Seconded with unanimous approval.

Chairman Gerstell amended the agenda to add Resolution #07-26, Proposed Water and Sewer Service Rates, Right of Way / PILOT Fee for Fiscal Year 2008, recommended by the Retail Rates Committee.

The motion to Adopt Resolution #07-26 was Moved and Seconded with unanimous approval by District members of the Board.

The Board convened into an Executive Session at 10:51 a.m. The Board reconvened into the public meeting at 12:19 p.m.

The meeting adjourned at 12:20 p.m.

Respectfully submitted,

Secretary to the Board of Directors