



District of Columbia Water and Sewer Authority

Board of Directors

MEETING MINUTES

Thursday, October 7, 2010

Present Directors

Chairman William Walker, District of Columbia
Vice Chairman, David Byrd, Prince George's County
Timothy Firestine, Montgomery County
David J. Bardin, District of Columbia
Robert Hoyt, Montgomery County
Paivi Spoon, Alternate for Ralph Moultrie, Prince George's County
Alethia Nancoo, District of Columbia
Neil Albert, District of Columbia (via conference call)
Anthony Griffin, Fairfax County
Alan Roth, District of Columbia

Present Alternate Directors

Howard Gibbs, District of Columbia
Beverly Warfield, Prince Georges County
Joseph Cotruvo, District of Columbia
David Lake, Montgomery County
James Patteson, Fairfax County
Howard Croft, District of Columbia
Kathleen Boucher, Montgomery County

WASA Staff

George S. Hawkins, General Manager
Avis M. Russell, General Counsel
Linda R. Manley, Secretary to the Board of Directors

Chairman Walker called the 158th Meeting of the District of Columbia Water and Sewer Authority's Board of Directors to order at 9:35 a.m.

Chairman Walker asked Ms. Manley to confirm a quorum. Board Secretary Linda Manley confirmed a quorum.

Approval of the September 2, 2010 Meeting Minutes

Chairman Walker asked for a motion to approve the September 2, 2010 minutes. The minutes were Moved and Seconded with approval, with a revision to change Timothy Firestine as Vice Chairman to David Byrd as Vice Chairman by the Board.

Chairman's Overview

Chairman Walker noted that at the last meeting General Manager Hawkins thanked Avis Russell and staff for their work with the General Accounting Office as it relates to the Impervious Area Charge and he wanted to note that General Manager Hawkins stepped in and assisted getting the issue across the finish line in a wonderful manner.

The Authority won the National Association of Clean Water Agencies Platinum Award for five years of exceptional performance. The CFO's office won the Government Financial Officer's Award for the tenth consecutive year and it is fantastic to have staff operate at such a high level of not only meeting the Board's and public's expectations but well beyond to win this type of recognition.

Chairman Walker also noted that Robert Hoyt won an award for Montgomery County's efforts to remove trash from the Potomac River, which has a big impact on the operations of DC Water.

Chairman Walker asked if DC Water received any lawsuits filed regarding the NPDES Permit. General Manager Hawkins noted that the comment period ended on September 30th and there have been no comments or lawsuits filed challenging the permit.

Chairman Walker noted that he has received several inquiries regarding his Chairmanship of DC Water based on the outcome of the election. He noted that he loves his role as Chairman and would love to stay in the role. However, the Mayor can appoint the Chairman of the DC Water Board and if he decides that he wants to appoint someone else, that is his prerogative.

Chairman Walker stated that he appreciates the time and effort that Board members put into this Board and asked that the Committee Chairs understand that everybody on their committees are professionals who have other obligations. Board members need to make sure that the Committee time is being used effectively.

Chairman Walker stated that there has been a tremendous amount of back and forth between staff and various Board members on questions out of the normal Board cycle. Chairman Walker has asked that the Governance Committee review this issue to determine the appropriate interaction between the Board and staff as it relates to asking for various items of information. The Board receives a lot of information from DC Water and the Chairman challenged the idea that there is an additional need even beyond that as it relates to interaction with the staff. Chairman Walker noted that in no way is he trying to restrict Board members' oversight, obligations and duty to serve. The Board needs to be mindful of the fact that our staff have a job to do and that is to ensure that DC Water is providing the appropriate goods and services to the customers.

Chairman Walker highlighted that in the past twelve months DC Water only had two Combined Sewer Overflows and at the same time there is a cost/benefit issue associated with spending billions to handle the CSOs. He noted that there needs to be some further debate and discussion on the CSO cost.

Chairman Walker requested that the data in the documents supporting the bond offering to be considered at this meeting, showing where DC Water stands with respect to rates versus the competition, be circulated to the Board to monitor rates and see where DC Water is on a comparative basis with other major water utilities in the country.

Chairman Walker noted that he participated in the Nation's Triathlon, and that DC Water was there with a water station on the course. He thanked the General Manager and staff.

Environmental Quality and Sewerage Services Committee

Reported by: Robert Hoyt, Chairperson

The Committee met on September 16, 2010. It was reported that the plant achieved full compliance and the BNR performance was exceptional.

The Committee discussed the Pretreatment Program approved by the Board at its last meeting. The new rates were put in the permit and implemented. The Committee will look into whether the Pretreatment Program costs are covered by fees.

The Committee then discussed the trash TMDL and asked staff to provide an estimate on the funds that DC Water spends in picking up trash. The Committee was informed that DC Water spends around \$2.97 million a year.

The Committee received an update on the Potomac Interceptor Sewer Odor Abatement Project. There are some political challenges with the Fairfax site and Mr. Patteson is working with DC Water to work through those issues.

There is some slippage in the Capital Improvement Program schedule. However, the priority one projects are on schedule.

The Committee is receiving periodic updates on the estrogenic activity issue and in the water and is confident that DC Water is staying on top of it working with EPA to determine DC Water's requirements.

The Committee is recommending six joint use items and two non-joint use items.

Mr. Bardin noted that it was recently learned by some Committee members that there are four Northern Virginia customers who are classified as Small Potomac Interceptor customers who do not pay their interceptor capital costs up front. Their costs are borne by DC Water which in turn amortizes the cost by charging a rate per million gallons to the Small Potomac Interceptor customers.

Chairman Walker stated that it is his understanding that it is not a significant amount of money in its current form and thanked Mr. Bardin for pointing it out to the Board. He noted that Mr. Hawkins' response to Mr. Bardin's question was helpful,

DC Water Quality and Water Services Committee

Reported by: Joseph Cotruvo, Vice Chairperson

The Committee met on September 23, 2010. The Committee received a report that there have been no positive coliform samples collected in 2010. It was suggested that if and when another chlorine burn is being considered, that there be a number of alternatives available to assess.

It was reported to the Committee that there have been no first draw lead samples exceeding the 15 ppb action level. There was just one second draw exceedance, which was a home that had a galvanized pipe.

Staff requested additional spending beyond the limits that the Board placed earlier on a discretionary lead service line replacement. Mr. Kiely informed the Committee that a backlog of customer requests has resulted in estimated spending levels of greater than \$500,000 for this year. The Committee agreed and is recommending to the Board that up to \$500,000 additional expenditures be permitted. Mr. Bardin asked if the proposal for additional spending on lead service line replacement is on the agenda or will it be in the context of the proposed, revised fiscal year 2011 budget. Mr. Hawkins stated that the resolution was omitted and will be on next month's agenda.

The Committee requested that future reports be expanded to reflect the number of hydrants that were returned to full service in each reporting month and that footnotes will be added to clarify information so that the distinctions can be made between hydrant categories that could be restored or replaced and those that could not due to circumstances that were outside of DC Water's control, and that hydrants out of service for extended times be explained.

The Committee received a joint presentation from Charles Kiely, Assistant General Manager, Consumer Services, DC Water, and Tom Jacobus, General Manager, Washington Aqueduct, in terms of the working relationship and decision making procedures between the two organizations. There had been some communication problems and the Committee appreciated the progress and encourages continuous improvement.

Alan Heymann, Public Affairs Director, presented an initiative in which customers will be offered a one-time \$5 credit as an incentive for signing up for paperless billing. The Committee discussed the associated costs and requested an analysis of the costs of autopayment and whether they should be borne by DC Water or the use of the service.

Ms. Preston, Director of Customer Service, provided a status of the impervious area billing update. Preliminary activities are completed, and DC Water is preparing to implement multi-tiered billing in October. The Department of Environment is not prepared to implement multi-tiered billing for storm water so their process will be delayed until later this fiscal year.

The Committee is recommending one contract for approval.

Jill Wohrle, Special Assistant, updated the Committee on the proposed "Get the Lead Out" initiative. The Committee provided a number of recommendations.

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Audit Committee

Reported by: David Byrd

The Committee met and discussed the External Auditor Communication, summary of Internal Audit Activity and Risk Assessment Review and FY 2011 Internal Audit Plan. Mr. Albert Lucas of Thompson, Cobb, Bazilio & Associates discussed the role of the external auditor and walked the Committee through a high level overview of the current financial statement audit process. A Committee member requested that the External Auditor consider looking into commercial customers with delinquent accounts. Mr. Lucas concluded the presentation by informing the Committee that the external audit would be completed by December 10th with a delivery date of December 15th.

Joseph Freiburger, Internal Auditor, discussed in detail the project which had been finalized and identified the projects that are still in progress.

He discussed the risk assessment methodology that was utilized to rank the auditable areas based on the likelihood and probability of risks occurring. Mr. Freiburger drew attention to the fact that the audit universe had been condensed from the previous year as a result of experience gained during the previous year. A discussion surrounding the ratings for several functions including water

distribution and collection ensued. Several Committee members expressed their opinions that the ratings for this area should be rated as high.

The Committee is recommending approval to execute option year one of the contract with the Internal Auditor.

Human Resource and Labor Relations Committee

Reported by: Anthony Griffin

The Committee met on September 22, 2010 with one agenda item and that was a meeting with the five union presidents. The three issues discussed were safety, security and the virtual store.

The safety issue is of significant concern to the Committee. The Committee requested that staff give a presentation at its next meeting covering the safety program for DC Water.

The security issue relates to placing concrete barriers around the Bryant Street Pumping Station. The issue was reviewed and a verbal opinion was provided. The Committee asked staff to provide a written opinion to be reviewed primarily with Mr. Shanks who raised the issue.

The last discussion was around the virtual store. There was some concern in terms of how the virtual store was created. The question primarily was whether there was a Request for Proposal (RFP) to create the store. The answer is that in RFP was not issued because there are no D.C. Water funds involved.

Finance and Budget Committee

Reported by: Timothy Firestine

The Finance and Budget Committee met on September 23, 2010.

Mr. Firestine noted that he will report on two issues: (1) the status of DC Water's fiscal situation and (2) the issuance of bonds.

Mr. Firestine stated that he reported at the last meeting that DC Water would end up with around \$20 million of excess cash, mostly coming from savings on the expenditure side related to lower cost for water purchases and on energy and the fact that DC Water delayed acquisition of capital equipment. At the time the discussion was that \$20 million is going to be used to put \$16 million into the Rate Stabilization Fund and \$5 million to be held for payments/refunds to wholesale customers. Mr. Firestine noted that he received an update that the result of the excess was a little more than projected. Instead of the \$20 million it adds another \$14 million to the bottom line. The Committee will have further discussion at its next meeting.

Mr. Firestine noted to the Board that the Committee is recommending various resolutions pertaining to bond issuance. He stated that this is a \$300 million bond deal and these are subordinate lien revenue bonds rather than senior lien

primarily because of interest rates being as low as they are. The major projects to be funded with the issuance of \$300 million are the Long Term Control Plan (\$30 million), Blue Plains Total Nitrogen (\$40 million), Biosolids (Digester) Program (\$75 million) and Water and Sewer Infrastructure updates (\$100 million). The difference with this bond deal is the fact that the recommendation is to split some portion to issue Build America bonds. These are bonds that came about as a result of the Stimulus Legislation approved by Congress. The Build America bonds are issued as taxable bonds. The advantage is that DC Water will receive a much larger share of investors who would be interested in these bonds including global investors.

The Committee discussed some risks associated with Build America bonds. The primary risk is that the subsidy payment from the Federal Government, even though it is not subject to appropriation because it is considered a tax refund, can be interrupted or totally discontinued.

The subsidy payment coming from the Treasury Department is subject to offsets. For example, if for some reason the Treasury Department contends that they have a claim against D.C. Water for not paying some payroll taxes, they could offset what they think DC Water owes them.

Staff drafted a Build America Bonds Policy that is on the agenda and the Committee is recommending the policy for approval.

Retail Rates Committee

Reported by: David J. Bardin

The Committee met on September 28, 2010.

The meeting focused on two potential action items and the Committee's Work Plan. One of the potential items was updating the Board's policy resolution on rate setting and the other item was a proposal to direct the General Manager to go beyond that and study additional potential improvements in DC Water's retail rate setting endeavors. Neither is yet ready for Board consideration today.

The Committee revised its work plan which is attached to the Committee minutes.

The Committee received updates on the impervious area charge changes, and proposals for a discount program for the Authority might in consultation and coordination with the DC Department of Environment, to customers who reduce the amount of imperviousness on their properties.

The Committee discussed the Potomac Interceptor and was informed that the General Manager is in the process of settling some past issues.

Chairman Walker recommended that all Board members review the bond offering documents looking at DC Water's debt service coverage ratio. It has decreased significantly in the last two years.

Mr. Roth noted that in the near future the Board needs to think about DC Water's rate structure and what portion of the rate structure needs to go into fixed as opposed to variable rate setting. Then it needs to figure out with respect to these billions of dollars that are spent on capital and improvements the portion DC Water expects rate payers to bear just because they are customers versus what rates DC Water wants to make sensitive to and conducive to conservation.

Mr. Griffin noted that the toxicity of the sewage increases as the amount of water involved goes down. Therefore, maintenance and other costs escalate. Chairman Walker agreed with both Mr. Griffin and Mr. Roth.

Chairman Walker stated that he has been having discussions with the General Manager regarding economies of scale and whether there are other revenue sources that DC Water can bring in.

Governance Committee

Reported by: Alethia Nancoo, Chairperson

The Governance Committee met on September 30, 2010.

The first agenda item that the Committee reviewed was consideration of moving stormwater and groundwater matters from the Water Quality and Water Sewerage Committee to the Environmental Quality and Sewerage Services Committee. Avis Russell, General Counsel, reported that no legal impediment was identified for moving the subject matter. The Committee is recommending revising the by-laws to reflect the change.

Ms. Kimberly Turner, Director of Governmental Relations, provided the Committee with a governmental relations update. She discussed the GAO's letter finding the impervious area charges that are imposed by DC Water to be deemed a fee and not a tax and the pending bills that would address the issue.

Ms. Turner provided an update on current funding legislation. She noted that funding for the Clean Water State Revolving Fund has a reduction of about \$100 million from the amount requested, and the impact is that DC Water's pro rata share will be proportionately less. In addition, D.C. Water's allotted share from the House Environmental and Related Agencies Subcommittees FY 2011 Appropriation Bill, which provides \$10 million in funding for nitrogen removal, is expected to be around \$4.1 million.

Under emerging issues the Committee discussed three topics: (1) the utilization of Board books; (2) the arrangement for payment of the Potomac Interceptor customers; and (3) implementation of Board protocol with respect to soliciting inquiries from senior staff in and outside of Committee meetings. The Committee requested that the Board Secretary provide an enumerated list of the capabilities of Board books, and ways and mechanisms in which DC Water is safeguarding confidential and privileged information. The Committee will at its next meeting look at which committees should have jurisdiction over the Potomac Interceptor arrangements and technical operations. The Committee requested a draft policy to streamline the process of Board inquiries.

General Manager's Report

Reported by: General Manager, George S. Hawkins

Mr. Hawkins introduced Meena Gowda as Acting General Counsel. Ms. Gowda served as Acting General Counsel when Avis Russell served as Interim General Manager. Mr. Hawkins informed the Board that a new General Counsel has been hired and his name is Randy Hayman. He will be at the November Board meeting. In addition, Mr. Hawkins introduced J. Taylor Benton as the new Director for Safety and Security. He stated that Gary Owens did an excellent job acting in the position. Fitzgerald Fant was hired as the new Human Resource Director, and Mr. Hawkins thanked Terry Gilmore for acting in the position.

Mr. Hawkins clarified the three letters that DC Water received regarding the Impervious Area charge from the General Accounting Office. One letter was to DC Water stating that the General Accounting Office determined that the Impervious Area Charge is a charge and not a tax, and the second letter was to the Department of Treasury directing the Treasury to pay the Impervious Area Charge on the next bill, which as of October 1 included the Impervious Area Charge to the Federal Government for the first time. The third letter was written by GAO to the Attorney General of the District of Columbia, informing the District that GAO was maintaining its decision that DC Water's Impervious Area Charge was a permissible fee, but that the revenue directed over to the Department of the Environment for the MS4 program (the Municipal Separate Storm Sewer System Program) is a tax and not a fee and would not be paid by the Federal government.

Mr. Hawkins noted that the National Association of Clean Water Agencies met with the third ranking member of the Department of Justice and the focus of the meeting was MS4 programs that would have a national scope.

Mr. Hawkins reported that DC Water is down to 88 out of service hydrants, which is below the one percent target.

Chairman Walker asked the General Manager to provide the Board an update on the MOUs with the District. Mr. Hawkins stated that there are two MOUs being negotiated related to the fire hydrants and the PILOT fee. One is a financial MOU which consists of decisions and settlements that are made of various funds owed in each direction, as well as going forward into 2011. That MOU has been negotiated and discussed at the September Board meeting. The second MOU is for operational. In negotiating this MOU, staff is conscious of the Board's established one percent out of service goal for hydrants. Another is a question of private hydrants. The District is interested in having DC Water take over inspection of private hydrants, and that is not an area that DC Water has been involved in before. Lastly, is the amount of revenue coming from the District to cover whatever work DC Water decides to do until the operational MOU is fixed. There is a fixed cap on the revenue coming in and the question is how much work can get done under that fixed cap. This has been an intense and complicated negotiation and the determination is to sign both of the agreements together.

Chairman Walker informed the Board that this is an important negotiation. DC Water wants to be as helpful as it can, but clearly will not walk into obligations that (a) DC Water can't pay for or (b) that could bring legal ramifications to the Authority, without very clearly understanding what the expectations are and how DC Water will go about living up to those expectations.

The General Manager presented a budget overview and an executive summary of the proposed budgets for FY 2011 and FY 2012 to the Board. The Fiscal Year 2011 operating budget was revised downward by \$3.3m to \$404.8m; while the FY 2012 operating budget was proposed at \$430.0m. Both budgets were in line with the ceilings set in the board approved 10-year financial plan. The 10-year Capital Improvement Program budget was proposed at \$3.8 billion. Having a stable 10-year CIP is an important goal. Over the next several months (Oct-Dec) staff will go through the budgets in detail with the various committees, prior to final board approval in January.

In conclusion, the Operating Budget for 2011 is \$404.8 million less than the ceiling. The target for Fiscal Year 2012 was \$429.8 million and staff's proposal is \$430 million.

The Board discussed at length the comparison chart where DC Water's costs displayed relative to other utilities and requested that staff work with AMWA to obtain actual data.

Mr. Griffin questioned the 11 percent increase in personnel services. The General Manager noted that the increase is driven by two major strategic directions: Increase in engineering and procurement staff due to three major projects and strategic change from contracted services if the work is ongoing to permanent staff.

Mr. Griffin asked the General Manager what assumptions have been made about compensation. The General Manager responded that compensation assumptions have been made consistent with the existing agreement recognizing that this will be renegotiated in 2012.

The General Manager requested that budget requests be forwarded through the Board Secretary.

Chairman Walker stated that there are some major intraregional issues that the Board needs to tackle and the budget process should be used to drive those issues.

Consent Items (Joint Use)

Mr. Griffin moved approval of Resolutions No. 10-90 through 10-100, and Ms. Spoon seconded the motion but wanted to raise questions. Ms. Spoon raised her concerns to staff regarding the revisions to the fact sheets and it was agreed that since the amount was lower than what was agreed, that the fact sheet was okay as is.

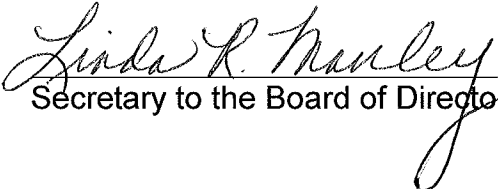
Ms. Nancoo requested a revision to Resolution No. 10-100. In Section 5.01 strike the word after "water distribution."

The motion to approve Resolutions No. 10-90 through 10-100 was unanimously approved by the Board of Directors.

Consent Items (Non-Joint Use)

Mr. Bardin moved the approval of Resolution No. 10-101 through 10-103, and Ms. Nancoo seconded the motion. The Resolutions were approved unanimously by the District members of the Board of Directors.

The 158th meeting of the DCWASA Board was adjourned at 12:08 p.m.


Secretary to the Board of Directors