

**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

**Joint Meeting
Environmental Quality & Operations
and Finance and Budget Committees**

Thursday, November 15, 2007

8:30 AM

MEETING MINUTES



BOARD MEMBERS IN ATTENDANCE

Robin B. Martin, Chairman, Finance & Budget
David Lake, Chairman, Environmental Quality & Operations
David J. Bardin
Joseph Cotruvo
Kenneth Davis
Timothy Firestine
Howard C. Gibbs
Brenda Richardson
F. Alexis H. Roberson
Paivi Spoon
Keith Stone
Dan Tangherlini

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Avis Russell, General Counsel
Linda Manley, Board Secretary

Chairman Robin Martin called the meeting to order at 8:35 a.m. and explained that the primary goal of the meeting today is the discussion of management's revised FY 2008 and proposed FY 2009 budget submissions. Chairman Martin announced that an Executive Session would convene prior to adjournment of the Finance and Budget Committee meeting to discuss several legal issues. Following his opening remarks, Chairman Martin asked Mr. Johnson to present the October Financial Report.

October 2007 Financial Report

With board members consent, Mr. Johnson provided the report on an exception basis to allow for more discussion of the budget proposals. Mr. Johnson reported that since this is the first quarter of the fiscal year, not much has occurred over this short period.

Internal Controls Review

In light of recent events regarding theft and fraud in a District of Columbia Agency, Mr. Johnson provided a report of initiatives currently underway. These initiatives will ensure that internal controls at WASA are adequate to prevent fraudulent activity. Management will present a comprehensive report of all of such activities during the Board meeting scheduled for December 6.

In referring to the October 2007 Financial Report, Mr. Bardin asked for the following modifications to the monthly reporting:

- Change the term “Residential” Retail Accounts to “Single Family Residential” Accounts throughout the document. Management will follow up.
- Automated Meter Reading Project (AMR) – if one is interested primarily in the number of meters installed, the current report adequately provides that information. However, if one is interested in the dollars billed through AMR, the report does not provide such information. Management will follow up.

Chairman Martin discussed the most recent Board retreat where some of the discussion involved formatting reports to meet Committee requirements. In light of those discussions, Chairman Martin recommended that board members take a more holistic approach in reviewing information in terms of the value provided

Mr. Bardin also asked management to separate the payment in lieu of taxes (PILOT) from the right of way fee (ROW). Whether WASA should pay the PILOT is one matter, and whether the suburban jurisdictions should be sharing in its payment is another. When staff looked at this matter several months ago, they concluded that the ROW, unlike the PILOT, is either all or virtually all a retail rates issue and Mr. Bardin would like to see those two on different lines in future reports. Mr. Johnson responded that management would adhere to the Committee’s directive. Chairman Martin stated that while he does not see any problem with the request, he strongly cautioned against parsing out individual pieces of information and reiterated a more holistic approach instead. Mr. Johnson noted that management is capable of providing this type of information if requested by the Committee.

Mr. Cotruvo referred to page three of the report and asked for an explanation of debt service, which appears to be running a little ahead of schedule; is this a short-term anomaly or are the data reflective of higher borrowing costs and something to expect throughout the year? In response, Robert Hunt, Treasury Manager, explained that the debt service expense for October totaled \$8.4 million. This amount includes an interest payment of \$3.6 million on the 2007A bonds that covered the period June through September 2007, with a due date of October 1. Management anticipated this payment and it is included in the FY 2008 budget.

Review of Revised FY 2008 & Proposed FY 2009 Budgets

Budget Review Milestones

After discussing ground rules for the review session, Chairman Martin asked Mr. Johnson to present the budget proposals.

Mr. Johnson reviewed the FY 2009 budget calendar and confirmed key dates and milestones for completion of the budget reviews with the various Committees of the Board as well as final action by the full Board. At the conclusion of all of the various budget review sessions, management will ask the Committees for recommendations on the budget proposals. In order to meet the District’s budget submission requirements, the Board will take action on WASA’s budget proposals in January or February 2008 at the latest. Mr. Bardin asked for the appropriate time for a member of the Board, who is not a member of either of the Committees, to recommend changes to the budget proposal. Mr. Johnson responded that board members should recommend changes at any time prior to the Committees’ offering their recommendations. Chairman Martin added that all members of the Board could attend any of the budget review sessions.

General Manager Johnson asked that board members direct any budget-related questions to Board Secretary Linda Manley who will distribute all questions to staff for timely response with responses to all Board members aggregated and distributed on a weekly basis.

General Manager's Budget Presentation

Mr. Johnson provided the following summary budget statistics:

- Revised FY 2008 operating budget totals \$340.8 million
- FY 2009 budget request totals \$363.4 million
- FY 2009 water and sewer rate increase is 8.5 percent
- FY 2009 PILOT/ROW fee increase is approximately 10.6 percent, or \$0.05 per Ccf
- Capital Budget proposal has three components:
 - Lifetime budget totals \$6.2 billion¹
 - Disbursements budget totals \$3.1 billion (FY 2007 – 2016)²
 - Capital Authority request totals \$585.9 million³

Mr. Johnson explained that there are longer-duration projects in the budget proposal for which only funding for the ten-year period is included. However, in discussing the projects, management will provide both the ten-year budget information as well as lifetime costs for those projects.

Mr. Johnson explained that the development of WASA's budgets includes a ten-year planning horizon, and include input from infrastructure needs as determined by various facility master plans of major systems; Board-determined priorities; and funding and rate effects to WASA's customers. Some projects in the CIP proposal are only funded for the ten-year period as reflected in the financial plan although the lifetime for that project exceeds the ten-year planning period.

During his presentation, General Manager Johnson discussed major budget development assumptions. Each assumption is consistent with various WASA Board policies. In light of recent commodity and contractual price increases, management's capital project estimates include a three percent inflation factor.

Blue Plains Total Nitrogen Project

The key cost driver for the proposed CIP is the Blue Plains Total Nitrogen Project (BTN). This project has been developed primarily to meet stringent, new EPA nitrogen removal requirements at WASA's Blue Plains plant. BTN has a 12-year lifetime budget that totals \$950 million and planned disbursements total of \$815 million. Consistent with the allocation formula outlined in the Intermunicipal Agreement, the budget assumes that retail customers' share of cost would be approximately 40 percent of that required for this project. The wholesale customers' share is 60 percent.

Capital Projects

Mr. Johnson asked Leonard Benson, Director of Engineering and Technical Services, to continue with a review of the capital program budget proposal. Mr. Benson reviewed the capital priority criteria and walked the Board through a sample capital project sheet representative of the project sheets contained in the capital improvement budget book. The prioritization of projects, now provided on each project sheet, provides the Board with a tool to assist with further review, reprioritization and planning. Mr. Benson discussed the \$3.1 billion CIP proposal by project and service area and highlighted the following:

- Major increases in the ten-year CIP (planned disbursements):
 - Enhanced Clarification Facilities - \$139.4 million
 - Total Nitrogen Removal Facilities - \$338.1 million
 - Centrate Treatment Facilities - \$76.9 million
 - Wet Weather Peak Mitigation - \$261.0 million
- New Capital Projects
 - Lifetime budgets total \$1.1 billion

- Disbursements budgets total \$865.4 million
- Historical and Projected Capital Spending

Operating Budget

Next, Olu Adebo, Acting Chief Financial Officer, discussed the operating budget request. Mr. Adebo discussed the following information regarding the operating budgets:

- Revised FY 2008 budget totals \$340.8 million, approximately \$423 thousand less than the Board-approved FY 2008 budget
- FY 2009 proposed budget totals \$363.2 million, a \$22.5 million increase from the FY 2008 revised budget level.
- Debt service increases by \$14.7 million, or 19.3 percent primarily because management expects to issue new debt in 2009.
- Personnel Services increases by \$4.1 million, or 4.7 percent to accommodate compensation increases and fringe benefits.
- Utilities (primarily electricity) increases by \$1.3 million or 3.5 percent due to price increases.
- Chemicals increase by \$1.9 million or 9.3 percent primarily due to the budgetary impact of increasing methanol unit prices.

Retail Rate and Fee Changes

Olu Adebo continued with a review of proposed rate and fee changes as follows:

- The proposed retail rate and fee changes range from 8 to 12 percent and are required primarily to fund debt service costs.
- The average single-family residential customer now pays about \$48.66 including all charges. The FY 2008 and 2009 single-family residential customer's bill would increase to \$51.24 and \$55.48, respectively.
- PILOT/ /ROW fee increase is 10.8 percent, which would result in a \$0.05 per Ccf increase to the average single-family residential customer's bill.
- Rate stabilization fund is currently \$68.5 million and most of this amount will be spent by FY 2011.
- Wholesale Capital Revenues will peak at approximately \$180 million in FY 2013. (A meeting is scheduled for November 26 with wholesale customers).

Emerging Issues

Mr. Johnson concluded the budget review with a discussion of emerging issues, some of which are not fully budgeted, and include:

- Chesapeake Bay Initiative and New NPDES Permit
- Total Maximum Daily Pollutant Load (TMDL) and Impact on CSOLTCP
- Capital Improvement Program Inflation
- Anacostia Waterfront Development and Nationals Ballpark
- Biosolids Management Program and Land Application of Biosolids
- Blue Plains IMA Negotiations
- Internal Improvement Plan (IIP)

At the conclusion of management's budget presentation, Chairman Martin asked the board members if there were any questions. Board members raised several questions noted at the end of these minutes and management will follow up on those requests.

Fourth Quarter Capital Review

Mr. Benson provided the fourth quarter capital report. Staff budgeted spending through the end of the fiscal year totaling \$177.3 million. The actual spending for the fiscal year was \$161.8 million, a 91 percent achievement rate. Mr. Benson reviewed each program area and spending.

Mr. Firestine noted that on page 4 of the financial report, the 2007 capital project implementation rate was approximately 79 percent, yet Mr. Benson's report stated that the implementation rate was 91 percent. Mr. Benson explained that 91 percent reflects the DETS-managed (Linda – please spell out the words in DETS) projects only. There are other capital expenses that are not managed by DETS. Mr. Firestine asked for a reconciliation of the two figures reported in the different reports. He also asked whether the current projected capital spending was achievable given that the FY 2009 expenditure projections are well above any previous single year expenditure. Mr. Johnson responded affirmatively, and added that WASA's expenditure rate does not necessarily relate to a completion rate for projects. As an example, for the lead service replacement program, the disbursements have been lower due to the WASA's work with the District's Department of Transportation which resulted in significant savings, yet a considerable amount of work was completed. There are areas where WASA completed the projects but had some savings in other areas. The 4th Quarter CIP report prepared by DETS provides more detail. Mr. Adebo further explained that Mr. Benson's report does not include disbursements for the Washington Aqueduct where there are significant lags in project completions.

Independent Budget Review

Chairman Martin reported that on November 13, the Board interviewed firms for this assignment for approximately three hours. The board selected a firm and the milestone plan provides for action by the Board on December 6 with the draft report due on March 5, 2008 and final report on March 20, 2008.

Chairman Martin convened an Executive Session of the Board. At the conclusion of the Executive Session, Chairman Martin adjourned the meeting at 11:25 a.m.