



# **DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

## **BOARD OF DIRECTORS**

**Joint Meeting  
Environmental Quality and Operations  
District of Columbia Retail Services  
Finance and Budget  
Committees**

*Monday, November 17, 2008*

*8:30 AM.*

## **MEETING MINUTES**

### **COMMITTEE MEMBERS**

David Lake  
Timothy Firestine  
Joseph Cotruvo  
David J. Bardin  
Howard Gibbs  
Brenda Richardson  
Paivi Spoon  
Beverly Warfield

### **WASA STAFF**

Jerry Johnson, General Manager  
Olu Adebo, Acting Chief Financial Officer  
Yvette Downs, Director Budget & Finance  
Leonard Benson, Acting Chief Engineer  
David McLaughlin, Acting Director, Engineering  
& Technical Services  
Avis Russell, General Counsel  
Gregory Hope, Staff Counsel  
Gordon Fry, Director Government Relations  
Linda Manley, Board Secretary

### **Presenters**

Ms. Demoors, WASA's Financial Advisor  
Atty. Nicholas, Penn Co Bond Counsel

### **Call to Order**

The Acting Chairman, Mr. Daniel M. Tangherlini designated Mr. David Lake to act as the chair for the joint meeting of the Environmental Quality and Operations, Retail Services and Finance and Budget committees. Mr. Lake called the meeting to order at 8.33 a.m. He then invited the Acting CFO Mr. Adebo, to present the October FY 2008 Financial Report.

### **October 2008 Financial Report**

Mr. Adebo provided a summary of financial highlights for the month of October. With 8% of the fiscal year completed, year-to-date cash receipts total \$27.9 million, expenditures \$27.4 million and capital disbursements \$28.6 million.

The 180-day operating reserve had an Actual Average Daily balance, which totaled \$124.9 million, or \$6.3 million over the Board approved FY 2008 reserve requirement of \$118.6. Mr. Adebo noted

that the new operating reserve requirement for FY 2009 will be close to \$125 million if adopted in January 2009.

#### Operating Expenditures

Mr. Adebo noted that with the fiscal year just beginning there were no issues to report. Mr. Bardin inquired about DCWASA's growing operating reserves, and requested the Acting CFO provide a historical perspective. Mr. Bardin also asked under what circumstances staff can dip into the operating reserves. Mr. Johnson responded that no circumstances have yet arisen that required staff to dip into the reserves, and if there were such a need, it will be for interim periods when staff seek financing through the capital markets. Mr. Bardin followed by asking if there were any legal restrictions barring DCWASA from accessing the reserves and asked the GM to prepare a response for Committee review at a future Finance and Budget meeting. Mr. Bardin also requested that the response show a financial split between DCWASA's bond indenture requirement and Board operating reserve policy requirements.

#### Capital Disbursements

Mr. Lake suggested that in the interest of time the capital program agenda will be covered in Mr. Benson's Capital Improvement Program presentation.

Hearing no further questions on the monthly report, Mr. Adebo concluded the financial report.

#### Series 2003 Bonds – Surety/Letter of Credit:

Next, Mr. Adebo provided a status report on the procurement of a letter of credit from TD Bank (formerly Commerce Bank). The 2003 series bonds were issued with a surety (insurance policy) rather than a cash funded debt service reserve. With the downgrade of Financial Guaranty Insurance Co. (FGIC) by the rating agencies, it no longer met the rating requirement of the bond indenture, therefore, it became necessary to either cash fund a debt service reserve or procure a qualified letter of credit to back up the existing surety policy. In September the Board had approved a resolution authorizing management to enter into a contract with TD/Commerce bank to provide the needed letter of credit in accordance with terms submitted by the bank as part of a competitive procurement process. The bank had initially proposed a fee for a 5 year term of 73 basis points or \$128,640 per year. As a result of a deteriorating credit market the bank has now revised its fee proposal to 93 basis points or \$163,884 per year. Ms. Barbara Bisgaier, of Public Financial Management (financial advisor to DCWASA) answered questions from Committee members and described the current financial situation regarding the availability of letters of credit. She stated that the revised proposal from TD Bank was competitive in the current marketplace and recommended proceeding with the negotiations with the bank. Mr. Adebo further stated that based on advise from our financial Advisors, management recommends an amendment to the September resolution to allow management to enter into this contract with the bank at the revised fee of 93 basis point for 5 years. Mr. Firestine asked for a clarification on the Termination Fee section of the banks fee proposal. Specifically what happens if TD Bank is downgraded two levels in its short-term ratings during the first 3 years of the term. Mr. Adebo stated that staff will research and provide an answer at the December board meeting prior to the Board taking action on the amended resolution.

#### Bond Financing

Mr. Adebo followed with a discussion of the upcoming bond financing of \$325 million senior lien tax exempt debt scheduled for issuance in January 2009. Attorney Nicholas Penn, Co Bond Counsel, with Leftwich and Ludaway reviewed draft bond documents with the committee. Attorney Penn noted that in prior subordinate bond issuances DCWASA was not required to have a debt service reserve fund, because of its strong financial performance. However given the current market conditions DCWASA may have a service reserve amount which has been included in the \$325

million proposed bond issuance. The proposed new senior lien bonds will have parity with the 1998 senior lien bonds. Mr. Bardin questioned the necessity for DCWASA to issue the bonds in January. Mr. Adebo explained the issuance process, referenced the calendar of events which has been previously reviewed by the Committee, and discussed the cash flow implications for DCWASA and the preliminary offering statement process. After some lively discussion, Mr. Firestine proposed sending the draft resolution to the full Board, except for Section Nine which pertains to bond anticipation notes. Mr. Lake noted that except for Mr. Firestine all the other Budget and Finance Committee members were absent and therefore based upon Mr. Firestine's recommendation, the documents will be forwarded for full Board review and consideration at their December meeting.

### **Review of Revised FY 2009 and Proposed FY 2010 Budgets**

Mr. Johnson provided an overview of the budget process including the calendar, and a summary of the revised and proposed budget requests. He elaborated on the major revenue and expenditure budget assumptions and highlighted the proposed FY 2010 Impervious Area Charge adjustment as well as PILOT and ROW fees increases.

Mr. Leonard Benson, Acting Chief Engineer, presented the capital budget review and explained the methodology for prioritizing projects within the CIP, the CIP cash disbursements by service area including key cost drivers and sources of funds. Mr. Cotruvo and Bardin questioned the \$16 million FY 2009 lead service line replacement budget believing that the proposed amount is excessive given the current financial climate. Mr. Bardin wanted the budget cut to the bare bone. Mr. McLaughlin, Acting Director of Engineering and Technical Services, explained that the original resolution provided by management to the Board assumed activities and costs between \$3-5 million a year for replacing lead service lines as part of the water main program and private service line replacement requests pending available budget. However, the resolution actually revised and adopted by the Board of Directors expanded the potential activities and the proposed budget is consistent with that board direction. Mr. Bardin wanted to know what is contained within the increased yearly spending projected for lead service line replacements. Ms. Pavi Spoon requested that a history of debt service as a percentage of the operating budget be provided. Mr. Johnson noted that these two items will be considered budget questions and a response will be created.

Mr. Adebo presented the operating budget request, which included a discussion of major cost drivers, projected increases by category and revenue rate and fee changes. In response to a question by Mr. Bardin, Mr. Adebo also discussed the formula used in calculating the Right of Way fee. Mr. Bardin requested a change in the presentation of proposed retail rate and fee changes and suggested that the graph(s) should reflect a net change for annual increases. This will be taken into consideration by staff. Mr. Bardin emphasized that in his attempt to sensitive others regarding CAP customers, he also requested that staff include impacts to the average monthly CAP customers when discussing average monthly residential bill impacts.

Mr. Johnson highlighted the emerging issues, by citing our aging infrastructure system and the cost involved in fixing it and explaining that 51.9% of the CIP is mandated, which provides limited flexibility to WASA to balance customer and infrastructure needs. Mr. Bardin requested the General Manager and the new Board chairman discuss the long term goals for DC WASA interaction with the DC CFO, with the focus on review of Right of Way and PILOT fees, MOUs and other pertinent issues.

### **Other Business**

Mr. Gordon Fry gave an update on federal legislation funding. He informed the board that for FY 2009 the House appropriations committee approved \$14 million for DC CSO projects and the senate approved \$16 million as well. The senate amount is twice the amount in FY 2008. Mr. Fry

also informed the board that for water projects in FY 2010 the water resource development act appropriated \$65 million for WASA, \$30 million for Blue Plains and \$35 for CSO. Mr. Fry is working with congress and has given WASA's input in the broad base stimulus package scheduled for vote in January. Mr. Johnson informed the board that WASA has been working with a coalition of national organizations that have also been pushing for additional funding under that package and WASA has identified close to \$220 million of joint and non joint use projects. Mr. Lake wanted us to coordinate the information with WSSC and wanted to know how many projects are comprised within the package. Mr. Fry will provide the answer.

Mr. Lake adjourned the meeting adjourned at 11.33 a.m.