

**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS



Finance & Budget Committee

*Thursday, March 23, 2006
via of Conference Call*

9:00 a.m.

MEETING MINUTES

BOARD MEMBERS

Glenn Gerstell
Paul E. Folkers
Anthony Griffin
Beverly Warfield

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Avis M. Russell, General Counsel
Linda R. Manley, Secretary to the Board

Anthony Griffin called the telemeeting to order at 9:13 a.m.

FINANCIAL OVERVIEW

Olu Adebo, Acting Chief Financial Officer, made reference to the detailed financial report provided to the Committee in advance of the meeting. Mr. Adebo proceeded with a report on financial highlights for the month of February. At the end of February, with 42 percent of the fiscal year completed, revenues totaled \$126.7 million, or 43.7 percent of budget. Overall, we continue to underspend both operating and capital budgets. Operating expenditures through February totaled \$107.9 million, or 37.1 percent of budget and capital spending totaled \$72.9 million, or 30 percent of the original Board-approved disbursements budget. We spent a total of \$14.4 million for the capital program during the month of February. Actual average daily cash balances for the month of February totaled \$113.9 million; this is \$11.5 million in excess of the Board's policy requirement.

With the Committees' consent, Mr. Adebo continued with a report by exception and asked Board members to raise any questions or concerns pertaining to the written report.

Operating Expenditures

Utilities

As discussed in previous reports to the Finance and Budget Committee, Mr. Adebo highlighted results and projections for utilities, where we continue to experience spending pressures. Year-to-date utilities expenditures total 50 percent of the budget with 42 percent of the year completed. Significantly higher electricity costs in the early months of the fiscal year are driving the spending

and resulting budgetary pressures. Consistent with previous reports to the Board, Mr. Adebo noted that daily spot electric prices for this fiscal year continue to average \$75/MWH. Although for the months of January through February, prices have averaged \$64/MWH. These average spot prices continue to exceed the \$49.5/MWH budget for FY 2006 and we expect to exceed the revised budget by approximately \$3 to 5 million depending on futures pricing. Staff continues to confer with WASA's consultants, to monitor futures pricing on a weekly basis and to develop a strategy for locking in future blocks of electricity.

Mr. Griffin asked whether the budgeted average of \$49.5/MWH is conceivable or should the Committee and staff consider another target. Mr. Adebo responded that last year the \$49.5/MWH budgeted average was reasonable, however, given this year's actual experience and futures pricing, that is no longer the case. Mr. Griffin asked Mr. Adebo to provide a reasonable budget target at next month's Committee meeting and to assess overall budgetary impact.

Mr. Gerstell asked where staff is receiving guidance on the pricing. Mr. Adebo responded that staff receives guidance from Amerada Hess, our broker, Betts and Holt, our legal counsel and, PB Consult, our financial advisors. Next month staff will provide the Committee with a proposed strategy for electricity purchasing. The strategy will be similar to the way staff manage WASA's investment portfolio using dollar/cost averaging, combining short-term, mid- and long-term lock and some market exposure.

Mr. Folkers asked if staff is continuing their ongoing communications with other utilities. Mr. Adebo responded that staff is continuing communications with the Washington Suburban Sanitation Commission and other utilities in the area. Next, Mr. Folkers asked for a report on the status of the energy manager position recruitment efforts. Mr. Johnson responded that efforts to locate an individual with both energy management and acquisition skills have proven difficult. As a result, management is now considering handling energy acquisition with in-house staffs that have become quite skilled and knowledgeable. WASA is currently recruiting for an energy manager under the newly described role.

Cash Reserves and Investments

Mr. Adebo continued with a report of cash reserves and investments at the end of February. Total cash balanced at the end of February were \$220.7 million. The February yield on WASA's investment portfolio was 4.07 percent, 47 basis points below the three-month Treasury bill return of 4.54 percent. In FY 2004, WASA invested a portion of its portfolio in two-year U.S. Treasury securities that were higher yielding than market conditions at that time. As interest rates increased in 2005, these two-year securities lagged the general market. These securities began maturing last fall and will continue into the summer. Since November, WASA purchased approximately \$64 million in new securities. The simple average yield on that portfolio is 4.49 percent, or 43 basis points more than the current three-month Treasury bill.

INSURANCE RENEWALS

Mr. Adebo reported that WASA's property, excess liability, excess workers' compensation, public officials' liability, and equipment insurance policies expire on June 15. Over the past several months, staff reviewed market options with our insurance consultants and brokers. Overall, we anticipate insurance costs will increase between 10 to 20 percent as a result of WASA's increased exposures and the hardened post-Hurricane Katrina insurance market. Based on recent bidding experiences, staff determined that FM Global and AEGIS/EIM, our current property and excess liability carriers, offer the most competitive options for these renewals. We will competitively bid the remaining coverage lines through our insurance brokers, Aon. Renewal quotes are due by May 22

and staff will provide further detail on renewal premiums at the May Finance and Budget Committee meeting. We expect all policies to be in place by June 15.

Mr. Johnson added that when WASA implemented its insurance program in FY 2001, it was a new entity with no insurance and claims history, which made it difficult to negotiate good insurance rates; therefore it was appropriate at that time to review insurances on an annual basis. Now that WASA has history and is stable with regards to the insurance market, we believe that multi-year agreements are more appropriate and would be more efficient and result in cost savings.

Mr. Gerstell asked what contract term staff is considering. Mr. Adebo responded that staff will be looking at a three to five year contract period, however depending on the coverage we may not be able to lock in prices for the same period of time.

Mr. Folkers asked whether the June 15 renewal schedule is most advantageous given the events of last year. Mr. Johnson responded that our consultants still advise that the June 15 renewal is still advantageous, however staff will work with consultants to determine if an earlier renewal time is more appropriate.

FY 2006 Committee Work Plan Goals

Mr. Gerstell led a discussion of the process for review of the Committee's work plan goals. Mr. Johnson reported that staff was waiting for completion of the Governance Study and feedback from the customer survey. WASA's strategic planning consultants provided an initial matrix that included the Board's work plan goals. Staff will meet with the consultants and update the matrix for the Committee's review prior to the next scheduled meeting. This matrix would provide a basis for detailed review and discussions by the Committee.

Mr. Folkers asked that staff incorporate the letter from WASA's external Auditor's in the Audit Committee's work plan goals. Mr. Gerstell explained that recently the Audit and Budget and Finance Committees have met on a joint basis, but now with the addition of new board members, the two committees will work independently. Mr. Johnson responded that he would ensure that the work plan goals as noted are included in the work plan for the Audit Committee.

DCCFO Legal Authority

Mr. Griffin asked for an update on the DCCFO issue. Mr. Johnson reported that WASA staff met with the Mayor's Office staff. The Mayor's staff agreed that it is prudent to bring the matter to closure given the ambiguity that the current legislation presents. As follow up to the meeting, the Mayor directed that staff schedule a meeting with all appropriate Congressional, District of Columbia City Council members and other interested parties to bring the matter to closure. WASA staff is following up and will continue to provide the Committee with updates.

Cost of Service Study

Mr. Folkers asked for the timeframe for completion of the cost of service study. Mr. Adebo reported that staff began working with our rates consultants in January to review and analyze WASA's entire rate structure. Staff will provide a comprehensive update at the April 6 meeting of the Retail Rates Committee to include methodologies, the different cost pools and a schedule for providing a final report in July.

FY 2007 Budget Hearing

Mr. Johnson reported that DCWASA management is scheduled to make a presentation to the District of Columbia Council on WASA's FY 2007 budget later today.

Executive Session

The Committee met in executive session to discuss other matters. At the conclusion of the executive session, the meeting was reconvened and then adjourned.