



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, March 18, 2009

11:30 AM.

MEETING MINUTES

COMMITTEE MEMBERS

Daniel M. Tangherlini, Chairman
Timothy Firestine
Dr. Jacqueline F. Brown
Keith Stone

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Chief Financial Officer
Yvette Downs, Director, Finance & Budget
Avis Russell, General Counsel
Barbara Grier, AGM, Support Services
Charles Kiely, AGM Consumer Services
Linda R. Manley, Board Secretary

Other Board members In Attendance

David J. Bardin
Howard Gibbs

Presenter

Mr. Scott Baker, AECOM Consult

Call to Order

Committee Chairman Daniel M. Tangherlini called the meeting to order at 11:55 a.m. The General Manager, Mr. Jerry Johnson, complimented the staff on completion of the February Finance and Budget report in advance of the regular timeframe for completion.

February 2009 Financial Report

Ms. Yvette Downs, Director of Finance & Budget, presented both the January and February 2009 reports. For the month of February 2009, with 42% of the fiscal year completed, revenues were at 40%, expenditures at 36% of the operating budget and 40% of capital disbursements. Ms. Downs reported that the primary revenue exception was in the 'Other Revenue' category, which was at 12% due to the Rate Stabilization Fund which DC WASA plans to drawdown during the fourth quarter.

Ms. Downs noted that contractual services, chemical and utilities expenditure categories are within the budget with no major concerns at this time. The uncertainties in the world

markets may provide budget risks in the chemical line item and the staff will continue to monitor it closely.

Chairman Tangherlini asked that the Committee receive recommendations on the level of the Authority's operating cash reserve and the status on the Independent Budget Review. Mr. Johnson responded that consultants were hired to review the level of the operating reserves and a report will be provided to the Committee at the April meeting with management's recommendation. Olu Adebo noted that other minor items from the Independent Budget review are being included in current work plans.

Accounts Receivable Overview

Mr. Charles Kiely gave a presentation on accounts receivable including the history of the contract agreement which was established in January 1999 with Breen Capital Services Corporation. This contract was one of the collection tools being undertaken by DC WASA for control arrears management. DC WASA sold 3,220 accounts and approximately \$17.1 million on October 31st, 1998 and received \$5.1 million in sale with an additional amount to be paid once total collections exceed \$8.05 million. The level of delinquent accounts receivable is currently at \$6.1 million a decrease compared to January 2009 level of \$6.2 million.

Chairman Tangherlini inquired if the current economic climate has had any effect on the ability of customers to make timely payments and if this trend is reflected in the high outbound residential and commercial calls during the prior three months. Mr. Kiely said that this is due to lateness and also customers who are exceeding the 30 day period but, DC WASA's intention is to notify customers on the status of their bills using any of the identified collection tools.

Mr. Johnson gave a brief bad debt analysis of the accounts receivable and noted that there are \$2.2 million inactive delinquent accounts without liens, ineffective liens, accounts that do not meet the \$200 threshold and some of the Breen debt accounts. He proposed that \$2 million of these accounts would need to be written off and he will be returning to the Committee in future months with a recommendation.

Review of FY 2008 CAFR and Audit Results

Mr. Olu Adebo reported that the Authority received its twelfth unqualified audit opinion from DC WASA's external auditors Thompson, Cobb, Brazilo & Associated, P.C. with no management letter comments and no proposed adjustments to the numbers. In addition, the four management letter comments identified in 2007 were resolved with one waiting for implementation on the document management system. The Authority ended the year with strong budget performance with revenue exceeding budget at 102%, expenditures were below budget at 95% and capital expenditures within budget. Year-end operating cash reserve was at about \$139 million with \$20 million in excess of the board required level of \$118 million. Ten million was transferred to the Rate Stabilization Fund and an additional \$10 million to the Pay-Go Fund to reduce or defer any new debt issuance in the future. The Authority implemented a new rate increase of 7.5% in line with the ten-year plan.

Mr. Olu Adebo reported that the Authority received an upgrade in April, 2008 from Standard & Poor from an AA- to an AA+ category while Fitch upgraded the Authority's outlook from stable to positive. The Authority successfully exited the auction rate market and issued

\$290 million of fixed rate debt. We received several financial awards including awards for achievement for excellence in financial reporting for 2007 Financial Statement, excellent budget reporting and an investment policy award.

Review of Procurement Regulations

Ms. Grier, Assistant General Manager, and Mr. Scott Baker from AECOM Consult gave a presentation highlighting the need to streamline the Authority's Regulations and remove detailed procedures to be incorporated into a procurement manual. Mr. Baker provided an overview of the proposed changes to the regulations in the areas of the ethics, organizational conflict of interest, contracting officers, method of procurement, and business development program. There was extensive discussion on the revised regulations as they affect Board members, management and officers.

Mr. Bardin asked if the procurement manual would be made available to the public.

Ms. Grier stated that the manual would be posted on DC WASA's website for the public.

Under project delivery methods, Dr. Brown asked whether design-build contractors were allowed to bid on either design or build contracts based on the proposed conflict of interest policies. Mr. Scott Baker explained that contractors would be made aware that they have a conflict of interest if they are involved in the design and have intent to bid on the construction portion of a project. Mr. Johnson clarified that the contractor will know up front whether the project is a design-build project or design-bid-build project. The conflict applies to design-bid-build projects.

Dr. Brown requested that the procurement regulations include language under ethic issues that would refer to the Office of the General Counsel as the official 'Ethics Officer' for the Authority.

Chairman Tangherlini requested that 'green and sustainable practices' language be included as part of the mandatory contract clauses. Ms. Russell stated that this could be done if the Board directs staff to do it.

Dr. Brown inquired if the business development program was a replacement of MBE or WBE programs or inclusive of these programs. Ms. Grier stated that the new program is because the LSDBE 'certification' is no longer being used everywhere and the program is for local and small businesses and not necessarily restricted to the LSDBE-certified businesses. Ms. Grier stated that the program will be introduced to the Board, through the Finance and Budget Committee, as a Business Development Plan which will identify specific types of program elements or businesses that qualify for participation under the program.

Chairman Tangherlini asked if the procurement manual would be adopted by a Board resolution or a publication of the Authority. Mr. Johnson and Ms. Russell confirmed that the procurement manual would be a publication to implement the procurement regulations. It is anticipated that the procurement manual will be completed and made available at the same time with the approval of the procurement regulations.

Chairman Tangherlini requested for clarity and transparency that management describe the method for future notification of changes to the procurement manual and that the Board should be made aware of any such changes made.

Mr. Johnson informed the Committee on the next steps to be undertaken for the implementation of revised regulations.

Infrastructure Improvements in support of Redevelopment Projects

Mr. Johnson provided an overview on the funding for infrastructure improvement in support of redevelopment areas. The goal is to provide an efficient, cost-effective method to generate revenues to pay for costs associated with water and sewer infrastructure improvement in support of redevelopment areas. An MOU will be negotiated with DC for approval by the Board in a future meeting after review by the Finance and Budget Committee.

Mr. Johnson stated that discussions have been held with the Deputy Mayor's office on this concept. DC WASA's Bond Counsel was consulted regarding financing of such projects with revenue bonds and no negative impacts are anticipated to our future debt issuances due to this funding concept.

Other Business

Chairman Tangherlini along with Mr. Johnson attended the City Council of the District of Columbia hearing concerning the Recovery Act also known as the Stimulus Bill. Chairman Tangherlini asked how the stimulus funds relate to the District Department of Environment (DDOE) and if they are the recipient of the State Revolving Fund. Mr. Johnson stated that the DDOE gets an annual fee for administering the program and that under the Clean Water Act, 20% of the \$19 million (or approximately \$4 million) is set aside for innovative 'green and energy efficiency' projects. There is a similar amount (\$19 million) available under the Safe Drinking Water Act, however, EPA has determined that the funding under this program will all be available for DC WASA projects only. Mr. Johnson stated that DDOE and DC WASA on develops an Intended Use Plan (IUP), an annual basis, which is vetted through public hearing for projects that are eligible for funding under these programs. Mr. Len Benson, Director of Engineering, stated that the funds do not go through the DDOE but they specify the priority list for which projects are deemed eligible while DC WASA applies for the grants directly.

Mr. Johnson outlined the projects that are eligible under these programs with a total estimated cost for DC share of \$26.2 million under the Clean Water Act and \$24 million under the Safe Drinking Water Act; more than the funds available under the Stimulus program. These projects have been vetted with surrounding jurisdictions and would have to be accomplished within 180 days or the funds are made available for re-allocation. In response to Chairman Tangherlini's question, Mr. Johnson confirmed that these eligible projects are included in DC WASA's current Capital Improvement Plan and that the stimulus might create an opportunity for a 0.8% or 1% adjustment in the proposed 10% water and sewer rate increase proposed for FY 2010.

Mr. Firestine asked if there is any funding in the Federal budget relating to the projects in the District. Mr. Johnson stated that there is \$16 million in the current federal FY 2009

appropriation for Combined Sewer Outflows (CSO) Long Term Control Plan and the Authority is seeking another \$50 million in the upcoming FY 2010 budget.

Hearing no further business, Chairman Tangherlini adjourned the meeting at 2:00 p.m.