



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, April 27, 2006

8:30 a.m.

MEETING MINUTES

BOARD MEMBERS

Glenn Gerstell
David J. Bardin
Jacqueline Brown
Paul E. Folkers
Anthony Griffin
David Lake
Beverly Warfield

WASA STAFF

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

Board Chairman Glenn Gerstell called the meeting to order at 8:40 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 March. Overall, we continue to meet all of our financial targets. At the end of March, with 50 percent of the fiscal year completed, revenues totaled \$144.7 million, or 49.9 percent of budget. Operating expenditures through March totaled \$128.1 million, or 44.1 percent of budget and capital spending totaled \$89.3 million, or 37.2 percent of the original Board-approved disbursements budget. WASA spent a total of \$16.4 million for the capital program during the month of March. Actual average daily cash balances for the month totaled \$137.8 million; this is \$35.4 million in excess of the Board's policy requirement.

With the Committee's consent, Mr. Adebo continued with the report by exception and stated that he would address any questions or concerns raised by the Board members.

Budgetary Pressures

Mr. Adebo reported that WASA continues to experience budget pressures in the line items for electricity, chemicals and legal matters.

Electricity

Continuing with a discussion of electricity pressures, Mr. Adebo provided a report of WASA's electricity review process. WASA's electricity team is comprised of staff and several consultants including Amerada Hess, our broker, Betts and Holt, WASA legal counsel, and PB Consult, our financial advisors. The team meets weekly to review market data and strategize the best way to position WASA in the market. At the meeting the team monitors futures pricing and develops strategies for locking in future blocks of electricity.

As of April 26, staff locked in approximately 50 percent of WASA's load for twelve months. Staff will lock in 75 percent of the load through futures pricing for the summer. We were fortunate to lock in prior to recent fuel price increases. However, Mr. Adebo reported that staff expects to exceed the revised budget by \$3 to 5 million depending on futures pricing.

Mr. Gerstell asked if staff is continuing to communicate with other large purchasers of electricity in the region. Mr. Adebo reported that WASA's strategy uses information from entities in the same market as WASA. The team communicates with other utilities in the area and most recently used this information to determine both the timing and percentage of load to lock in. Also, the team determined that the most volatile exposure is during the summer period, when most entities lock in futures pricing. The period between February and April is usually relatively stable and most entities take advantage of lower prices in the market.

Chemicals

In addition to electricity we are facing budgetary pressures with WASA's chemical purchases and we expect to exceed budget by approximately \$1 to \$2 million. We expect to cover any line item shortfalls with savings identified in various departments and to end the year within the Board-adopted revised FY 2006 budget.

Litigations

Mr. Adebo referred to budgetary pressures as discussed in the Board's executive sessions.

Legal Services Contract Extension

Mr. Johnson explained the contract extension for Morgan Lewis & Bockius, LLP; a firm that provides legal services pertaining to labor law matters. He noted that because the contract will exceed the \$1 million threshold requiring Board review and approval, the action requires Committee review and consideration.

Chairman Gerstell asked whether the work provided to date by the Firm has been adequate and rates competitive. Mr. Johnson responded that work has been adequate and competitive. After discussion, the Committee recommended forwarding this request to the full Board for action at their May meeting.

Operating Reserves

Mr. Johnson referred to a letter from Board member James Caldwell who is also Chairman of the Blue Plains IMA Renegotiation Team. On behalf of the team, Mr. Caldwell requested information pertaining to WASA's operating reserves fund as an outgrowth to a meeting on the IMA renegotiations. District ratepayers currently fund WASA's operating reserve fund.

During a recent IMA negotiating session, WASA management recommended that the jurisdictions contribute to WASA's operating reserve fund. An estimated \$26 million would be contributed on a proportionate joint-use basis. The primary measure of liquidity is days of cash on hand and the objective for the operating reserve fund is to provide a cushion in the event of a financial emergency and to ensure WASA's creditworthiness, financial stability and bond ratings. Mr. Johnson explained the current reserves requirement and the purpose of the reserve fund. All facility operations are currently covered by the fund, however participation WASA is seeking under the IMA would be segregated to address portions that are a part of joint use. Next, Mr. Johnson referred to a letter dated April 27, 2006 addressed to Chairman Gerstell and members of the WASA Board of Directors in which management provided responses to questions raised by Mr. Caldwell on behalf of the IMA team. Mr. Johnson reviewed information contained in the letter of response. Dr. Brown asked why WASA's lower operating reserve requirement is lower than the rating agency standard for AA rated utilities. Mr. Johnson explained that in addition to operating reserves standards, rating agencies use other factors to assess the financial strength of an organization. For example, WASA's debt service coverage, which is another significant measure, has been well above standards. Chairman Gerstell added that the fact that WASA is an "AA" rated utility with lower operating reserves is an indicator of WASA's financial and management strength.

Mr. Griffin noted that entities such as Fairfax County also have established an operating reserve to pay for similar purposes that the Board may want to consider. Staff needs to ensure that there will not be any double counting or make an appropriate reduction in WASA's financial policy. Chairman Gerstell added that this might be an opportunity to consider what share of the operating reserves District ratepayers should pay and what portion the jurisdictions should pay.

Mr. Griffin asked staff to report to the Committee on the current financial policies and where all of the resources come from. After further discussion, Chairman Gerstell asked Mr. Adebo to provide the Committee with background information on what the individual counties do in terms of cash reserves to ensure that the Board acts in an informed way.

Dr. Brown asked for the protocol that determines the use of WASA's operating reserve fund. Mr. Johnson responded that there are specific financial triggers and staff will review the broader based financial policies and provide a response to the question. Chairman Gerstell added that when the Board reviewed WASA's investment strategy certain thresholds were established and Board action is required to use operating reserve funds.

Other Business

Legal Matter

Mr. Bardin asked management for a report on spending for legal services associated with a ruling this week by the District U.S. Court of Appeals. The Court's ruling could have a significant impact on water quality programs in the District of Columbia and across the county. Specifically, the ruling could impact WASA's CSO long-term control plan, stormwater permitting process, as well as current nutrient removal plans for Chesapeake Bay program compliance efforts. Mr. Johnson agreed to provide the information Mr. Bardin requested.

Next, Mr. Bardin advised that any actions regarding this issue are Board policy decisions and that management should brief Board members prior to reaching any decisions on next actions. Mr. Gerstell agreed that given the potential magnitude and impact of the Court's decision on WASA, the Board should consider the matter and provide direction to management. Mr. Johnson indicated that

there are many parties who will have a significant level of interest and want to participate in any follow up actions. In order to assist the Board in its review of this matter, staff is developing a summary ruling, background information and recommended options.

Contracts to Minority-Owned Firms

Mr. Bardin asked for a report on all Architectural/Engineering contracts and contractors. Mr. Bardin expressed his desire to stimulate more interest and contract awards to qualified A/E minority-owned firms. Next Mr. Bardin asked staff, how many contracts does WASA now have with how many different principal contractors and what is the total lifetime cost for all of those contracts. And second, how many contracts does WASA have in which the principal contractor is a minority-owned firm, the names of such firms and the estimated lifetime work for that A/E work.

Dr. Brown expressed interest in the current process and the rigor of WASA's outreach efforts to minority businesses as they relate to the duties of the Finance and Budget Committee. Mr. Johnson agreed to provide Dr. Brown with information concerning WASA's outreach efforts.

After discussion, Mr. Bardin asked management to provide the information requested prior to the May 4 meeting of the Board of Directors. Mr. Johnson agreed to provide the information in the requested timeframe.

Committee Work Plan Goals

In response to a question by Mr. Folkers concerning the status of the Committees work plan goals; Mr. Johnson indicated that staff is currently working to compile the information and will review this information with the Committee at their next meeting.

WSSC Accounts Receivable

Mr. Lake provided the Committee with a report on monies owed WASA by the Washington Suburban Sanitation Commission based on a meeting that he and Ms. Warfield attended on April 26. Mr. Lake reported that the Commission has agreed to pay based on the negotiated agreement. The next step is to provide an amendment to the two counties and there has been a commitment made by the commissions of both counties to work with the Councils to get this approved during the month of May so that WASA's June 1 resolution date will be met and WASA will be paid in full.

Adjournment

Chairman Gerstell adjourned the meeting at 10:00 a.m.