



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, May 25, 2006

9:00 a.m.

MEETING MINUTES

BOARD MEMBERS

Glenn Gerstell
Dr. Jacqueline Brown
Kenneth Davis
Paul E. Folkers
Anthony Griffin
Beverly Warfield
Robert C. Bobb

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Avis M. Russell, General Counsel
Leonard Benson, Director Eng. & Tech. Svcs.
Linda Manley, Secretary to the Board

Board Chairman Glenn Gerstell called the meeting to order at 9:10 a.m. and the Board Secretary Linda Manley confirmed the presence of a quorum.

FINANCIAL OVERVIEW

Olu Adebo, Acting Chief Financial Officer, made reference to the detailed financial report provided to the Committee in advance of the meeting and proceeded with a report on financial highlights for the month of April, with 58 percent of the fiscal year completed. Overall, WASA continues to meet all its key financial and budgetary expectations. At the end of April, revenues totaled \$168.5 million, or 58.1 percent of budget; operating expenditures totaled \$147.8 million, or 50.8 percent of budget; and, capital spending totaled \$103.2 million, or 43.0 percent of the Board-approved disbursements budget. Capital disbursements in April totaled \$13.9 million, and year-to-date spending totaled \$103.2 million, or 43.0 percent of budget. Actual average daily cash balances for the month totaled \$112.1 million; this is \$9.7 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 Revenues and Receipts

Next, Mr. Adebo provided a detailed report of operating revenues and receipts by major category at the end of April. Receipts for the residential, commercial and multi-family category totaled \$91.5

million; which is slightly ahead of budget at 59 percent. Federal payments are ahead of budget and totaled \$21.7 million or 75 percent of budget due to the federal government's third quarter water payment in April. D.C. Housing receipts are on track at \$3.7 million and municipal receipts were \$3.4 million because we only received two quarterly payments at the end of April; we received the third quarter payment in May. The metering fee is on budget with receipts totaling \$3.1 million through April. Wholesale receipts were slightly below budget because WASA did not receive third-quarter payments until May 15. Receipts for the Right-of-way/PILOT fee totaled \$9.4 million, on track with budget. Other revenues totaled \$8.7 million at the end of April and at 46 percent lagged budget, as payments for this category are not on a straight-line basis, however we expect to end the year on budget.

Operating Expenditures

Mr. Adebo continued with a report of operating expenditures; in April, staff completed a mid-year review, which resulted in an updated year-end forecast. At the end of April, personnel services expenditures, which include accruals for union retroactive payments, totaled \$42.8 million or 53 percent of budget and we expect to end the year within budget. Although we ended April at 44 percent of budget in the water purchases category, we expect to end the year on budget as most of our water purchases occur in the summer months because of seasonal fluctuations. As reported to the Committee over the past several months, WASA continues to experience pressures in the chemicals and supplies category where spending totaled \$11.9 million or 58 percent of budget at the end of April; we expect to end the year at 108 percent of budget. Another line item where we continue to experience budget pressures is utilities, because of electricity prices. We project \$4.5 million in excess of the budget to accommodate the current electricity forecast and we will end the year at 115 percent of budget. Spending for small equipment totaled \$0.2 million or 29 percent of budget and we expect to end the year on budget for small equipment.

For the lead program year-to-date spending totaled \$1.5 million or 89 percent of budget; we expect to end the year over budget on this line item due to unanticipated legal actions relative to this line item. Chairman Gerstell asked for an explanation of the unanticipated legal actions that will contribute to overspending the lead program budget. Mr. Johnson explained that he expects WASA's legal costs may exceed budget due to the U.S. Environmental Protection Agency's investigation of the lead program.

Next, Mr. Adebo continued with a discussion of WASA's debt service costs and the payment in lieu of taxes/right of way fee (PILOT). Delayed debt issuances and lower interest rates this fiscal year resulted in lower debt service costs and revised the forecast downward by approximately \$10 million. The PILOT spending category is on track with budget. Mr. Adebo reported that WASA will end the year within the Board-revised budget; and, Mr. Johnson reported that staff would transfer funds from categories where we anticipate savings to offset overspending other categories. Mr. Gerstell asked if WASA would need supplemental appropriations as a result of the impact of spending for electricity. Mr. Adebo responded that current projections do not reflect a need for a supplemental appropriations request.

Electricity

Continuing with a discussion of electricity, Mr. Johnson reported that WASA staff is currently exploring the possible use of joint purchasing. In this regard, staffs are meeting with representatives from the District of Columbia government, the Washington Suburban Sanitation Commission and the Washington Aqueduct.

Consistent with previous reports to the Committee, Mr. Adebo explained WASA's current lock-in strategy which entails locking approximately 33 percent of the for one year and an additional 33

percent for the summer months where we experience most of the usage and price fluctuations we have two-thirds of our load at the fixed price.

Next Mr. Adebo discussed spending for electricity and reported that the December average spot prices were the highest in the past few months totaling \$90/MWH. In January prices dropped to \$63/MWH and in February and March to \$65/MWH. The April average was \$51/MWH. The January through May period is the period when prices are typically most stable. As we approach the summer months approach prices become more volatile.

WASA's electricity team is comprised of staff and several consultants including Amerada Hess, our broker, Betts and Holt, our 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.

Cash Reserves and Investments

Mr. Adebo reported that WASA's cash balances at the end of April totaled \$226.8 million, which includes a \$119.4 million operating reserve balance. Although the operating reserve balance at the end of April totaled \$119.4, for the Board's 180-day operating cash balance we use an average daily balance.

Staff recently conducted a review of WASA's \$295 million variable rate debt issuance and provided the Committee with the results of the review. The variable rate debt program includes both 7-day and 35-day securities. Based on their study, our financial advisors recommend that WASA maintain the diversity of the current program and continue to monitor the financial markets.

Capital Program (Second Quarter Results)

Mr. Benson provided the Committees with a summary report of second quarter 2006 capital program results; the board received the written report last week. WASA currently has 46 active A/E agreements valued at \$334.9 million and 48 currently working construction contracts valued at \$659.8 million.

Mr. Benson continued with a discussion of key budgetary issues that the Board expressed interest in closely monitoring. First, in discussing the lead program, Mr. Benson noted that the lead service replacements are continuing with approximately 25 percent of properties in private property and 35 percent in the priority program. Results of WASA's lead level compliance testing through the end of the 2005 compliance testing periods indicates that WASA is in compliance with EPA Lead and Copper Rule regulations. As a result, the lead program is now a continuing WASA initiative.

Mr. Bobb asked whether there is an expectation that the Aqueduct will change its chemical applications and if so what communication measures are in place to advise WASA prior to any such change. Mr. Johnson responded that the chemical composition did in fact create the problem and ultimately resolved the problem. Several working groups are in place to monitor any chemical changes. (The working groups include representatives from the EPA, Falls Church, Arlington, Department of Health and WASA and other academicians). WASA has also established a working group to address simultaneous compliance issues, which also contributed to lead problem.

Next, Mr. Bobb asked how costs for the working groups are budgeted. Mr. Johnson answered that part of the cost are shared by the three jurisdictions that are customers of the Washington Aqueduct with the exception of the costs for WASA's technical experts.

Continuing with a report on WASA's performance under two CSOLTCP consent decrees, Mr. Benson reported that the projects for the nine minimum controls and the long-term control plan are on schedule. The next milestone is the construction of the East Side pumping station, which will increase capacity to 45 MGD. The station will be online in June, ahead of the consent decree date of August 1.

Mr. Benson continued with an overview of capital program disbursements and the forecast for the remainder of the year. Capital program spending through the end of March totaled \$77.7 million or 77 percent of the projected baseline spending. The current spending forecast is \$182.6 million representing an achievement rate of 88 percent. In the water service area, we will spend 96 percent of budget as the lead service program continues on track with budget. Underspensing will occur in the wastewater treatment service area where we will spend approximately 89 percent due to delays in the digester project contract execution. We have conceptually reached agreement on the surety bond issue and continue to work with the General Counsel and the surety bond industry on finalizing details of the agreement. Mr. Johnson added that instead of rebidding the contract, we plan to extend the bid date to allow for 30 days for submission of bids. Staff projects year-end spending for the Combined sewer service area at 91 percent of budget primarily due contractor invoice submission delays. Spending for the sanitary service area is projected at 49 percent of budget primarily because the manager served as manager as the lead program earlier in the year until we recently hired a lead program manager. We expect work in this area to accelerate now. Mr. Benson noted that we are now conducting a comprehensive review of the sanitary sewer system; the last review occurred in the 1950's and there are a number of issues that we are addressing as a result of the current review, which have delayed some of the construction projects.

Operating Reserves Update

Last month the Committee asked staff to research operating reserves of the IMA partners to aid in renegotiation of the IMA agreement and identify any potential overlapping of reserve funds. Mr. Adebo provided a report outlining the operating reserves requirements of the IMA partners.

Mr. Gerstell asked whether the jurisdictions maintain their reserves by reason of a requirement in an indenture or because of a policy set by their board or in their charter or bylaws. Mr. Adebo responded that all of the jurisdictions reserves are separate from the bond indenture requirements and are set by their board of directors primarily to ensure stability for credit ratings. They all have indenture requirements as well and none of the reserves are specifically earmarked for potential use by WASA.

Mr. Griffin explained that the key long term is to develop a coordinated policy to eliminate redundancy between the various reserves maintained by WASA and each IMA jurisdiction.

Insurance Update

As previously reported to the Committee, WASA's property, excess liability, excess workers' compensation, public officials' liability, and equipment insurance policies expire on June 15. Renewal negotiations are currently underway and we expect overall costs to increase approximately 9 percent from what we paid for the 2005/2006-policy year. The new policies are expected to have essentially the same coverage levels and terms as the expiring policies.

Mr. Gerstell asked staff to provide board members with a copy of the draft Public Officials Liability policy before it is signed. Chairman Gerstell also asked whether staff have recently reviewed whether WASA's self-insurance level of \$500,000 on property is consistent with market practice for other comparably sized utilities. Mr. Adebo responded that staff conducted a survey, which served as the basis for increasing the WASA's self-insurance level from \$250,000 to \$500,000. Mr. Gerstell

asked staff to explore the impact to premiums if WASA increases its self-insurance level to \$1 million. Mr. Adebo responded that staff would conduct research and report back to the Committee.

Next, Mr. Gerstell asked whether WASA's General Liability policy still has the lead exclusion and is there now a basis for eliminating the exclusion. Tanya DeLeon, WASA's Risk Manager reported typically lead is not included and it is considered an additional benefit. Ms. DeLeon will continue to press this issue with the insurance companies.

WSSC Payment

Mr. Adebo provided a report on the rate impact of the WSSC \$22 million receipt. Specifically, Mr. Adebo discussed the hypothetical rate impact if funds were applied to finance capital projects or deposited in the rate stabilization fund. Staff recommends depositing funds into WASA's rate stabilization fund to provide the Board with greater flexibility in buying down rates in some of the out years.

Mr. Gerstell asked when staff needs the Board decision on application of the \$22 million WSSC payment. Mr. Adebo responded that Board input would be required during the FY 2007 rates review process. Mr. Johnson added that the Public Hearing is scheduled for June 8 after which the Retail Rates Committee will consider all comments received relative to proposed rate and fee changes. The Committee will then forward their rate and fee recommendations to the full Board for review and action at their September meeting. Any input concerning the use of the \$22 million WSSC payment would also be needed prior to the September Board meeting.

After the discussion, Mr. Gerstell asked for an update on WSSC's plans to remit payment by June 1. Mr. Johnson responded that he has met with the General Manager of WSSC and has also held telephone calls. The Commission approved the settlement agreement and is awaiting appropriations from Prince Georges and Montgomery Counties. WASA is preparing specific terms for the WSSC agreement and we expect payment by June 1. If WSSC does not remit payment by June 1 all parties involved understand that additional interest will accrue and the settlement amount would change accordingly.

Dr. Brown discussed the process and reported that she is working very diligently with the Prince Georges County Council to ensure that appropriations are available and the June 1 deadline will be met. Mr. Folkers reported that the Montgomery County Council will take action later today on their budget supplement.

Mr. Johnson also reported that staff met with customers in Loudoun and Fairfax Counties to review cost allocation and accounting issues; the County representatives did not express any concerns.

DCCFO Issue

Mr. Johnson provided the Committee with an update on the DCCFO and legal opinions concerning the conflict in the two pieces of legislation regarding hiring and management of the WASA Chief Financial Officer and finance staff and governing the financial operations of the Authority. Recently the DCCFO wrote a letter to the City Council and members of the Government Oversight Committee, the Mayor and City Administrator advising them that WASA is in violation of the current DCCFO legislation and requirements. Mr. Johnson received a letter signed by six U.S. Senators inquiring with regard to the issue. We continue to work with the Mayor and his staff to address the issue. WASA management and the Mayor's staff are working to schedule meetings to address this matter. Mr. Johnson is working with Chairman Gerstell to ensure that staff is taking the appropriate direction.

Committee Work Plan Review

Mr. Johnson provided Committee members with a copy of the Committee work plan goals and identified Johnnie Hemphill as the staff person responsible for developing the information. Mr. Hemphill reported that staff met with the facilitator who assisted the Board at their retreat last year in developing the goals and objectives. The staffs are working on better defining the terms and developing critical success factors so that the strategic plan and work plan goals are connected.

After the Committee reviewed the work plan goals, Mr. Gerstell noted that the Governance consultants work plan goals as laid out in their report have not been factored into the work plan goals as of yet. Mr. Gerstell asked staff to include the governance consultant's recommendations, which will allow the various Committees to determine next steps.

Banking Services Contract Extension

Mr. Adebo referenced the Wachovia Bank contract extension fact sheet. The contract will reach the \$1 million threshold requiring Board review and approval, and the action requires Committee review and consideration.

Mr. Griffin asked whether the bank's performance to date has been adequate. Mr. Adebo responded that the bank's services have been adequate. The contract is for \$287,000 per year, which is what WASA's expenses would be if we actually paid them, however the expenses are offset with compensating balances so at this point WASA has not paid Wachovia any money. In response to a question from Mr. Bobb concerning the contract amount, Robert Hunt, WASA's Treasury Manager explained that at this point, each night WASA is earning money on the balance remaining in our accounts. The monthly earnings credit is approximately \$30,000 as compared to our expenses, which total \$21,000 per month; at this point we have an earnings credit of \$158,000 with Wachovia. After discussion, the Committee recommended forwarding this request to the full Board for action at their June meeting.

Contracts to Minority-Owned Firms

Mr. Bobb referred to a report provided by staff in response to questions raised by Mr. Bardin at last month's Committee meeting concerning Architectural/Engineering contracts and contractors. Mr. Bobb asked what time period the report encompasses and the total value of the contracts for that time period. What actual dollars did WASA spend with minority contractors when we compare to total dollars spent for all of the contracts. Mr. Bass responded that the report contains all active contracts for an aggregate value of \$253 million. Mr. Bobb asked how many actual dollars of the \$253 million has WASA's spent with minority firms. In addition, how many minority contractors serve as primary contractors and what percentage of their work resulted in awards to other LSDBE and minority firms. After additional discussion, Mr. Bass agreed to provide the information requested before the June Board meeting.

Hearing no further business, Chairman Gerstell adjourned the meeting at 10:55 a.m.