



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, June 22, 2006

9:00 a.m.

MEETING MINUTES

BOARD MEMBERS

Glenn Gerstell
Anthony Griffin
David J. Bardin
Robert C. Bobb
Beverly Warfield

WASA STAFF

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

Board Chairman Glenn Gerstell called the meeting to order at 9:10 a.m.

FINANCIAL OVERVIEW

Olu Adebo, Acting Chief Financial Officer, referred to the financial report distributed to the Committee prior to the meeting and continued with financial highlights for the month of May. At the end of May, with 67 percent of the fiscal year completed WASA continues to meet all its key financial and budgetary expectations. Revenues totaled \$200.9 million or 69.3 percent of budget; and, operating expenditures totaled \$168.6 million, or 58 percent of budget. Capital spending in May totaled \$19.5 million, or 51.2 percent of the Board-approved disbursements budget, and year-to-date spending totaled \$103.2 million, or 43 percent of budget. Actual average daily cash balances for the month totaled \$151.5 million; this is \$49.1 million above 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 May. Receipts for the residential, commercial and multi-family category totaled \$104.9 million; which is slightly ahead of budget at 68 percent. Federal payments are ahead of budget at 75 percent of budget due to the federal government's third quarter water payment in April. D.C. All other major categories are on track with budget.

Operating Expenditures

Continuing with a report of operating expenditures, Mr. Adebo reported that since the union compensation negotiations are complete, the personnel forecast is on tracks. At the end of May, personnel services expenditures, totaled \$48.9 million or 61 percent of budget and we expect to end the year within budget. All other spending categories are in line with budget expectations with the exception of utilities. As we reported to the Committee last month, because of electricity price increases, we now 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.

Capital Program

In May, Mr. Benson provided a summary report of second quarter 2006 capital program results to the Environmental Quality and Operations Committee (EQOC) and Finance and Budget Committees. Mr. Benson also discussed the revised disbursements projection of \$215 million. Continuing with his report, Mr. Adebo discussed capital spending through the end of May. Capital spending totaled \$122.7 million or 51.2 percent of the Board-approved disbursements budget of \$239.8 million.

Cash Reserves and Investments

Mr. Adebo reported that WASA's cash balances at the end of May totaled \$225 million, which includes a \$117.3 million operating reserve balance. However, we anticipate that the average for the year will exceed the Board reserve requirement of \$102.4 million.

In May WASA yielded 4.64 percent on its investments, or approximately 20 basis points below the three-month Treasury bill benchmark. Within our portfolio WASA has \$295 million worth of variable rate debt issuances that we locked in on when rates were much lower than they are now. For our new investments since March, WASA purchased approximately \$54 million in new securities with a simple average yield of 5 percent, or 34 basis points. Mr. Gerstell asked whether we will catch up with the Treasury benchmark in July when the variable rate issuances fully mature. Mr. Adebo confirmed that this is the expectation.

Electricity

Mr. Adebo discussed that spending for electricity is consistent with prior months' reports to the Committee. The daily spot electric prices for PEPCO DC Zone averaged \$54 for the month of May as compared to April \$54 and March \$65. Staff expects pricing to increase as we approach the summer months and prices become more volatile.

In addition, staff continues to research alternative methods for purchasing which will further leverage WASA's risks in the electricity markets. WASA is looking at participating in the DC Energy Office's Municipal Aggregation Program (DCMAP); the DCMAP purchases electricity at bulk rates.

Mr. Griffin asked what caused the sudden spike in electricity pricing during the latter part of May. Mr. Adebo explained that in May the prices spiked to approximately \$190 per MWH. The sudden spike was due to power supplier's temporary closure of several facilities for maintenance in preparation for increased demand during the summer months.

Insurance Update

Mr. Adebo referred to Attachment 3 to the report and provided the Committee with an update on insurance coverages and actual costs. Staff renewed all of WASA's policies effective June 15 at essentially the same coverage and terms. WASA was able to negotiate a net increase of 2 percent for the overall insurance program primarily due to an increase in the deductible level for our property insurance policy.

AMR and Sub metering

Mr. Bardin asked staff to provide the Committee with a report on whether or not customers who install sub meters for water consumption associated with lawn irrigation and pay only the water fee. Are these sub meters read through the automated meter reading system (AMR) or manually read. Mr. Johnson responded that AMR should read the meters, but he will confirm this fact and report back to the Committee. By the end of the year, Mr. Bardin asked staff to provide a report on the number of customers with sub meters, how much water these customers use and the subsequent influence on WASA's revenues. Mr. Johnson agreed to provide the report.

Engineering Management and Construction Consulting Services

This contract is a joint venture led by Bryant and Associates, a company that has been instrumental in engineering management and construction consulting services for WASA's lead program. At the meeting of the Environmental Quality and Operations Committee (EQOC) held in May, the Committee recommended this contract for Board action. At their June 1 meeting, the Board considered the EQOC's recommendation and based upon their review of the proposed contract asked for additional Committee review and response to questions raised by several board members.

WASA's engineering staff responded to board members' questions at the June 16 meeting of the EQOC. Mr. Johnson prepared a summary report in order to ensure that all board members with questions have an opportunity to review the information provided by staff. Prior to providing his report, Mr. Johnson introduced Mr. Jack Bryant, the principal in the Bryant and Associates Joint Venture. Mr. Bryant attended today's meeting prepared to respond to any additional questions board members may have concerning the joint venture and their functions under the proposed contract. Mr. Johnson reported that Bryant and Associates, with over 85 employees in various engineering disciplines and administrative functions, will serve as the lead partner for this joint venture contract. There are no provisions in WASA's procurement policy for District-based preferences; WASA competitively bids the contracts.

Mr. Johnson explained that although three joint ventures submitted bids, the proposals included 17 firms some of which would not have submitted independent proposals under normal circumstances. Staff completed an analysis of why other firms that chose not to respond. Several factors included not being able to assemble a team to submit a proposal, not having staff to perform the job, or not being the best fit to accomplish work outlined by the scope of the solicitation.

Robert Bobb asked for more information on WASA's procurement policy; and, who has overall responsibility for administering the proposed contract. Mr. Johnson responded that Bryant and associates is the lead joint venture partner and would be the first entity WASA would contact if issues arise. Avis Russell, General Counsel, added that WASA enters into the contract with the joint venture. The joint venture includes several corporate structures who have joined together to provide a service to WASA. WASA would resolve any resulting issues through the joint venture.

After completing their second review of the proposed contract as directed by the Board, on June 16, the EQOC again endorsed the contract and will return it to the Board for action at their July meeting. Mr. Johnson agreed to meet with interested Committee members to address any additional questions they may have prior to the July board meeting.

Committee Work Plan Update

Johnnie Hemphill, Chief of Staff, provided the Committee with another draft of the work plan previously submitted in a different format for Committee review. Mr. Hemphill explained the structure of the work plan report and highlighted changes to the report since the Committee's previous review. As directed by the Committee, the work plan now includes recommendations forwarded by the Governance Committee to the Board for further review at the conclusion of their governance study.

Next, Mr. Hemphill provided a reported on several work plan accomplishments. One accomplishment involves funding for the Washington Aqueduct's residuals program. Staff continues to work with various District and federal government entities to ensure financing issues are resolved in a manner that benefits WASA and all parties involved.

Mr. Gerstell thanked management for preparing the draft work plan document. Mr. Griffin asked whether the Committee should include the DCCFO issue in the work plan. Mr. Gerstell agreed and asked staff to incorporate the DCCFO issue as one of the Committee's work plan items and to distribute the work plan to all members of the Committee for further review and comments.

In discussing review of issues surrounding operation of the Washington Aqueduct, Mr. Gerstell led a discussion on the most productive way for the Board to continue to address related issues. After discussion, Mr. Griffin volunteered to participate in a separate committee to be comprised of members from each of the Board's standing committees.

Mr. Bardin asked staff to begin to prepare briefing materials to share with the newly elected Mayor of the District of Columbia following the November elections. In addition to other issues that impact WASA, the briefing materials should include options for operating the Washington Aqueduct.

Next, Mr. Bardin asked staff for the following information:

- Brief the Board on the Intermunicipal Agreement) negotiations (IMA); and
- Distribute to the Board copies of the General Manager's recent agreement on certain outstanding accounting issues affecting WASA, Washington Suburban Sanitation Commission, and the authorities in Fairfax and Loudoun Counties in Virginia.

Mr. Bardin asked the Committee or Board to consider an appropriate way to recognize this accomplishment. Mr. Johnson agreed to provide the information requested.

Hearing no further business, Chairman Gerstell adjourned the meeting at 9:49 a.m.