



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

Finance and Budget Committee

Thursday, January 26, 2006

9:00 a.m.

MEETING MINUTES

BOARD MEMBERS

Anthony Griffin
Paul E. Folkers
David J. Bardin

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Controller
John Dunn, Chief Engineer
Linda R. Manley, Secretary to the Board

Anthony Griffin called the meeting to order at 9:20 a.m.

Financial Overview

Olu Adebo, Controller, provided a financial report for the first quarter of the fiscal year that ended on December 31, 2005. With 25 percent of the fiscal year completed, we continue to meet our key budgetary expectations. Mr. Adebo reported that receipts are slightly ahead of budget at 26.1 percent; operating expenditures are at 21.3 percent of budget; and, capital disbursements are at 17.6 percent of budget. The average daily cash balance totaled \$116.1 million, or \$13.7 million in excess of the Board reserve requirement.

Operating Receipts

Next, Mr. Adebo provided a report on operating receipts. With 25 percent of the fiscal year completed, receipts are at 26 percent of budget and all revenue categories are on budget. Mr. Adebo asked the Committee members if there were any questions relative to the detailed report. No issues noted.

Operating Expenditures

Mr. Adebo discussed first quarter results and projections for chemicals and utilities, where we continue to experience spending pressures.

Chemicals and Supplies

In the chemicals and supplies category, year-to-date spending totals 23 percent of the budget with 25 percent of the year completed. Mr. Adebo reported that the majority of WASA's chemical contracts through the Council of Governments (COG) expire in February, and the proposed unit pricing for the option years is higher than existing prices. Given the current prices and potential increases we will likely exceed the chemical and supplies category by year-end. Staff will be

monitoring this area very closely over the balance of the fiscal year and we will continue to update the Board accordingly.

Utilities

Mr. Adebo reported that year-to-date utilities expenditures are at 30 percent of budget with 25 percent of the fiscal year completed. The key cost driver in this area is substantially higher than projected electricity costs.

Mr. Adebo referred to page 8 of the report and noted that staff continues to provide a report on electric prices each month because of the volatility experienced in the daily spot prices. Daily spot electric prices have averaged \$62/MWH since we signed our contract with Hess and \$72/MWH since the beginning of the fiscal year. Prices decreased in January, averaging \$59/MWH as compared to \$93/MWH in December. Mr. Adebo reported that spot market volatility coupled with the fact that average daily spot prices exceed the budgeted amount are indicators that, we may exceed our revised budget by as high as \$4 to 5 million. We continue to monitor futures pricing on a weekly basis, which have come down in recent weeks and are evaluating locking in a portion of our supply. Mr. Johnson added that staff holds weekly conference calls with our advisors and consultants. Prior to the weekly call staff also assess experiences of other jurisdictions to ensure that we are knowledgeable of various market conditions and prices.

Capital Expenditures

Mr. Adebo reported that December capital disbursements totaled \$10.1 million, and year-to-date capital spending totaled \$42.2 million, or 18 percent of the revised disbursements annual budget. The Department of Engineering and Technical Services first quarter review on a project-by-project basis is now underway. We expect to include this information in the February report to the Finance and Budget Committee.

FY 2005 Final Audit Results

Mr. Adebo reported that for the eighth consecutive year, WASA received an unqualified opinion and continued with a report of FY 2005 audit highlights. In February staff will publish the Consolidated Annual Financial Report (CAFR), which contains the audited financial statements. Thompson, Cobb, Bazilio & Associates (TCBA), WASA's external auditors, will present management letter comments at the February meeting of the combined Finance and Budget and Audit Committees. As part of finalizing the audit process, we will complete the A133 single audit (grants audit) with the report issued by the end of February.

Mr. Bardin asked for staff to explain the difference between the monthly reports of wholesale delinquent accounts receivable and the audit report of non-current amounts due from other jurisdictions (page 27 - 28 of the audit report). Mr. Griffin asked staff to reconcile the differences between the monthly financial report and the audit report as of September 30. Mr. Adebo responded that staff will follow up with the Committee's request and provide an explanation of the differences.

Resolution on Revised Lead Service Line Replacement Policy

Referring to Attachment 3, Mr. Johnson provided the Committee with an overview of the proposed lead service line replacement policy. Staff reviewed drafts of the proposed resolution with both the Environmental Quality and Operations and the Customer and Community Services Committees and incorporated their comments in the proposed resolution. Mr. Johnson explained that the revised resolution acknowledges lead program efforts to date and outlines a path for completion of the program. Mr. Johnson shared comments raised by Chairman Gerstell concerning the proposed resolution. Mr. Bardin commended the General Manager and staff on their initiatives, which incorporate lead service replacements as part of a more comprehensive water system improvement effort. Mr. Bardin recommended that the Board resolution provide the latitude needed to continue effective management of the lead program. After discussion, Mr. Griffin asked Mr. Johnson to provide the Board with a revised version of the resolution that considers all feedback received. Mr. Johnson responded that staff will revise the resolution and distribute another draft with the Board package. This will enable Board members to review and submit additional comments prior to the February Board meeting.

Authority Financial Management Resolution

Mr. Johnson discussed the proposed financial management resolution with the Committee. The resolution clarifies the WASA Board position with respect to relevant statutory authority. After discussion, the Committee endorsed the resolution for consideration by the full Board at their February 1, 2006 meeting.

Acting CFO's Departure

Mr. Johnson acknowledged the departure of Michelle Cowan, WASA's Acting Chief Financial Officer and Finance and Budget Director. In her absence, Mr. Johnson extended his appreciation to Ms. Cowan for her commitment, dedication, hard work and positive accomplishments during her tenure. In particular, Mr. Johnson noted that Ms. Cowan did a tremendous job in working through the budget process and also in developing a number of relationships with the financial markets.

Mr. Johnson reported that a national search for the Chief Financial Officer position is underway. In the interim, Olu Adebo, WASA's Controller since 2000, will serve as Acting Chief Financial Officer for the Authority.

The Committee thanked Ms. Cowan for her tenure at WASA and asked Mr. Johnson to prepare a Board resolution to Ms. Cowan noting the many financial accomplishments attributable to her leadership. The Committee also expressed congratulations and confidence in Mr. Adebo as he assumes his new role.

Other Business

Mr. Folkers asked the Committee to review the Board's Strategic Plan at the February or March meeting to ensure continuing focus on the Board's directives.

Hearing no further business, Mr. Griffin adjourned the meeting at 10:06 a.m.