



# **DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

## **BOARD OF DIRECTORS**

Finance & Budget Committee

*Thursday, January 25, 2007*

*9:00 a.m.*

## **MEETING MINUTES**

### **COMMITTEE MEMBERS**

Anthony Griffin, Acting Chairman  
Paul Folkers

### **Other Board Members in Attendance**

Joseph Cotruvo

### **WASA STAFF**

John Dunn, Chief Engineer  
Olu Adebo, Acting Chief Financial Officer  
Webster Barnes, Principal Counsel  
Linda Manley, Board Secretary

Anthony Griffin called the meeting to order at 9:14 a.m.

### **December 2006 Financial Report**

#### **FINANCIAL OVERVIEW**

Olu Adebo, Acting Chief Financial Officer, proceeded with summary financial highlights for the month of December. At the end of December, with 25 percent of the fiscal year completed WASA continues to meet all its key financial and budgetary expectations. Revenues totaled \$76.3 million or 25.5 percent of budget; operating expenditures totaled \$64.2 million or 20.6 percent of budget; and, capital spending totaled \$47.2 million, or 21.1 percent of budget. Actual average daily cash balances for the month totaled \$126.6 million; this is \$15.3 million above the Board's 180-day reserve requirement.

#### **Operating Revenues and Receipts**

Referring to the Chart on page three of the Financial Report, Mr. Adebo summarized operating revenues and receipts for the month of December. At 25.5 percent of budget, revenues are slightly ahead of budget and all revenue and receipts categories are on track with budgetary expectations.

#### **Operating Expenditures**

Mr. Adebo reported at the end of December expenditures were at 21.1 percent, or slightly under budget. All spending categories are in line with budget. At 23 percent of budget, personnel services at the end of December are slightly below budget. Personnel savings are due primarily to WASA's 18 percent vacancy rate. Currently, there are about 110 unfilled positions. The Human

Resources Department has several initiatives, previously discussed with the Board, that are underway to address the vacancy rate. The Human Resources Committee will brief the Board through the Human Resources Committee.

Year-to-date contractual services spending totals 22 percent of budget with 25 percent of the fiscal year completed. Water purchases trail the budget at 19 percent at the end of the first quarter. We expect expenditures in this category will increase somewhat in the summer months as consumption increases.

Next, Mr. Adebo discussed one area of concern, chemicals. The majority of WASA's chemical contracts through the Metropolitan Washington Council of Governments (COG) have been extended for one option year at higher prices. Staff increased the revised FY 2007 budget by \$3 million to accommodate higher prices and changes in treatment processes. However, the current prices for chemicals are higher than anticipated, which could affect the chemical line item budget by approximately \$2 million. At this time, Mr. Adebo expects that all spending will remain within the total authorized budget. However, staff will continue to closely monitor this category and update the Committee monthly.

In concluding his review of operating expenditures, Mr. Adebo explained that for the first quarter, spending for utilities totaled 19 percent of budget and all other categories are on track.

Mr. Cotruvo asked about the impact of the 18 percent vacancy rate on operations or key projects. Mr. Adebo noted that the overtime expenditures are slightly ahead of budget, however, most programs and projects are continuing to meet expectations. Mr. Dunn added that in some instances we rely on contract services to staff certain functions and projects given the tough recruitment market. After further discussions, Mr. Cotruvo asked that management report back to Human Resources Committee concerning initiatives planned that are currently underway to address the vacancy rate.

### **Capital Program**

Mr. Adebo reported that during the next Committee meeting, the Department of Engineering and Technical Services will provide their first quarter spending report.

December capital disbursements totaled \$47.2 million or 21 percent of the budget and in all categories we expect to remain within our total disbursement budget. This year, disbursements are on track with budget and we expect to end the year closer to budget than in prior year.

### **Cash Reserves and Investment**

The total cash balance at the end of December was \$246.1 million; \$116.9 million of that balance was for operating reserve, \$58.5 million for the rate stabilization fund, and \$70.7 million for the CSO LTCP Appropriation (advance funding from the federal government).

At the end of December, we exceeded our investment benchmark, with a yield on the portfolio of 5.27 percent, or 30 basis points higher than the targeted T-bill benchmark rate.

## **Other Reports**

### **Electricity**

For December 2006, the daily spot electric price for the PEPCO DC Zone averaged \$47.70/MWH and \$46.54/MWH for the first quarter of FY 2007. This is considerably lower by comparison with the average cost for December 2005 which was \$90.17/MWH, and the first 3 months of FY 2006 which averaged \$81.30/MWH. The lower than average temperatures have contributed to the lower prices we are experiencing to date. However, based on historical and present market trends, we anticipate electricity prices will rise and peak during the summer months, averaging approximately \$70/MWH through the year.

Mr. Adebo reported that staff has continued the strategy of keeping some of WASA's electricity load locked at fixed prices. So far this winter, staff has locked approximately two-thirds of our electricity load locked at a price of over \$60.00/MWH. By the end January, we will have one-third of our load locked and we will ride the market for a few more months and then lock-in another one-third.

As previously reported to the Committee, staff had been heavily involved with the DC Energy Office's Municipal Aggregation Program (DCMAP). Recently, staff decided not to participate in the DCMAP and later learned that DCMAP procured electricity at \$80/MWH; WASA's experience to date has been better at \$63/MWH for the portion of the load locked.

In January, staff met with the District Office of the Attorney General, District Department of Energy to discuss our protest to Pepco's rate increase proposals. The impact on WASA would be relatively minimal at approximately \$300,000; however, the impact of these increased rates on the District would have greater impact.

The energy team is continually looking for ways to mitigate WASA's electricity costs. This year, we will work with the Washington Suburban Sanitary Commission (WSSC) and other jurisdictions to explore how we can leverage our procurement of electricity to obtain better pricing.

Mr. Griffin asked for an update on the Energy Manager position and the impact on electricity procurement. Mr. Adebo explained that because of the difficulty WASA experienced in recruiting for an Energy Manager that possessed both energy procurement and management experience, and because the process has worked well with the finance group leading the energy procurement team, the Energy Manager positions has now been revised to include only energy management skills. Management continues to recruit for an energy manager who will focus on managing how WASA uses electricity.

In response to a question from Mr. Folkers on the continuing effectiveness of the energy team, Mr. Adebo responded that the current process continues to be very efficient and works well. The WASA energy team consists of Finance Department staff, legal and electricity procurement consultants, and our broker, Amerada Hess. The energy team continues to meet weekly to monitor and discuss electricity market conditions and pricing. Mr. Folkers asked Mr. Adebo to arrange for WASA's consultants to provide an update to the Board with their evaluation of the effectiveness of WASA's current process.

### **Audit Report**

Mr. Adebo reported that the FY 2006 audit was completed on schedule and WASA received an unqualified opinion from the external auditors on the Authority's financial statements. Prior to today's meeting, management distributed copies of the financial statements to board members. Management received the draft management letter, and plans to discuss its contents during a separate briefing of the Audit Committee in February.

### **Bond Counsel Services**

Mr. Adebo reported that the Bond Counsel request for proposals process is on track and management plans to recommend a firm to the Finance and Budget Committee in February with Board action in March.

### **Future Financing Activities**

Mr. Adebo discussed the current schedule for the 2007 bond issuance. At the February Committee meeting, WASA's Financial Advisors will brief board members on financing plans. Mr. Adebo introduced one of the co-financial advisors present at today's meeting, Ms. Carmen Marshall of PG Corbin; Public Financial Management (PFM) is co-financial advisor. In discussing several key date, Mr. Adebo reported that staff are currently preparing draft preliminary offering statements, on April 23 we will price the bonds and on May 7 we expect to go to the market.

## **BUDGET REVIEW & COMMITTEE ACTION**

### **Budget Calendar**

Mr. Adebo briefed the Committee on the remaining milestones for the FY 2008 budget calendar. Management will ask the Finance and Budget Committee to recommend action on the budget proposals today. On February 8, the Retail Rates Committee will meet to recommend action concerning the rates proposal, before the full Board meets that day to consider action on the various Committees recommendations.

### **Other Issues**

John Dunn, Chief Engineer, provided the Committee with an update on two emerging issues with significant budgetary impact. The Total Maximum Daily Load (TMDL) issue was originally scheduled to be resolved by the U.S. Environmental Protection Agency on June 2008; however discussions appear to be moving more quickly than originally anticipated. WASA's environmental attorneys attended a court-mandated meeting in January during which WASA stated that the June 2008 deadline is not realistic. Legal representatives from the USEPA Region III and the Department of Justice also attended the meeting. Management will continue to monitor this issue and report back to the Board with developments.

Mr. Dunn continued with a briefing on the potential budgetary impact of the Total Nitrogen Removal legislation. Mr. Dunn reported that the USEPA is planning to issue the permit by April which could have significant budgetary and operational impact. Management will provide a more comprehensive briefing to the Board at their February 8 meeting.

### **Revised FY 2007 and Proposed FY 2008 Budget Action Items**

Mr. Adebo discussed all Committee's changes to the budget proposals. Mr. Griffin asked Mr. Adebo to review the details of the six actions item for consideration by the Committee. At the conclusion of Mr. Adebo's review, the Committee recommended approval of the action items.

Mr. Griffin referred to a recent Washington Post editorial concerning clean up of the Anacostia River. To better address cost concerns, Mr. Griffin suggested that management prepare a response to this article to highlight costs and potential increases associated with such a clean up effort.

Hearing no further business, Mr. Griffin adjourned the meeting at 10:35 a.m.