



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

*Finance and Budget Committee
Thursday, October 27, 2005
9:00 a.m.*

MEETING MINUTES

BOARD MEMBERS

Glenn S. Gerstell
David Bardin
Paul Folkers
Anthony Griffin
Beverly Warfield

WASA STAFF

Jerry Johnson, General Manager
Michelle Cowan, Acting Chief Financial Officer
Avis M. Russell, General Counsel
Barbara Grier, Acting Assistant General Manager
Linda Manley, Secretary to the Board

Paul Folkers called the meeting to order at 9:34 a.m.

Financial Report

Michelle Cowan, Acting Chief Financial Officer, reported that the Authority ended the year on target with projections that staff presented to the Committee in September. Ms. Cowan provided a report of operating receipts, operating and capital spending, investment performance and cash balances at year-end.

Operating Receipts

Operating receipts, (reflecting all revenue categories) totaled \$285.1 million at the end the fiscal year and are four percent ahead of budget. Current projections remain in line with those presented to the Committee last month. This better-than-budgeted performance is due in part to the one-time impact of the conversion from quarterly to monthly billing on large commercial and multi-family accounts. In addition, receipts were up in part due to a \$5.4 million decline in accounts receivable, resulting from strong collections performance.

Operating Expenditures

Ms. Cowan continued with a review of operating expenditures. Management currently projects that WASA will end the year at 96 percent of budget with savings of approximately \$9 million. In the personnel services category we project that we will end the year at approximately 98 percent of budget due to higher than budgeted vacancies and lower than projected overtime spending. Staff are finalizing a number of GAAP-related accruals, including raises for union employees and we will update these projections over the next two months.

Contractual services' spending represents 30 percent of the total budget and the spending projection is at 96 percent of budget. Underspending in this area is due primarily to savings in

maintenance contracts, combined with relatively smaller savings across a variety of functions. Staff will finalize a number of year-end accruals for claims and other estimated costs over the next two months. In the chemicals and supplies area we expect to end the year approximately at 109 percent of budget because of higher unit prices on the majority of our contracts. In utilities we expect to end the year 105 percent of budget, approximately \$1.2 million over budget due to high electricity prices. Savings in personnel services, contractual services and debt service are expected to offset budget issues in chemicals and utilities. Debt service expenditures are seventeen percent less than budget and are attributable to lower than projected capital spending and interest rates. WASA realized stronger than budgeted performance on the auction rate securities program, budgeted at four percent, while the year-to-date interest rate has averaged slightly above two percent. We did not utilize our commercial paper program as we spend down remaining proceeds from the auction rate securities issuance.

Capital Spending

Capital spending totaled \$202.7 million, or 68 percent of the Board's approved disbursements budget; and 95 percent of the revised third quarter projection of \$212.6 million. Disbursements were less than budgeted in all service areas. At the October meeting of the Environmental Quality and Operations Committee, a detailed, project-by-project review of the capital program was presented and was included as an attachment to the Finance & Budget Committee's package.

Rate Stabilization Fund, Cash & Investments

Cash balances at the end of September totaled \$221.6 million, including CSO appropriations and the rate stabilization fund. The operating reserve averaged \$114.3 million on a daily basis throughout the fiscal year. At year-end, the total was \$116.3 million, in excess of the Board reserve requirement of \$97.7 million. Because of stronger than anticipated financial performance in FY 2005, we made a contribution of \$4 million to the rate stabilization fund, increasing the balance to \$31.5 million.

For the fiscal year, the yield on the Authority's portfolio was 2.52 percent, in excess of the budgeted interest rate of 2.25 percent, but less than the average three-month Treasury bill rate of 2.75 percent. In FY 2004, WASA invested a portion of its portfolio in two-year U.S. Treasury securities that were higher yielding than market conditions at that time. As interest rates increased in 2005, these two-year securities lagged the general market; the securities begin maturing later this fall and into next summer; performance will continue to lag until all of these securities mature. Given the fact that our cumulative interest rates are currently lagging our T-bill rate because of prior-year investments, Chairman Gerstell suggested that it might be helpful to compare the performance on recent investments with the current T-bill rate as another benchmark for our investment performance, noting that if interest rates continue to rise, we will be in a similar situation going forward.

Anthony Griffin suggested that staff should segregate short-term investments and long-term investment and track them separately, similar to the way Fairfax County tracks and reports their investment performance. Mr. Griffin offered to forward investment reports used by Fairfax County for WASA staff review.

David Bardin referred to several questions he submitted and staff responded to pertaining to reporting on various classes of accounts receivables and receipts reporting. Going forward, he asked staff to provide a breakdown of retail and wholesale revenues accounts receivables to more clearly indicate several wholesale customer outstanding receivables. Chairman Gerstell asked the General Counsel's Office to review WASA's alternatives for non-retail customers who do not pay

their bills on time. In addition, Mr. Bardin asked staff to track and monitor ROW/PILOT expenditures including calculating any raise in ROW by DC resulting from WASA's retail rate increases. Mr. Bardin also asked staff to explore whether to charge DC and others for Stormwater runoff as well as provide a comparison of how WASA's PILOT fees compare to other surrounding jurisdictions.

Potomac Interceptor Rate Update

Ms. Cowan continued with a discussion concerning several Potomac Interceptor (PI) users' delinquent accounts. In April 2004, WASA completed a review of the PI rates, which had not been updated since 1979. WASA began billing at the new rates, which were 90 percent higher than the old rates, in October 2004. In addition, WASA transmitted a backbilling of \$1.8 million to the PI users, of which approximately \$1.3 million remains outstanding. Ms. Cowan reported that staff received letters from the Town of Vienna and the Metropolitan Washington Airports Authority (Dulles Airport), the two largest users of the PI, in response to WASA's intention to collect for historical unpaid billings dating back to 1979. These entities maintain that WASA does not have a legal basis for collecting back billings nor supporting documentation to justify payment. Ms. Cowan noted that the letters did not include a copy of their consultants' report nor a counter offer, and that management had contacted each entity to discuss WASA's position. Ms. Cowan reported that the PI agreement allows WASA to update rates every three years. There is no dispute concerning the new rate and all users are paying current bills at the higher rate. Ms. Cowan believes that WASA has a strong basis for collection of these back billings and has forwarded the contracts to WASA's General Counsel for review and advice. Staff will report back to the Board concerning any future discussions with PI users on this matter and a recommended course of action. Mr. Griffin offered to assist with delinquent accounts for PI users and inquired concerning any delinquencies WASA may have at this time. Ms. Cowan responded that WASA does not have any significant delinquencies to other entities. Concluding the discussion, Mr. Griffin offered his assistance with collection of fees from PI users and noted that both Vienna and Dulles should make a good faith payment.

Mr. Folkers asked staff to consider providing a more frequent review of the PI agreement and rates. Ms. Cowan responded that because of the significant PI improvements currently underway including odor control and rehabilitation, a \$40 million project, WASA has implemented a process to update the rates every three years, reflecting updated costs. The next rate increase would be effective October 1, 2007.

Mr. Gerstell expressed his low tolerance for delinquencies because WASA should be paid what it is owed and asked the General Counsel to review contracts underlying the PI and any other contracts where we are supplying services. Staff should provide the PI users with retroactive rate increases or true-ups as soon as possible. Mr. Bardin suggested that PI rates should increase with similar frequency as retail rates.

Electricity Update

Referring to electricity pricing charts discussed with the Committee each month, Ms. Cowan reported that daily spot electric prices have averaged \$59/MWH since we signed our contract with Hess for service beginning in January and February. Prices have dropped only slightly since summer, averaging \$77/MWH in September and \$74/MWH month to date in October, compared to \$83/MWH in August because of the high oil prices, the hurricane, hot weather, and generation plant outages and transmission issues.

Because of these high prices, we have exceeded our FY 2005 budget for electricity by approximately \$850,000. We increased our FY 2006 revised budget proposal by \$1.8 million bringing total power costs up to \$24 million, and have budgeted the same amount for FY 2007. If

prices continue at these levels, we may also exceed our FY 2006 electricity budget. In addition, at these price levels, we will need to increase the \$20.8 million contract authority in the Board resolution authorizing us to enter into the one-year Hess contract. Our plan is to bring this proposed increase of \$1.5 to \$2 million to the Committee in November, with Board consideration in December.

Extension of Rates and Financial Consulting Contract

Next, Ms. Cowan asked the Committee to consider a GSA contract extension in the amount of \$700,000 to provide for ongoing rates and financial consulting services, raising the contract value to \$2.7 million. PB Consult provides rates analyses, financial consulting, and insurance and risk management services at significantly lower rates than GSA's published rates.

The Committee recommended approval of the extension for Board consideration at their November meeting.

General Manager's Budget Presentation

Prior to the meeting, Ms. Manley distributed copies of the operating and capital budget proposals for FY 2006 and 2007. Mr. Johnson commended Ms. Cowan and her staff for their hard work, particularly in light of the resignation of WASA's former Chief Financial Officer just prior to the commencement of this year's budget season.

Mr. Johnson provided a review of FY 2005 successes and presented financial highlights contained in the budget documents. Next, Mr. Johnson outlined various initiatives and priorities, which underlie the budget. The CIP and ten-year plan reflect Board Strategic Plan priorities: customer and community services, organizational effectiveness, environmental quality and financial stability. The revised FY 2006 operating budget totals \$290 million, a \$4.8 million decrease from the Board-approved FY 2006 budget, due primarily to debt service savings. The proposed FY 2006 operating budget totals \$311.6 million, an increase of \$20.8 million over the revised FY 2006 budget. Debt service, the result of increased CIP spending, is the fastest growing of the budget, projected at a 26.1 percent increase in FY 2007. The operations and maintenance budget grows by 2.2 percent; the first instance of WASA exceeding its inaugural 1998 budget.

The Board's budget review session is currently being finalized. The Board will consider adoption of the budgets at their January 6, 2007 meeting. Mr. Johnson asked that board members direct any questions concerning the budget to Ms. Manley, to ensure proper tracking and timely staff response to the questions posed.

Chairman Gerstell, Anthony Griffin, David Bardin and Paul Folkers extended congratulations to Mr. Johnson, Ms. Cowan and staff for their preparation of the budget proposals. Mr. Bardin noted the wealth of information contained in the General Manager's message and commended everyone to read the document which is posted on WASA's website.

Hearing no further business from Committee members, Mr. Gerstell adjourned the meeting at 11:00 a.m.