



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**BOARD OF DIRECTORS**

*Finance and Budget Committee*

*Wednesday, December 15, 2004*

*10:00 a.m.*

**MEETING MINUTES**

**BOARD MEMBERS**

Glenn Gerstell  
David J. Bardin  
Lucy Murray  
Brenda Richardson  
Stephanie Nash

**WASA STAFF**

Paul Bender, Chief Financial Officer  
Michelle Cowan, Director of Finance and Budget  
Linda R. Manley, Secretary to the Board

Chairman Gerstell called the meeting to order at 9:44 a.m., immediately following the Retail Rates Committee meeting.

**Committee Action on FY 2005 and Proposed FY 2006 Budgets**

The Committee continued the discussion from prior meetings of the eight action items that the Board would be asked to consider at its January 2005 meeting:

1. Revised FY 2005 operating budget
2. Proposed FY 2006 operating budget
3. FY 2004 – 2013 financial plan
4. FY 2004 – 2013 capital improvement program (lifetime & cash disbursements basis)
5. FY 2006 capital authority request
6. Capital projects reimbursement resolution
7. Proposed FY 2006 stormwater enterprise fund budget
8. Capitalization of lead program expenditures

Mr. Bender explained that seven of the action items are fairly standard each year; the Committee agreed to forward action items one through seven to the full Board for consideration at their January meeting, with appropriate modifications to reflect the action of the Retail Rates Committee. In addition, the capital improvement program resolutions and attachments and budget document will be revised to include commitment and

disbursement projections for each of the four major categories in the recently approved Combined Sewer Overflow Long-Term Control Plan.

Mr. Bender explained that action item eight is unique this year and relates to capitalization of approximately \$4.3 million of estimated costs that are being incurred because of the lead service line replacement program. Mr. Bender explained that the Financial Accounting Standards Board has adopted an accounting standard, Financial Accounting Standard #71, that allows regulated entities to capitalize costs in special circumstances where these costs would otherwise be charged as an operating expense. The key to implementation of this accounting standard is action by the entity's regulator, in WASA's case, the Board, to implement this accounting practice.

Mr. Bardin stated that he does not support capitalization of lead-related costs such as public relations and filter costs, which he believes are operating costs. Chairman Gerstell asked why these items are not considered operating expenses. Mr. Bender explained that the bulk of costs would be operating items if the Board did not authorize capitalization. Mr. Bender explained that the rationale for capitalization is that these items are unique in that they are being incurred solely because of the lead program, and they will likely only occur during FY 2005 and FY 2006. In order to avoid charging current ratepayers alone for the cost of these items (which are not included in current rates), the costs would be spread over the life of the lead service program, mitigating the impact on current rates. Chairman Gerstell stated that his preference was to show these costs clearly in the operating budget rather than burying them in the capital program, in part to highlight to the public the resources WASA is committing to this issue.

Mr. Bender explained that in order to accommodate lead costs in the operating budget WASA would need to eliminate other operating budget costs. Mr. Bardin questioned why WASA would have to eliminate other critical budget items to add these costs. Mr. Bender responded that WASA's FY 2005 operating budget has been approved by Congress and the President, and that to increase it above this amount would require a supplemental appropriation from Congress, which has historically been very difficult to get approved.

Lucy Murray asked whether the memorandum of understanding between the District of Columbia Chief Financial Officer and WASA last year pertaining to the transfer of funds to support WASA's lead costs could be used. Mr. Bender explained that under the MOU, the District, using its emergency powers, essentially transferred some of its budget authority to WASA and WASA repaid the District earlier this fiscal year. Mr. Bender stated that this type of structure could potentially be pursued with the District again this year if needed.

Mr. Bardin asked if WASA could use its rate stabilization fund to pay for these costs. Mr. Bender explained that the issue is getting legal authority to spend in excess of the Congressionally-approved budget. While the rate stabilization fund is a financing, it does not give WASA legal authority to spend in excess of its budget.

Mr. Bardin asked if management had pursued supplemental appropriation authority for FY 2005 from Congress this past fall and summer. Mr. Bender responded that Congress and the President approved the FY 2005 budget in November. Mr. Bender further explained that WASA had unsuccessfully pursued supplemental appropriations authority of \$13 million in FY 2004 despite extensive and very time-consuming efforts, and was not

optimistic that similar efforts in FY 2005 would yield a different result. Chairman Gerstell asked why the supplemental appropriations process is so difficult, particularly in light of the fact that WASA is not asking for additional cash or funding, rather additional legal authority to implement a program of great importance to District residents. Mr. Bender responded that the process requires participation of numerous parties, including the District CFO, the Mayor, City Council, federal agencies and Congress. In some years, no requested supplemental appropriations are passed for the District. Mr. Bardin and Chairman Gerstell asked for additional information on how the supplemental appropriations process works and WASA's historical efforts at securing supplemental appropriations.

The Committee asked management to add these lead-related costs to the operating budget. Chairman Gerstell stated that he and other Board members would lend whatever assistance necessary to assist management in securing a supplemental appropriation. Mr. Bender stated that management will begin pursuing a supplemental appropriation and potentially a memorandum of understanding with the District of Columbia Chief Financial Officer. Management will also prepare additional information for the Board on the supplemental appropriations process and WASA's efforts to secure a supplemental appropriation in FY 2004.

After discussion, the Committee recommended action items one through seven for Board review and action in January.

Chairman Gerstell adjourned the meeting at 9:54 a.m.