# *DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY*

## *BOARD OF DIRECTORS*

Finance & Budget Committee

*Thursday, December 7, 2006*

*8:00 a.m.*

## *MEETING MINUTES*

**COMMITTEE MEMBERS**
Glenn Gerstell, Chairman
Dr. Jacqueline Brown
Anthony Griffin
Paul Folkers
Steven McLendon
Kenneth Davis

**WASA STAFF**
Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Avis M. Russell, General Counsel
Linda R. Manley, Board Secretary

**Other Board Members in Attendance**
David J. Bardin
Joseph Cotruvo

Chairman Glenn Gerstell called the meeting to order at 8:10 a.m.

**BUDGET REVIEW**

**Budget Calendar**

Mr. Johnson reviewed the FY 2008 budget calendar and confirmed key dates and milestones for completion of the budget reviews with the Committees and final action by the full Board. In October, management distributed the budget documents to board members. Board members reviewed the budget proposals during a joint meeting of the Environmental Quality and Operations (EQOC) and Finance and Budget Committees. During the budget review session today, management will discuss the operating budget in more detail with board members. On December 21, the EQOC will continue its in-depth review of the proposed capital budget. Following that meeting, the Retail Rates Committee will consider rates-related budget matters at their meeting scheduled for January 4 (tentative). At the conclusion of the budget review sessions, management will ask the Committees for recommendations on the Committees' budget proposals. The full Board will consider the budget proposals in February. Mr. Johnson asked if there were any questions concerning the budget calendar; no questions arose.

Next, Mr. Johnson asked that board members direct any budget-related questions to Board Secretary Linda Manley.

**Review of Revised FY 2007 and Proposed FY 2008 Operating Budget**

Mr. Johnson provided summary budget statistics and then asked Olu Adebo, Acting Chief Financial Officer, to continue with a more detailed review of the operating budget request.

Mr. Adebo discussed the operating budget request. The total revised operating budget request is $311.2 million and $0.4 million, or 2 percent decrease from the FY 2007 approved budget. The FY 2008 proposed budget increases by $30 million, or 9 percent above the revised budget level. Operations and maintenance costs, excluding the payment in Lieu of Taxes/Right of Way Fee and Debt Service costs is approximately 3.5 percent higher than the revised FY 2007 budget level.

In his review of the personnel budget, Mr. Adebo discussed both historical and projected staffing levels for authorized full-time positions; the discussion covered the period from FY 1998 through FY 2008. Since FY 1998, WASA has reduced 394 authorized positions; this is consistent with the goals established by the internal improvement plan. In large part, the position reduction has been the result of plant automation initiatives. Mr. Adebo noted that staff continues to monitor staffing size during the budget process; including both the impact of the capital improvement program and other planned automation initiatives. Mr. Gerstell asked whether there are any vacancy rate assumptions to which Mr. Adebo responded that the budget proposals assume a 9 percent vacancy rate. Next, Mr. Gerstell asked about any initiatives underway or in the planning stages to improve hiring difficult-to-fill vacancies. In response, Mr. Johnson discussed several initiatives that are currently underway. These initiatives include:

- Establishing entry level wastewater treatment trainee positions to provide a larger pool of qualified wastewater treatment plant operators
- Recruiting college students who have interest in engineering disciplines for a rotational program at WASA
- Considering ways to attract candidates by offering various incentives such as a housing assistance program, signing bonuses, retirement medical savings program and several other benefits.
- Reviewing WASA's current wage and salary structure for certain difficult-to-fill positions. The Department of Human Resources has completed its review and management will discuss the results during the December 20 meeting of the Human Resources and Labor Relations Committee.

At the conclusion of Mr. Johnson's review of the various initiatives, Mr. Bardin asked the Board to add budget funds to the budget proposals to cover all of the initiatives.

After which, Mr. Adebo continued with his review. Overtime spending continues to decline from a high of $8.7 million in FY 1997 to an actual $4.9 million in FY 2006. This is an approximate 44 percent decline and remains relatively flat in the current budget proposals.

Mr. Gerstell asked Mr. Adebo to focus the remainder of his budget review on discretionary spending budget line items versus those areas that are largely fixed. The chemical and supply budgets increase by 12.7 percent for FY 2007 revised and 5.1 percent in FY 2008. Chemical cost increases are tied to rising oil prices, transportation and fuel costs.

Next, Mr. Adebo explained that the revised budget increase for the contractual service category is 1.5 percent or $0.9 million higher than the FY 2007 approved budget. This increase is due primarily to a new security guard services contract; the FY 2008 proposed budget increase of 2.3 percent is due to minor contract increases in several program areas.

During FY 2006, WASA experienced budgetary pressures for electricity; and staff project these same pressures will impact the revised FY 2007 budget. Market factors such as rising oil prices, heavy global demand for power and oil and natural disasters are key drivers for the increases in electricity. The revised FY 2007 electricity forecast reflects these market factors and is 15.2 percent or $4.6 million higher than the FY 2007 budget. Staff estimates electric generation and transmission prices at an annual average price of $79/MWH. Mr. Adebo reviewed electricity expenditures for the period FY 2004 through FY 2008. WASA's procurement team includes electricity consultants, in-house staff and our electricity broker, Amerada Hess. This team provides continuing reviews and market strategies to mitigate electricity costs. WASA is also making improvements to operations to ensure more efficient use of energy.

Mr. Bardin asked that staff review the new projections that the Energy Information Administration (EIA) distributed on Tuesday of this week. Although, the EIA's full range of alternatives will not be available until February 2007, Mr. Bardin asked that staff compare the EIA's nationwide statistics to those prepared by staff.

In discussing water purchases, Mr. Adebo explained that that WASA purchases approximately 75 percent of the water produced by the Washington Aqueduct (the Aqueduct); the Aqueduct has two treatment facilities, the McMillan Plant and Dalecarlia. And, WASA is also responsible for 75 percent of the Aqueduct's operating and capital costs. Mr. Adebo noted that chemicals and electricity are the key cost drivers for this category. The estimate for WASA's share of the Aqueduct's operating costs in FY 2006 is $22.8 million; and, WASA's FY 2007 revised budget is $23.6. The FY 2008 budget remains at the same level and staff will revise this estimate, as needed, during the FY 2009 budget preparation.

Mr. Cotruvo asked how much influence WASA has on decisions the Washington Aqueduct makes at its treatment facilities. Mr. Johnson responded that a customer board, established several years ago, works with the staff and management at the Aqueduct. In addition, a technical expert group was established to address water quality issues. The customer board includes representatives from WASA, Falls Church and Arlington; this board reviews the Aqueduct's budgets and activities. A memorandum of understanding sets forth areas of input by each representative. WASA does not possess any legislative mandate with which to direct activities. Managers of the Aqueduct make spending decisions. The relationship between WASA and the Aqueduct has been good which provides WASA some influence over decisions made.

Next, Mr. Adebo discussed the debt service budget proposals. Debt service is the fastest growing area of WASA's operating budget, driven by WASA's $2.2 billion capital improvement program. The FY 2007 revised budget is $11.9 million less than the FY 2007 approved budget. This is the result of deferring the 2006 planned debt issuance to FY 2007. The proposed FY 2008 budget for debt service is $20.7 million higher than the revised FY 2007 budget and assumes an estimated six percent rate for financing the FY 2007 bonds. Mr. Adebo assured board members that the proposed budget provides adequate appropriations authority.

Mr. Gerstell asked staff to routinely evaluate the commercial paper program as part of future budget preparations.

Mr. Bardin asked whether management has been able to weigh potential United States risks that may impact the cost of money and therefore WASA's borrowing in years to come. Mr. Adebo responded that the model that staff uses factors these risks as part of our cost of financing and we rely on our consultants as well to provide us with advice concerning interest rate projections. As we get closer to the issuance, the issuance team which includes the bond counsel, underwriters, staff, etc., we will refine our strategy to determine the size and type of debt we will issue. According to recent advice, now is a good time to begin looking at converting variable rate debt to fixed rate debt.

Mr. Adebo discussed rates projections, the impact on the average residential customer's bill and WASA's retail rates as compared to other utilities. Management will provide more information on rate projections at the Retail Rates Committee meeting scheduled for January 4.

Mr. Bardin asked for the status of various rates scenarios that board members requested during an earlier budget review session. Mr. Adebo asked whether the board members would prefer the responses in writing or discussion during the meeting in January. Mr. Gerstell asked staff to provide responses in writing to the Board with detailed follow up as needed at the January 4 meeting.

Referring to slide 22 of the presentation, Mr. Johnson discussed emerging and long-term issues that may impact WASA's budget. The discussion included ongoing CIP implementation, Combined Sewer Overflow Long-Term Control Plan, the Blue Plains Internal Improvement Program review, Governance Study implementation, Chesapeake Bay Agreement total nitrogen changes, biosolids hauling and disposal issues, digesters construction, WASA's sewer system assessment, CMOM maintenance requirements, inclusion of study findings in the capital program, water quality matters, security and emergency preparedness, the new baseball stadium, Main and O Streets operation relocations, M Street corridor improvements and the proposed new WASA headquarters building. Mr. Gerstell commended the General Manager, Acting Chief Financial Officer and staff for the tremendous effort that goes into budget preparation and the board review process.

Mr. Gerstell asked whether the budget proposals include funds to further study possible alternate revenue sources that could potentially offset the burdens on WASA's customers. Mr. Johnson responded that although no funding has been included, construction of the new WASA headquarters building would provide lease space. Also, WASA has filed for several copyrights for software application licenses which may also generate some revenue. Mr. Gerstell asked staff to add a budget line item for consulting support to focus on determining the economic feasibility of pursuing such activities.

Mr. Bardin referred to another emerging issue, the "District of Columbia Green Building Act of 2006"; a bill which was recently passed by the District of Columbia Council. This legislation establishes building standards and incentives for the development of more green buildings. The law will have an impact on all new construction or buildings with significant rehabilitation funded in the FY 2008 budget. The law will apply to non-residential, District public schools and residential and commercial buildings, and it adopts standards which may change the way WASA analyzes stormwater in the District.

Mr. Bardin asked the General Manager to include a $1 million line item in the proposed FY 2008 operating budget upon with the General Manager could make grants for low impact development projects in the District. If there were grants available that might encourage more emphasis on stormwater than otherwise. Also, in a compromise the private sector has until 2012 on their buildings but it is quite conceivable that members of the private sector might be willing to move faster with grant incentives.

Mr. Griffin agreed with the proviso that any efforts are coordinated with the District Government as he sees this matter as more a municipal function and not WASA; if it were a collaborative effort it would make sense. Mr. Bardin responded that establishing the activity in the proposed budget is only the first step and is subject to further analysis and revisions.

Mr. McLendon asked whether management has been in contact with Mayor-elect Adrian Fenty. Mr. Johnson responded that he and Chairman Gerstell met with the Mayor elect. Mr. Johnson reported that he also met with Mr. Fenty during a briefing on environmental matters. Mr. McLendon noted that a more collective effort between WASA and the District on these matters would be most beneficial.

Hearing no further business, Chairman Gerstell adjourned the meeting at 9:30 a.m.