



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, June 28, 2007

9:00 a.m.

MEETING MINUTES

COMMITTEE MEMBERS

Robin Martin, Chairman
Paul Folkers
Keith Stone

WASA STAFF

Jerry Johnson, General Manager
Yvonne Reid, Acting Controller
Webster Barnes, Principal Counsel
Linda Manley, Board Secretary

Other Board Members Participating

David J. Bardin (By Telephone)

Chairman Robin Martin called the meeting to order at 9:04 a.m. and explained that board member David Bardin would participate in the meeting by telephone. Mr. Martin asked Mr. Johnson to continue with the May Financial Report. Mr. Johnson noted that WASA's Acting CFO, Olu Adebo, is out of the country and asked Yvonne Reid, Acting Controller, now serving during Mr. Adebo's absence as Acting Chief Financial Officer, to provide the monthly financial report.

May 2007 Financial Report

Ms. Reid referred to Attachment 1 of the report and proceeded with summary financial highlights for the month of May. WASA continues to meet all of its key financial and budgetary expectations. At the end of May, with approximately 67 percent of the fiscal year completed, revenues are totaled \$207.1 million or 67.9 percent of budget; operating expenditures totaled \$176.1 million or 56.4 percent of budget and capital disbursements totaled \$114.2 million or 51.0 percent of budget. Actual average daily cash balances for the month totaled \$121.9 million, or \$10.6 million above the Board's 180-day reserve requirement.

Operating Revenues and Receipts

Next, Ms. Reid summarized operating revenues and receipts for the month of May. With approximately 67 percent of the fiscal year completed, cash receipts are \$207.1 million, or approximately 68 percent of budget. Although revenues in some categories appear to either slightly trail or in some cases exceed budget, Ms. Reid explained that there are no major revenue issues to report and she expects WASA will end the year on budget for operating revenues and receipts.

Operating Expenditures

Continuing, Ms. Reid reported that at the end of May, expenditures totaled \$176.1 million, or 56 percent of the FY 2007 board-revised budget. The budget staff is currently meeting with the various departments to complete revised forecasts based on staff expect WASA to end up at year end in terms of spending. This information will also be useful as staff prepares for work on the revised FY 2008 and FY 2009 proposed budgets. Management will provide the Committee with these revised forecasts during next month's meeting. Overall, Ms. Reid expects WASA will end the fiscal year within budget. The revised forecasts will provide detail needed to transfer funding from areas where additional funds are required.

Mr. Stone asked if management expects any surpluses or deficits this fiscal year. Mr. Johnson responded that while WASA expects to end the year on budget, staffs are revising the forecasts to ensure we have the most current information. Mr. Johnson does not anticipate any deficits as any adjustments required would occur within the authorized budget level.

Cash Reserves and Investments

Ms. Reid reported that at the end of May the total cash balance was \$250.4 million. The operating reserve balance was \$120.5 million, or \$9.2 million in excess of the Board reserve requirement of \$111.3 million. WASA is doing very well with its investments. The May yield on the Authority's investment portfolio was 5.25 percent, or 38 basis points higher than the targeted benchmark rate of 4.87 percent. Mr. Reid reported that the rate stabilization fund still holds at \$58.5 million and management will provide an updated report on the fund during the Retail Rates Committee meeting scheduled for July.

Capital Spending

Ms. Reid reported in May capital spending was \$15 million and year-to-date disbursements totaled \$114.1 million. The Department of Engineering and Technical Services (DETS) is also in the process of preparing its third quarter capital program updates and revised forecast. Chairman Martin asked why capital spending always lags budget and what is management doing to provide more accurate forecasts for the capital program. Mr. Johnson responded that the capital forecasting and budgeting is more complicated as there is close to a forty-five day lag in invoicing. In addition, WASA has to resolve dispute issues with contractors and other operational constraints do not allow for a monthly forecast. Mr. Johnson explained that the quarterly report that DETS provides is intended to give up-to-date spending information for projects by service area. The Environmental Quality and Operations Committee meetings provide detail review and discussion of this information during their meetings. DETS is working on the third quarter capital program update and after staff completes their analysis, management will provide this information to the Committee.

Fire Hydrants

In response to a question by Mr. Stone regarding any budgetary impact of recent changes in the fire hydrant program, Mr. Johnson responded that in addition to the capital equipment budget, the board approved a \$26.5 million budget for the fire hydrant program. Charles Kiely, Assistant General Manager Consumer Services, reported that the budget for fire hydrants repairs and replacements for FY 2007 is \$6 million. Mr. Johnson added that funding is available to provide for work associated with this project and there are no budgetary issues to report.

Investment and Deposit Practices

Mr. Folkers stated that he is pleased to see in the report that management is currently reviewing WASA's investment policy and asked when was the last time WASA conducted such a review and the timetable for completion of the review being conducted by Public Financial Management (PFM). Mr. Johnson explained that the last time WASA reviewed its investment practices was several years ago. Robert Hunt, Treasury Manager reported that a review of DCWASA's Investment and Deposit Policy was last completed in July 2002. Management has requested that WASA's

financial advisor Public Financial Management (PFM) review the present policy and compare it to the best practices of the Government Finance Officers Association (GFOA) and other similar entities. Staff received a preliminary draft of a revised policy with no major changes from the existing policy. After the review is completed, management will recommend a revised policy to the Committee.

Insurance Renewals

Mr. Johnson reported that WASA successfully renewed its insurance coverages effective June 15. When compared to last year's costs, the insurance renewals resulted in significant cost savings of approximately seven percent. WASA's history and strong safety program have contributed to this savings. Referring to Attachment 5, Mr. Martin asked if all the bidders for WASA's insurance lines are listed. Robin Hayes, Acting Risk Manager responded that all of the selected bidders are listed. Mr. Johnson offered to have the insurance consultants come in to present their detailed review of the entire process and outcomes, if the Committee would like that information. Since the process has been completed, Mr. Martin responded that the additional review would not be necessary. Continuing with questions, Mr. Martin asked how much insurance WASA has for terrorism to which Ms. Hayes responded that WASA has \$500,000,000 of coverage. The Chairman asked why WASA's umbrella coverage includes only one company to which Ms. Hayes responded that the company selected was the only bid received. Mr. Martin asked if the firm selected for WASA's umbrella cover is essentially a captive insurance provider, to which Mr. Johnson responded affirmately. In concluding this section of the report, Mr. Martin asked management to provide benchmarking data for the insurance summary in Attachment 3.

FY 2008 Rates Process

Mr. Martin asked for a listing of all of the meetings convened where the FY 2008 rates proposal was discussed. Mr. Johnson agreed to provide a comprehensive listing.

Independent Review of WASA's Budget

As follow up to the Board's guidance received during their June meeting that WASA proceed with an independent review of its budget, Mr. Johnson discussed a draft scope of work for Committee consideration as well as a timetable for completion of the work. The timetable would allow the information to be useful during the FY 2009 budget planning process. Mr. Bardin recommended that the scope of work delve into the question of whether or not there are potential savings of a significant measure.

After discussion, the Committee agreed to the following timetable and deliverables:

- | | |
|---|------------------|
| ▪ Board Consideration of Proposed Scope | June 28 |
| ▪ Publication of RFP | July 5 |
| ▪ Receipt of Proposals | July 30 |
| ▪ Short List Respondents | August 3 |
| ▪ Forward Recommendation to Committee | August 6 |
| ▪ Committee Interviews | Week of August 6 |
| ▪ Interim/Progress Report to Committee | TBD |
| ▪ Report to Board | November 1 |

Since the idea for the review originated with the District Council, Mr. Bardin suggested that as a courtesy management should notify the Council of WASA's intent to proceed with an independent review. Chairman Martin offered to work with the General Manager to finalize the scope of work under the approved timetable. Mr. Martin will e-mail the draft final scope of work to Committee members and communicate with board members to ensure that the project proceeds as planned.

Action Item

Mr. Johnson reviewed a fact sheet which seeks to exercise the fourth option year of the AON Consulting, Inc., in the amount of \$515,900. The contract provides for consulting services in the areas of health and welfare, retirement and compensation. Ms. Reid explained that the contract is a joint use, indirect cost contract, as reflected by the percentages listed for various user shares. After review, the Committee recommended the action item to the full board for consideration at their meeting in July.

Other Business

Mr. Bardin referred to a letter dated June 20, 2007 with an accompanying attachment. The letter, posted on DC Watch was written by the District's Chief Financial Officer (DCCFO), Dr. Natwar Gandhi and sent to Mayor Adrian Fenty and City Council Chairman Vincent Gray. Although the article does not directly affect WASA, the attachment, which is informational, explains the different types of bonds used in the District (general obligation bonds, enterprise revenue bonds, and tax-supported bonds). WASA's borrowing is discussed as an example of an enterprise fund borrowing that is entirely dependent on non-District revenues. The information notes that WASA borrowing does not affect in any way the borrowing status or bond ratings for the District of Columbia. Borrowing by other District entities includes general obligation bonds and tax-revenue bonds. The reasoning of the DCFO may or may not apply to WASA as a separate and independent borrowing entity. Chairman Martin will share the letter and attachment with all Committee members and management for informational purposes and for further thought.

Hearing no further business, Mr. Martin adjourned the meeting at 10:30 a.m.