



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

Finance & Budget Committee

Tuesday, February 26, 2008

9:00 AM

MEETING MINUTES

COMMITTEE MEMBERS

Robin B. Martin, Chairman
Dr. Jacqueline Brown

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Yvette Downs, Director Finance and Budget
Avis Russell, General Counsel
Linda Manley, Board Secretary

Other Board Member in Attendance

David J. Bardin

Chairman Robin Martin called the meeting to order at 9:00 AM.

January 2008 Financial Report

Ms. Yvette Downs, Director of Finance and Budget, provided the financial report for the month of January, 2008, on an exception basis. Ms. Downs reported that expenditures are on track with budget, except for the Washington Aqueduct (Aqueduct) capital payment which has not occurred because of the Aqueduct's delay in awarding a contract for the residuals project. Mr. Johnson explained that the Aqueduct is currently working on value engineering and renegotiations with bidders for the residuals project in order to bring the project within budget.

Chairman Martin raised a question regarding the year-to-date expenditures for chemicals, which now appears to be in line with budget, but differs from previous monthly financial reports. In response, Ms. Downs explained that previous reports reflected a higher price for methanol, which has now been renegotiated to a lower price. This lower price, coupled with quantity adjustments, should mitigate the budget impact. The full financial impact of renegotiated prices for chemicals, effective in February, may not be realized until later in the fiscal year. Ms. Downs explained that although staff identified savings for methanol, she expects chemicals expenditures will exceed the line item budget for the fiscal year.

Chairman Martin noted that, as requested, the table on delinquent accounts had been revised to include the percentage of total delinquent accounts. The Committee continued with a discussion on the customer classifications within the delinquent accounts summary and comparison to other

utilities. Management confirmed that the Supporting People By Lending a Helping Hand (SPLASH) and Customer Assistance Program (CAP) accounts are included within the numbers provided; and inactive accounts are defined as accounts no longer in service, water turned off and/or no related activity for three consecutive months.

Chairman Martin asked for clarification on the percentage of Automated Meter Reading (AMR) billing. Mr. Adebo responded that AMR consumption (or billings) for the month of January were at 94 percent. Year-to-date consumption is at 92 percent. Mr. Bardin inquired on the progress of AMR installations at Union Station. Mr. Charles Kiely, Assistant General Manager for Consumer Services, responded that work on the large meters at Amtrak is scheduled for the week of March 3, 2008.

In reviewing the capital disbursement historic graph provided to the Committee in advance of the meeting, Mr. Bardin noted that for the past six years, except for one, the original capital budgets compared to the actual disbursements have shown a cumulative difference of over one quarter billion dollars. He asked if this fact has an impact on retail rate making. Mr. Adebo explained that although the Board adopts a proposed rate typically in January of each year, later in the fiscal year, management provides the Committees and the Board with an adjusted forecast for the current fiscal year. Later in the fiscal year, when actual spending data are available and staff recalculates excess revenues, management has a better picture of the year-end financial position with which to assist the Committees and the Board in making final rates decisions. Mr. Adebo further explained that historically the Board has utilized such information to reduce the proposed rate increase for the following fiscal year. This annual expenditure and rate review process also helps to prevent annual cumulative compounding of annual disbursements. Chairman Martin directed further discussion of this matter to the Retail Rates Committee.

Update on FY 2008 Bond Issuance

Ms. Barbara Bisgaier, of Public Financial Management, WASA's financial advisor, provided an update on the status of the FY 2008 bond issuance. According to Ms. Bisgaier, WASA is in the process of executing the plan proposed during the last Committee meeting, which is to convert the 2004 auction rate bonds to fixed rate bonds and to find an alternative variable rate structure for the 2007 auction rate bonds. Ms. Bisgaier explained that the first round of documents has been circulated among the members of the working group, which includes underwriters and attorneys. A request for proposals (RFP) was distributed for letters of credit to support the variable rate 2007 issuance. Response to the letter of credit RFP is due back on March 3, 2008. Ms. Bisgaier stated that over the past two weeks there have been failures in auction rate transactions, including the Port of New York and New Jersey Authority bonds. To date, WASA's auction rate bonds have not failed.

Chairman Martin asked Mr. Adebo to present to the Board, or through the General Manager, for the March 6 Board meeting, a report on the feedback WASA receives on the March 3 deadline.

Mr. Adebo continued with a summary of WASA's financial experience in the bond market through February 2008, and expectations for the fiscal year end. His summary included a discussion of year-end projections and the potential impact of this volatile market. During Mr. Adebo's review of various scenarios, he explained that given the best case scenario, debt service expenditures would be approximately \$3 million less than budget, while in a worse case scenario (assuming that interest rates rise to 15 percent and 18 percent, respectively, for the variable rate debts), WASA would end the fiscal year on budget.

Action Item

Mr. Adebo presented a fact sheet seeking Committee consideration of a sole source contract for bond underwriter services with Salomon Smith Barney (CITI) and Bear Stearns & Co. and various subcontractors to serve as senior managers along with the same underwriting team utilized in the 2007. This contract will provide investment banking and underwriting services to WASA for the remarketing of our 2004 and 2007B bonds. Given the need to expedite this action, because of unanticipated market and economic conditions, engagement of this team will benefit WASA as they are most familiar with the issues and are in the best position to expedite the re-financing. According to Mr. Adebo, the terms and conditions for this contract are the same as those for the previous contract. The Committee agreed to move this item to the full board for consideration.

Independent Comprehensive Budget Review Status Report

Mr. Johnson stated that the independent comprehensive budget review work is well underway and that staff interviews have been completed. Management expects a first draft of the consultant's report by the first week in March, with the final draft expected by the end of March.

Chairman Martin reported that during the February 22, 2008, hearing before the District Council's (Council) Committee on Public Works and the Environment, Chairman Jim Graham requested that Chairman Martin provide a copy of WASA's final independent comprehensive budget review report for review by the Council. Chairman Martin confirmed the Committee's intent to review a draft of the draft report prior to issuance in final form. In discussing the schedule for completion of this project, Mr. Bardin asked that the Committee meet with the consultants on March 27, with provision that the draft report be circulated to all Board members by March 12. All board member comments should be provided by March 19 to ensure that the project stays on track.

Committee Work Plan Update

Mr. Adebo provided an update on the Committee Work Plan, which was based on comments and feedback received from the last Committee meeting. Mr. Adebo stated that the report needs an additional revision that would remove the Retail Rates Committee activities from the Finance and Budget Committee to the Retail Rates Committee Work Plan. Chairman Martin requested that a session be scheduled for the Committee to review the board governance study results. He also suggested that all board members be invited to that work session as it relates to board governance matters that involve the Washington Aqueduct. The goal, according to Chairman Martin, is to bring all the new Board members up to date, and to refresh the memory of the veteran Board members on the topic. It was noted that the Environmental Quality and Operations Committee (EQOC) has the same request. The Finance and Budget Committee agreed to move this item to the EQOC meeting agenda for April, 2008. Chairman Martin suggested that the final column on the Committee Work Plan Goals report be modified to read "Deadline" or "Deadline/Status" and requested that the Work Plan item be presented as a quarterly status report.

Other Business

1. Dr. Brown inquired about the status of the proposed amendment to the Congressional DC CFO law, providing for the delegation of authority from DC CFO to WASA. Chairman Martin responded that in discussions with the Mayor's office, they understand that there have been additional discussions, particularly with the Maryland delegation, concerning additional provisions that others would like to see in the proposed legislation, both relating to the CFO issue and the Jobs for District Residents Act. He further states that in the interim, WASA's CFO would remain in acting status until this item is resolved. Ms. Avis Russell, General Counsel's

Office, added that she has not heard anything from the District CFO's office since she delivered materials to them in earlier this winter.

2. Chairman Martin noted that DC CFO Natwar Gandhi informed him in a recent conversation that the RFP for the certification of payment-in-lieu-of-taxes cost of service study is out for bid and an answer to WASA's inquiry is anticipated within several months.
3. Mr. Johnson apprised the Committee on a cost of service study that is being undertaken by the Customer Committee with the Washington Aqueduct. The City of Falls Church has requested that the results of this study, (not anticipated until the fall 2008), be applied retroactively to the cost sharing of the residuals project. The impact is uncertain and would depend upon the actual result of analyzing peaking factors. Mr. Johnson will bring recommendations to the Committee and Board before the study is finalized in late spring or early summer.
4. Mr. Johnson requested the Committee's consensus to advance a request from a District chartered non-profit organization, Homes for Hope, to relinquish an existing property lien and allow repayment in agreed upon installments. Homes for Hope is attempting to acquire a delinquent property in the District for renovation to serve patients with HIV/AIDS. Mr. Johnson's request was made in advance of the March 6 Board meeting because the organization was trying to settle on the property and this lien could impact their ability to close on the property. The Committee indicated their support. Chairman Martin requested that Mr. Johnson send the Board a message for responses.
5. Mr. Johnson informed the Committee on the need to petition the Mayor to enter into a condemnation process for the replacement site for "O" Street. While WASA has condemnation authority, Mr. Johnson stated that condemnation must be executed through the Mayor's office. Chairman Martin indicated his support, but requested that this item be brought formally to the next full Board meeting, if nothing happens before then.

Chairman Martin adjourned the meeting at 10:45 AM.