DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee
Thursday, March 27, 2008

9:00 AM

MEETING MINUTES

COMMITTEE MEMBERS	WASA STAFF
Robin B. Martin, Chairman	Jerry Johnson, General Manager
Dr. Jacqueline Brown	Olu Adebo, Acting Chief Financial Officer
	Yvette Downs, Director Finance and Budget
	Webster Barnes, Principal Counsel
	Linda R. `Manley, Board Secretary

Other Board Members in Attendance
David J. Bardin

Presenters/Participants
David Goodman, Bond Counsel, Squire, Sanders and Dempsey
Barbara Bisgaier, Public Financial Management
Myron Olstein, URS Corporation
Robert Beringer, URS Corporation

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

February 2008 Financial Report

Mr. Olu Adebo the Acting Chief Financial Officer, and Ms Yvette Downs, Director of Finance and Budget, provided the monthly financial report for the month of February, 2008, on an exception basis. It was reported that the Authority was meeting all budgetary expectations. With 42% of the fiscal year completed it was highlighted, among other things, that revenues of $143.4 million were slightly ahead of projections ($141 million) and expenditures were $126.5 or 37.1% of budget. The average daily balance ($130.3 million) of the 180 day operating reserves exceeded Board goals of $118.6 by $11.7 million or approximately 10%. It was also reported that capital disbursements of $95.9 million or approximately 30% of budget continue to lag projections primarily because of the then pending Washington Aqueduct residual disbursement. Mr. Adebo informed the Committee that the payment had since been made to the Washington Aqueduct and will be reflected in the March Finance and Budget Committee report. Chairman Martin inquired if that payment had been made in January or February would current capital disbursements match projections, to which Mr. Adebo replied that disbursements would have been close to target.

Ms. Downs informed the Committee that payments had been received from federal and D. C. Government customers for the quarter and that spending on contractual services was still lagging projections due to delay in invoicing and some procurement. However, she indicated that the major procurements are still scheduled to be completed in this fiscal year. Therefore, she noted that the March report, which will reflect a six months year-to-date review and analysis, will provide a more comprehensive year-to-date picture and year end forecast.

Update on FY 2008 Bond Issuance

Mr. Adebo informed the Committee that this part of the presentation would address bond documentation, followed by updates from the financial advisers. Mr. David Goodman, bond counsel to the Authority on this transaction from the law firm of Squire, Sanders and Dempsey informed the Committee that drafts of the bond documents were available. Mr. Goodman informed the Committee that the resolution presented by management will authorize two series of bonds for the purpose of refunding the outstanding auction rate securities that the Authority issued in 2004 and 2007. This resolution will authorize a series 2008 A for up to $310 million and a series 2008 B for up to $59 million maximum if all of the 2008 B series had to be issued on a taxable basis. He added that because of this restructuring, up to $15 million of the series 2008 B may be refinanced on a tax exempt basis and included as part of the 2008 A series. Chairman Martin asked for clarification of the decision point necessary to determine whether or not some portion of the series 2007 B bonds can be refinanced on a tax exempt basis. Mr. Goodman indicated that the Internal Revenue Service (IRS) and Securities and Exchange Commission (SEC) have been striving to make Pronouncements and Issue Releases to give some relief in order to accommodate other issuers in the same situation as the Authority. Pronouncements and Issue Releases have had a bearing on whether this issuance will be a reissuance, but he was confident that approximately $15 million of the so-called “bad money” from the taxable series could be reissued as non-taxable during this set of transactions. Chairman Martin inquired as to the possible alternative options in the event that the IRS makes no new Pronouncements. Mr. Goodman responded that the $15 million shift to non-taxable should still be possible and added that the series 2008 A will most likely be issued for $310 million and the series 2008 B for only $44 million.

Mr. Goodman went on further to explain a listing of the required documents necessary to be entered into in order to extend the security of the trust indenture for this sale and explained their relevancy and importance. He asserted that the Series A and Series B will be issued as subordinated debt under the Authority’s outstanding trust agreement. He noted that there were ongoing discussions on whether the mode of issuance for the Series 2008 B taxable issuance should be Variable Rate Demand Bonds (VRDB) or Commercial Paper and explained some of the business and legal issues.

At this time Mr. Goodman concluded his presentation and invited questions and comments. Dr. Brown noted that this issue was of a time sensitive nature and requested Mr. Goodman to give a timeline leading to the issuance. Mr. Adebo, the Acting Chief Financial Officer, responded that the Series 2008 A might close in April and the Series 2008 B at the end of May or early June. Dr. Brown inquired when this will be forwarded for full Board approval, to which Chairman Martin informed her that the item would be on the April 3 Board agenda. Mr. Bardin asked if the Financial Adviser had an idea of the expected interest rate on these issues. Ms. Bisgaier gave an estimated range of five percent to the lower end of the fives and noted the uncertainty due to the volatility of the market.

Ms. Bisgaier gave an update of the overall bond issue transaction. She informed the Committee that bids were expected from two insurers and that a one-time premium will be paid out of bond proceeds at closing. If the Board approves the resolution in its next meeting, the documents would be posted electronically for parties to take necessary action on the Series A. For the Series B she indicated a two track solution. Track one, the principal track, is utilizing VRDB to which Dixie Bank has submitted a proposal, and track two is utilizing Commercial Paper (CP). The CP route as an alternative source of funding is the cheaper route but depends on the availability of continuances of existing guarantees and letters of credit, and maintenance of the 'grandfathering' clause of those guarantees and the ability to use CP for a taxable issuance. The General Manager added that securing the existing favorable interest rate is another factor affecting availability because there is a possibility that this guarantor might want to renegotiate the interest rate higher. Mr. Bardin noted that the first three issues were either legal or institutional and that the fourth was practical. He wanted to know who the decision makers were on these four issues. Ms Bisgaier indicated the West Deutsche Landis Bank for the legal side as well as the grandfathering issue. She also indicated that the interest rate might remain unchanged but the cost for the new letter of credit might be increased by ten basis points which will still be cheaper than the Dixie credit proposal. Chairman Martin asked whether the utilization of the CP option has an impact on long term financial planning. Mr. Adebo indicated there are plans to review and resize the CP program in relation to the Authority's Capital Investment Program (CIP).

Ms. Bisgaier noted that the two track option should be continued, and Mr. Adebo indicated that a schedule or timetable would be presented in the next Board meeting. This was followed by a discussion on the paper work and necessary Board action in relation to adopting the resolution. Mr. Bardin suggested that the Authority consider focusing the pay-go part of the Authority's capital program on the Aqueduct so as to get the $44 million taxable financing down as fast as possible. The General Manager informed the Committee that the Authority employs a strategy of constant evaluation of options in order to eliminate the taxable portion of the portfolio.

Chairman Martin requested a briefing on the underwriters and a recap on the auction rate securities experience a week ago. Ms Bisgaier gave a summary of the Bear Stearns situation and its proposed takeover by J.P.Morgan. She assured the Committee that the Authority's position with Bear Stearns was not in imminent danger and recommended that the Authority proceed with Bear Stearns as the 'Book Running Senior Manager' for the Series 2008 A fixed rate transaction. She highlighted multi-billion dollars deals that Bear Stearns will close on in the near future despite its ongoing situation. Dr. Brown inquired on the possibility of closing with one underwriter if the Bear Stearns situation deteriorated. Ms Bisgaier stated that if circumstances change prior to closing, primary roles can be switched making Citi Group the senior and Bear Stearns the co-senior. In reference to the recent auction, she mentioned that the Citi Group's half of the auction reset at 5.8% on Tuesday while the Bear Stearns half of the exact same bonds reset on Thursday for 15%. This was followed by a discussion on the mechanics of bond auction and Ms Bisgaier and Mr. Adebo promised to watch future auctions closely and provide the Committee with an update. Chairman Martin indicated that the Finance and Budget Committee will recommend approval to the full Board.

Independent Comprehensive Budget Review Draft Report

The General Manager informed the Committee that the draft report had been circulated to all members of the Board with a request for comments, questions or suggestions. He introduced members of the consultant team, Myron Olstein and Robert Beringer. There was a discussion on the schedule for transmitting the final report to the Board and the D.C. Council. It was anticipated that Board and staff comments would be transmitted to the consultant after the Committee meeting and the final report would be available at the end of the following week.

This was followed by a presentation from members of the consultant team on their findings and recommendations. The team highlighted WASA's outstanding and commendable operations and organizational structure. Furthermore they portrayed WASA as the "best kept secret on the East Coast," a beacon worth emulation by other organizations in the industry. They gave an overview of the scope of the review, highlighting financial operations, staffing levels, regulatory requirements of CIP, organizational structure. They mentioned that their methodology included internal and external interviews, benchmarking, and peer group metric studies, best practice review. Major recommendations include: a chemical usage optimization study, possible merger of wastewater collection and water distribution workforces, electricity and energy optimization at Blue Plains, implementation of a single capital management system, reviewing certain expenses for inclusion within the IMA and reducing the reserve requirements. At the conclusion of the presentation Chairman Martin congratulated the General Manager and his staff for their hard work in bringing the Authority this far as reflected by the peer review aspects of the budget review. The General Manager gave a background of the history behind the reserve requirement levels. Mr. Bardin requested that the electronic version of the presentation be made available for future distribution. Chairman Martin commended the review team for their good work and the professional manner they performed the assignment. He requested that the team present their findings to the Board of Directors in the April meeting.

<u>Other Business</u>

Chairman Martin requested the status of the Cost of Service Study between FEMS and WASA. The General Manager indicated that this will be done by DCWASA independently and a status report might be available by summer. Mr. Bardin went on to compliment the General Manager for an editorial in the Examiner newspaper. Chairman Martin called the meeting to adjournment at 11:30 AM.