



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

Finance & Budget Committee
Thursday, May 22, 2008

9:00 a.m.

MEETING MINUTES

COMMITTEE MEMBERS

Robin B. Martin, Chairman
Keith Stone
Timothy Firestine

WASA STAFF

Olu Adebo, Acting Chief Financial Officer
Yvette Downs, Director Finance and Budget
Avis Russell, General Counsel
Linda R. Manley, Board Secretary
Charles Kiely, AGM, Consumer Services
Tanya DeLeon, Risk Manager
Bob Hunt, Treasury Manager

PRESENTER

Stuart Cowart, Independent Insurance Advisor,

Chairman Robin Martin called the meeting to order at 9:05 a.m.

March 2008 Financial Report

Mr. Olu Adebo, Acting Chief Financial Officer, and Ms. Yvette Downs, Director of Finance and Budget, presented the summary of financial highlights for the month of April. Ms. Downs reported that at the end of April, WASA continues to meet all its key budgetary and financial goals with expectation that expenditures and revenues would be at budgeted levels by year-end. The revenue receipts are \$186.4 million or 55% of budget; expenditures are slightly lower at \$179 million or 52% of budget. Capital disbursements are slightly higher at \$201 million or 62% of budget. Ms. Downs noted that capital expenditures appear a bit high due to the one-time payment of \$67 million to the Washington Aqueduct in March, for the Residuals Project. The average daily balance on operating reserves in April was \$10.9 million over the required minimum amount.

Ms. Downs noted that the operating receipts are slightly lower at 55% of budget with 58 % of the fiscal year complete because the Federal and the DC Housing Authority quarterly payments were received timely but the wholesale payments were received in May after cutoff time for this reporting period. Ms. Downs also noted that the Other Revenues category is low primarily due to the Rate Stabilization Fund transfer that is expected to be utilized during the latter part of this fiscal year.

Reporting on an exception basis, Ms. Downs reviewed specific operating expenditure categories, noting that the Authority continues to experience budgetary pressures in several line items, including utilities (electricity) and chemicals (particularly methanol). Ms. Downs added that the CFO

office continues to work with all departments to identify potential savings from other line items to address these budgetary pressures and expects the year to end within the Board-approved budget.

As electricity continues to be one of WASA's budget pressures, Chairman Martin asked about WASA's long term strategy on electricity. Mr. Adebo responded by identifying electricity cost components as consisting of consumption (usage) and procurement (purchasing strategy), and proceeded to explain WASA's current electricity purchasing strategy, involving locking of portions of the Authority's electricity load at fixed prices to mitigate WASA's exposure from rising market prices. Mr. Johnson noted that staff is looking at a variety of programs and strategic plans to reduce energy consumption including discussions with WSSC personnel on their recent wind power purchases and other alternative procurement processes. An interview process is currently underway to recruit an Energy Manager to perform a thorough review on WASA's energy consumption. Mr. Johnson added that the digesters or a similar project is part of WASA's long range strategy development to reduce its electricity consumption and dependence.

On capital spending, Ms. Downs noted again that a large portion of the 62% expenditure is primarily due to the \$67 million payment to the Washington Aqueduct, which was reported in April. In the Water Service area, Ms. Downs noted a \$5.1 million payment for the Anacostia Pumping Station Upgrade project and additional \$1.5 million and \$1.1 million for the Lead Service Replacement and the City-Wide Fire Hydrant Programs, respectively. Ms. Downs expects the capital expenditures to normalize and finish within budget at the end of the fiscal year. Chairman Martin suggested that a cumulative number be used to plot the graph on "Actual Capital Disbursements Compared to Budget for the Past 12 Months", to avoid the spikes shown on the graph. Mr. Johnson noted that budgeted capital expenditures do not track on a straight-line basis. Therefore, he suggested that a more appropriate way to track capital expenditures would be against the total budget at the end of the fiscal year. In response to Mr. Firestine's question on capital projects implementation rate, Mr. Johnson noted that the capital project status information is generally presented to the Operations Committee on a quarterly basis. Mr. Adebo stated that a Capital Project Status Quarterly Report would be presented to the Finance and Budget Committee, next month.

On investment portfolio and performance, Mr. Firestine inquired as to whether WASA will be able to achieve the revenue projections for investment income given the current market, declining rates, and the average cash balance. Ms. Downs responded that the budgeted interest income amount is \$7 million, and Mr. Hunt confirmed that WASA would achieve the budgeted amount at the end of the year.

Chairman Martin recommended that the Automated Meter Reading Project (AMR) graph (page 12) be labeled appropriately to show the word "Meters" along the "X" axis. Following discussions on the Cash Flow Summary (page 14), Chairman Martin suggested that the Total Year-End Projection column be re-titled as appropriate. Mr. Johnson stated that staff would have an internal discussion on how to reformat that page.

Update on FY 2008 Bond Issuance

Mr. Adebo and Mr. Bob Hunt, Treasury Manager, presented an update on the FY 2008 bond issuance. Mr. Hunt updated the Committee on the successful sale of the 2008 Bond Issuance, the proceeds of which have been used to pay off the 2004 Series Auction Rate Bonds. Mr. Hunt also noted that the last maturity of the 2004 Series Bonds (2004B1), worth \$73.8 million, would be paid off on May 22, 2008. He further stated that all the actions and documentation required to proceed with the issuance of the \$44 million in taxable commercial paper have been completed. A thirty (30) day notice of redemption has also been sent to the 2007B Series bondholders and the payoff of these bonds and issuance of taxable commercial paper have been scheduled for June 25, 2008. Chairman Martin asked about the maturity dates for the 2008 WASA bonds and Mr. Adebo responded that the Committee would be provided the amortization schedules. Mr. Hunt concluded

that staff would be consulting with WASA financial adviser and broker dealer (Bear Stearns – JP Morgan) just prior to issuance, to get an idea on where the market is and what maturities to expect for the initial issuance. Mr. Johnson concluded that staff will perform an analysis of the debt service costs and provide the Committee a full report on the bond issuance costs with all the net numbers.

Rolling Owner-Controlled Insurance Program (ROCIP) Update

Ms. Tanya Deleon, Risk Manager, and Mr. Stuart Cowart, WASA's independent insurance adviser for WASA, provided highlights of the insurance policy renewal program. Ms. Deleon informed the Committee that WASA's ROCIP will expire in October, 2009, and this presentation lays the foundation for future decision points with quick educational updates for information and future reference. Mr. Cowart defined and reviewed the ROCIP, highlighting program achievements and savings to date.

Chairman Martin requested that in subsequent reports, additional information be included on the number of current active projects (as a percentage of the total 54 number of projects enrolled). On the savings performance, Chairman Martin asked if WASA anticipate getting savings because premiums would be lower and/or safety is better. Mr. Cowart responded that the cost of the program is a major component of the loss costs that WASA actually realize, so the safety efforts have a big impact on a major portion of the central cost of the program. After further discussion, it was noted that the actual savings amount would not be known until all the related projects have been completed. Mr. Stone inquired if WASA has considered a sub-guard program, which is a self bonding program for a contractor that, among other things, supports small businesses that otherwise may not be able to obtain the bonding necessary to bid on a WASA project. Mr. Cowart responded that WASA has not put such program in place because this type of program would work only to certain capacity levels of bonding, and might be useful for smaller bonds, but would not be effective for larger, multi-million dollar bonds. Mr. Stone suggested that staff keep this type of program in mind as some companies use this sub-guard approach for some of their larger multi-million dollar projects. Finally, Mr. Cowart concluded that the decision whether to extend the existing contract is one that has to be made within the next six months because of the level of work that is required to get another broker in place to line up the ROCIP program.

Management Plan for Follow-Up to Independent Comprehensive Budget Review (ICBR)

Mr. Johnson provided an update on management's plan of action for follow-up on the ICBR recommendations. He noted that some of the items on the matrix are short term items, where others are immediate term items (1 to 3 years), and others are longer term items (greater than 3 years). A couple of the items, such as the proposed reduction in reserves, would require Board action. Mr. Johnson further stated that these issues have been assigned and that staff is in the process of dealing with them. Chairman Martin recommended that the Committee review the report and have a complete discussion at the next month's meeting on items of specific interest to the committee members.

Other Business

Charles Kiely, AGM, Consumer Services, provided an update on the DCU problems encountered in March 2008. Mr. Kiely started by stating that the system was brought back online on March 7, and that everything is back in working order. Mr. Kiely proceeded to explain in detail the events and timelines of occurrences and the various activities involved. According to Mr. Kiely, WASA was notified in December that Verizon was going to switch out their service transmitting customer AMR readings from the radio receivers to Blue Plains from an analog to a digital system during the second week in February. In response, WASA's information technology group started monitoring the system from February 14 to February 20. On February 27, a system administrator in the IT office notified the customer service office that 38 of the 57 DCUs had failed and the next day, all 57 failed. The IT system administrator immediately contacted the AMR system maintenance

contractors (who also monitor the system). This started a trend of communication among WASA, the system maintenance contractors, and Verizon.

Mr. Keily stated that the incident had relatively little impact on WASA's billing because there is a 10 day window within the billing system, which allows a bill cycle to be any where from 25-30 days. Further, there is a buffer built into the DCUs, which retained the information needed for download into WASA's server. Mr. Keily reported that no data was lost, although some customer bill cycles varied in length during the reference timeframe. Mr. Keily noted that the protocol has been changed to improve the speed of escalation in responding to DCU issues to the highest levels of the respective organizations.

Mr. Adebo requested that the update on the FEMA rezoning of Blue Plains and the related potential insurance impacts be moved to the June, 2008, Finance and Budget Committee as staff is still working with the DOE to obtain more facts on the issue. Chairman Martin concurred with Mr. Adebo's request.

Mr. Johnson introduced Mr. Louis Valentine as the interim controller and acknowledged Ms. Yvonne Reid for the additional responsibilities she performed as the acting controller.

Hearing no further business, Chairman Martin adjourned the meeting at 10:40 AM.