



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

Finance and Budget Committee
Thursday, July 24, 2008

9:00 a.m.

MEETING MINUTES

COMMITTEE MEMBERS

Robin B. Martin, Chairman
Timothy L. Firestone
Keith M. Stone

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Yvette Downs, Director Finance and Budget
Avis Russell, General Counsel
Linda R. Manley, Secretary to the Board
Bob Hunt, Treasury Manager

Other Board Member in Attendance

David J. Bardin

Presenters

Linda Abravanel, Senior Vice President, Wachovia Bank
Barbara Bisgaier, PFM (Financial Advisor)

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

June 2008 Financial Report

Mr. Olu Adebo, Acting Chief Financial Officer, and Ms. Yvette Downs, Director of Finance and Budget, presented the June, 2008, financial report. With 75 percent of the fiscal year completed, revenues totaled \$239.3 million or 71 percent of budget. Operating expenditures totaled \$234.8 million or 69 percent of budget, and Capital Disbursements totaled \$238.2 million or 74 percent of budget. Based on preliminary projections, management expects to end the fiscal year with revenue at 101.4 percent of budget; which includes drawdown from the Rate Stabilization Fund; Expenditures at 95.5 percent of budget; and, Capital Disbursements at 90.2 percent of budget.

Personnel services will be 95 percent of budget at fiscal year-end with savings coming from higher than budgeted vacancy rates. Contractual services will be 87 percent of budget, due primarily to lower spending in some major contract areas across the organization. Water Purchases will be 109 percent of budget due primarily to increased cost in some of the chemicals used in the water treatment process. Chemicals/ Supplies and Utilities will be 107 percent and 108 percent of budget, respectively; these are due to higher chemical and electricity costs. Ms. Downs expects WASA to end the fiscal year within the overall budget by accommodating budget pressures in the chemicals and utilities line items with savings in other budget categories. Staff will provide a briefing on electricity purchasing strategies at the September Committee meeting. Small equipment

and Lead-Operating expenditures are expected to be below budget at year-end. Debt Service is projected at 90 percent of budget due primarily to lower than budgeted interest rates on the variable rate bonds. In addition, WASA refinanced all its variable rate bonds (2004 and 2007B debt) to lower fixed rate bonds in FY 2008. The Payment in Lieu of Taxes (PILOT) and Right of Way (ROW) expenditures are projected at 100 percent of budget although the BOD authorized payments at the lower FY 2007 level. Staff has conservatively projected at the FY 2008 level pending results of the DC government Cost of Service Study. Chairman Martin asked for a status report on the study. Mr. Adebo reported that the DC CFO's Office has engaged the services of a contractor to conduct the study; however, no specific completion date was provided. The next quarterly payment is due in November, 2008. Mr. Johnson suggested that a full report on the status of the Cost of Service Study be presented to the Committee in September.

Following discussions on the capital projects spending and disbursements, Mr. Bardin asked management to provide an explanation for the low levels of expenditures in the Water Lead Program and AMR Installation Program.

FGIC Surety Policy Update

Mr. Robert Hunt and Ms. Barbara Bisgaier provided an update on the FGIC policy. Following a brief discussion, Chairman Martin asked if the indenture required that WASA be notified of the requirement to take corrective action following FGIC's rating downgrade and if there would be any negative impact on WASA's bond rating resulting solely from the notification. Ms. Bisgaier responded that WASA will not have any problems with the FGIC notification issue because of WASA's planned prompt response to the issue. Ms. Russell, General Counsel, also stated that with the resolution adopted by the BOD in July authorizing the General Manager to make cash payments if required, WASA should not have any problems provided the regular debt service payments are made timely.

Staff recommended and the Committee agreed to:

- Authorize the competitive procurement of a direct pay letter of credit in order to satisfy the credit rating requirements established by WASA's Master Indenture of Trust regarding the surety of the 2003 bonds.
- Authorize staff to execute and deliver on behalf of WASA, a reimbursement agreement and other contracts and documentation required for the transaction.

Chairman Martin stated that the Committee and Board should go on record to say that WASA wants to be conservative, careful and legally responsible because WASA's credit rating and future depends on its credibility with the market. Mr. Adebo will provide an update at the September meeting.

Ms. Bisgaier updated the Committee on the RFP for letter of credit. She stated that there was one response to the RFP from TD Commerce.

Committee Work Plan Goals Quarterly Update

Mr. Adebo provided an update on the Committee work plan goals, which showed the deadline and status of several completed, on-going and transferred activities. The Committee will update its existing work plan consistent with the Board's newly adopted strategic plan and in recognition of newly established Committees. Mr. Firestine inquired about the goal to improve the mechanism for the Army Corps of Engineers borrowing requirements (Goal #4-1.4) and requested a staff analysis on the expected savings if the item is timely addressed.

Financial Market Update

Mr. Robert Hunt provided a report on the current status of the financial market. He identified several investment bankers and their portfolio activities between June and July, 2008. He indicated that WASA has now rebalanced its portfolio to reduce exposure to the government sponsored entities (FannieMae/FreddieMac/FHLB), thereby reducing its investment in discount notes issued by these GSE's from \$149 million on June 30 to \$109 million as of the meeting date. According to Mr. Hunt, discount notes presently make up 42 percent of WASA's total portfolio, down from 58 percent on June 30.

Mr. Hunt noted that the investment division of Public Financial Management is still purchasing discount notes for its clients, and staff thought it prudent to add diversity to the portfolio through the purchase of short term U.S. Treasury Notes. In the last few days, as discount notes have matured, staff purchased approximately \$40 million in U.S. Treasury notes with maturities of 3 to 6 months. Mr. Hunt then noted that the yield or interest earned on these notes is approximately 100 basis point or one percent lower than what would have been earned on discount notes of similar maturity.

Mr. Hunt reported that as WASA's current investments mature, staff will evaluate investment opportunities very carefully. As part of this process, staff will also adhere to WASA's investment policy objectives: safety, liquidity, return on investment and diversity.

Continuing with an update on the current events in the financial market, Mr. Adebo reported on the status of Wachovia Bank's financial condition and any potential impact on WASA's investments. Ms. Linda Abravanel, Senior Vice President of Wachovia Bank, reported that WASA's investments with Wachovia Bank are collateralized at 102 percent. To provide further assurance to the Committee, Ms. Abravanel reported favorably on the financial solvency and extremely high liquidity of Wachovia Bank. Mr. Bardin requested additional information from Wachovia Bank on the exposure WASA faces relative to its approximate \$40 million in demand deposits and investments in Wachovia Bank accounts.

Other Business

Mr. Johnson distributed an updated job description for the CFO position. It was determined that the Human Resource Department would start an active approach to advertise for recruitment of the CFO position. Mr. Johnson plans to review applications and present candidates for the Board's review in September, 2008.

Ms. Avis Russell, General Counsel, provided an update on the DC-CFO Act, which was recently signed to law by the President. After brief discussion, it was determined that WASA should continue its current level of financial reporting to and interaction with the District of Columbia, which includes: quarterly and annual financial reporting; and budget submission for Congressional approval. It was requested that staff identify the operational and policy changes required as a result of the DC-CFO Act and present them in an appropriate resolution for Board consideration.

Chairman Martin adjourned the meeting at 10:58 a.m.