



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, January 22, 2009

9:00 AM.

MEETING MINUTES

COMMITTEE MEMBERS

Dan Tangherlini, Chairman
Timothy Firestine

WASA STAFF

Jerry Johnson, General Manager

Olu Adebo, Chief Financial Officer
Yvette Downs, Director Budget & Finance
Avis Russell, General Counsel
Linda R. Manley, Board Secretary

Other Board members In Attendance

David J. Bardin
Joseph Cotruvo

Presenters

Ms. Faye Boatright, Executive Director Morgan Stanley (Lead Underwriters)
Ms. Karin DeMoors, PFM (Financial Advisors)
Mr. Myron Olstein, Amawalk Consulting Group

Call to Order

Committee Chairman Daniel M. Tangherlini called the meeting to order at 9.06 a.m. The Chairman asked Ms. Yvette Downs, Director, Finance & Budget, to provide highlights from the December 2008 Financial Report on an exception basis rather than the entire report.

December 2008 Financial Report

The December 2008 report notes that with 25 percent of the fiscal year completed, we received about 23 percent of revenues, spent 21 percent of the operating budget and 27 percent of planned capital disbursements. Ms. Downs reported that the primary revenue exception was in the 'Other revenue' category, which was only 8% due to the Rate Stabilization Fund (RSF). Mr. Bardin sought clarification on this revenue issue, to which the General Manager (GM) explained that other revenue included projected draw downs from the RSF, which has not taken place at this time. Mr. Bardin asked if the current economic condition has had any adverse effect on WASA's revenues. The General Manager replied that staff has been monitoring that question for the last couple of months and no negative effects to global economic conditions have been demonstrated.

Ms. Downs noted that Contractual services and Utilities expenditure categories are below the budgeted level but there are no areas of concern from staff at this time. Chairman Tangherlini asked whether the utilities category is an area that might be subject to revision in order to support lowering future retail rate increases. Ms. Downs replied that though staff had budgeted conservatively in view of rising prices, DC WASA had managed to lock in better rates for a portion of our load and that the current market rates for the remaining electric load was lower than the budgeted rate. Ms. Downs cautioned that risk still exists in for the remainder of the year for the electricity that is not included within the locked rates in accordance with WASA's purchase strategy. The General Manager explained that the Electricity rates lock-in policy is closely monitored with the assistance of a consultant.

In response to an email received by Mr. Bardin prior to the committee meeting, Ms. Downs noted that the payment in lieu of taxes (PILOT) and Right Of Way (ROW) expenditures are reported on an accrual basis rather than cash. Actual cash payments to the District have been at the FY 2007 level of payment as directed by the Board, but the difference has been accrued to provide for future payment pending agreement of a cost of service analysis currently pending with the DC CFO. Mr. Bardin requested a brief update on the status of receipt of the cost of service analysis and Mr. Johnson responded that the contact person identified within the DC CFO's January 2009 letter stated that he had no information on the subject. However, he noted that a response letter was forthcoming from elsewhere in the DC CFO organization. Mr. Johnson requested assistance from the Chairman Tangherlini, in obtaining further detail on the PILOT services costs from the DC CFO.

Bond Financing Update

Mr. Olu Adebo, Chief Financial Officer, reported that the three rating agencies reaffirmed DC WASA's AA bond rating, while Fitch upgraded DC WASA's outlook from Stable to Positive. Mr. Adebo reported that an investor presentation was recorded earlier, and is now available online; he and the GM were participating in a live investor presentation later that afternoon. Bond pricing will start on January 26th, and closing is expected by 2nd February. On a question from Mr. Cotruvo, Ms. Boatright noted that bond pricing will be locked in for WASA prior to closing. Any movement in the bond price after that will be passed on to the Underwriters or the investors. Ms. DeMoors noted that DC WASA is attempting to attract maximum retail investor participation (expecting \$50 -100 million retail participation), will run an advertisement in the Washington Post in addition to articles that are anticipated on this issue in the Bond Buyer and other pertinent financial publications. Mr. Bardin inquired whether there are any 'conflict of interest' issues if the Board members wanted to participate in the bond issue. General Counsel will investigate and respond to the Board.

District Fire Service Cost of Service Study

Chairman Tangherlini noted that the materials for this presentation were not received in advance to enable members' review. Mr. Johnson apologized for not being able to provide the materials in advance as the material was being finalized until late the night before the meeting, and that he will be mindful of that in the future. Mr. Adebo noted that in 2003, the District agreed, in a MOU with DC WASA, to pay \$217 per fire hydrant, or approximately \$1.9 million annually towards servicing of the fire hydrants.

Chairman Tangherlini questioned why the \$217 per hydrant cost in 2003, reinforced in 2005, has jumped in 2009. Mr. Johnson explained that a massive upgrade program with aggressive timelines pursuant to an MOU signed with FEMS led to this spike in cost of service. Mr. Olstein from Amawalk Consulting was introduced to make a brief presentation on the cost of service study.

During the presentation Chairman Tangherlini noted that the MOU required a detailed audit of the costs and that was an important missing step in the process. Mr. Olstein then went through the presentation explaining the methodology used for the study, the cost recovery options developed, and the terminology used. Mr. Adebo confirmed to Mr. Bardin that the private hydrants' cost was excluded from the numbers presented. Chairman Tangherlini inquired about the burden numbers, and noted that the costs had spiked in 2007 and 2008. He asked if that was due to a backlog. Mr. Johnson replied that it was due to an aggressive effort, in conjunction with FEMS, to revamp and standardize the system that resulted in increased costs. Chairman Tangherlini wanted to know how much more is needed to be spent on the program. Mr. Adebo mentioned that the 1st phase of the capital program was for \$26.5 million, and the 2nd phase would cost another \$29 million. Mr. Adebo added that detailed supporting schedules were available. Chairman Tangherlini stressed the substantial increases in capital spending of 10-15 percent a year when rate increases are not projected to increase by the same amount. He also raised the issue of accumulated credits for previous years for periods not covered within this study. Mr. Johnson noted that staff would review this request. Mr. Olstein described four potential payment options. Chairman Tangherlini observed that there was a lot to absorb and that there will be more questions later. He also wanted to know if the consultants knew of a similar arrangement in other cities, and if the consultants could provide comparable data from other cities for further analysis. Mr. Olstein informed the committee that he is aware of a similar arrangement in Florida, and that he will try to mine his databases to get comparable data for other cities.

It was noted that any changes to the Fire Service rates would require a public hearing, but that as only one customer exists, that hearing could be held during a regularly scheduled Board Meeting. The Committee noted that discussion of rates should be under the Retail Rates Committee and asked that it be referred to the February committee meeting.

Other Business

Hearing no further business, Chairman Tangherlini adjourned the meeting at 10:55 a.m.