DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, February 22, 2007

9:00 a.m.

MEETING MINUTES

COMMITTEE MEMBERS
Glenn Gerstell
Jacqueline F. Brown
Anthony Griffin
Paul Folkers

WASA STAFF
Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Avis Russell, General Counsel
Linda Manley, Board Secretary

Other Board Members in Attendance
Joseph Cotruvo

Chairman Gerstell called the meeting to order at 9:14 a.m.

January 2007 Financial Report

FINANCIAL OVERVIEW

Olu Adebo, Acting Chief Financial Officer, proceeded with summary financial highlights for the month of January. At the end of January, with 33 percent of the fiscal year completed WASA continues to meet all its key financial and budgetary expectations. Revenues are slightly ahead of budget at 34.1 percent, or $103.9 million in receipts; operating expenditures trail budget at 27.1 percent, or $84.4 million; and, capital spending are running close to budget at 28.9 percent, or $64.7 million. Actual average daily cash balances for the month totaled $124.1 million; or, $12.8 million above the Board's 180-day reserve requirement.

Operating Revenues and Receipts

Referring to the chart on page three of the Financial Report, Mr. Adebo summarized operating revenues and receipts for the month of January. At 34 percent of budget, revenues are slightly ahead of budget. Mr. Adebo provided a review of each revenue category and reported that all revenue and receipts categories are on track with budgetary expectations.

Operating Expenditures

Next Mr. Adebo referred to the charge on page five of the Financial Report. Mr. Adebo reported at the end of January expenditures were at 28 percent, or slightly under budget. All spending categories are in line with budget.

At 31 percent of budget, personnel services at the end of January continue to lag behind due primarily to WASA's vacancy rate. With 33 percent of the fiscal year completed, overtime spending continues to slightly exceed budget at 34 percent of the annual overtime budget of $4.7 million. Management will continue to monitor this category closely to ensure that spending remains on target for the year.

Year-to-date contractual services spending totals 27 percent of budget with 33 percent of the fiscal year completed. Water purchases continue to trail the budget at 25 percent; however, we expect expenditures in this category will increase somewhat in the summer months as consumption increases.

Mr. Adebo expressed continuing concern for the chemicals and supplies category, where year-to-date expenditures total 30 percent of the budget with 33 percent of the year completed. The current prices for chemicals are higher than anticipated, which could affect the chemical line item budget by approximately $2 million. At this time, Mr. Adebo expects that all spending will remain within the total authorized budget. Staff will continue to closely monitor this category and update the Committee monthly.

In concluding his review of operating expenditures, Mr. Adebo explained that spending for utilities totaled 23 percent of budget and all other expenditure categories are on track.

Capital Program

Mr. Adebo reported that January capital disbursements totaled $65.7 million, or 29 percent of the FY 2007 revised disbursements budget/forecast, with 33 percent of the year completed. Mr. Adebo expects to end the year closer to budget than in prior year.

Len Benson previously planned to attend the meeting today, to discuss the quarterly capital spending update; however he had to attend an urgent meeting. Staff will include this item on the agenda for next month's meeting.

Cash Reserves and Investment

Mr. Adebo reported that the total cash balance at the end of January was $244.8 million; $115.1 million of that balance was for operating reserve, $58.5 million for the rate stabilization fund, and $71.2 million for the CSO LTCP Appropriation (advance funding from the federal government).

At the end of January, WASA exceeded its investment benchmark, with a yield on the portfolio of 5.23 percent, or 12 basis points higher than the targeted T-bill benchmark rate.

Other Reports

Electricity

For January 2007, the daily spot electric price for the PEPCO DC Zone averaged $50.74/MWH and $47.59/MWH for the first four months of FY 2007. By comparison, the average cost or January 2006 was $62.72/MWH, while the first four months of FY 2006 (October 2005 to January 2006) averaged $76.65.

So far, in FY 2007 electricity prices have been relatively low partly due to the uncharacteristic warm weather we experienced from October 2006 through January 2007. However, based on the historical and present market trends, WASA anticipate electricity prices to rise and peak during the summer months, averaging approximately $70/MWH for the year.

Automated Meter Reading Project

Chairman Gerstell asked for a report on the status of the automated meter reading (AMR) project and any resistance encountered. Charles Kiely, Assistant General Manager for Consumer Services, reported that some of the resistance encountered with replacing the larger meters is that during installation work crews have to temporarily shut-off service to the building(s); this process can take as long as two weeks as we provide advanced notice to property owners. Recently WASA began testing new meters that would not require shut-offs and plan to procure some of these meters. We anticipate the schedule will accelerate beginning in March as WASA staff continues to work with contractors to schedule meter replacements. The project is already approximately 98 percent completed, and the target date for completion of the entire project is the end of July.

Dr. Brown asked about the percentage decline in AMR revenue due to back-billing of a federal account with a non-AMR meter. Mr. Kiely explained that staff back billed the non-AMR meter and later replaced it with an AMR meter.

Mr. Cotruvo asked about the downtime involved in the process of installing the larger meters. Mr. Kiely explained that previously commercial customers installed their own meters, none of which were according to the manufacturer's specifications. Therefore, in most, if not all cases, there is a difference of 7 to 9 inches that WASA has to perform major upgrades to correct this shortage before installing the new meters.

Mr. Griffin asked whether it is necessary in all cases to shut-off buildings in order to install larger meters. In some cases we can by-pass the meters to continue water service, while in other cases it is necessary to shut-off the buildings. In response to a question by Mr. Cotruvo regarding revenue impact, Mr. Adebo noted that the metering fee assessment includes the costs for AMR installations.

FY 2006 Audit Results

Ms. Yvonne Reid, Acting Controller, reported that for the tenth consecutive year, WASA received an unqualified opinion and continued with a report of FY 2006 audit highlights. At the end of January, staff issued the Consolidated Annual Financial Report (CAFR), which contains the audited financial statements. Thompson, Cobb, Bazilio & Associates (TCBA), WASA's external auditors issued a management letter with three recommendations. Our auditors reviewed these recommendations with the Audit Committee at their meeting earlier today. WASA also completed the A133 single audit (grants audit) and received a clean audit opinion with no questioned costs or findings.

Preliminary FY 2007 Bond Issuance Update

Mr. Adebo introduced members of the financing team and presented the plan of finance and schedule for the spring 2007 financing. Staff will schedule conference calls with rating agencies for the week of March 26; DC Auditor Certification, April 2, and the board will consider bond issue & documents on May 3 with bond pricing and closing scheduled for mid-May. WASA's outstanding debt totals $776 million, of which $509.9 million is subordinate debt and $266.1 million is senior debt. The last financing was in July 2004 for $295 million which included Public Utility subordinated lien revenue bonds issued as auction rate securities where the interest rate resets ever 7 to 35 days. WASA plans to issue $50 million of commercial paper to cover capital cash flow needs from March until closing on the approximate $300 million debt issuance in May; the plan is also to resolicit WASA's existing letter of credit in summer 2007 after the bond issue closes. Mr. Gerstell asked what the optimum timing is for continuing short-term use of commercial paper for WASA's funding needs given the low interest rates. Mr. Adebo responded that the team is considering this issue and it will be part of the recommendation and briefing next month. The current plan is to issue fixed rate debt. WASA's long-term bond issues include a debt service reserve fund or surety bond as rating agencies often require this for revenue bond issues. For the Washington Aqueduct residuals disposal project, the current plan is to issue auction rate securities (variable rate debt) and to gradually convert to tax exempt debt in the future. After their selection, management will review these plans with WASA's bond counsel.

Next Mr. Adebo discussed the amortization graph and Chairman Gerstell recommended use of this graph in future rates-related discussions as it depicts the impact of the capital program on WASA's debt service requirements.

In response to a question from Mr. Gerstell regarding when the DC general obligation bonds mature, Mr. Adebo responded that they mature in 2012 does not recommend defeasance.

Mr. Cotruvo referred to the amortization chart, and asked whether it includes planned disbursements for all known projects at this time. Mr. Adebo responded that the chart does include all known disbursements for anticipated expenditures. Mr. Johnson added that this is the model today and management will continue to review and update the model as needed.

Selection of Bond Counsel

Mr. Adebo reported that 9 firms responded to the bond counsel solicitation. The evaluation team, which included WASA's General Counsel, reviewed each response and recommends selection of Squire Saunders and Leftwich and Ludaway, a joint-venture partnership as well as WASA's previous bond counsel team. This is a one-year contract with four option years. The contract is not to exceed $1.7 million. The Committee asked staff a number of questions about the qualifications and costs of the proposed team, and, after discussion, endorsed recommending to the Board the selection of Squire Saunders and Leftwich and Ludaway for WASA bond counsel.

Hearing no further business, Mr. Griffin adjourned the meeting at 10:21 a.m.