DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance and Budget Committee
Thursday, September 22, 2005
9:00 a.m.
(via conference call)

MEETING MINUTES

BOARD MEMBERS	**WASA STAFF**
Glenn S. Gerstell	Jerry Johnson, General Manager
Paul Folkers	Michelle Cowan, Acting Chief Financial Officer
	Avis M. Russell, General Counsel
	Barbara Grier, Acting Assistant General Manager
	Linda Manley, Secretary to the Board

Chairman Gerstell called the teleconference meeting to order at 9:30 a.m.

Financial Report

Michelle Cowan, Acting Chief Financial Officer, presented the August 2005 financial overview including management's year-end update of all projections for revenue, operating expenditures and capital disbursements.

Operating Receipts

Operating receipts through August were at 98 percent of budget with 92 percent of the fiscal year complete. Ms. Cowan reported that management expects to end the year approximately $10.9 million or 3.8 percent in excess of budget. This better than projected performance is primarily in the residential, commercial and multi-family category, due to the one-time impact of the conversion of quarterly to monthly billing and good collections performance. In addition, interest earnings performance has been good, with earnings of $0.6 million above budget because cash balances have been higher than budgeted. In addition, Ms. Cowan noted that we budgeted a 2.25 percent yield on our portfolio and the year-to-date yield is 2.47 percent. Special fee collections have also been higher than budgeted.

Ms. Cowan reported that the municipal category is the only area where receipts are projected to be less than budgeted; we expect to end the year approximately $0.8 million or 11 percent less than budget due to lower than projected consumption at St. Elizabeth's and other municipal accounts. Paul Folkers asked what accounted for the significant drop. Ms. Cowan explained that St. Elizabeth's accounts for one-third of the drop, as there are a variety of issues going on at that facility, including changes in storage tank operations and redevelopment activity. Mr. Johnson added that St. Elizabeth's is undergoing campus renovation and another major building has been taken out of service. In addition, a new hospital facility is being erected and this will cause revenue variations over the next few years as the campus renovations and redevelopment continues.

Operating Expenditures

Ms. Cowan continued with a review of operating expenditures. Management currently projects that WASA will end the year at $268.5 million, which is $9.6 million, or 3 percent less than budget.

In the personnel services category we project that we will end the year approximately 2 percent less than budget due to higher than budgeted vacancies in the major operating departments and lower than projected overtime spending. Year-to date contractual services expenditures total 86 percent of budget, with 92 percent of the year completed and we project that we will end the year approximately $2.3 million less than budget due primarily to savings in maintenance contracts and biosolids, as well as other relatively smaller savings across a variety of functions. In the chemicals and supplies area we expect to end the year approximately $1.7 million above budget due to increased unit prices on the majority of our contracts. In utilities we expect to end the year $0.7 million over budget due to high electricity prices. Expenditures in the water purchases category are expected to be slightly above budget as certain year-end accruals are completed. Because personnel services and contractual services are the largest areas of WASA's operating budget savings realized will offset areas where we will exceed the budget in chemicals and utilities.

Year-end debt service expenditures are projected to total $48.1 million, or fifteen percent less than budget, due to lower than projected capital spending and lower than projected interest rates. WASA has experienced strong performance on its auction rate securities program where we had budgeted four percent while the year-to-date interest rate has averaged slightly above two percent, yielding significant savings. In addition, lower than anticipated capital spending has resulted in no utilization of our commercial paper program as we spend down remaining proceeds from the auction rate securities issuance.

Mr. Folkers asked what contributed to higher spending in overtime in the maintenance services area. Ms. Cowan explained that much of the overtime spending was for filtration facility and pump repairs, noting that staff had briefed the Operations Committee concerning this operations issue in recent months. In addition, maintenance has reduced their reliance on outside contractors and instead is using staff, resulting in more overtime.

Capital Spending

Ms. Cowan continued with a report on capital spending. In August capital disbursements totaled $20.8 million, and year-to-date capital spending totaled $186.1 million, or 63 percent of the original Board-approved disbursements budget, with 92 percent of the fiscal year complete. As presented to the Finance & Budget and Environmental Quality and Operations Committees, year-end spending projections have been revised downward to $212 million, or 72 percent of the original budget. We will end the year slightly under the revised projection.

Rate Stabilization Fund & Investments

Chairman Gerstell asked about the impact of better than projected financial performance on the rate stabilization fund. Ms. Cowan reported that the impact of better than projected financial performance has a bottom-line result of what we can contribute to rate stabilization and cash reserves this year. After completing an analysis of expected FY 2005 performance as well as FY 2006 and 2007 budgets, we anticipate adding $4 million to the rate stabilization fund in FY 2005. Currently, the balance is $27.5 million.

Mr. Folkers inquired about capital program implementation rates and what was causing the lag in spending. Mr. Johnson responded that the spending does not directly reflect project implementation rates. Staff presented its quarterly report last month to the Environmental Quality and Operations Committee describing where the variances occurred, such as savings in repaving that we realized from DDOT not undertaking certain projects and delaying ancillary work that WASA would have performed. We also made a number of expenditures during the latter part of last fiscal year that would have normally occurred this fiscal year. There are a few projects that are lagging but will catch them up during the upcoming year.

Mr. Folkers asked why WASA's investment performance was lagging the three-month Treasury bill benchmark. Ms. Cowan explained that during spring/summer 2004 when interest rates were extremely low (WASA was earning less than two percent on our portfolio), we invested approximately $45 million or half of our investment portfolio into longer two-year notes where we could attain yields in the 2.50 to 2.75 percent range. Market conditions have changed (particularly on the short end of the yield curve) with rates increasing to the three percent range and higher. Because a significant portion of our portfolio remains in these lower-yielding two-year notes, our performance is lagging the benchmark currently, but exceeded it in 2004. These investments will begin to mature later this year and into summer 2006 and we will reinvest at higher yields.

Electricity Update

Referring to 2 charts attached to the package, Ms. Cowan provided an update on electricity pricing. Summer pricing was extremely high compared to historical pricing due to a variety of reasons including higher oil prices, warmer than normal summer months, hurricanes and several outages in key generation plants in PJM. Prices in July were $66 / MWH, in August were $83 / MWH, and month-to-date in September are averaging $77 / MWH. From a budget perspective, in July and August we locked in for half of our load at a price of $58 / MWH. In September and through the end of the current contract in January, we locked in for around 20 percent of our load at $45 / MWH. We expect to end the year at $0.7 million over budget this year. If prices were to continue at the $66 - $70 per mwh we would be approximately $2 to $2.5 million above our 2006 approved budget levels.

Other Business

<u>Labor and Employment Legal Services Contract</u>

Mr. Johnson asked the Committee to consider a contract modification for labor relations-related legal services provided to the Authority by the law firm Venable LLP. The original contract amount was awarded for a base period of three (3) years, from February 25, 2004 to February 24, 2007, for an amount not to exceed $970,850. The change order in the amount of $425,000 will cover additional costs incurred during the base period of the contract plus the remainder of the contract, bringing the total contract amount to $1,395,850. Chairman Gerstell inquired how much had been spent under the contract to date; Ms. Cowan replied approximately $960,000. The Committee recommended referral of this item to the Board for their consideration and action in October.

Hearing no further business from the Committee members, Mr. Gerstell adjourned the meeting at 10:00 a.m.