DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, October 25, 2007

9:00 a.m.

MEETING MINUTES

COMMITTEE MEMBERS	WASA STAFF
Robin B. Martin, Chairman	Jerry Johnson, General Manager
Timothy Firestine	Olu Adebo, Acting Chief Financial Officer
Keith Stone	Avis Russell, General Counsel
	Linda Manley, Board Secretary

Other Board members
David J. Bardin

Chairman Robin Martin called the meeting to order at 9:15 a.m. and asked Mr. Johnson top present the September Financial Report. Because of the number of reports scheduled for presentation during the meeting, Chairman Martin asked for a high level report, with responses to questions on an exception basis. At Mr. Johnson's request, Mr. Adebo presented the monthly financial report.

September 2007 Financial Report

Mr. Adebo provided summary financial highlights for the month of September.

Revenues, Operating Expenditures and Capital Disbursements

At the end of September, revenues (on a cash-receipts basis), totaled $303.7 million or 99.6 percent of budget; operating expenditures totaled $290.3 million or 92.9 percent of budget and capital disbursements totaled $182.7 million or 79.0 percent of budget. Mr. Adebo explained that because we are at year end, staff is continuing to make adjustments and year-end accruals. Therefore, the report provides projected expenditures at this time.

Rate Stabilization Fund Transfer

Mr. Adebo reported that at the end of September a $10 million transfer to the Rate Stabilization Fund brings the total fund balance at year-end to $68.5 million.

Operating Reserves

Continuing with his report, Mr. Adebo explained that actual average daily cash balances totaled $120.5 million, or $9.2 million above the Board's FY 2007 180-day Operating Reserve requirement.

Revenues

Mr. Adebo reported that revenues are in line with last month's projections. Chairman Martin noted that the August Financial Report projected revenues would be over budget by approximately 0.3 percent and asked what accounts for the lower projected revenues detailed in this month's report. In response, Mr. Adebo explained that residential receipts were lower than projected due to lower than projected annual consumption. Higher receipts in other revenues are the result of approximately $5 million in higher interest income and for miscellaneous service fees. This performance partially offset the lower residential receipts.

Accounts Payable Performance

In referring to the Authority's goal to pay 97 percent of all undisputed invoices within 30 days, Chairman Martin asked what effort will be taken to move from our current performance level of 89 percent to the 97 percent target. Mr. Johnson explained that a great majority of the outstanding invoices are attributable to the General Counsel's Office and management is working diligently with Ms. Russell to improve that performance. Ms. Russell added that she reviews all invoices and is reluctant to identify an invoice as "disputed" when in many instances she just requires additional information from the firms to understand the charges.

Mr. Bardin explained that one of the major achievements for WASA was improving the accounts payable performance. As such, Mr. Bardin asked Mr. Johnson for a one-time report which would exclude the legal department, look at all of the rest of the organization and explain where WASA stands as compared to a selected base year. This will provide the newer Board members with a framework for understanding what has been accomplished in the area of accounts payable performance.

Cash Flow (Receipts)

Referring to page 15, the Cash Flow Summary, Chairman Martin asked how the operating surplus figure of $26.9 million compares to recent projections. Mr. Adebo responded that this is in line with projections with the exception of lower residential receipts. Mr. Adebo added that the actual operating surplus in September 2007 was approximately $3 million short of the previous month's projections, primarily due to a wholesale costumer payment that was expected prior to 9/30/07, but was not received until 10/1/07. This receipt explains the difference between the 100.3 percent versus 99.7 percent projection and actual revenues. Chairman Martin reiterated the General Manager's plan to split $20 million of the operating surplus 50/50 between the pay as you go capital and the rate stabilization fund.

Independent Budget Review

Mr. Johnson referred to the milestone plan, Attachment 2, and reported that the Committee is on schedule. Eight firms attended the Pre-Bid Conference and, six of those firms responded to the request for proposals (RFP). Management has short listed those submissions and Committee interviews are scheduled to begin during the second week of November. Mr. Johnson reported that the Chairman transmitted a letter to City Council on October 24 to update the Council on WASA's progress to date, noting that while the actual award of the contract is later than the date outlined by the City Council legislation, the delivery of the final report will be in advance of the date specified by the legislation.

Mr. Bardin discussed a conversation he had with one of the firms that received the RFP which decided not to bid. The RFP starts by asking for someone to provide financial and rates advice. However, reading the body of the RFP it appears as though WASA is looking for a water engineer to give engineering advice. Since he was absent at the time the Committee worked on the draft RFP, Mr. Bardin questioned what type of expertise the Board is looking for in this assignment. Chairman Martin responded that the assignment is a complex one and the Committee reviewed the RFP in detail and it reflects the legislative intent by the City Council and the directives of the Board to management. The Pre-Bid Conference provided firms an opportunity to discuss any difficulties in interpreting the RFP or to ask questions.

DCCFO Oversight Implementation Plan

Ms. Russell provided a copy of the implementation plan and summarized the contents of the plan. Ms. Russell advised that the legal position taken in the previous opinion provided to the Board on the authority of the CFO has not changed. The Committee recommended that the General Counsel obtain additional resources as this issue is further analyzed.

General Manager's Budget Presentation

After opening remarks, Mr. Johnson presented financial highlights contained in the budget documents.

The revised FY 2008 operating budget totals $340.8 million, $0.4 million less than the Board-approved FY 2008 budget. For FY 2009, the operating budget request totals $363.4 million, an increase of $22.5 million. The $22.5 million increase is due to:

- Debt Service – increased by $14.7 million or 19.3 percent
- Personnel Services – increased by $4.3 million or 4.8 percent
- Utilities (Electricity) – increased by $1.3 million or 3.5 percent
- Chemicals – increased by $1.9 million or 9.3 percent

WASA's ten-year capital improvement program (CIP) budget (disbursements) totals $3.1 billion; an $880 million increase from last year's approved CIP of $2.2 billion. The increase in our CIP is primarily driven by a new project designed to meet more stringent nitrogen removal requirements at our Blue Plains plant by EPA. The proposed capital budget lifetime budget totals $6.2 billion and includes total budgeted costs for all activities planned from the inception of the project until its completion. This includes all activities whether they pre-date, or extend beyond the current ten-year CIP. As part of WASA's enabling legislation, Congressional appropriations authority is required before any capital design or construction contract can be entered into. The budget request provides $585.9 million of appropriations authority. The proposed FY 2009 water and sewer rate increase is 8.5 percent, the same as last year's plan. The PILOT/ROW fee increases by 10.6 percent, or $0.05 per ccf.

Mr. Johnson explained that WASA's budgets are developed using a ten-year planning horizon, and include input from: infrastructure needs determined by various facility master plans of major systems; Board-determined priorities; and, funding and rate impacts on our customers.

During his presentation, Mr. Johnson discussed major budget development assumptions for revenues and expenditures as well as key cost drivers.

One of the key budget drivers is the Blue Plains Total Nitrogen (BTN) requirement which represents $815 million of the increase in the proposed CIP (for the ten-year period). Mr. Johnson explained that the lifetime budget for BTN is $950 million. Approximately 40 percent of this cost will be funded from retail customers in the District of Columbia, with approximately 60 percent funded by wholesale customers in Virginia and Maryland. Although the District has not provided any funding mechanism for the BTN program, both the Commonwealth of Virginia and Maryland State have funding mechanisms in place. Mr. Bardin noted that at some point board members should receive a thorough briefing of this issue. It is Mr. Bardin's understanding is that the Chesapeake Bay Commission has pending U.S. Congressional funding in the water and energy appropriations bill which is working its way toward the President for consideration. The amount of money is trivial for one year toward a huge budgetary issue. He stated that the 40 percent cost estimate to be borne by the District's retail customers is too high and the WASA Board has to address this issue and not rely upon the Intermunicipal Agreement renegotiations for resolution of this issue. Mr. Firestine asked how much of the CIP funding for the BTN program is debt versus other sources of funds. Mr. Johnson responded that based on the current formula, of the $815 million, approximately 40 percent is financed from debt with 60 percent financed by the suburban jurisdictions. Availability of additional pay-go funding could reduce the debt. Mr. Firestine asked whether the assumption is that the hard costs are paid by the contributions from the wholesale customers or leveraged. Mr. Johnson responded that the wholesale customers pay on a quarterly basis in advance of the expenditure based on our projections for that period and they may be taking on debt to finance those costs. Virginia set up a special fund and in Maryland there is a flush tax which was designed to provide for these costs. Mr. Bardin stated that WASA is a hybrid-type of utility in that a true utility would raise its own capital and charge rates based on debt service to the wholesale as well as retail customers. But for many historic reasons it does not work that way. All of the risk of the District's debt is born by retail customers, while in other utilities there typically would be a sharing of those costs.

At the conclusion of his presentation, Mr. Johnson reviewed the FY 2009 budget calendar, and highlighted additional budget review sessions proposed for the Finance and Budget and Environmental Quality and Operations and Retail Rates Committees. The schedule anticipates completion of committee review of the budgets in December with Board review and consideration of the proposals in January to allow for timely submission to the District in February.

Copies of the operating and capital budget proposals for FY 2008 and 2009 were distributed to the Committee.

Mr. Johnson commended Olu Adebo, the budget department staff and other WASA staff in various parts of the organization for their diligence in preparing the budget proposals. Chairman Martin added his extended congratulations to Mr. Johnson, Mr. Adebo and staff for their preparation of the budget proposals.

Mr. Martin asked whether the Board as a whole will receive budget briefings. Mr. Johnson responded that the Committee reviews are intended to provide briefings to all Board members who wish to attend.

Mr. Firestine asked how much of the $880 million CIP increase is related to the BTN program and why the retail rates plan does not reflect increases consistent with the CIP disbursements budget. Mr. Adebo responded that because WASA plans for costs over a ten-year period, you would not necessarily see a direct correlation of disbursements each year as we try to balance resource needs in the context of the Board's policy of gradual and predictable rates. Staff has a model and which will be discussed in detail with the Committee during the budget review sessions. A total of $815 million of the $880 million is for BTN.

Referring to page 18 of the presentation, Mr. Stone asked for an explanation of the difference in rate stabilization fund (RSF) projections as compared to reports made to the Committee in July. Mr. Johnson explained that an additional contribution to RSF occurred in September and the current proposed plan reflects that additional funding. In addition, there are additional costs in the CIP and a rate plan associated with all of these factors. Mr. Adebo added that information reported in July was based on the prior-year's ten-year plan; the new plan is what has been discussed today. Mr. Bardin asked that staff change the nomenclature for future documents to read Single Family Residential Monthly Bill as opposed to Average Residential Monthly Bill. Mr. Bardin asked management to keep the Committee informed concerning upcoming possible changes to the District's stormwater rates. Yesterday, Council member Jim Graham appointed his Stormwater Task Force and it may be possible that by the time the WASA Board hold its public hearing in June on rates, with a final vote in September 2008, the District may have increased the current rate by a considerable amount, particularly from the retail customer perspective. Mr. Bardin stated that he is pleased that Mr. Adebo has been appointed to the Stormwater Task Force and asked management to keep the Board apprised of developments.

Hearing no further business adjourned at 11:45 a.m.

FOLLOW-UP ITEMS

1. Provide a one-time report which would exclude the legal department, look at all of the rest of the organization and explain where WASA stands as compared to a base year. The report is intended to provide the newer Board members with a framework for understanding what has been accomplished in the area of accounts payable performance. (Mr. Bardin)
2. WASA Board to address the BTN cost allocations and should not rely upon the Intermunicipal Agreement renegotiations for resolution of this issue. (Mr. Bardin)
3. Keep Board apprised of developments resulting from the work of the District's Stormwater Task Force. (Bardin)