DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee
Thursday, July 26, 2007
9:00 a.m.

MEETING MINUTES

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

Chairman Robin Martin called the meeting to order at 9:15 a.m. and asked Mr. Johnson to present the June Financial Report. Mr. Johnson asked Mr. Adebo to provide the monthly financial report.

June 2007 Financial Report

Mr. Adebo referred to Attachment 1 of the financial report and proceeded with summary financial highlights for the month of June. At the end of June, WASA continued to meet all of our key financial and budgetary expectations. Mr. Adebo reported that staff has updated their year-end projections as provided in the report.

At the end of June, with approximately 75 percent of the fiscal year completed, revenues totaled $222.7 million or 73.0 percent of budget; operating expenditures totaled $201.1 million or 64.4 percent of budget and capital disbursements totaled $128.9 million or 57.6 percent of budget. Actual average daily cash balances for the month totaled $121.7 million, or $10.4 million above the Board's 180-day reserve requirement.

Operating Revenues and Receipts

Referring to the chart on page 3 of the financial report, Mr. Adebo summarized operating revenues and receipts for the month of June. With approximately 75 percent of the fiscal year completed, cash receipts totaled $222.7 million, or approximately 73 percent of budget. Mr. Adebo explained that most of WASA's consumption-based revenues are slightly trailing budget. These categories include residential, commercial and multi-family (71 percent of budget); municipal (72 percent of budget); and, the D.C. Housing Authority (69 percent of budget). Mr. Adebo anticipates increased consumption during the summer months and expects WASA will end the year within the revenue budget.

Chairman Martin asked for a comparison of FY 2007 revenues to prior-year actual revenues for the same period. In response, Mr. Adebo explained that in June 2006, consumption-based revenues were $115 million, or 76 percent and at year-end we slightly exceeded the revenue projections. This year we are on track to meet our budgetary expectations. Management will work with the Committee on preferences for reporting financial data each month.

Continuing with his report, Mr. Adebo reported that WASA receives payments from the federal government and wholesale customers on a quarterly basis. At the end of June WASA is on track with budget in both of these revenue categories.

In discussing the other revenues category, Mr. Adebo reported that WASA is ahead of budget primarily due to interest income; when compared to last fiscal year, interest income is slightly higher this year due to higher cash balances and revenues from fees.

Operating Expenditures

Mr. Adebo reported that at the end of June, operating expenditures totaled $201.1 million, or 64.4 percent of the FY 2007 board-revised budget. Referring to the chart on page 5 and comparative operating expenditures table on page 13, Mr. Adebo continued with a detailed report of operating expenditures. At the end of June, year-to-date personnel services costs totaled 69 percent of budget and Mr. Adebo expects to end the year at $79.1 million or 95 percent of budget. This category is trailing budget due to higher-than-anticipated vacancy rates and the Human Resources Department has several activities underway to increase recruitment and address this issue.

Overtime spending is approximately 90 percent of the annual overtime budget of $4.7 million and Mr. Adebo expects WASA will overspend this category by $1 million by year end. Mr. Adebo explained that higher overtime spending is primarily result of increased overtime for the fire hydrant program as part of WASA's commitment to assist the Fire Department in accelerating the completion of fire hydrant inspections. Some of the overtime usage occurred during the winter months when more water main breaks occurred. In addition, there has been some increase in overtime usage resulting from the higher vacancy rate.

At the end of June, **contractual services** expenditures totaled 63 percent of budget and Mr. Adebo expects to end the year at $62.6 million or 96 percent of budget, or $63 million.

Similar to revenues with consumption, **water purchases** totaled 63 percent of budget, with 75 percent of the year completed. Since expenditures in this category typically increase as consumption increases during the summer months, Mr. Adebo expects to end the year on budget in this category. Mr. Adebo explained that one of the challenges in forecasting water purchases expenditures is that based on WASA's water sales agreement with the Washington Aqueduct (the Aqueduct), WASA pays approximately 75 percent of the Aqueduct's actual cost of operations. The projections the Aqueduct has provided are on budget and Mr. Adebo expects to end the year on budget. However, the extent to which the Aqueduct's actual spending varies from their projections may impact year-end spending. Staff continues to work with the Aqueduct and monitor this category closely. Dr. Brown asked why the FY 2007 budget and year-end projection of $23.6 million is the exact same amount as the FY 2008 approved budget; and, whether there was a decision to hold the budget at the same level over the two-year period. Mr. Johnson explained that the Aqueduct presents a fairly conservative budget to WASA staff who then conducts an analysis of prior-year performance, reserve funds, and WASA's rate structure requirements. WASA then takes its own conservative viewpoint in terms of what the expenditure budget should be. Mr. Adebo added that in the process of reviewing and revising the FY 2008 budget, staff will have FY 2007 actual spending data and historic trend available for further evaluation of the budget required for FY 2008.

Mr. Adebo continued with a report of **chemicals and supplies** spending at the end of June. At the end of June, fiscal year-to-date expenditures totaled 73 percent of the budget. Mr. Adebo expects WASA will exceed budget for this category by approximately $23.7 million, at 102 percent. Management will provide for any overspending for chemicals with savings provided from other within nonpersonal services.

In referring to the **utilities** category, Mr. Adebo reported that expenditures are on track at 63 percent of budget and WASA will end the year at $33.4 million or 96 percent of budget. Favorable electricity pricing coupled with management's strategy to lock in approximately two-thirds of WASA's electrical load at a cost of $62/MWH are contributing factors to anticipated savings in the utilities category.

Next, Mr. Adebo discussed the final major category of expenses, **debt service**, where year-to-date expenditures total $32.6 million, or 53 percent of budget. Mr. Adebo reported that WASA will end the year under budget at $50.9 million, or 83 percent of budget due primarily to delaying the issuance of WASA's short- and long-term financing until June 2007.

Overall, Mr. Adebo expects to end the year at 94 percent of budget, about the same level achieved in FY 2006.

<u>Capital Spending</u>

Continuing with his report of capital spending, Mr. Adebo focused his discussion on capital spending, which totaled 67 percent of budget, or $129 million at the end of June. After further discussion by the Committee, Mr. Adebo said that he will plan to meet with the Committee to look at different measures for reporting on the capital budget to better associate spending with costs for the period and not necessarily on a project by project basis and to look at whether any specific projects are lagging. Mr. Firestine asked how management expects to end the year to which Mr. Johnson responded that based on current projects; he expects to end the year at approximately 90 percent of projected disbursements. After further discussion by the Committee, Mr. Johnson reported that in September, management will provide the Committee with the revised capital program forecast.

<u>Cash Reserves and Investments</u>

Referring to page 7 of the report, Mr. Adebo explained that the total cash balance at the end of June was $252.2 million. At the end of June, the operating reserve balance totaled $122.3 million, or $11 million in excess of the Board's reserve requirement of $111.3 million. Referencing page 16 of the report, Mr. Firestine asked why the $71 .4 million of Combined Sewer Overflow Long-Term Control Plan appropriations investment balances are not included as a part of the monthly investment report. Staff will add this information for future reporting.

Lead Service Line Replacement Program (LSRP)

Mr. Johnson introduced staff and consultants to provide updates on the LSRP. Dave McLaughlin, Assistant Director of Engineering and Technical Services provided historical background and the current status of the project. Mr. McLaughlin reported that as of July 5, WASA has removed 12,657 public side lead services and 1,892 lead services located on private property. Currently there are 18,493 services that are known to be lead services and there are 18,530 service lines that are of unknown materials at this time.

Next, Dr. Tee Guidotti from the Center for Risk Sciences and Public Health from the George Washington University talked about the health-related issues associated with lead. Dr. Guidotti noted that lead is the single most important toxic threat to children in the United States. While the evidence suggests that lead service lines have not contributed to the risks in the District of Columbia as there are many other risk factors for lead exposure, as further corroborated by the Department of Health's environmental assessment reports. Finally, Dr. Guidotti indicated that orthophosphate treatment is working and that 95 percent of homes tested for compliance are below the action level. The sources of lead in homes that exceed the action level appears to come from internal household plumbing and fixtures. Research is ongoing at both the national and local levels.

Chairman Martin explained that Mayor Fenty has made a commitment to lower blood lead levels in children and the District members of the Board must be mindful of this.

Mr. Adebo reviewed financial information and considerations for the LSRP and reviewed several scenarios, with the potential impact of modifying the program, including issues to consider. Mr. Adebo outlined the following considerations:

- Costs and potential cost savings
- Time to complete public lead service elimination
- Disruption of city streets
- Impact on other deferred WASA infrastructure needs for the water and sewer programs

After discussion, the Committee agreed to continue deliberations on the current program and its future and to include ongoing communications with District rate payers and other stakeholders.

Independent Review of WASA's Budget

Mr. Johnson referred to Attachment 3 to the report, which provides the milestone plan for this Independent Review. Staff advertised the RFP on July 15 and proposals are due on August 10. A short list of respondents will be developed and a recommendation forwarded to the Committee on August 23. Committee interviews and the selection process is scheduled for the week of August 27 with award of the contract scheduled for September 6. The draft report is due to the Board on November 6.

Mr. Johnson explained that there was originally a 45-day turnaround time and that has now been extended to a 60-day turnaround time to allow for a more thorough independent budget review.

Other Business

Mr. Johnson provided a progress report on the relocation of WASA staff and facilities from the O Street location. Mr. Johnson has received an alternate proposal from the Office of the Deputy Mayor. The District is now proposing to issue a revenue-based bond in the September time frame. This timeframe would require that some work will be needed to be done prior to September; work could include primarily planning and design for move to the temporary site as well as some preliminary design work for the permanent site. The District has asked WASA to fund the expenses associated with the initial relocation with plans to be reimbursed from the District's planned bond issuance. Management has received a letter of proposal as well as a modified transfer agreement from the District and will continue to work with them to resolve issues associated with the District to ensure that there is no cost to the District rate payers for relocation efforts. Mr. Johnson asked if the Committee had any comments or objections before management continues to negotiate this agreement. Chairman Martin explained that the next Committee meeting will not occur until September and the negotiations may be underway prior to that meeting. Mr. Martin asked about the cost of relocating the O Street operations to which Mr. Johnson responded that initially the cost of the temporary relocation was estimated at $6 million which only included land leases, temporary buildings and structures. At this junction the structure under consideration is a publicly-owned site so some of those costs will have to be recalculated. Chairman Martin asked whether WASA can do its work in the timeframe as outlined. Mr. Johnson responded affirmatively. Chairman Martin asked Mr. Johnson to continue to negotiate this matter and coordinate with him if additional Committee input or Board considerations and approval is required prior to the September meetings.

Hearing no further business, Chairman Martin adjourned the meeting at 11:07 a.m.