



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance and Budget Committee
Thursday, September 25, 2008

9:00 a.m.

MEETING MINUTES

COMMITTEE MEMBERS

Robin B. Martin, Chairman
Timothy L. Firestine
Keith M. Stone

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Yvette Downs, Director Finance and Budget
Avis Russell, General Counsel
David McLaughlin, Director Eng. Tech. Services
Linda R. Manley, Board Secretary
Bob Hunt, Treasury Manager
Tanya DeLeon, Risk Manager

Other Board Members in Attendance

David J. Bardin
Paivi Spoon
David Lake

Presenters

Stuart Cowart, WASA's Insurance Consultant
Barbara Bisgaier, WASA's Financial Advisor

Chairman Robin Martin called the meeting to order at 9:00 a.m.

August 2008 Financial Report

Mr. Olu Adebo, Acting Chief Financial Officer, presented the August 2008 financial report. The report included the preliminary projections for the fiscal year-end. Mr. Adebo reported that WASA is on target with its key financial goals and performance measures. With 92 percent of the fiscal year completed, Revenues totaled \$299 million or 88.4 percent of budget. Operating expenditures totaled \$284.9 million or 83.6 percent of budget, and Capital Disbursements totaled \$284 million or 87.7 percent of budget. Management expects to end the fiscal year with Revenue at 101.4 percent of budget; Expenditures at 95.5 percent of budget; and Capital Disbursements at 93.6 percent of budget. The 180-day operating reserve total was \$128.4 million, or \$9.8 million above the Board requirement of \$118.6 million requirement. By exception, Mr. Adebo reviewed the major variances in operating revenues and expenditures. Mr. Bardin inquired as to the reasons that the metering fee revenues appear to be higher than projected and requested that staff report back to the Committee in October on issues or trends that may be impacting these results. Chairman Martin noted that

staff should consider including a balance sheet as a part of the monthly report as a new format is developed.

Mr. Adebo reported that at the end of August, Capital disbursements totaled \$25.7 million, with year-to-date disbursements totaling \$284 million, or 88 percent of the FY 2008 revised disbursements budget. Mr. Adebo noted that a full discussion of capital progress and spending would be provided by Mr. David McLaughlin, Director Engineering and Technical Services, during the quarterly review of the capital program. Chairman Martin requested that the capital spending graph be modified to include a cumulative line that would put into perspective the spikes in spending.

At the end of August WASA's cash balance totaled \$194.4 million. An additional \$64.4 million were in CSO LTCP appropriation grant funds. WASA's Rate Stabilization Fund balance totaled \$68.5 million. Mr. Adebo reported that staff drew down \$10 million from the RSF the first week in September.

Quarterly Capital Program Review

Mr. McLaughlin reviewed the quarterly capital program report distributed to all Board members in August 2008, highlighting activities in major projects including the status of the CSO Nine Minimum Controls compliance. In response to questions raised at last month's meeting by Mr. Bardin, Mr. McLaughlin reported that lower spending for the lead program was related to repaving costs and better than anticipated coordination of work with the District's Department of Transportation.

Electricity Update

Ms. Yvette Downs, Director of Finance and Budget, presented the electricity procurement strategies and activities of WASA. WASA's electricity expenditures have doubled between FY2002 and FY2009 from \$15.7 million to \$30.4 million. To mitigate this exposure to increased rates, WASA staff monitors electricity spot market prices daily, using a procurement strategy which includes purchasing long- and short-term blocks of electricity at a mix of Western Hub future market prices, with the unlocked portions floating at spot market prices. Ms. Downs discussed WASA's Green Energy activities, including WASA's environmental goal to reduce its carbon footprint from electricity, which the Washington Council of Governments estimates to be about 201,000 metric tons or 1 percent of the region. As part of the overall strategy, WASA will be exploring the potential for purchasing electricity from green energy sources as well as reducing actual use. The new Energy Manager, Mr. Ernest Jolly, will present additional plans and timelines to the Environmental Quality and Operations Committee later in the fall.

Operating Reserve

Mr. Adebo informed the committee that staff has been engaged in a review of the WASA operating reserve size, using best practices and benchmarks from various utilities around the country. The study is not complete and staff will need to discuss potential options with rating agencies. It is unlikely that any proposal will include reducing the current value of the operating reserve, but may redesign how and when the reserve begins to grow again. Preliminary discussions with the financial advisor have begun and staff will keep the Committee informed on progress and feedback when new information is available.

One of the factors used to determine the current operating reserve size includes the Renewal and Replacement Reserve Fund as defined by the Master Indenture of Trust as well as the Financial Policies of the Board of Directors. As required, a Qualified Independent Consultant has reviewed the WASA assets and capital investment program and determined that the current level of the

Renewal and Replacement Reserve Fund of \$35 million appears to be adequate and reasonable. The financial advisors and bond counsel have accepted that the determination from PB Consult as a Qualified Independent Consultant meets the requirements of the Indenture.

Financial Market Update

Next, Ms. Bisgaier briefed the Committee on the financial condition of the municipal market. Due to uncertainties in the market, most issuers have delayed the sale of their bonds and commercial paper for the past few weeks. Only small issues of \$10 million and under are being consummated. Long-term tax exempt rates are up significantly, particularly for the lower rated bonds. In the future bond purchasers will be performing much more analysis of the issuers underlying credit. WASA is currently planning to issue bonds in January, 2009. Staff will provide an update to the Committee after the upcoming commercial paper sale.

Investments

Mr. Hunt reviewed WASA's current investments and reported that the portfolio is very conservative, liquid and in conformance with the Board-approved investment policy. The percentage of investment in U.S. Treasury Bills (T-Bills) has increased significantly over the past few months and they are currently at 32 percent of the total portfolio. Short-term T-Bills are currently trading approximately 2.50 percent below agency discount notes (FannieMae, FreddieMac, FHLB). WASA's bank deposits are fully collateralized at 102 percent of market value. Staff continues to monitor closely changes in the financial market daily.

Rolling Owner Controlled Insurance Program (ROCIP)

Tanya DeLeon, Risk Manager and Stuart Cowart, WASA's Insurance Consultant from Albert Risk, provided an update on the ROCIP program and its successes. As WASA enters the final year for enrollment of projects into the existing plan, determination will need to be made soon as to whether there is interest in continuing the ROCIP approach for future projects/programs. Staff recommended moving toward exploration of continuing the program. There was consensus among the Committee members that staff should study continuation of ROCIP and as well as other programs (such as bonding) that might compliment the ROCIP.

Action Items

Staff recommended that the Committee forward an action item for the vendor selection of banking services to the full Board for approval. The action would approve Wachovia Bank to provide the Authority's banking services for another five years. Chairman Martin asked whether Wachovia has experienced any collateral calls on any investments. Mr. Hunt, Treasury Manager, said that he would verify with Wachovia prior to the full Board meeting. Subject to the results of that question, the Committee concurred with the recommendation to move the action forward to the Board.

The Committee agreed to recommend to the Board for approval that the Renewal and Replacement Reserve Fund be established at the value determined by the Qualified Independent Consultant and that this determination is reviewed at least every five years.

The Committee discussed the suggested pool of investment banking/underwriting services firms provided with the staff action item request. It was noted that the pool provides WASA with options for various types of financial transactions and that every firm on the list does not necessarily have to be used. The Committee concurred with the recommendation that the pool of vendors for Investment Banking/Underwriter Services be forwarded to the Board for approval.

The Committee concurred with the recommendation to transfer \$10 million into the Rate Stabilization Fund and forward this recommendation to the Board for approval.

Other Business

Mr. Adebo reported that his office has continued to contact the District Chief Financial Officer regarding the results of their DC PILOT cost of service study. There are no updates to report at this time. The Committee asked that Mr. Adebo try to obtain the name of the consultant hired by the DC CFO to complete the PILOT cost of service study.

A lengthy discussion was held on the status of cost allocation discussions within the region and how this could or should impact the program management contract action that will be presented to the Board in October 2008. Chairman Martin requested that a high level briefing on the use and allocations be provided to the full Board at the next meeting, including options to move forward.

Chairman Martin adjourned the meeting at 12:42 P.M.