



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, September 27, 2007

9:00 a.m.

MEETING MINUTES

BOARD MEMBERS ATTENDING

Robin Martin, Chairman
Howard Croft
Timothy Firestine
Paul Folkers
Keith Stone
David Byrd

WASA STAFF

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

Chairman Robin Martin called the meeting to order at 9:05 a.m. and asked Mr. Johnson to continue with the August Financial Report. At Mr. Johnson's request, Mr. Adebo presented the monthly financial report.

August 2007 Financial Report

Mr. Adebo provided summary financial highlights for the month of August. In July, staff updated their year-end projections for FY 2007 and as of August Mr. Adebo believes those projections remain in line with expectations.

At the end of August, with approximately 92 percent of the fiscal year completed, revenues (on a cash-receipts basis), totaled \$283.9 million or 93.1 percent of budget; operating expenditures totaled \$247.7 million or 79.3 percent of budget and capital disbursements totaled \$161.5 million or 72.1 percent of budget. Mr. Adebo reported that he expects to end the year with revenues at \$306.1 million, or approximately 100.3 percent of budget; operating expenditures at \$293.2 million, or 93.9 percent of budget; and, capital disbursements at \$182.7 million, or 81.6 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.

With Committee consent, Mr. Adebo continued with a report on investments.

Cash Reserves and Investments

Referring to page 8 of the report, Mr. Adebo explained that the total cash balance at the end of August was \$256.4 million. At the end of August, the operating reserve balance totaled \$130.7

million, or \$19.4 million in excess of the Board's reserve requirement of \$111.3 million, a rate stabilization fund balance of \$58.5 million and the CSO LTCP appropriation balance of \$67.2 million.

At the conclusion of Mr. Adebo's report, Chairman Martin referred to page 10 of the financial report where WASA Bad Debt is shown as \$1.7 million and asked whether that amount is ever written off. Mr. Adebo explained that for financial statement presentation the bad debt is offset with an allowance account for a net zero effect. However, management reports the gross bad debt amount each month to the Committee. Mr. Johnson added that WASA does not discontinue collections efforts, but rather seeks to make arrangements for long-term payment or secures property liens.

Rate Stabilization Fund Transfer

Next, Mr. Adebo provided a review of the rate stabilization fund (RSF). Referring to the cash flow summary on page 13, Mr. Adebo reported that he expects to end the year between \$17 to \$20 million in excess of the operating reserve requirement of \$111.3 million. Typically at this time of year, management provides the Committee with a recommendation of how to allocate the funds in excess of the operating reserve requirement. Mr. Johnson discussed his RSF transfer proposal, which is to split the excess funds on a 50/50 basis between pay-as-you-go capital and the RSF. The benefits include further savings through our ability to defer debt financing and allows for smoothing the rate impact in future years.

Mr. Firestine asked whether management's proposal is consistent with prior years; Mr. Johnson answered affirmatively. Mr. Firestine asked why not fund all of the pay-go-capital funding Attachment 3 to the report, which provides the requirements and avoid using bond proceeds. Mr. Adebo responded that for bond proceeds we can only reimburse ourselves for long-term capital expenses; while for pay-go we reimburse ourselves for capital equipment and some of the shorter-term expenses, however we can use pay-go for any expenses that a debt eligible. The Committee endorsed the management proposal for allocation of excess funds.

Investment Policy and Procedures

Mr. Johnson explained that periodically management conducts a review of the Authority's investment and deposit practices to ensure that policies are consistent with best industry practices. As a result of this review, management also updated the policy to focus on the Board's responsibility for setting policy and general direction. We are further separating the procedures so that management does not have to come back to the Committee for routine management of WASA's investments. Mr. Adebo introduced Barbara Fava, who is Managing Director with Public Financial Management (PFM). Ms. Fava continued with an overview of proposed investment policy modifications and the draft Board resolution. In addition to updating the investment policy document, Ms. Fava explained that the key objectives for the investment review are to:

- Maintain compliance with statutes and Federal regulations;
- Provide sufficient guidance to limit risk while providing flexibility to optimize returns;
- Incorporate recommended practices of both the Government Finance Officers' Association and the Association of Public Treasurers of the United States & Canada (APT); and
- Meet the requirement for APT investment policy certification

Ms. Fava also reviewed a matrix of permitted investments and asset allocation limits. The matrix compares WASA's investment and asset allocation limits with those for selected large public entities in the Washington DC Metropolitan Area.

After discussion of the proposed policy modifications, the Committee asked management to edit both the resolution and the policy and procedures document (Attachment 2) prior to Board consideration. The Committee recommended the following changes:

- Remove Corporate Notes from the list of authorized investments due to unnecessary risk
- Revise allowed investment in Municipal Obligations to limit the total holdings of any single issue to not represent more than 25 percent of the total issue
- Revise the Board resolution for consistency with the policy and procedures document

Potomac Interceptor Rate Study

Mr. Adebo explained that WASA recently retained PB Consult to conduct a Potomac Interceptor (PI) rate study. Since all Committee members received the presentation in advance, Mr. Martin asked if there were any questions and hearing none, asked Mr. Adebo to outline next steps.

In discussing next steps, Mr. Adebo reported that based on the study, management recommends an adjusted rate for the small PI users and collection of settlement amounts (true ups) from the 2004 rate study due from the PI users. Mr. Adebo has spoken by phone, sent formal reports to all of the CFOs and finance directors for the PI users and met to discuss methodology and outstanding amounts. While there are budgetary restraints the PI users have agreed to complete their review and study prior to the end of October. WASA provided the PI users two options: settle in full and have a lower rate for the next three years or roll up the difference in the rates projections for the next three years and recoup interest for those years.

Legal Services Contract Extensions

General Counsel Russell explained the process used to retain legal services and followed with a review of the three contract extensions submitted for Committee review and Board consideration. Procurement of legal services is not covered by WASA's procurement regulations. Instead, the General Counsel reviews pending litigations and retains attorneys as appropriate. Ms. Russell explained the process she uses to negotiate rates based on the service requirements.

Mr. Firestine asked for legal services spending and associated reimbursed expenses for outside counsel per annum for the past five years prior to Board consideration of the proposed contract extensions. The spending history can be presented in broad litigation categories. Chairman Martin asked for an update on outstanding litigations. After further discussion, the Committee convened an executive session at the end of the meeting to continue their consideration of the legal services contracts.

Independent Review of WASA's Budget

Mr. Johnson referred to the revised milestone plan distributed to the Committee and reported that Mr. Bardin submitted a series of questions and firms for inclusion in the RFP mailing. In order to accommodate the additional firms we have extended the time for responses to the RFP through the October 15 with the contract award on December 5, draft report submitted on March 5, 2008 and final report to the Board on March 20. Today, management will conduct a pre-proposal conference to determine what firms may be interested in the RFP, answer general or specific questions, and address any submission time concerns.

Executive Session

The Committee convened in executive session to discuss further, the legal services contract extension requests.

At the conclusion of the executive session, the Chairman reconvened the meeting at which time the Committee endorsed the three legal services contract extensions.

Hearing no further business adjourned at 11:40 a.m.