

**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS



*Finance & Budget Committee
Thursday, July 23, 2009
9:00 AM*

MEETING MINUTES

Committee Members

William Walker, Interim Chairman
Timothy Firestine
Paivi Spoon (for Dr. Brown)

DCWASA STAFF

Avis Russell, Interim General Manager
Olu Adebo, Chief Financial Officer
Yvette Downs, Director, Finance & Budget
Meena Gowda, Acting General Counsel
Robert Hunt, Treasury & Debt Manager
Linda Manley, Secretary to the Board

Other Board members in Attendance

David J. Bardin
Joseph Cotrovu

Call to Order

Interim Committee Chairman William Walker called the meeting to order at 9:07 a.m.

June 2009 Financial Report

Ms. Yvette Downs, Director of Finance and Budget, presented the June 2009 Financial Report, which included preliminary projections for the fiscal year-end.

Operating Revenues

With 75 percent of the fiscal year completed, Revenues totaled \$250.2 million or 5.5 percent below budget due primarily to lower than anticipated receipts for retail customers, the District Government, DC Housing Authority and other revenues. Staff continues to review metering data and monitor consumption trends in each of these categories. Federal payments and wholesale customer revenues are on track with budget.

Based on projections for consumption, Mr. Adebo, Chief Financial Officer, will be recommending a revision to the consumption estimate for the financial plan for Committee discussion at the September meeting.

Operating Expenditures and Capital Disbursements Summary

Next, Ms. Downs reported that Operating expenditures at the end of June totaled \$242.9 million and management currently projects that DCWASA will end the year at approximately 6 percent under budget. This is primarily due to better than anticipated pricing and successful procurement strategy on some of our chemical contracts, lower spending in some major contract areas across the organization and electricity savings. The Personnel services category, which includes overtime spending, is projected to be within budget at fiscal year end due to higher than budgeted vacancies

and lower overtime spending. Because of DCWASA's successful bond refinancing, DCWASA expects to end the fiscal year at 90 percent of budget in the Debt Service category. Mr. Bardin asked for a more detailed explanation for the savings in debt service, to which Mr. Adebo responded that the budget for the refinancing was estimated at 6.5 percent at a full 12 months, however, instead DCWASA issued debt at 5.5 percent in February 2009, resulting in significant savings to the Authority.

Capital disbursements at the end of June totaled \$177.8 million, or approximately 10.8 percent under budget. Based on preliminary projections, management expects to end the fiscal year under budget primarily due to underspending in the Combined Sewer Overflow (CSO) area and lower than planned spending for Capital Equipment and other service areas. Spending under the CSO area is expected to increase during FY 2010.

Mr. Firestine asked about the IMA cost sharing and payment process; specifically how are overpayments and underpayments from the IMA accounted for annually. Mr. Adebo responded that DCWASA has an annual process (settlement) where any under or overpayments are reconciled and paid or collected with accrued interest. Ms. Russell added that this process is pursuant to the IMA reached by DCWASA and the wholesale customer(s).

Chairman Walker raised a previous discussion regarding lead pipe replacements which is budgeted at approximately \$14 million per year. The Chairman questioned if this plan in light of the other pressing capital needs should not be revisited. Ms. Russell responded that DCWASA's policy has three situations where DCWASA will perform the replacements: 1) when the District Department of Transportation works on a project, 2) DCWASA is upgrading the system or 3) when it is consumer requested and the homeowner has agreed to fund the private side, DCWASA will then cover the cost of the public side. After further discussion, the Committee agreed to revert the discussion back to the Retail Services Committee for further evaluation and analysis.

Cash Reserves and Investments

Next, Ms. Downs reported to the Committee on projected cash flows stating that by the end of the year, the operating reserve is projected at \$131.9 million or \$6.5 million over the reserve requirement. Mr. Bardin noted that the \$6.5 million surplus presented in the cash flow statement was attributable to DCWASA's draw down of \$25 million from the rate stabilization fund. Since Rate Stabilization fund draw downs are counted as revenues in the year drawn. Mr. Bardin also asked management to provide a written explanation of the Federal billing and settlement process and any agreements or legislation that supports the process. Chairman Walker recommended that DCWASA refrain from withdrawing the entire rate stabilization fund balance to produce a surplus at the end of the year, but rather use a portion of the fund to incur a balanced budget, thereby leaving a balance in the rate stabilization fund. Mr. Adebo responded that he previously had that flexibility but the board since implemented a policy that requires transfers of the rate stabilization fund to come through the Committee. Mr. Adebo will review the policy to verify if the CFO office has the option to perform Chairman Walker's recommendation.

Ms. Downs continued with a discussion of Investment Performance. At the end of June, DCWASA's investment portfolio yielded 0.45 percent. Ms Downs projected that at fiscal year-end interest earnings will be approximately \$1.5 million below budget.

Quarterly Reports

Referring to the Quarterly Accounts Payable and Grants reports, Ms. Downs noted that DCWASA did not reach the target goal to pay 97 percent of all undisputed invoices within 30 days. However, DCWASA did reach 92 percent of that goal through June, which is an improvement from the prior year performance of 90 percent. In discussing the Grants Report, Ms. Downs noted that as of June 2009, including the CSO appropriation, DCWASA has a total of \$285.9 million awarded in federal funds for active projects.

Investment Strategy Update

Mr. Adebo requested Mr. Robert Hunt, DCWASA's Treasury/Debt Manager and Mr. Nelson Bush, DCWASA's financial adviser with the Public Financial Management, to join the panel to discuss the staff's investment strategy presentation. The presentation provided an overview of DCWASA's investment objectives, philosophy, policies and a listing of the various funds and their activities. Mr. Hunt discussed DCWASA's portfolio hierarchy of objectives, which includes safety, liquidity, return on investment and diversity. Mr. Firestine suggested that DCWASA keep the hierarchy but should reconsider the level of importance for diversity, which should be followed by the return on an investment. Mr. Firestine further indicated that he disagreed with the purpose statement of the investment strategy review and suggested that the purpose be restated. He stated that it was not just the Committee's desire to increase interest income. Chairman Walker noted that he can relate to Mr. Firestine's view of not wanting DCWASA to be seen focusing mainly on income but must keep in mind that DCWASA also must have the ability to mitigate future budget and rates increases where possible. Misters Hunt and Bush responded to various investment questions raised by the Committee in regards to DCWASA's portfolio management. At the conclusion of the report and Committee discussion, DCWASA staffs agreed to report back in September and include board feedback in the evaluation.

PILOT Update

Ms. Russell reported that DCWASA has been attempting to receive more information from the consultants who performed the Cost of Service Study regarding the basis of their analysis. Unfortunately, DCWASA's efforts have been unsuccessful to date. Ms. Russell informed the Committee that she will be sending a letter by the end of the week requesting the information Mr. Adebo has been unable to receive for the past several months.

Adjournment

Hearing no further business, Chairman Walker adjourned the meeting at 11:10 a.m.