DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee
Tuesday, March 23, 2010
9:30 AM

MEETING MINUTES

Committee Members
Timothy Firestine, Committee Chairman
Maurice Boissierre

DCWASA STAFF
George Hawkins, General Manager
Avis Russell, General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Director of Finance & Budget
Laura Preston, Director Customer Services
Robert Hunt, Treasury Manager
Linda Manley, Secretary to the Board

Other Board members in Attendance
Paivi Spoon
Alethia Nancoo

Consultants
Dan Hartman, PFM Inc

Call to Order
Committee Chairman, Timothy Firestine, called the meeting to order at 9:35 a.m.

February 2010 Financial Report
Ms. Yvette Downs, Director of Finance and Budget, reported that at the end of February 2010 with 42% of the fiscal year completed, expenditures and revenues are trailing the budget. Revenues are lagging at 38% of budget primarily due to the Rate Stabilization Fund (RSF), utilization of which is anticipated for the 3rd or 4th quarter of the fiscal year. Ms. Downs reported that revenues, excluding the 'other revenues' category, are at 43% of budget. Chairman Firestine requested that since the transfer from the RSF is a policy decision, staff should consider re-characterizing the RSF from other revenues in order to give a precise depiction of the overall status of revenues. Completing the discussion on revenues, Ms. Downs noted that the DC Housing Authority receipts were low as of the end of the reporting period. However, two payments were received in March that will be reflected on the next monthly report. Also, the residential, commercial and multi-family category is slightly below the target and will be closely monitored over the next few months.

Operating expenditures are below budget at 37% mainly due to the delays in contractual services expenditures with increased spending anticipated for the 2nd half of the fiscal year; utilities due to the lower market prices coupled with the adopted electricity purchasing strategy; and water purchases primarily due to savings in chemical costs. Capital disbursements are lagging budget at 38% mainly due to delayed spending in the Combined Sewer Outflow (CSO) service area. Ms. Downs reported that the Authority received $20 million for CSO LTCP from the federal government and is included in the $87.1 million CSO LTCP appropriation account.

Ms. Downs reported that delinquent accounts receivable were high at $5.5 million and is typical for the time of the year because terminations/cutoffs are not undertaken during the winter months. Ms. Spoon inquired about the impact of multi-family customers who do not pay their bills, especially given the current economic condition. Ms. Laura Preston, Director of Customer Services department explained that the approach taken by the Authority is to notify the property owners of DC WASA's intent to lien rather than shutting off the meters because this secures the Authority's ability to collect the revenue. Ms. Preston also explained that $2.3 million of the delinquent accounts are attributable to multi-family customers, with the top 10 landlords representing one-third of the $2.3 million. There are liens in place on such properties with a significant portion in receivership. Another round of receivership is planned for April 1, 2010.

Ms. Downs reported that as of February 2010, the operating cash reserve level was $143.5 million. In response to Chairman Firestine's enquiry, she confirmed that the interest on the Rate Stabilization Fund balance is included as part of the investment income.

Continuing with an overview of the electricity market pricing and budget estimates, Mr. Downs reported that approximately 83% of the electricity load for April through September of FY 2010 has been locked at an estimated average price of $45.65 per mWh and staff anticipates significant savings by year-end. Approximately 89% of FY 2011 electricity load has been locked at an average price of $45.39 per mWh. Mr. Adebo also explained that staff anticipates locking up to 92% or 28MW of the hourly electricity load to ensure budget certainty in FY 2011. These actions are in line with the board-adopted budget. General Manager George Hawkins advised that the electricity write up section would be revised in order to ensure clearer communication of the electricity charts. Mr. Boissierre requested information on the Authority's performance under the adopted hedging strategy for electricity. Mr. Adebo stated that while the strategy is not necessarily to beat market prices, locking a significant portion of our energy load has helped to balance the risk of certainty and pricing. Otherwise, budget would have to be set at a higher amount for any variability in prices.

Ms. Downs informed the Committee that during the February snow storm, an estimated total cost of approximately $350,000 was incurred for both emergency preparations at the Authority and snow removal support provided to the District of Columbia. DC WASA anticipates receipt of $222,000 from HSEMA, through the District, for the direct support provided to the District. Chairman Firestine wanted to know why the balance is not reimbursable by HSEMA as this represents unanticipated snow emergency costs to the Authority. Ms. Downs noted that the federal authorities have informed DC WASA that only public areas impacted by the emergency (ie streets and sidewalks) were covered under the emergency declaration. Maintenance of public services/utilities were not covered.

Financing Options Update

Robert Hunt, Treasury Manager provided a briefing on the status of three requests for proposals (RFP) issued for the commercial paper (CP) and equipment leasing programs in January. Mr. Hunt reported that DC WASA received 7 responses for the letter of credit and 6 each for the CP Dealer and Equipment Lease Program. Based on the analysis of the responses to the letter of credit and CP dealers as well as discussions with DC WASA's financial advisors, management recommends using tax-exempt commercial paper for the financing of capital equipment rather than the master equipment lease. This would require cancellation of the RFP for the capital equipment program.

In response to Chairman Firestine's question on the change in the capital equipment financing program, Dan Hartman, Managing Director PFM Inc., confirmed that management's recommendation would yield the best financial outcome given the current lower variable rates of the CP program compared to the 5-year fixed rates under the Master Equipment Lease program. Mr. Adebo stated that the expanded commercial paper program with an optimum capacity of $250 million would be in three parts consisting of interim financing ($125 million), taxable financing for the Washington Aqueduct debt ($75 million) and capital equipment financing ($50 million). Mr. Hartman stated that one of the goals for the use of multiple letter of credit providers is to ensure diversity given recent performance and experiences in the market.

Chairman Firestine inquired about the term of the letter of credit program. Mr. Hartman responded stated that the term is typically for 3 years but there is an assumption that the LOC would be available at the end of the 3 years.

Other Business

Chairman Firestine requested that discussions on the Public Service Commission process should be provided at the next Committee meeting. Avis Russell, General Counsel, circulated the synopsis of the matter for committee members' review in preparation for discussion in April.

Action Items

The Committee members supported and referred the two action items for Independent Risk Management and Insurance Consulting Services as well as the Bond Counsel services to the Board with the fact sheet for the latter to be updated by staff before the next Board meeting.

Adjournment

Hearing no further business, Mr. Firestine adjourned the meeting at 11:37 a.m.

FOLLOW-UP ITEMS

1. Separate the Rate Stabilization Fund status within the revenue reporting section in order to identify real areas requiring focus versus policy decisions for delayed receipts. **(Chairman Firestine)**
2. Include prior-year revenues as of the same reporting period in the monthly report for comparative purposes were appropriate. **(Ms. Nancoo)**
3. Provide list of capital projects causing the slippage in actual capital disbursement to budget for December 2009 through February 2010 and the causes. **(Chairman Firestine)**
4. Provide comparison of current fiscal year costs for water breaks, snow removal efforts and personnel services related to the winter season to FY 2008 and FY 2009. **(Ms. Nancoo)**
5. Review the basis of inclusion of wholesale customers in the cost allocation for Bond Counsel services before the action goes to the Board. **(Chairman Firestine)**