

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Board of Directors

*Finance and Budget Committee  
Thursday, May 28, 2009  
9:00 AM*



## MEETING MINUTES

### Committee Members

Daniel M. Tangherlini, Chairman  
Timothy Firestine

### WASA STAFF

Jerry Johnson, General Manager  
Olu Adebo, Chief Financial Officer  
Yvette Downs, Director, Finance & Budget  
Charles Kiely, AGM, Consumer Services  
Barbara Grier, AGM Support Services  
Avis Russell, General Counsel  
Robert Hunt, Treasury & Debt Manager  
Tanya Deleon, Risk Management Manager  
Linda Manley, Board Secretary

### Other Board members In Attendance

David J. Bardin  
Paivi Spoon

### Presenters

Rebecca Perry-Glickstein, Public Financial Management, Inc.  
Edward Markus, Amawalk Consulting Group LLC  
Joe Underwood, Albert Risk Management Consultants  
Loretta Caldwell, L.S. Caldwell & Associates

### Call to Order

Committee Chairman Daniel M. Tangherlini called the meeting to order at 9:00 a.m.

### April 2009 Financial Report

Ms. Yvette Downs, Director of Finance and Budget, presented the April 2009 Financial Report highlighting that with 58% of the fiscal year completed, revenues were at 55%, operating expenditures at 52% and capital disbursements at 53% of the revised budgets. Ms. Downs reported that the quarterly District Government and wholesale customer payments scheduled for receipt in May largely accounted for the lower revenues in April as compared to budget. It was noted that the quarterly payments were in fact received in May as scheduled and will appear on the next monthly report. Mr. Olu Adebo added that revenues from the residential, commercial and multi-family customers are slightly lagging budget at 56%; staff are closely monitoring this category. Ms. Down's noted that the lag in contractual services and utilities are due to some activities slated for the summer and favorable electricity market prices. Overtime has been managed very closely and is in relatively good shape, even at 1% above the year-to-date budget. Staff continues to monitor this category to bring it within budget by year end.

At the conclusion of her report, Ms. Downs informed the committee that the General Manager's FY 2011 Budget kickoff occurred in May and a copy of the calendar for submittals and reviews is included within the Committee package.

### **Operating Reserves Analysis and Update**

Next, an update of management recommendation on the operating reserve level was presented. The committee discussed the appropriate operating reserve level for DC WASA in light of its current financial condition and history and the current economic climate in the national and local economies. The committee also discussed the implications from possible utilization of any freed-up resources and the value or benefit to IMA- jurisdiction participation in the level of the Authority's reserves.

Ms. Rebecca Perry-Glickstein, Financial Advisor, explained that the Authority's current level of operating reserves, though higher than other comparable utilities, is a strong factor for its current strong credit rating as indicated by the rating agencies. Mr. Tangherlini pointed out the fact that the rating agency's credit states that with the inclusion of the Rate Stabilization Fund balance, DC WASA ended FY 2008 with a 304-day operating reserve level above the 180-day Board requirement. General Manager Jerry Johnson explained that counting the rate stabilization fund as part of the operating reserve balance was not desirable because of the planned utilization of the entire balance by FY 2012. Also, in his view the Board's continued willingness to increase rates to meet the system needs, is also a very important credit factor, and so the level of operating reserves should be viewed in totality with several other factors.

Mr. Bardin asked that consideration be given to both the views of board members, who are responsible for the financial health of the Authority, as well as rating analysts, who are responsible for advising the investment community before reviewing the level of operating reserves. Mr. Bardin noted that the Authority's 60-day operating reserve requirement specified in DC WASA's bond indenture is based on prior-year actual operating & maintenance (O&M) costs. This differs from the 180-day reserve requirement that is based on the current fiscal year budget as approved by the Board. The committee then had a brief discussion on Mr. Bardin's proposal to change the current operating reserve policy and base the reserve amount on the previous year's actual O&M amount rather than current year budget.

Ms. Perry-Glickstein stated that management's recommendation takes into consideration various associated risks including the size of the Authority's capital improvement program (CIP), financial market volatility, pending changes in the DC WASA's management and the Authority's credit standing. Chairman Tangherlini asked whether the use of reserves to offset or reduce the obligations of the CIP that support the ratepayers would be a concern for the rating analysts. Ms. Perry-Glickstein responded that rating analysts are very conservative and any reduction in the level of operating reserves should be thoroughly discussed. Mr. Firestine noted that the operating reserve level is lower than the 180-day O&M requirement because of the inclusion of the renewal & replacement reserve for extraordinary capital requirements.

Chairman Tangherlini asked whether the operating reserve is a joint-use or non-joint use matter, which will determine the level of participation by wholesale customers and any potential benefits. Mr. Firestine responded that the wholesale customers already participate in joint-use expenses of the Authority and in the approval of all financial policies. He advised that further discussions concerning risks, allocation of risk and alternative reserves relative to Blue Plains are needed as part of the overall discussion to determine the appropriate level of jurisdiction participation. Further discussions would help to ensure that benefits are favorable for all customers, not just the retail rate payers.

There was extensive discussion on the various ways the jurisdictions might participate in the operating reserves and the process for accessing the reserve fund in emergency situation. At

the conclusion of committee discussion of this matter, Chairman Tangherlini proposed an alternate recommendation of changing the operating reserve requirement to 150-days of O&M effective FY 2010. This recommendation which is different from management's recommendation of the higher of 120 days or \$125.5m will result in the lowering of the O&M reserve by approximately \$15 million in FY 2010. Chairman Tangherlini proposed that this alternate proposal along with further discussions on wholesale customer involvement be forwarded to the full board for further discussion prior to formal recommendation for adoption by the committee. Based on a recommendation from Mr. Firestine, Chairman Tangherlini suggested exploring the option of establishing an enforceable agreement with the jurisdictions to provide cash or cash equivalent guarantee as a way of funding their share of the operating reserve, Management and the financial consultants will continue to review the options discussed with the rating agencies.

#### **PILOT Update**

Mr. Johnson reported that he is in receipt of a portion of the cost of service study undertaken by the DC CFO. Staff is analyzing the report and has requested additional details from the DC CFO to verify the accuracy of some of the information contained in the study.

#### **Bad Debt Account Briefing**

Mr. Charles Kiely, AGM Consumer Services, provided an overview of the Authority's accounts receivable and the recommendation to write-off \$1.3 million of bad debt which represents older balances of 5,480 accounts. Chairman Tangherlini noted that there were 427 accounts with secured tax liens for which the property transferred to new owners. Mr. Johnson explained the reason for the slippages of some of these liens and stated that efforts have been put in place, in conjunction with the title insurance companies, to ensure these do not reoccur. Mr. Kiely stated that the balances for inactive services, though written off for financial reporting purposes, are still reflected in the customer information system and the Authority will continue to pursue collection. The committee agreed to move the action item on bad debt to the full Board for consideration.

#### **Insurance Renewals Update**

Ms. Tanya Deleon, Risk Manager reported that the proposed insurance renewal costs, which are in the approximate range of 3-7% pending final negotiations, are below the initial budget estimates. Mr. Joe Underwood, Insurance Consultant, stated that most of the insurance coverages remain with the encumbered carriers. The substantial change in the renewals is the excess liability program which will be replaced with a group purchase program consisting of 3 insurance companies. Chairman Tangherlini congratulated staff for success renewals in these troubling economic times.

#### **Proposed Business Development Plan**

Ms. Barbara Grier, AGM Support Services presented the proposed business development plan established for engaging the Local and Small Disadvantaged Business Enterprises (LSDBE), minority and women-owned businesses in the community. Mr. Johnson stated that the primary differences in the proposed plan were the point structures and ensuring the Authority's consistency with the existing user-jurisdictions' requirements for program certification.

Ms. Paivi Spoon inquired how the definition of LSDBE applies in situations where a local company has its headquarters outside the region. Mr. Johnson responded that the Authority will accept the local company by relying on the certification by user jurisdiction. Ms. Loretta Caldwell, business consultant, explained that the LSDBE definition used is the common-usage language as accepted by the various user jurisdictions. It was suggested that the definitions be revised to reflect that final acceptance of LSDBE designations will be dependent upon user jurisdiction certification or that the section on definitions be revised as a glossary section. Ms. Avis Russell, General Counsel, stated that the definitions will be verified to ensure transparency and consistency with user jurisdictions and other guidelines/provisions for federally funded programs.

The committee agreed to move the recommendation of the business plan, with suggested modifications, to the Board for approval at their June meeting.

#### **Recommendation for Banking Services Provider**

Mr. Adebo provided an overview of the review process of the RFP issued for the Authority's banking services. The CFO stated that after thorough analysis of responses by the evaluation team and investment advisors, management recommends the selection of TD Bank in partnership with Adam's National Bank. In response to Mr. Firestine's inquiry, Mr. Adebo confirmed that TD Bank was not one of the banks subjected to the stress test. The Committee had a brief discussion of benefits and handling of over the counter payments. The committee agreed to move forward the recommendation of the selected bank for Board action at their June meeting.

#### **Other Business**

Mr. Adebo provided an update on the RFP for rates and financial services consultants and noted that the adopted approach involves the use of a pool of consultants for the tasks. The review of several firms' responses has been completed and management will provide further updates on the selected firms after the procurement process is completed.

In response to Mr. Bardin's inquiry on the issuance of the procurement manual, Ms. Russell stated that if the Board approves the revised Procurement Regulations, they should be published in the D.C. Register on June 12 after which the procurement manual will be placed on the DC WASA website.

Chairman Tangherlini announced his resignation from the DC WASA Board of Directors as a requirement of his recent nomination to the Office of the U.S. Treasury. He expressed his appreciation for the opportunity to serve on the Board and complimented management and staff for its skill and provision of excellent and reliable services. Mr. Bardin and Mr. Johnson congratulated the Chairman on his appointment and expressed appreciation for services rendered during his tenure on the Board.

Mr. Johnson introduced the new DC WASA Controller, Mr. John Madrid to the committee.

Hearing no further business, Chairman Tangherlini adjourned the meeting at 11:44 a.m.