# DISTRICT OF COLUMBIA
# WATER AND SEWER AUTHORITY

## BOARD OF DIRECTORS

*Finance and Budget Committee*

*Thursday, July 22, 2004*
*9:00 a.m.*

## MEETING MINUTES

| BOARD MEMBERS | WASA STAFF |
|---|---|
| Michael Hodge | Paul Bender, Chief Financial Officer |
| Lucy Murray | Wendy Hartmann Moore, Principal Counsel |
| Paul Folkers | Linda R. Manley, Secretary to the Board |

Mr. Hodge called the meeting to order at 9:20 a.m.

**Financial Overview**

Paul Bender, Chief Financial Officer, reported that the Authority's financial performance continued to be on track, with the exception of lead-related operating costs. Lead related operating costs are projected to be somewhat less than the $13.3 million initial estimate for FY 2004. Including lead-related expenses, operating expenditures at the end of June were $183.3 million, or 71 percent of budget.

Revenues at the end of June totaled $197.1 million, or 75 percent of the fiscal year with 75 percent of the year completed.

Mr. Bender reported that capital disbursements were consistent with the accelerated rate that we have seen throughout FY 2004. Year-to-date disbursements of $190 million at the end of June were 85 percent of the annual budget, with 75 percent of the fiscal year completed.

According to Mr. Bender, increased water sales over the summer months may drive revenues over budget by the end of the fiscal year. He also noted that the AMR project is yielding several percentage points more than was projected in the budget for consumption and revenue. Some of the increased consumption will be offset by reduced consumption by one of our largest customers, St. Elizabeth's Hospital, because of their correction of major water leaks. Mr. Bender explained that the metering fee will end the year slightly below budget because the federal metering fees were overstated in the budget projections. WSSC continues to withhold portions of its payments to WASA, which affects the "Other Revenue" category.

Michael Hodge inquired about the status of the billing issue with Howard University, and Mr. Bender responded that bills will be sent in August and September for sewer charges, effective July 1. Both Howard University and the Soldiers' Home have indicated that they disagree with WASA's position on these billings, and Mr. Bender noted that he would keep the Committee informed as this issue moves forward.

## Operating Expenditures

Viola Davies, Senior Financial Analyst, reported that operating expenditures were $175.9 million at the end of June, excluding expenditures for lead-related activities. Lead related expenditures were $7.4 million at the end of June, and we project to spend $11.2 million in FY 2004 on lead operating activities. The total expenditures at the end of June represented 71 percent of budget with 75 percent of the fiscal year completed.

Personnel services expenditures at the end of June were $52.5 million, compared to a budget of $74.5 million budget. Contractual services totaled $46.6 million, or 74 percent of the $63.2 million budget. Expenditures for chemicals and supplies were $12.2 million, compared to a budget of $18.8 million; spending for utilities totaled $15.5 million, or 69 percent of the $21.8 million budget. Spending for small equipment was $563,000 at the end of June, and year-end expenditures are expected to be only 77 percent of the $1.3 million budget.

Ms. Davies said that year-end expenditures are expected to be at 97 percent of the $198.1 budget, without lead costs, and approximate $5 million over budget, including lead related costs.

## Electricity Procurement and Supplemental Appropriation

Mr. Bender continued the operating budget discussion by describing two issues that are currently unbudgeted. He explained that the rate cap on the generation portion of WASA's electric bill will be lifted in February 2005. Under our current arrangement for electricity purchases, this could mean an increase of 45 to 50 percent for generation charges. In an effort to get a better price, WASA has formed an energy working group, which is planning a procurement process for electricity purchases, and Mr. Bender reported that the schedule will allow a decision to be made by December. The planned electricity purchases are being closely coordinated with the digester project, which will produce gas that could supply Blue Plains with a portion of its energy needs. There are several options for making use of the digester gas. WASA staff is developing a plan to maximize the use of this valuable resource. The procurement for implementing a digester gas solution should be completed by mid to late 2005, to coordinate with the digester project.

In response to Mr. Hodge's question about energy savings associated with cogeneration, Mr. Bender said that staff and WASA's energy consultants are in the very preliminary stage of planning, and it is too soon to quantify costs and savings.

Mr. Bender also addressed the issue of budget authority needed to cover the unplanned expenses associated with lead service replacements. Although the District remains confident that WASA could use part of its appropriation to cover these expenditures, Mr. Bender noted that in the case of the Public Benefit Corporation, the General Accounting Office ruled against a similar transaction. The option to capitalize these costs still exists, and a decision could be made by the Board at its October meeting. Lucy Murray inquired about the timing of this decision, and Mr. Bender replied that the decision to capitalize does not need to be finalized before the end of the fiscal year.

## Capital Disbursements

Jean Wilson, Senior Financial Analyst, reported that capital disbursements were $19 million in June, and $190 million year-to-date. As in past months, projects at Blue Plains, the Bryant Street Rehabilitation, and lead service replacements showed the highest levels of spending. Third quarter projections for the capital program are for continued accelerated disbursements for capital construction projects, and overall spending will be 115 percent of the $224.5 million budget at the end of the fiscal year.

**Cash Balances and Investments**

Robert Hunt, Treasury Manager, reported that the operating reserve totaled $115.6 million at the end of June, compared to the $95.5 million reserve mandated by the Board of Directors. In order to meet the operating reserve on the basis of an annual average, the operating reserve could drop to $62.2 million without falling below the required average level, through September 30. However, the operating reserve is expected to be approximately $119 million at the end of the year.

Mr. Hunt reported that the Authority's investment earnings are 10 basis points above the target benchmark of the three-month Treasury bill. Interest earnings for the month of June totaled approximately $278,000.

**Review of Bond Financing**

Mr. Bender introduced the financial team that has worked on the Authority's debt issuance, scheduled to close on August 3. He noted that the financing documents were completed after the Holder report was released in order to fully disclose all the issues associated with lead water service lines. Waiting for the report delayed the issuance schedule by approximately one week. Preliminary pricing shows interest rates in the range of 1.05 to 1.35 percent, producing substantial debt service savings. Mr. Bender reported that WASA's senior management spent a considerable amount of time in discussion with the rating agencies after the release of the Holder report, and that their questions centered on what actions the Board would take in response to suggestions in the report.

**Budget Changes for Implementation of the Adopted Lead Policy**

Two budget changes are necessary to accommodate the policy adopted by the Board of Directors on July 1, which called for the replacement of all lead services by the year 2010. Mr. Bender introduced a $272 million addition to the lifetime budget for the CIP, and a revised 10-year plan that included the full $300 million needed to implement the plan. (The 10-year plan to be revised includes the $53 million revision to the egg-shaped digester project, adopted by the Board in March 2004.) The Committee unanimously forwarded the budget changes to the full Board of Directors for consideration at its September meeting.

Mr. Bender outlined the rate impacts of the replacement program, which were approximately nine percent rate increases for three years, or a $6 per month addition to customers' bills in six to seven years. Lucy Murray requested an analysis to be prepared by staff in the fall, showing the impact of this rate increase on the District's lowest income population. This question was asked in relation to an article in the July 22 edition of *The Washington Post*, describing the growing disparity between the District's high and low income residents. Mr. Bender responded that staff would complete the analysis, and come back to the Committee with some ideas for addressing this issue.

Mr. Hodge adjourned the meeting at 9:55 a.m.