



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance and Budget Committee

*Friday, June 18, 2004
9:30 a.m.*

MEETING MINUTES

BOARD MEMBERS

Glenn Gerstell
Michael Hodge
Lucy Murray
Michael Dutton
David Bardin

WASA STAFF

Jerry Johnson, General Manager
Paul Bender, Chief Financial Officer
Linda Manley, Secretary to the Board

Mr. Gerstell called the meeting to order at 9:40 a.m., following the Retail Rates Committee meeting.

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. Revenues at the end of May totaled \$175.2 million, or 69.8 percent of the fiscal year with 67 percent of the year completed. Excluding lead-related expenses, operating expenditures at the end of May were \$156.2 million, or 60.3 percent of budget.

Capital disbursements continued to run ahead of budget on a straight-line basis; disbursements at the end of May were \$153.5 million, or 76.2 percent of budget. The operating reserve continued to be maintained above the \$95.5 million requirement.

Mr. Bender noted that lead costs, originally estimated at \$13.3 million, are now projected to be approximately \$2 million less. This is due to a decreased volume of calls to the hotline, as well as savings associated with filter distribution because of donations received from two filter manufacturers. He further discussed WASA's efforts to increase the FY 2004 appropriation. The District's CFO has indicated that there is no possibility of a supplemental appropriation from Congress at this point in the year, and discussions are continuing with that office to explore a transfer of appropriation authority from the District to WASA.

Mr. Bardin inquired about the issue of cash if the Authority were to receive additional appropriation authority. Mr. Bender explained the statement of cash flows, included in the Committee package. He noted that net cash from operations, to be used for pay-go financing of the capital program, has been reduced from the \$10.6 million budget level to \$3.1, based on \$11.2 million in unbudgeted lead expenses. Although there will be less reliance on pay-go financing, grant reimbursements are running at a higher than expected rate, due to the accelerated completion of the capital improvement program, as are payments from the wholesale customers. Use of bond proceeds will also replace some of the budgeted pay-go financing; there will be no reduction in the rate stabilization fund.

In the course of reviewing the cash flow statement, Mr. Bardin requested a year-end disbursement projection, and a disbursement plan, for the federal CSO appropriations.

Review of Bond Financing Documents

Mr. Johnson reported that all documents requested by the District's Internal Auditor have been provided, and we are awaiting her certification of revenues, required for WASA to issue debt, within the next week.

Mr. Bender introduced the financing team for the upcoming issuance, including financial advisers, bond counsel, underwriters, underwriters' counsel, and rate consultants. He then summarized the draft bond documents for which the Committee would make a recommendation to the full Board of Directors. These documents included:

- Bond Resolution
- Fifth Supplemental Indenture
- Preliminary Official Statement
- Continuing Disclosure Agreement
- Bond Purchase Agreement
- Auction Agent Agreement
- Broker-Dealer Agreement

After Mr. Bender summarized these documents, Mr. Gerstell asked for more information about the due diligence performed in the document preparation, as he wanted to make sure the Board exercised due care in the bond offering process. Mary Jo Kelley, of underwriters' counsel Nixon Peabody, described a series of extensive meetings with WASA's finance, engineering, and legal staff and the financing team. Upcoming meetings will include discussions with the Authority's outside counsel for the lead issue, outside counsel for CSO issues, and additional discussions with the General Manager, Chief Financial Officer, and Interim General Counsel. Additionally, the financing team will tour WASA facilities. After this series of meetings, the bond documents will be finalized. Mr. Gerstell stated that it sounded like both the issuer and the underwriters had performed more than adequate due diligence, given the comprehensive nature of the various meetings and investigations, and that the board members would also review the draft documents.

Mr. Bardin initiated discussion of the Administrative Order, signed on June 17, addressing lead service lines. Information about this order will be incorporated into the Official Statement, and Mr. Bardin noted omissions in the order that he felt should be included in the bond documents in order for him to be able to approve them. He requested to note that WASA had in place many of the measures included in the Administrative Order prior to its issuance, and that the EPA has acknowledged that WASA is going beyond the requirements of the order. He also requested an acknowledgement that not only WASA, but also the EPA, could have done a better job of handling the lead service issue.

Mr. Johnson noted that some of this wording was originally included in the Administrative Order, but in the course of negotiations, it was excluded.

The Committee unanimously recommended forwarding the bond documents to the full Board of Directors for consideration at its July 1 meeting. Further questions that the Committee might have regarding the documents can be addressed prior to that meeting.

Lead-related Action Items

The Committee unanimously recommended forwarding to the full Board of Directors for consideration a proposed resolution to replace lead service lines in a six-year timeframe. A proposed resolution for a \$100 per linear foot fee for exterior private lead service line replacement, and a \$500 fee for interior replacement to the first threaded joint, was conditionally forwarded to the full Board, pending completion of the publication period in the District of Columbia Municipal Register.

Mr. Gerstell adjourned the meeting at 10:15 a.m.