



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance and Budget Committee

*Thursday, May 27, 2004
9:00 a.m.*

MEETING MINUTES

BOARD MEMBERS

Anthony Griffin
Michael Hodge
Lucy Murray
David Lake

WASA STAFF

Paul Bender, Chief Financial Officer
Wendy Hartmann Moore, Interim General Counsel
Linda Manley, Secretary to the Board

Mr. Griffin called the meeting to order at 9:02 a.m.

Financial Overview

Paul Bender, Chief Financial Officer, reported that the Authority's financial performance continued to be on track and that with the exception of lead-related operating costs, the Authority is on target to meet all of the key financial and budgetary expectations. With 58 percent of the year completed, revenues were at 58 percent of budget, and Mr. Bender noted that revenues are projected to end the year on budget.

Anthony Griffin inquired about the Authority's higher than anticipated vacancy rate and average turnover rate. Mr. Bender explained that the budget is based on departmental plans at the beginning of each year, which usually prove to be optimistic. Staff will prepare and provide the Committee with a report of the Authority's normal and organizational turnover rates.

Operating Expenditures

Mr. Bender reported that April year-to-date operating expenditures were \$103.8 million. Absent the impact of lead expenditures, the Authority expects most spending to be in line with the budget except for two areas where the Authority anticipates savings: personnel services and chemical expenditures.

Personnel services continued to run at less than budgeted rates due to vacancies. Chemical expenditures are running lower than expected due to the timing of capital project completions and new facilities coming on line. Although spending is expected to increase toward the end of the year, savings of approximately \$2 million are projected.

Mr. Bender reported that the Authority expects to end the year with utilities spending at approximately 99 percent of budget. PEPCO's reported 40 to 50 percent potential increase is an issue that will not impact spending in 2004 but may be a significant budget issue in FY 2005. Staff, along with external experts, is beginning a review of various power purchasing options.

Management will provide the Committee with an update on WASA's power purchasing alternatives and a recommended course of action.

Lead-related expenditures

Mr. Bender reported that the lead-related expenditures for FY 2004 should be approximately \$2 million less than the \$13.3 million estimate previously provided to the Board. These savings are in the command center, due to significantly lower call volumes than originally estimated; in water filter costs, due to corporate gifts and volume discounts for replacement cartridges; and other costs.

The Authority now has a reliable estimate for blood sampling from the Department of Health (DOH). The DOH originally provided WASA with a \$1.3 million estimate. However, more recently, the DOH planned a more massive outreach effort and revised their estimate to \$2.6 million. Based on a recent discussion with DOH's medical professionals and WASA's medical consultants, DOH and WASA have agreed on more targeted outreach effort and DOH has agreed to limit their total costs to be reimbursed by WASA to \$1.3.

Mr. Griffin asked whether providing filter replacement cartridges is a WASA obligation. Mr. Bender explained that the Environmental Protection Agency's (EPA) direction is for WASA to provide replacement cartridges. The Authority's current plan is to continue providing replacement cartridges until lead levels are reduced.

As directed by the Board, all lead-related expenses, except for service line replacements, are currently being charged to the operating budget. At year-end the Authority expects to exceed its \$259 million operating budget because of lead-related expenditures. Staff worked with the District to seek federal supplemental appropriations, however, the District CFO's office believes it is highly unlikely that WASA will be successful in receiving a supplemental federal appropriation this year. As an alternative, the District CFO's office is working on a plan to transfer some of the District's budget authority to WASA to ensure compliance with the Anti-Deficiency Act.

Mr. Bender emphasized that this is not a financing issue but solely an issue of budget authority compliance. WASA is fully capable of financing this year's lead expenditures from the \$261 million in budgeted revenues, operating reserves and the rate stabilization fund, if necessary.

Capital Expenditures

Mr. Bender reported that capital spending is consistent with last month's report and there is nothing significant to report. Projects at Blue Plains, particularly in the Liquid Processing program area, continued to drive the high level of capital disbursements.

Cash Reserve, Investments, and Capital Financing

Mr. Bender reported that total cash balances at the end of April were \$201.6 million. The operating reserve balance totaled \$105.2 million. WASA expects EPA reimbursements will exceed budget based on capital projects advancing faster than originally planned.

Bond Issuance

Mr. Bender reported that WASA is on schedule to issue approximately \$280 million in variable rate debt in July 2004. Staff is working on the preliminary official statement (POS) including updating the feasibility study done as part of last year's bond issuance; and procurement of an auction agent. Next month staff will provide the Board with copies of financing documents for consideration.

Mr. Bender also reported that staff has been working with the D.C. Auditor on certification of revenues, which is a prerequisite to finalizing the bond sale. Mr. Bender does not believe that there are any financial reasons why the Auditor cannot certify WASA's revenues as adequate. The processes are the same and data for revenue and expenditure forecasts are sounder than they have ever been; however, the Auditor has raised several issues concerning the potential financial impact of lead issues.

Mr. Bender emphasized with the Auditor, that in order for WASA to remain on schedule for its July bond offering, certification is needed before next month's Finance and Budget Committee meeting. The Auditor's representatives have stated that they cannot commit to any specific completion date.

Other Reports

Mr. Bender reported that last month the Committee previously endorsed, and the Board approved, procurement of the one-year extended discovery period options available under the public officials' liability and the \$65 million excess liability policies.

Additionally, the \$35 million general liability policy contained an automatic one-year discovery period at no additional cost, and an option to extend the discovery period for an additional two years, to April 7, 2007, for a cost of approximately \$650,000. After further analysis of the likelihood of additional new claims being brought beyond April 7, 2005 and the costs associated with extending the discovery period to April 7, 2007, staff recommended that WASA not purchase the additional two-year extended discovery period. The Committee members confirmed that they remain in agreement with this recommendation.

Howard University and Soldiers' Home

Wendy Hartmann Moore, Interim General Counsel, reported that both Howard University and Soldiers' Home have responded in writing stating their unwillingness to renegotiate the existing agreements. As a result, WASA has retained outside legal counsel to research WASA's legal position and begin pursuing this matter. Staff will again contact Howard University and the Soldiers' Home in an effort to resolve this issue, and will update the Committee in June or July on WASA's legal options.

FY 2006 Budget Process

In response to a question from Mr. Griffin concerning the FY 2006 budget process, Mr. Bender reported that the budget process is underway. Most departments have already submitted their proposed budgets and during the summer the general manager will hold meetings with each department to discuss their submissions. The budget will be delivered to all Board members in October.

Washington Suburban Sanitary Commission (WSSC) Audit

David Lake asked about the WSSC audit of fiscal years 2001, 2002 and 2003.

Mr. Bender reported that WSSC's engineering group receives and reviews 100 percent of WASA's vendor invoices for all capital billings. This would be the first time the WSSC Auditor would audit the capital payments.

Mr. Lake emphasized the importance of management providing the Board with regular updates concerning the audit.

External Auditing Contract Extension

Mr. Griffin reported that the Audit Committee at their May meeting, just preceding the Finance and Budget Committee meeting, recommended extension of WASA's external auditing contract. This is the third extension and final year of WASA's contract with Thompson, Cobb, Bazilio and Associates; and will be on the Board's June meeting agenda.

Mr. Griffin adjourned the meeting at 9:45 a.m.