

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS



*Finance & Budget Committee
Thursday, September, 24, 2009
9:30 AM*

MEETING MINUTES

Committee Members

Timothy Firestine

DCWASA STAFF

Avis Russell, Interim General Manager
Olu Adebo, Chief Financial Officer
Yvette Downs, Director, Finance & Budget
Meena Gowda, Acting General Counsel
Tanya Deleon, Risk Manager
Linda Manley, Secretary to the Board

Other Board members in Attendance

David J. Bardin
Joseph Cotruvo

Presenters

Bruce MacDonald, Albert Risk Management Consultants
Constance Schwartz, Samaha and Associates
Bob Frontenburg, Samaha and Associates

Call to Order

Committee Member Timothy Firestine, who chaired the meeting on behalf of Chairman Walker, called the meeting to order at 9:34 a.m.

August 2009 Financial Report

Ms. Yvette Downs, Director of Finance and Budget, presented the August 2009 Financial Report, which included preliminary projections for the fiscal year-end.

Operating Revenues

With 92% of the fiscal year completed, Revenues totaled \$322.7 million or 1.6% below budget due primarily to lower than anticipated receipts for retail customers, the District Government, D C Housing Authority and other revenues. Staff project revenues at 3% below budget at year end due to lower consumption in the Residential, Commercial (Multi-Family), District Housing Authority, and District Government categories.

Mr. Firestine asked Ms. Downs to elaborate on why the Residential, Commercial (Multi-Family) revenues are lagging budget. Ms Downs responded that the revenue lag is attributable to consumption. Mr. Bardin also asked if it was all metered consumption or a build up from delinquencies of payments. Ms. Downs responded that DCWASA has not experienced any

significant increase in delinquencies. Mr. Bardin asked if someone else is looking at the meters to determine whether there really is a drop off in metered water delivery. Mr. Adebo responded that someone is looking at the metered water delivery and it is showing an approximate 3% decline.

Mr. Firestine asked if all of the wholesale payments have been made to which Ms. Downs responded in the affirmative. Mr. Firestine questioned why we have not reached the full amount and are showing a percentage of 97 percent. Mr. Adebo responded that the larger wholesale customers are annually billed based on the approved budget. However, the revised budget is higher than the approved budget and these payments will catch up as part of the true up process next year.

Operating Expenditures and Capital Disbursements Summary

Next Ms. Downs reported that Operating expenditures at the end of August totaled \$300.4 million and management currently projects that DCWASA will end the year at approximately 6 percent under budget. This is primarily due to better than anticipated pricing and successful procurement strategies on some of our chemical contracts, lower spending in various major contract areas across the organization and electricity savings. The Personnel Services category, which includes overtime spending, is projected within budget at fiscal year-end due to higher than budgeted vacancies and lower overtime spending.

Mr. Bardin asked for an explanation as to why the purchase of water is on budget, but the delivery of water is 3% below budget. Mr. Adebo explained that the water purchases budget is driven by DCWASA's share of the Washington Aqueduct's cost, which is currently estimated at 74 – 75 %. A large proportion of the Washington Aqueduct's costs are fixed, hence not as susceptible to consumption changes.

Next Ms. Downs reported that due to DCWASA's successful bond refinancing, DCWASA expects to end the fiscal year at 90% of budget in the Debt Service category. Mr. Firestine asked for a more detailed explanation for the savings in debt service, to which Mr. Adebo responded that the budget for the refinancing was estimated at 6.5% at a full 12 months, however, DCWASA issued debt at 5.5% percent in February 2009, resulting in significant savings to the Authority. Mr. Firestine asked Mr. Adebo to report back to the committee on what is done with the cash from the bond premiums.

Capital disbursements at the end of August totaled \$229.9 million or 14% under budget. Based on preliminary projections, management expects to end the fiscal year under budget. This is primarily due to under spending in the Combined Sewer Overflow (CSO) area and lower than planned spending for Capital Equipment and other service areas. Ms. Down's noted that spending under the CSO area is expected to increase during FY 2010. Mr. Firestine asked why the spending on the Capital projects, during the months of July and August, were above the estimate; and if management expects this trend to continue. Ms. Downs responded that the estimates were a little higher and she expects this trend to continue. Mr. Bardin asked when the Capital projections are prepared for the first quarter of the upcoming fiscal year; and how the projection compares with the \$25 – 27 million a month spent on average. Ms. Downs responded that the monthly projection for the next fiscal year was analyzed as part of the last budget cycle and will be updated and presented to the Board within the FY 2010 monthly budget report. Mr. Adebo added that during the first part of the year that he requested that the Engineers slow down spending because of the uncertainty in the capital market, and concerns regarding the timing of DCWASA's then bond issuance. Some of the increased spending currently being experienced is a result of the catchup from this action last winter. Mr. Adebo advised the committee that staff are in the process of revising and updating the disbursement plan which will be apart of management's budget presentation in October.

Dr. Cotrovu asked if management is projecting any surplus for FY 2009. Ms. Downs reviewed both the operating budget results and the cashflow results. Currently, less than 2% surplus is projected of approximately \$6.0 million. Mr. Adebo responded in more detail to questions from Mr. Bardin and Firestine regarding the methodology and policies behind our Pay-Go and the Rate Stabilization Fund. However, it was acknowledged that the surplus was attributed to the draw down on the Rate Stabilization Fund. If not for the RSF, retail rates alone would not cover operating expenses. Dr. Cotrovu also asked if management anticipates a surplus for FY 2010 budget. Mr. Adebo reported that at the July's Committee meeting, management updated the financial projection for FY 2009 and anticipated that we will have a slight surplus as well. The FY 2010 budget also includes drawdowns from the RSF, reflecting the Board's intent to lower retail rates.

Ms. Russell added that previously Chairman Walker requested that we look at changing the amount of money out of the RSF for this fiscal year, so that it will not appear to have a surplus. Mr. Firestine asked how the surplus from rate payers gets reallocated back to the customers and who made the decision to use Pay-Go beyond the amount that was budgeted. Mr. Adebo stated that he was authorized to do so. Mr. Bardin asked management to provide the Board with an analysis of Pay-Go. Mr. Bardin requested that management consider the inclusion of an updated and perhaps more detailed financial plan within the next budget cycle. Mr. Firestine recommended a more transparent reconciliation of Pay-Go in terms of how much DCWASA has and how it will be used.

After a review of the 2007 resolution on transfers to and from the RSF, Mr. Bardin urged that DC WASA not transfer any funds into the rate stabilization fund in FY2010 until the matter is discussed further. He also requested further discussion with the Chairman of the Board of finance practices as it relates to both RSF transfers and Pay Go funding.

Ms. Downs reported that the conversion to TD Bank that was implemented on September 1, 2009 has been very successful. Mr. Firestine noted that customers are allowed to remit their payments at certain bank branches outside of the District under this new bank and that this is a positive option for retail rate payers. Mr. Firestine deferred the Investment Strategy Update to the next meeting since the Chariman might be very interested in this report.

Rolling Owner-Controlled Insurance Program (ROCIP) Update

Ms. Tanya DeLeon, Risk Manager, provided a historical overview of WASA's ROCIP. Mr. Bruce MacDonald, ROCIP insurance advisor reported that the program allows for the group purchase of insurance coverage. DCWASA's first ROCIP began in October 2004 and will end (for the purposes of construction contracts) in October 2009. Mr. Firestine asked how the savings and targets are calculated to which Mr. Bruce McDonald responded that the contractors provide a bid document with an estimate of what their insurance costs and rates would be under their contract. The information provided is verified by the administrator and adjusted on a monthly basis to ensure there is complete evidence of the contractor cost would have been. This represents the actual cost a contractor would have to pay if DCWASA did not provide the ROCIP. Both ROCIP Action Items (Recommendation for Continuation of ROCIP Program and Recommendation of vendor for ROCIP Insurance Broker Services) were moved to the full Board for consideration.

DC WASA Facility Master Plan

Ms. Russell introduced the DC WASA Facility Master Plan, and requested Constance Schwartz and Bob Frontenburg both from SAMAHA Associates to give their presentation. The presentation provided an overview of the Master Plan goals and objectives and sites identified for optimal usage. Mr. Bardin asked if there will be public transportation accessibility available at these sites. Ms. Russell stated that the sites allow for parking. Mr. Firestine asked if there are any actions to which

Ms. Russell responded that no action needed at this time. A decision will be made during the adoption of the budget.

PILOT Update

Ms. Russell reported that Mr. Adebo requested an additional conversation with the consultants to the DCFO who performed the Cost of Service Study regarding the basis of their analysis. They agreed to provide additional information. However, Ms. Russell informed the committee that she is not optimistic that the consultants will provide us with the information that we need to make a recommendation to the Board to make a change of the amount of PILOT. Ms. Russell advised that at the next Finance and Budget Committee meeting, management will present an overview of the information that has been provided so the committee can have that same information staff has.

As a related item, Mr. Bardin asked whether staff is aware of anything that has changed in the District of Columbia use of Right of Way (ROW) fees paid by all utilities since the original dedicated fund legislation and asked staff to research for later determination.

Fire Hydrant Cost of Service Update

Mr. Adebo mentioned that we completed a Cost of Service study in 2009 related to the 2007 MOU with the District. The study concluded that based on the increased cost and the accelerated pace of the fire hydrant replacement program, DCWASA needed to change the amounts billed to the District. Currently, DCWASA is charging \$1.9 million for fire hydrant service. In July of this year, a notice was sent out by the previous General Manager with the Cost of Services Report to the District CFO. Ms. Russell is also sending a letter out this week reminding the District CFO that these amounts will change effective Oct 1, 2009 from \$1.9 million to approximately \$6 million. DCWASA will bill for this increased amount on a quarterly basis.

Mr. Bardin asked that if the DC Government is willing to drop the PILOT in the future and DCWASA in exchange would be willing to take on some of the fire hydrant cost, what will be the balance? He would like the Board to understand some of the options DC WASA has in terms of dealing with this issue.

Action Item

Financial Management Contract

Regarding the Public Financial Management contract, Mr. Firestine asked how the cost is shared on this contract item. Mr. Adebo stated that it depends on services that are provided. The debt services cost are not shared. The amount is an estimated amount on the task order contract.

In response to a question, Mr. Adebo noted that the additional \$39,000 referenced as a change order is tied to the bond activity during that period. The committee recommended moving the contract forward to the full Board for consideration. Mr. Firestine asked that Mr. Adebo place the IMA billing reconciliation outline, of the Federal billing process, on the next agenda in case someone has additional questions.

Adjournment

Hearing no further business, Mr. Firestine adjourned the meeting at 11:34 a.m.