



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee
Thursday, April 24, 2008

9:00 a.m.

MEETING MINUTES

COMMITTEE MEMBERS

Robin B. Martin, Chairman
Keith Stone
Timothy Firestine

WASA STAFF

Olu Adebo, Acting Chief Financial Officer
Yvette Downs, Director, Finance and Budget
Avis Russell, General Counsel
Linda Manley, Board Secretary
Donna Lewis, Acting Director, Customer Service
Tanya DeLeon, Risk Manager
Bob Hunt, Treasury Manager

Other Board Members in Attendance

David J. Bardin

Presenter

Stuart Cowart, WASA's Independent Insurance Adviser
Barbara Bisgaier, WASA's Financial Advisor

Chairman Robin Martin called the meeting to order at 9:00 a.m.

March 2008 Financial Report

Mr. Olu Adebo, Acting Chief Financial Officer, and Ms Yvette Downs, Director of Finance and Budget, presented the summary of financial highlights for the month of March. Ms. Downs reported that at mid-year, revenues of \$162.2 million slightly trailed budget (\$169.2 million), operating expenditures totaled \$153.0 million, or 44.9 percent of budget, and capital disbursements totaled \$83.5 million, or approximately 55 percent of budget. Mrs. Down noted that the capital expenditures appear a bit higher due to the payment of \$67 million to the Washington Aqueduct in March, for the Residuals project.

Chairman Martin requested clarification on the issue of the data collection units (DCUs) and the negative impact on revenues. Ms. Donna Lewis, Acting Director of Customer Service, explained that the problem resulted from an electrical outage of Verizon lines relied upon for transmission of automated meter reading data. This outage affected various locations throughout the East Coast and lasted two weeks. Verizon has repaired their lines and the DCUs are now functional. WASA staff was not aware of the outage for some time. Staff expects to make up this amount in April when we pick up the previously missed usage. Chairman Martin requested for a full incident

report on this issue for the next month's meeting. Continuing with her report, Ms. Downs reported that there are no other revenue-related issues to report at the mid-year point and she expects the year to end on budget.

Mr. Bardin requested a detailed breakdown of the Other Revenue category, budgeted at \$46 million. Chairman Martin asked management to provide this information for the Committee meeting in May.

Ms. Downs noted that expenditures are trailing projections, primarily due to slow invoicing and delays in a few contract awards. However, it is anticipated that expenditures at the end of the fiscal year will be close to budget. She noted that the Authority continues to experience budgetary pressures in several line items, including chemicals (methanol cost increases) and utilities (higher gas and energy prices). Ms. Downs added that the Budget Office continues to work with all departments to identify potential savings from other line items to address these budgetary pressures and she expects the year to end within the Board-approved budget.

Ms. Downs reported that another area that staff continues to monitor closely is overtime which has been impacted by work on the fire hydrant inspection program. In discussing the increase in the Authority's overtime spending, Mr. Stone asked what accounts for the increase in overtime usage for the Authority and what steps staff is taking to bring spending in line with budget. Mr. Adebo responded that the Authority's overtime spending should not be projected on a straight line because most of the overtime spending generally occurs during the cold winter months when water main breaks typically occur. Higher than anticipated staffing vacancy rates also impact overtime. There are added pressures this year as WASA undertakes additional activities related to the fire hydrant maintenance program. The Budget Office is working with user departments to curtail overtime expenditures. While he expects the Authority will exceed the overtime line item budget, Mr. Adebo expects the overall personnel service area to remain within budget by fiscal year-end.

Concluding her summary, Ms. Downs asked if the Committee had any further questions concerning the financial report. Mr. Firestine requested removal of the Aqueduct payment from the "Actual Capital Disbursements Compared to Budget for the Past 12 Months" chart because it distorts the data. After further discussion, the Committee agreed to leave the chart as is with a footnote to indicate the lump sum Aqueduct payment. Mr. Bardin requested a revision to the "Breakdown of Retail Receipts into Water & Sewer" table in light of the AMR system that is almost totally installed and the Impervious Area database that would be installed within the next few months. Mr. Bardin asked that the qualification regarding estimation of certain data presently used in the reports be replaced with something more accurate and timely. Mr. Adebo responded that there are challenges with development of this table as customers generally do not provide specificity or breakdown in their payments. Therefore, the allocation of revenues to the different categories by customer receipt is a manual intervention. However, Mr. Adebo agreed to look at the table for potential revision. Chairman Martin reminded the Committee that staff was reviewing all reporting information and presentation and this request may be part of a larger effort.

Mr. Bardin requested an additional graph (pie chart) to show the percent of automated meter reading (AMR) meters completed and uncompleted. Mr. Adebo noted that Mr. Charles Kiely, Assistant General Manager Support Services, has been working with the Customer Service Committee on a similar request and he would pass the request along.

In discussing Accounts Payable Performance, Mr. Bardin noted that WASA has been falling substantially behind its goal to pay 97 percent of all undisputed invoices within 30 days. He urged the Committee to take an interest for staff to report within the next few months on how to achieve this goal. Mr. Adebo responded that this measure is one that is included within staff performance

goals and that staff is looking at making adjustments and reporting changes for the next fiscal year. Chairman Martin noted that management is reviewing both the monthly Financial and the General Manager reports and is developing a holistic and fresh approach to looking at these reporting mechanisms. Chairman Martin added that a response is expected from the General Manager by the end of this summer.

Update on FY 2008 Bond Issuance

Mr. Adebo, Mr. Bob Hunt, Treasury Manager, and Ms. Barbara Bisgaier, WASA's external financial manager, presented an update on the FY 2008 bond issuance. Mr. Adebo announced the successful sale of \$290 million of WASA bonds in April, 2008. The new bonds, Series 2008A, will refund the \$295 million of Series 2007A tax exempt auction rate bonds and \$15 million of Series 2007B taxable auction rate bonds. The new bonds are fixed rate and carry a true interest cost of 4.89 percent. The remaining balance of the 2007B taxable auction rate bonds (\$44 million) will be refunded through the issuance of variable rate demand bonds or commercial paper. Staff and financial advisors are analyzing the most advantageous method of refunding these bonds. In the event taxable commercial paper is selected, certain terms of our agreement will need to be revised with WASA's existing commercial paper letter of credit provider, Westdeutsche Landesbank Girozentrale, New York Branch (West LB). To accommodate any necessary revisions, the Committee considered and agreed to recommend to the Board the approval of a resolution to support management's recommended actions to accomplish this goal.

Insurance Policy Renewals Presentation

Ms. Tanya Deleon, Risk Manager, and Mr. Stuart Cowart, WASA's independent insurance adviser for WASA, provided highlights of the insurance policy renewal program. Mr. Cowart reported that WASA's current property insurance has a \$500 million limit, except for flood and earthquakes, which has \$100 million limit, and a high hazard program, which is a \$10 million limit. Mr. Cowart explained that movement is underway in the District for the Federal Emergency Management Agency (FEMA) to change the zone designation for the area that includes Blue Plains, to Zone "A" (high hazard). If the proposed designation occurs, Mr. Cowart reported that the flood and earthquakes coverage limit for Blue Plains would revert back to a \$10 million limit from the existing \$100 million limit. If appropriate, Mr. Cowart urged WASA to reach out to those entities that can impact the re-designation and urge that Blue Plains not be reclassified due to the cost implications.

Mr. Adebo stated that the General Manager is acutely aware of this issue and that WASA has been working with the District Department of the Environment (DDOE) to better understand and provide consideration for changes in zoning matters, which affect Blue Plains. The DDOE has been coordinating the District's response to the impending zoning changes. In addition, Mr. Adebo explained that WASA's engineering group has been coordinating these activities for WASA and suggested that staff could provide additional information. Chairman Martin concurred that staff provide a full report on this issue at the next meeting of the Finance and Budget Committee.

Management Response to Independent Comprehensive Budget Review (ICBR)

Mr. Adebo informed the Committee that staff is working diligently to determine the best approach to address the various issues raised in the ICBR report. Chairman Martin asked that the General Manager, Jerry Johnson, provide a comprehensive plan to address various recommendations in the report. This plan, for Committee review, should also include mechanism(s) for quantifying benefits and monitoring results over time.

Committee Work Plan Goals Quarterly Update

Mr. Adebo presented the Committee an update to the work plan goals for 2008 pertaining to Focus Area Four: Finance and Budget. Chairman Martin suggested that additional steps be added to Objective 4-2.1b, regarding the independent comprehensive budget review, even though the status indicates “completed April, 2008 ahead of schedule.”

Mr. Bardin asked whether the Board could now reduce its self-imposed reserve requirements, as part of the fiscal year 2010 budget process, as recommended by the independent consultants and given WASA’s present credit rating. In response, Mr. Adebo stated that the fiscal 2010 budget kickoff is scheduled for May 2008, and does not provide ample time to thoroughly review and research this item in time because of various complex issues involved. Chairman Martin responded that this would be addressed as part of the Committee’s Quarterly Work Plan.

Action Item

Mrs. Avis Russell, General Counsel, presented a legal services contract modification to authorize the expenditure of up to an additional \$1 million with Morgan Lewis & Bockius, LLP. With this request, Chairman Martin questioned if the Legal Services Department would be at or below budget at fiscal year-end. Mr. Adebo responded that the General Counsel’s Office is on track to stay within budget for contractual services for fiscal year 2008. Mr. Bardin requested a multi-year breakdown of legal services allocation for in-house (including personnel services) costs and outside legal service contract work. Mr. Adebo agreed to email this information to the Committee prior to the next Board meeting. The Committee agreed to forward the legal services contract modification to the full Board for action at the meeting in May.

Other Business

Mr. Adebo addressed a follow-up item, regarding the Washington Aqueduct cost-of-service allocation proposal from Falls Church for a retroactive application of the results to the Residuals project costs. Mr. Adebo stated that the General Manager has recommended against retrospective implementation of this cost of service study. Chairman Martin stated that the General Manager had previously discussed this with the Board and all Committee members concurred with that recommendation.

Hearing no further business, Chairman Martin adjourned the meeting at 11:30 AM.