



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance and Budget Committee

*Thursday, September 23, 2004
9:00 a.m.*

MEETING MINUTES

BOARD MEMBERS

Anthony Griffin
Lucy Murray
David Lake

WASA STAFF

Paul Bender, Chief Financial Officer
Avis Russell, General Counsel
Linda Manley, Secretary to the Board

Mr. Griffin called the meeting to order at 9:10 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. Capital disbursements were projected to be lower at the end of the year, compared to the third quarter estimate, by approximately \$20 million. Receipts at the end of August totaled \$251 million, and Mr. Bender projected year-end receipts of approximately \$5 million over the \$261.5 million budget.

Lucy Murray asked about the downward trend in receipts from the D.C. Housing Authority, and Mr. Bender responded that it appears to be a permanent change, and the budget will be adjusted downward accordingly.

Operating Expenditures

Viola Davies, Senior Financial Analyst, reported that operating expenditures were at 86 percent of the \$258.9 million budget with 92 percent of the fiscal year completed, excluding expenditures for activities associated with the replacement of lead water lines. Ms. Davies noted that operating spending should be at approximately 97 percent of budget at the end of the year before taking lead expenditures into consideration. She reported that we would need to recognize approximately \$5 million in additional savings to prevent exceeding WASA's FY 2004 Congressional appropriation.

In response to a question from Mr. Griffin, Mr. Bender said that ending the year at three percent under budget equated to a savings of approximately \$6 million. Mr. Bender reported that a memorandum of understanding (MOU) between WASA and the District's Office of the Chief Financial Officer, allowing a transfer of \$12 million from the District's budget authority to cover expenses incurred by WASA, was signed on September 22. Under the terms of the MOU, WASA would reimburse the District with a future year's appropriation. Mr. Bender explained that WASA is simultaneously pursuing a request for additional FY 2004 authority through the U.S. Congress.

Mr. Griffin asked if we could avoid using the District's appropriation if we were able to come up with an additional \$5 million in savings. Mr. Bender responded that \$12 million in authority would automatically be transferred to WASA, but that we would only use and pay interest on the actual cash needed for FY 2004 expenses. He restated the need for an additional \$5 million as a conservative estimate, in addition to the projected \$6 million savings.

Variable Rate Debt Issuance

Mr. Bender directed the Committee to a new report that will be provided to the Committee on a monthly basis going forward. It compares WASA's interest rates on its August 2004 seven day variable rate issues to the seven-day Bond Market Association index average. Thirty-five day maturities were also part of the August debt issuance; there is no index for 35-day notes, and a simple average of comparable 35-day maturities is included in the report. WASA's average rates for seven-day maturities was 1.09 percent compared to the BMA index of 1.20 percent; our 35-day maturities paid an average interest rate of 1.38 percent compared to comparable securities' average rate of 1.34 percent.

Capital Disbursements

Jean Wilson, Senior Financial Analyst, reported that August capital disbursements totaled \$16.8 million, and year-to-date disbursements were \$220.0 million. Year-end disbursement projections for the Capital Improvement Program have been reduced – third quarter projections were for approximately \$159 million in year-end disbursements, but delays in major projects at Blue Plains, combined with reduced projections for AMR and capital equipment disbursements put the year-end projection at approximately \$141 million at the end of August.

Cash Balances

Robert Hunt, Treasury Manager, reported that the cash balance at the end of August was \$219.1 million, including \$21.5 million in the rate stabilization fund, \$74.3 million in the federal CSO appropriation, and \$123.3 million for the operating reserve. He predicted that the operating reserve will be maintained at nearly \$20 million in September. Interest earnings for the month of August were \$26,000.

Insurance Policy Renewals

Mr. Bender reported that insurance policies for blanket property, fidelity and crime, and fiduciary liability are expiring in October. The current annual cost of premiums for these policies is \$955,000, and Mr. Bender estimated that the new premiums will be slightly less. The coverage levels will be the same with the new policies, with the exception of flood insurance. Historically, WASA's insurer has applied a \$10 million limit to Blue Plains due to the height of the floodwall. It has now been determined that all other facilities that fall within the high hazard flood zones, as well as Blue Plains, will be subject to a total \$10 million per year in coverage. Mr. Bender reported our level of exposure does not warrant the high cost of premiums for additional coverage.

Jerry Johnson, General Manager, noted that we added berming in September 2003 when Hurricane Isabel moved through the Washington D.C. area, and that the berming has been landscaped and made permanent to reduce our risk of future flooding. Additionally, placement of electrical equipment above flood levels is being incorporated into facility designs.

Electricity Procurement and Supplemental Appropriation

Mr. Bender summarized the electricity budget issue that WASA faces in FY 2005, when the rate cap on the generation portion of Pepco's bill is lifted. This could have an annual impact on the operating budget of \$5 million to \$6 million. WASA has issued a request for proposals to procure electric power, and responses are due on October 4. The Board of Directors will be asked at its October meeting to authorize the General Manager to enter into a contract within a "not to exceed" total cost. This is due to the nature of the power market, and suppliers will usually not allow a window greater than 24 hours for a proposal to be accepted. If a suitable bid is not received, WASA will have time to reissue a request for an electric power supplier. In response to a question from Ms. Murray, Mr. Bender said that we could be back in the market in two weeks to a month if a favorable proposal is not received in October.

Mr. Griffin inquired about attempts to work with other similar entities in a joint electric procurement, and Mr. Bender replied that WASA is hoping to take such an approach in the future. Procurement and timing issues prevented this from occurring in October, but that approach will be pursued aggressively for future purchases. Mr. Griffin concluded the discussion when he noted that there was a consensus on the committee to support the resolution at the October Board meeting.

FY 2006 Budget Process

The FY 2005 revised and FY 2006 proposed budgets will be presented to the Finance and Budget Committee and the Environmental Quality and Operations Committee on October 21. Mr. Bender outlined the schedule for review of both capital and operating budgets, and Mr. Griffin suggested that both the November and December meetings of the two committees be held jointly in order to work around fall and winter holiday schedules, as well as to minimize the number of review sessions needed.

Ms. Murray expressed her support for incorporating suggestions from the Holder Report into the budget, in the form of staffing and other measures needed to accommodate the lead service replacement program. Mr. Johnson said that the budget will include the needed measures.

Other Business

Linda Manley, Board Secretary, announced that a tour of capital projects for the Board of Directors will be held on October 8. Ms. Murray suggested that such a tour might be valuable for elected officials in the area as well. Mr. Griffin supported the idea.

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