



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, January 24, 2008

9:00 AM.

MEETING MINUTES

COMMITTEE MEMBERS

Robin B. Martin, Chairman
Dr Jacqueline Brown
Keith M. Stone

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Yvette Downs, Director Budget & Finance
Avis Russell, General Counsel
Linda R. Manley, Board Secretary

Other Board member

David J. Bardin

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

December 2008 Financial Report

Ms. Downs informed the Committee that her presentation reflects the revised FY 2008 budgets. She stated that revenues were on target, and that operating expenditures were in line with spending percentages this time last year. She noted that capital spending was below target, primarily due to the fact that the Washington Aqueduct residuals contract has not been awarded. Ms Downs presented the rest of the report on an exception basis. Chairman Martin inquired whether the chart on page three and five were referencing the Revised FY 2008 budget. Ms Downs responded in the affirmative. Chairman Martin requested that future charts be labeled accordingly.

Operating Expenditures

The Committee was informed that overtime spending is a little high compared to the percentage of the fiscal year completed but at a similar level with this time last year. She noted that this may be due to seasonal factors and that the situation is being closely monitored. Chairman Martin noted that in FY 2007 WASA exceeded its overtime budget. The General Manager noted that FY 2007 had some unusual and unexpected overtime requirements due to activities such as the increased number of fire hydrant replacements. Dr Brown inquired about the typical drivers of seasonal overtime expenditures. Mr. Adebo, responded that water main breaks and emergency factors such as the emphasis on fire hydrants were examples.

Ms Downs informed the Committee that the price of methanol has decreased since the Board review of the procurement action earlier in January. Therefore, the budget risk has been reduced and the CFO office is working with procurement and the wastewater treatment department to

identify further areas to mitigate potential budget impacts. Chairman Martin inquired whether the Authority was locked in to the prices for the various chemicals for which contracts were approved by resolutions of the Board, and whether hedging possibilities had been considered. The General Manager indicated that the resolutions approved by the Board gave him the authority to enter into contracts and that before he signs off on the contracts pricing exposure and other similar issues would have been addressed. He added that plans are underway to address the volatility in prices of chemicals.

Capital Disbursements

Chairman Martin inquired on the status of the Washington Aqueduct residuals project. Mr. Adebo indicated that award and payment are anticipated sometime in February.

Cash Reserves

Chairman Martin asked for a clarification of the cash balance chart. It was explained that the lines represented cumulative balances for the reserve and rate stabilization funds only. The third line indicates the actual monthly balances as compared to the planned cumulative balances. Also, the chart does not include the CSO appropriation balance as noted in the chart title. Chairman Martin requested that the chart be re-labeled and/or worked to clarify the values shown.

Automated Meter Reading

Mr. Bardin mentioned that more information was need on the pie chart on page eleven (larger commercial meters) of the report. The last 4.7% of outstanding meter installations represents more than 4.7% of the Agency's revenue and the chart does not adequately demonstrate this potential impact. Chairman Martin suggested that presenting the information by percentage of revenue as well as percentage of meters would be informative.

Accounts Receivable

Chairman Martin observed that while the delinquent accounts (pages 10 – 11) had dropped, the information tends to indicate that a large percentage of the customer base is ninety days delinquent. He suggested Customer Service department take another look at this report.

Accounts Payable

Dr. Brown wanted a clarification on page 12, Accounts Payable, on the percentage of invoices that are disputed. It was noted that page 13 included a table showing that only 159 out of 2690 invoices were either under dispute or have retainage withheld. Chairman Martin observed that this report and the General Manager's report is under review and will be streamlined. He also raised a question on page 13 of the report related to 'Accounts Payable Performance' and wanted to know what contributed to the delay in the 'Greater Than 45 Days' category of this chart and whether the Authority paid any penalty for late payments in the last fiscal year. Mr. Adebo replied that it was due to a number of factors including inadequate balance on the purchase order, disputes awaiting resolution, etc. He confirmed to the Committee that no late payment penalties were paid by the Authority in FY 2007.

Cash Flow Statement

Chairman Martin and Dr Brown inquired if the Board would be informed on major cash flow variances; the Acting CFO and the General Manager replied in the affirmative.

Mr. Bardin requested that the water and sewer revenue be shown separately. This request was discussed by the Committee and management taking into consideration the intended goals, administrative feasibility and value added by this additional information. Chairman Martin concluded that there was no value added at this time and that such information will be available in the cost of service study. Mr. Stone suggested an additional column to the CFS showing actual percentages of funds received and used per quarter. This request was discussed and agreed upon. At this point Dr

Brown observed that it was a positive sign that twenty-five percent of the fiscal year costs (including personnel services,) were at twenty-four percent of the budget. Chairman Martin commented that while this spending trend might indicate good management it might also mean that expenditures and revenue requirements are overestimated in the budget process and therefore led to setting higher rates. He noted, however, that any savings are available for the rate stabilization fund at the end of the fiscal year and help with smoothing the rates in the out years. The General Manager asserted that this positive variance may be also viewed as a result of management's due diligence in cost management.

Capital Projects

Chairman Martin observed that on the capital expenditure chart on page seventeen the column for commitments was zero for the Washington Aqueduct. Mr. Adebo stated that funding for the Aqueduct is on a cash basis and therefore no commitments are shown.

Independent Auditor Result

Ms Yvonne Reid, the Acting Controller, provided the Committee a brief presentation on the major highlights, the most important of which was that the Authority will be issued an unqualified opinion. Ms Reid informed the Committee that the report together with the Management Letter to all Board members would be available prior to or at the February Audit Committee meeting.

Auction Rate Securities

Mr. Adebo introduced the Treasury Manager and Barbara Bisgaier, a member of the Authority's financial adviser's team. The General Manager highlighted how the current market situation may affect WASA's variable rate bonds. The Treasury Manager highlighted current market conditions and the effect on WASA's bond issue. Barbara Bisgaier made a detailed presentation and recommended that WASA convert its 2004 Auction Rate Bonds (ARB) (2007A issue) to Fixed Rate Bonds (FRB) and to convert the \$59 million Taxable auction rate bonds (2007B issue) to Variable Rate Demand Bonds (VRDB). This last item would maintain WASA's ability to convert the taxable bonds to tax-free bonds in the future. Ms Bisgaier highlighted the advantages of both actions. Ms Bisgaier cautioned the Committee that it will take up to April to affect this change. The Committee members concurred that the recommendations were sound and excellent. The General Manager outlined the activities needed in order to bring documents to the Board for approval in May. However, the General Manager would need concurrence for the financial team to proceed with activities to accomplish the task over the next 6 weeks and inquired if the Committee was prepared to make the recommendations to the full Board, to which the Committee replied in the affirmative.

Update on Independent Budget Review and Calendar

The General Manager informed the Committee that the contract for this project was signed in December. He also stated that the project work has started, and there have been several group meetings. The review is scheduled to be completed in three months. He also informed the Committee of a correspondence received from Councilmember Graham inquiring about the status of the review to which management will respond. Chairman Martin indicated that the Committee was available and willing to cooperate on matters in the budget review requiring direction or otherwise.

Committee Work Plan

Chairman Martin reminded the Committee that the work plans result from the strategic plan and are tied back to Committee work, management work and are meant to be a seamless and integrated process. The charge to the Committee is to review the work plan on an annual basis. Mr. Adebo informed the Committee that this has been presented with the assumption that relevant revisions and updates will be made to the FY 2006 – FY 2007 to create the work plan for FY 2008. Chairman Martin inquired if management had any recommendations for the work plan. Mr. Adebo made several recommendations to the Committee. The Committee decided to keep the document as is

subject to amendments when the new strategic plan is developed. There was much discussion on whether to delete Goal 4-1.3, and Chairman Martin eventually requested that Goal 4-1.3 be kept in the document for now pending further discussion. Dr. Brown suggested a tutorial on Goal 4-1.3 to which the Committee concurred. Staff will update the work plan prior to the next Committee meeting based upon the discussions with new target dates where appropriate.

Other Business

The General Manager informed the Committee that the Authority was scheduled for an oversight hearing with the DC Council on Public Works on February 22, 2008.