

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY



Board of Directors

*Finance and Budget Committee
Thursday, April 23, 2009
8:30 AM
(via teleconference)*

MEETING MINUTES

Committee Members

Daniel M. Tangherlini, Chairman
Timothy Firestine
Dr. Jacqueline F. Brown

WASA STAFF

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

Other Board Participants

David J. Bardin
Joseph Cotrovo

Presenters

Edward Markus, Amawalk Consulting Group LLC
Bruce MacDonald, Albert Risk Management Consultants
Karin DeMoors Public Financial Management

Call to Order

Committee Chairman Daniel M. Tangherlini called the teleconference meeting to order at 8:30 a.m.

March 2009 Financial Report

Ms. Yvette Downs, Director of Finance and Budget, presented the March 2009 Financial Report. For the month of March 2009, with 50% of the fiscal year completed, revenues were at 48%, expenditures at 44% of the operating budget and capital disbursements were at 44% of the revised disbursements budget. Ms. Downs reported that capital disbursements were slow for the month of March but she anticipates several large disbursements in April.

Following her report, Ms. Downs responded to various questions raised by Committee members. Mr. Tangherlini asked why revenues were low through the month of March to which Ms. Downs responded that the D.C. Government payment during the second quarter was under 50% reflecting low usage during the first quarter of FY 2009, as well as lag in the "Other Revenues" category. However, Ms. Downs also explained that WASA drew down from the rate stabilization fund in March and anticipated full draw down by the end of the fiscal year. Also, water use is typically higher in the warmer months, so seasonal fluctuations in use are expected. Mr. Bardin asked that staff monitor the D.C. Government line item to determine whether conservation could be a contributing factor to lower-than-anticipated receipts.

In response to a question by Mr. Cotrovo concerning debt service expenditures, Ms. Downs explained that payments associated with the bond issuance in January will occur toward the end of the fiscal year, which would bring expenditures closer to the budget at that time.

Operating Reserves Analysis and Recommendation

Mr. Johnson discussed the history relative to WASA's operating reserves and asked Mr. Edward Markus of Amawalk Consulting LLP to provide a more in-depth presentation of WASA's operating reserves including comparisons to other entities and the basis for management's recommended reserve level. Mr. Markus explained that DCWASA's Independent Budget Review determined that WASA carries a larger operating reserve than most large utilities. Amawalk conducted a study to assess the effectiveness of WASA's financial policy regarding the size and number of days of its operating reserves. The review included identification of operating and financial risks and compared WASA's reserve policy with other utilities; many of whom are AA and AAA rated. Amawalk also evaluated the potential impact of various alternative policies. These potential alternative reserve targets were discussed on a preliminary basis with rating agencies.

Mr. Firestine commented, and Mr. Bardin agreed, that the title associated with Risk categories should be labeled "Risk Mitigators". The Financial Risk assessment revealed a positive financial position in all key categories. Mr. Bardin asked staff to spell out the acronym (R&R).

Peer Review of other utilities: Amawalk compared WASA's coverages to other peer utilities O & M reserves and bond ratings and found that WASA had the second highest O & M reserves (ranging from 30 to 60 days) out of the twelve utilities surveyed. There was a lot of discussion around the comparison table and interpretation of the information. It was noted that agency ratings are based upon a variety of considerations; operating reserve levels and liquidity being partial factors. It was agreed that the table would be adjusted to try to focus the comparison on the operating reserve limits and simplify the table in a way to be easier to understand. Mr. Johnson cautioned that there are other factors, such as use of jurisdictional resources, that influence the operating reserve requirements, but the chart will be revised considering the comments made by the Committee.

Mr. Cotruvo noted that WASA bond rating was less than our peer utilities, but our strength appears to be greater, Mr. Johnson commented that a lot of the consideration has to do with the youthfulness of WASA and several other factors including bonding and general obligations. It was noted that conditions continue to change and WASA is no longer in the same position that it was when the policy was initially adopted some years ago. Dr. Brown commented that Wall Street judges WASA's creditworthiness based on a variety of factors and merits including (financial soundness, management practices, etc.) Committee member Brown agreed with reducing the operating reserves but questioned the timing given the relative turbulence in the U.S. economy. Mr. Johnson suggested that adjusting the O&M reserves to 120 days while maintaining the current funding level would be the appropriate approach, while reducing both the reserve amount and number of days would present several concerns. Mr. Johnson added that when WASA spoke with the rating agencies, the agencies spoke about reducing either one or the other: the number of days or the funding level.

DC WASA's financial advisor, Karin DeMoors of Public Financial Management, briefed the Committee on the Securities Exchange Commission (SEC) regulations that the rating agencies are currently implementing. She provided this information as context to the Authority's current request for feedback from the rating agencies regarding the potential impact on DC WASA's credit rating of the proposed change in operating reserve policy. Ms. DeMoors stated that preliminary feedback was sought and additional input will be obtained as the Authority moves forward with its discussions on the operating reserve policy. The impact, if any, on DC WASA's rating of a change to the operating reserve policy is not certain, but the rating agencies are cautious about significant changes to the reserves.

The Committee discussed management's recommendation to move forward in two phases: the first phase included changes to the financial policy and a phase two that would provide for wholesale contribution to the operating reserve requirement. Mr. Tangherlini expressed concern over breaking the issues into phases. It was agreed that the Amawalk findings would be presented in summary to the full Board at their meeting in May, but any recommendations would be deferred until the next Committee meeting in May. Additional explanation of the purpose or benefit of the operating reserve would also help in the Board's consideration of adjustments to the operating reserve policy. The Committee requested that management provide responses to follow-up questions raised.

Rolling Owner-Controlled Insurance Program (ROCIP)

Mr. Bruce MacDonald, ROCIP insurance advisor, provided a historical overview of WASA's ROCIP. Mr. MacDonald noted that ROCIP allows for the group purchase of insurance coverage. WASA's first ROCIP began in October 2004 and will end (for the purposes of construction contracts) in October 2009. Mr. Tangherlini asked Mr. MacDonald to explain the upside risk of ROCIP, to which Mr. MacDonald responded that the future risk would occur if the contractors were not deleting the cost of the amount equivalent to the maximum cost of the ROCIP. Mr. Tangherlini asked whether a contractor could opt out of the ROCIP and provide their own insurance. Mr. MacDonald responded that a contractor can make a case not to use WASA's ROCIP, however in general, contractors are required to participate in the ROCIP.

Mr. Adebo, Chief Financial Officer, explained that he favors the ROCIP program because the program offers higher insurance coverage limits than any individual contractor can typically provide. Mr. Adebo pointed to the enhanced coordination of the contractor safety program, which ensures that all contractors and staff receive drug testing. This reduces worksite accidents. Mr. Tangherlini asked whether WASA's current ROCIP program has a Metropolitan Council of Governments (COG) rider on its current contract. Mr. Johnson agreed to have staff research the COG rider question posed by Mr. Tangherlini and provide feedback. 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.

Payment in Lieu of Taxes (PILOT) Update

In providing the PILOT update, Mr. Johnson reported that he had contacted Dr. Gandhi's office and has not received any feedback. Mr. Tangherlini stated that he will follow up with Dr. Gandhi's office to see if he could get the PILOT issue resolved.

Other Business

Mr. Johnson requested abatement of charges for two properties in DC and asked for consideration of Committee recommendation and Board approval. The Committee agreed to move the action forward to the full Board, with written resolutions to be provided.

Mr. Bardin requested two additional reports. Chairman Tangherlini asked that the meeting be adjourned. (Mr. Bardin discussed the request with staff after the meeting.)

Hearing no further business, Chairman Tangherlini adjourned the meeting at 10:30 a.m.