



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

*Retail Rates Committee
Wednesday, July 25, 2007
9:30 a.m.*

MEETING MINUTES

BOARD MEMBERS

Robin Martin, Chairman
Joseph Coutrovo
Kenneth Davis
Brenda Richardson
F. Alexis H. Roberson
Alan Roth
Keith Stone
Dan Tangherlini

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Avis M. Russell, General Counsel
Linda Manley, Board Secretary

Chairman Martin called the meeting to order at 9:35 a.m. In his opening remarks the Chairman explained that the purpose of the meeting is to hear reports from the General Manager on 1) establishment of an impervious area rate structure, 2) the status of the lead service line replacement program, and 3) to review the comments from the June 13 public hearing concerning the proposed FY 2008 rate increase. The output of this meeting will be for the Committee to submit a rate proposal for vote by the District of Columbia members of the Board during the September meeting of the Board of Directors. This is a discussion of retail rates which applies only to District of Columbia residents, commercial business and other entities within the District of Columbia. Following his opening remarks, the Chairman asked Mr. Johnson to proceed with the impervious area rate briefing.

Impervious Area Rate Briefing

Mr. Johnson explained that management was asked about the status of establishing an impervious area rate. Referring to Attachment A, Mr. Johnson explained that today's briefing will provide the Committee with background information as well as an update on efforts underway to explore establishment of an impervious area rate. Mr. Johnson reported he has responded as best as possible at this early stage, to a series of questions submitted by board member David J. Bardin. However, Mr. Johnson explained that answers to some of the questions are not available at this time but would be the subject of the impervious area rate study.

Next, Mr. Johnson introduced Mr. John Cromwell, an economist working with Stratus Consulting. Mr. Cromwell's is experienced in providing innovative strategies and approaches for utility management and has been working with WASA throughout this entire process. Next, Mr. Johnson explained the various components of flows treated at the Blue Plains Wastewater Treatment Plant. Mr. Johnson began the presentation by explaining that flows to the Plant originate from households,

various employment venues and from visitors to the District of Columbia. Flows manifest themselves as either sanitary flow infiltration, which is water that enters the sanitary system from the ground or other sources; one source, groundwater, has been a major issue previously discussed with the Board. Mr. Johnson explained that there are buildings and other facilities located in the District of Columbia, particularly in the downtown area, that was previously swamp areas, which was later filled; the water table is very high in those areas. Many of those buildings pump groundwater out of their basements and lower level garages into the combined sewer area. This groundwater flows directly into the system for treatment at Blue Plains. The Plant does not distinguish between clean water that enters the treatment plant as groundwater versus flows that enter as sanitary flows; all flows receive the same treatment at the Plant. An additional factor is inflow, Mr. Cromwell explained, which involves direct connections of downspouts to a sanitary sewer, or openings in manhole covers where rain water flows directly into the sanitary sewer.

Mr. Johnson explained that the impervious area fee approach is intended to recover the capital cost associated with the Combined Sewer Overflow Long-Term Control Plan (CSOLTCP) and Stormwater Program. Management is now in the process of launching an approximately sixteen month program to implement the rate, as the impervious area provides a better method for allocating costs to the cost drivers. Mr. Johnson provided a comparison of typical consumption for a family of four versus a commercial business with only one toilet facility but several acres of parking. The commercial entity's contribution to the combined sewer overflows and the stormwater problem is much more significant than the family of four. However, the family of four is paying a disproportionate amount because water consumption is the current basis for calculating their bills.

Mr. Johnson further stated that impervious area rate structures have been used in a number of cities across the country; however they are typically associated with stormwater utilities and operations related to stormwater. When WASA managed the stormwater fund, and as part of the memorandum of agreement established with the District of Columbia, WASA recommended that the District establish a similar rate structure to recover stormwater costs based on WASA's preliminary impervious area rate study.

Mr. Cromwell reported about the impacts of WASA switching to an impervious fee from a water consumption-based fee for cost recovery and provided the following additional information:

- WASA is in the process of building an impervious surface database. This database would provide a more definitive assessment of what the actual rate impacts and customer class allocations will be.
- WASA is planning to implement a parcel-by-parcel rate for all non-residential properties in the District.
- WASA will use an equivalent residential unit (ERU) approach for all residential properties.
- An (ERU) for single family residential properties is an approach that is being used throughout the country for calculating storm water rates on impervious area. The ERU is a method which simplifies the single family residential class; which is always the largest class of customers. In prior meetings, the Committee discussed various options, and considered the differences between residential properties in the District.
- Streets (public) will be excluded, consistent with the approach used in several other cities.
- Schedule of key milestones for development of the impervious surface database and moving forward with the rate proposal.

In concluding the report, Mr. Cromwell discussed various challenges associated with timely implementation of an impervious service rate structure, including:

- Data issues – Requires integration of data for many thousands of parcels between the District’s Geographical Information System (GIS) database, the District’s property database, and the WASA Customer Information System.
- Timeline – The project timeline is tight and will require intensive and efficient project management to ensure the project remains on track
- Rate Structure Issues – GIS data will raise a range of policy details that will require prompt.
- Public Education – Rollout of an entirely new type of revenue collection mechanism will require substantial communication and outreach efforts.

Next, Chairman Martin asked how the Counties’ contribution of waste water to this project affects their sharing of the CSO cost. Mr. Johnson confirmed that the Counties would bear their portion based on negotiations of their contribution to the CSO problem.

Ms. Roberson questioned the potential rate impact of the proposed structure. In response to the question, Mr. Cromwell explained that the data would change based on information collected in the database.

Mr. Tangherlini explained that the \$2 billion estimate for CSO may change depending on future Intermunicipal Agreement (IMA) discussions. The focus should not be on the \$2 billion, but rather on how to distribute the appropriate percentage across the DC rate base.

To provide historical perspective, Mr. Johnson explained that the federal government designed, constructed and for many years operated the CSO system. Because of this history, Mr. Johnson remains relatively optimistic about WASA securing additional funding both from the suburban jurisdictions and the federal government. In addition, Mayor Fenty has committed himself and his administration to work with WASA to try to obtain outside funding to assist with the CSO program. To date, we have received approximately \$100 million and are hopeful that additional funds will come in as it would reduce the cost burden to the District rate payers.

Ms. Richardson expressed interest in reviewing the public education plan as it is another opportunity for WASA to demonstrate that we are good environmental stewards.

In response to a question from Mr. Roth concerning the difference in ERUs for different structures, Mr. Cromwell responded that management will involve the Committee in design questions when the data is compiled and available for further analysis.

Next, Mr. Roth asked how does one account for changes in property use over time. Mr. Cromwell responded that the approach used by many cities that have developed and implemented this fee is that whenever the city does the flyover (aerial photo), this data serves as the benchmark for updating the billing model. In the District, the GIS is currently updated every five years. WASA could also consider an exceptions procedure, which would provide for changes.

In response to a question by Mr. Stone about the basis of the billing system, Mr. Cromwell responded that the basis for the impervious area billing system is the actual impervious areas and further discussion will be required to refine the billing structure to meet the Committee’s design preferences.

Mr. Cromwell explained that the ERU could also be used as a basis to apply incentive credits, for improvements made to properties that improve the imperviousness of the property. In general, the more green space the property has, the less the bill. Ms. Richardson asked for a roundtable discussion to educate developers, particularly in Ward 8, so that they will be mindful of increasing impervious areas as they build new housing.

Next, Mr. Tangherlini discussed the federal government's share of costs as well as other environmental considerations that warrants broad set of discussion between WASA and the Department of the Environment who regulate the storm water permitting side and the District's Planning and Zoning Offices. The issues of unbundling the rate so that people can see what they pay for water, sewer and stormwater, impacts the long-term control plan, and then you can see that the rate increases that the Board is proposing for basic water and sewer services are not completely unreasonable. Customers that have the interest of supporting activities like cleaning up the Anacostia River can see that there is an actual bill associated with each project.

After further discussion, Chairman Martin concluded with some recommendations as to how the Committee can go forward and keep the dialogue going. Follow up required includes:

- Further definition of WASA's proposed public education campaign, with heavy reliance on Board member participation in framing the strategy and participating in the campaign.
- Clarifying the ERU options, what other cities have done, what are best practices.
- A more refined timetable of key milestones and deliverables

Mr. Johnson noted that the selection of a consultant to develop the impervious area database is on today's agenda and that within the next several weeks a more refined timetable will be prepared. Management will continue to update the Board as the project moves forward.

Chairman Martin suggested that basic updates and communications can occur in memorandums; however, the Committee should be prepared to hold additional meetings more frequent than the quarterly meetings for management and the consultants to make presentations about the progress of the project and to allow the Committee to provide appropriate oversight and guidance to management.

Lead Service Line Replacement Program

Chairman Martin referred to a presentation previously provided to the Environmental Quality and Operations Committee (EQOC), which provides an update and outlines the possible impact of modifying the lead service line replacement program (LSRP). Chairman Martin further explained that more work is needed before the Retail Rates Committee or the full board would make a decision to make a modification to the current program because in addition to the financial impact, there are environmental and scientific and technical concerns and WASA may not have all the answers at this point. Making a change in the program may look attractive from a financial standpoint, but from the standpoint of science, the public trust, and the Board's commitment to the citizens of the District of Columbia, the Board must carefully review all of the aspects of any changes to the project before making any decisions. The information at this meeting is intended to be an update and the Committee, nor the Board will make a decision on the LSRP today.

Since management's presentation was the same as the one previously presented to the EQOC, Mr. Johnson asked that Dr. Tee Guidotti, who is with the George Washington University Center for Risk Sciences and Public Health, and WASA's health advisor to provide his overview of the health-related lead issue.

Dr. Guidotti provided the background and overview of the lead issue and explained that exposure to lead, previously associated primarily with lead paint, it is now recognized that the average lead level isn't driven by lead paint as much as it is by background sources of lead in the soil, lead in house dust, lead in the diet, etc. So this has focused attention on lead in drinking water to an extent that really didn't receive much attention in the last couple of decades. Because other sources have been more or less controlled, people are now looking for ways to further reduce lead in the

environment. Issues like the lead in drinking water problem that materialized in 2003 gained public attention because we're in a new era in terms of lead exposure.

Dr. Guidotti explained that the issue currently with lead service lines is that it represents a potential for a future problem were there to be a change in the water chemistry in the future that allowed something like the event in 2003 to recur. This is unlikely since orthophosphate is working quite well and is basically a question of monitoring. If the lead pipes were removed the possibility of another event like 2003 would be completely removed, however, if only part of the lead service line is removed, you only have a proportionate or a partial solution so there is a tradeoff to consider. In Dr. Guidotti's professional opinion there is no compelling evidence that lead service lines contributed to the elevated blood lead levels in the District even when lead in drinking water was an active problem, but rather attributable to residual sources of lead that are in the fixtures in the homes or schools. The challenge for WASA in coming days will be for WASA to have effective risk communications, to convey accurate information on the facts and to provide the framework for thinking about these issues to the public.

Ms. Richardson thanked Dr. Guidotti for his presentation. Chairman Martin asked whether the lead and copper rule requires WASA to replace public lead service lines, and whether WASA had done all that was required under all regulations and laws with regard to lead service lines on public property and this was now an optional program. Mr. Johnson responded that the Chairman is correct that the program is now optional.

In response to a question by Chairman Martin about the health impact of the act of cutting a lead service line connection and then reestablishing it resulting in small lead fragments, to which Dr. Guidotti explained that flushing of the lines seems to take care of removing those lead fragments and overtime there doesn't seem to be an ongoing or residual problem.

Chairman Martin asked Mr. Tangherlini to describe the Mayor's lead abatement program and how any actions WASA might take would affect the Mayor's program. Mr. Tangherlini asked staff to provide additional information to customers who elect to change out their lead service lines about the transitional period and what to expect while the on-site work was conducted. In referring to the Mayor's lead abatement program, Mr. Tangherlini explained that the Mayor and his administration have a very serious desire to move forward and the District's Attorney General's office has filed the first cases in about ten years involving lead abatement where the District has had actual instances of lead poisoning traceable to the failure of a landlord to provide a safe lead-free environment for residents. Mr. Tangherlini explained that the Mayor is interested in looking at the broader program, which would include everything from the individual poisoning cases to the issue of continued higher level of presence of lead in children in the District and to determine the contributing factors. Mr. Tangherlini noted that he is not ready to support eliminating the LSRP in its entirety, but sees removal of the public side of the lead service lines, with the longer term replacement of the private side of the system as an incremental move towards some level of lead-free state as really the best position.

Dr. Guidotti explained that the Lead Elimination Task Force, for example, has been very active in addressing these issues and in shaping some of the new legislation. WASA has had representatives at that task forces and has been actively involved in those discussions, but the areas of focus are getting further away from drinking water. Mr. Tangherlini added that he thinks that is correct and the Mayor has asked the head of the Department of the Environment, George Hawkins, to lead the effort and staff have allocated time on the Mayor's schedule in the coming month to brief him on the entire status of the efforts of the task force and then bring some of the decision points to his attention as well.

After further discussion, Mr. Johnson noted that WASA has on several occasions advanced a proposal to the District Council and the Chairman of the Public Works and the Environment

Subcommittee to take several approaches to look at the long-term issues of private side replacement of lead service lines, because management thinks that the Council can have the greatest impact. Mr. Johnson reviewed the proposals which included:

- No daycare center can be licensed that has a lead service line and that the lead service line has to be removed by the person making application before a license can be granted.
- Any property owner that has a partial or a full lead service line either has to disclose that information or remove the lead line before the property transfers.

Mr. Johnson informed the Committee that to date WASA has not received any reaction on the proposal, so if the Mayor is moving forward toward the lead-free approach, perhaps this would be another mechanism for making advancement. Mr. Johnson also advised that WASA has obtained funding through the D.C. Housing Authority to provide grant assistance for low-income customers who have lead service lines as well as financing arranged through Wachovia Bank to assist persons on an income-based approach with loans.

Mr. Tangherlini acknowledged Mr. Johnson's suggestions and noted that, with regret, a lot of persons are not signing up to have their private lead service lines replaced.

Mr. Johnson referred to page 22 of the Lead Service Replacement Program Status and Future Options presentation and called attention to a number of other activities that ought to be undertaken by the staff and by the Board before making a final decision on advancing, modifying or discontinuing the LSRP. Chairman Martin asked Committee members to take the document with them and read it in its entirety and submit any questions.

Rate and Fee Proposals

The Committee received a comprehensive report on proposed rate and fee increases for fiscal year 2008. This report outlines all of the activities undertaken by WASA to communicate with retail customers concerning the proposed 7.5 percent increase to be effective October 1, 2007.

Mr. Adebo reported that nine District residents and organizations testified at the Public Hearing held on June 13 by the District members of the Board. In summarizing comments received, Mr. Adebo reported that public comments ranged from opposing the rate increase for financial reasons to suggestions that the Authority look for other sources of revenue, such as the federal government to finance the capital program. Chairman Martin added that in addition to the Public Hearing the rates proposal was discussed at various community meetings. In response to suggestions by Chairman Martin and Ms. Roberson WASA to get more people involved, Mr. Johnson agreed to do a more thorough briefing to the Committee on the efforts undertaken to try to involve more participants including contacting every ANC chairperson in the City, various civic associations, hospital association, Apartment and Office Building Association (AOBA). On the business side, Mr. Johnson believes that various businesses seem to be very appreciative of having an understanding of what is going to happen over some period of time so that they can plan for rate increases appropriately. But WASA has not been able to generate a level of interest in getting residents to attend the meetings. Mr. Johnson expressed interest in any recommendations the Committee might have for improving participation by residents for the next rate making cycle.

Based on future rates and fees analysis and a review of WASA's revenue needs over time, Mr. Johnson recommended adoption of a 6 percent rate increase for FY 2007 in lieu of the previous 7.5 percent rate increase proposed. Management's rates proposal is consistent with Board policy to ensure more gradual and predictable rate increases. The proposal buys down the FY 2008 rate increase to 6 percent by using \$20.4 million of the FY 2008 rates stabilization fund (RSF) balance. Mr. Adebo noted that while management proposes using the RSF to essentially buy-down rates, or to mitigate rate increases in any one year, the revenue requirement still remains the same, and so

what happens is that the RSF essentially is a one-time infusion for that one year, and the revenue requirement remains the same over the ten-year period.

Mr. Johnson advised the Committee that management came prepared to provide a real-time interactive presentation. This would enable the Committee to suggest various rate increases and immediately see the impact on the Authority's ten year financial plan. Mr. Adebo provided an overview of the rate simulation model and Committee members used the opportunity to review the impact of various rate proposals.

Mr. Johnson noted that debt service financing of WASA's capital program continues to remain the key cost driver for rate increases to support the ten year financial plan. Consistent with previous monthly reports to the Board, chemical and utility prices are also key drivers in the operating budget.

After Mr. Adebo's review of several real-time rates scenarios with the Committee, Chairman Martin noted that the rates selection process is a complicated function that has a ripple effect. The rates are actually compounding. In offering an analogy, Chairman Martin explained that unless the Committee can find absolute decreases in expenses, all the Committee would be doing is taking a balloon and squeezing it in one area and it will pop out somewhere else. The decision is whether to pay for the revenue required, now when rate increases would be lower, or wait until later when the rates may be much higher. The key to slowing the increase in rates on an absolute basis is what the Board is doing in terms of having the independent budget review, coupled with all of the work that staff are doing internally, and with the Finance and Budget Committee looking for expense efficiencies and potential reductions.

After further review and discussion of various rates alternatives with resultant impacts, the Committee endorsed a six percent (6.0%) rate increase for Board consideration at their meeting in September. The rates would become effective October 1, 2007 (FY 2008). Mr. Johnson explained that WASA would automatically adjust the PILOT portion of the PILOT/ROW fee on an annual basis based on the rate increase.

In outlining the work of the Retail Rates Committee, Chairman Martin stated that beyond September, the Committee will review the Board's rate policy and determine if any clarifications or additions are needed. This will further guide management before the Committee considers their FY 2009 rates proposal.

Impervious Area Billing Database Contract

Continuing with a discussion of a contract for Committee consideration, Mr. Adebo reported on the process used to select a firm to help develop the impervious rate database and the billing for the impervious rate structure. After procurement advertised the request for proposals (RFP), eight firms attended the briefing, and ultimately three firms responded to the proposal. Prices for the proposals ranged from \$1.5 to \$2.6 million and the Authority negotiated a contract amount of \$1.9 million. The selection was based on best value, and not lowest bid and the firm selected had the highest points. Mr. Christodoulakis, Procurement Director, stated that the highest priced proposal was significantly better technically than the other two proposals and the firm had very significant past performance experience and qualified personnel. The Authority negotiated a lower price with this contractor while still meeting all the requirements of the RFP. These considerations gave the panel the level of comfort needed that the work will be completed as envisioned, for completion in July 2008.

Mr. Adebo reported that the panel reviewed the proposals and interviewed the three firms, resulting in the recommendation for selection of PB Consult for this work.

Rate Stabilization Fund Policy Review

Chairman Martin postponed the discussion of the rate stabilization fund policy, and requested that the item be placed on the agenda for the October meeting.

Hearing no further questions, Chairman Martin adjourned the meeting at 12:48 p.m.