



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**BOARD OF DIRECTORS**

Finance & Budget Committee

*Wednesday, December 19, 2007*

*9:00 a.m.*

**MEETING MINUTES**

**COMMITTEE MEMBERS**

Robin B. Martin, Chairman  
Timothy Firestine

**WASA STAFF**

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

**Other Board members**

David J. Bardin

Chairman Robin Martin called the meeting to order at 9:00 a.m. and asked Mr. Johnson to provide the November Financial Report. At Mr. Adebo's request, Ms. Downs presented the monthly financial report.

**November 2007 Financial Report**

A summary of financial highlight for the month of November was provided. With 17% of the fiscal year completed, the year-to-date cash receipts total \$68.1 million, which is slightly above the proposed revised budget at 20.1%. The increase is primarily attributable to some wholesale class of customers who make payments on quarterly basis.

The operating expenditures totaled \$48.8 or 14.3% of budget, while the capital disbursements totaled \$41.0 million or 12.8 of budget. These two areas of spending are under budget.

The 180-day operating reserve had \$131.8 million Actual Average Daily balance; a difference of \$13.2 million over the Board approved FY 2008 reserve requirement of \$118.6.

**Operating Expenditures**

Staff is in the process of renewing the contracts for the chemicals used at Blue Plains, and preliminary prices received from the Council of Government (COG), indicates potential increase in the price of some major chemicals, specifically methanol, used to provide an external carbon source for biological nutrient removal (BNR). The Budget Office is working in concert with the Wastewater Treatment and Procurement Departments to further review this item and explore other potential procurement alternatives for chemicals, including spot market purchasing. It was noted that the chemical contracts were on the agenda for the Environmental Quality and Operations

Committee to be held the next day, December 20, 2007. It was agreed that this item would be further reviewed and discussed under that Committee.

#### Capital Disbursements

The contract award for Washington Aqueduct has been delayed and it is unlikely that an invoice will be received until late January or early February 2008.

The Committee requested that future reports include historical graphs of capital spending that show (a) the approved budget; (b) the revised budget; and (3) actual expenditures and that all diagrams and charts presented to the Committee show the current Board adopted budget. Mr. Johnson agreed and noted that the report shows the proposed revised budget because it reflects current information and knowledge and is closer to the time that work is about to commence. He also noted that the Quarterly Capital Project Status Report provides a detailed list of these expenditures, and that lower capital disbursements than budget may be caused by delays due to permitting, engineering, right-of-way, and a number of other issues outside the domain of WASA's control.

#### Investment/Debt Service Market Update:

A synopsis of the current market conditions, which indicated that the subprime mortgage issue could potentially impact WASA's investments and insured variable rate debt, was provided. WASA's investments are primarily in federal agency discount notes and money market funds, and WASA has been assured by its money market fund managers that these funds have no direct exposure to the current subprime problem. WASA's variable rate debt could be affected as the bond insurance companies' AAA ratings are being reviewed by the three rating agencies. WASA's financial adviser, Ms. Barbara Bisgaier described risk mitigation options in the unlikely event that one of the insurance companies insuring WASA's variable rate debt was downgraded. She noted that options included: converting those auction rate securities with a 35 day maturity from 35 to 7 days; conversion of the auction rate securities to variable rate debt obligations (VRDO's); or conversion to fixed rate debt. In light of the current market conditions, WASA staff in consultation with financial advisors, underwriters, and broker/dealers, will continue to closely monitor its investments and debt. No actions were deemed necessary at the current time.

#### **Review of Revised FY 2008 and Proposed FY 2009 Budgets**

In response to a question, Mr. Adebo noted that the proposed average rate increase is 10.5% over the proposed 10 year financial plan. Mr. Bardin asked what the average rate increase would be if the lead service replacement (LSR) program was eliminated. Mr. Adebo responded that a 1% increase in the retail rate generates the equivalent of approximately \$2 million per year for the 10 year cycle.

Mr. Firestine raised concerns regarding the capital and operating cost allocation methodologies, specifically for existing projects in the LTCP and proposed Blue Plains Nitrogen Removal (BNR) project. Mr. Johnson responded that operating cost allocation is based on actual flows relating to operating costs, while capital cost allocation is based on each jurisdiction's purchased capacity per the IMA agreement. The Committee agreed to refer this item to the Environmental Quality and Operations Committee.

Mr. Firestine and Chairman Martin indicated that available pay-go funds (from prior year fund balances) should be used ahead of bond proceeds in funding the capital program. The committee agreed to discuss this item off-line.

## **Action Items**

Following extensive discussion about whether to reduce the 2009 budgets in anticipation of delays or revisions to the BNR, LTCP and LSR programs, the Committee agreed to forward the following six action items for Board action in January with the provision that statements would be included in the Whereas clauses of the resolutions noting potential future adjustments due to items such as BNR, LTCP and LSR programs:

Fiscal year 2008 Revised Operating Budget  
Fiscal year 2009 Proposed Operating Budget  
Fiscal Year 2007 – 2016 Ten Year Financial Plan  
Fiscal Year 2007 – 2016 Capital Improvement Plan (Lifetime & Cash)  
Fiscal Year 2009 Capital Authority Request  
Intent to Reimburse Capital Expenditures with Proceeds of Borrowing

## **Update on Independent Budget Review**

Mr. Johnson indicated that a contract has been signed with the outside firm, a meeting will be planned before the end of the year, and that there is no change in the existing program schedule.

## **DC CFO Response to Pilot Certification Request**

Mr. Johnson noted that the District CFO has agreed to keep the PILOT payment at the FY 2007 amount pending receipt of the cost of service study and is planning to hire a consultant to perform a review and cost of service study.

## **Washington Aqueduct Residual Project Financing**

Mr. Gordon Fry indicated that the major outstanding issue for financing of the Washington Aqueduct capital projects is pay-go financing, which does not appear to meet the budget requirements of the House of Representatives. It is the preference of DC WASA either to pay for the capital requirements of the Aqueduct on an as-need basis or place funds in an account accruing interest to the customers. Over the last two years, staff has worked with OMB, Core of Engineers and Congresswoman Eleanor Holmes Norton to have legislation approved that would allow one of these options. As of this date, no legislation has been introduced to put this item in pay-go financing status. Chairman Martin stated the need to alert other DC authorities about how much the Washington Aqueduct project would cost District rate payers.

## **Committee Work Plan Update**

Chairman Martin stated his intention to have the Committee update its work plan for the current fiscal year at the next committee meeting.

## **Other Business**

At Chairman Martin's request, Ms. Russell provided a brief update on the CFO transition issue. She indicated that information has been exchanged following initial communications with the office of legal counsel of DC CFO and that WASA is waiting for a response.

The meeting adjourned at 11:10 AM.