



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

*Finance & Budget Committee
Thursday, April 29, 2010
9:30 AM*

MEETING MINUTES

Committee Members

Timothy Firestine, Committee Chairman
David J. Bardin
Alethia Nancoo

DCWASA STAFF

Chris Carew, Chief of Staff
Avis Russell, General Counsel
Olu Adebo, Chief Financial Officer
Yvette Downs, Director of Finance & Budget
Laura Preston, Director Customer Services
Robert Hunt, Treasury Manager
Linda R. Manley, Secretary to the Board

Other Board member in Attendance

Paivi Spoon

Consultants

Dan Hartman and Zach Bucknoff - PFM
Ryan Callender – Squire, Sanders & Dempsey

Call to Order

Committee Chairman, Timothy Firestine, called the meeting to order at 9:30 a.m.

March 2010 Financial Report

Ms. Yvette Downs, Director of Finance and Budget, reported that at the end of March 2010 with 50 percent of the fiscal year completed, expenditures and revenues are 44 percent of budget. The lag is primarily due to the Other Revenue category which is highlighted in a table on page 3 of the monthly report. All other consumption related categories are at approximately 49 percent of the budget and consumption is generally higher during the summer months.

At the end of March, other revenue totaled \$4.5 million, or 9 percent of the total budget. As noted, other revenues are lagging behind on a straight-lined budget basis, primarily in the areas of rate stabilization fund (RSF), IMA indirect cost reimbursement as well as

developer and fire protection fees. Ms. Downs reported that management currently anticipates recovery in both major categories later in the third or fourth quarter of this fiscal year. Staff will continue to closely monitor this category and report to the Committee concerning any major issues.

Next, Ms. Downs discussed expenditures, stating that personnel services are on track with budget and utilities are trailing budget at 38 percent. The primary reason for the favorable results in utilities was the decision by the board to lock in a large portion of the electricity load at pricing that was better than previously budgeted. In the chemicals budget category, it was noted that Waste Pickle Liquor (WPL) will no longer be made available to DC WASA for use in the wastewater treatment process and may mean increased use of the chemical ferric chloride for phosphorous removal and odor control. The department has historically received WPL for free and paid transportation costs only. This may increase the total cost of ferric chloride usage by approximately 25 percent by the end of FY 2010. However, it is anticipated that this increased cost may be absorbed from savings in other chemicals due to lower than budgeted prices on our new contracts. Ms. Downs summarized operating expenditures to date, with no reportable issues.

Commercial Paper Program Update

Mr. Olu Adebayo, CFO, briefed the Committee on the status of the responses received for the requests for proposals (RFP) issued for the commercial paper. DC WASA distributed the RFP to approximately 100 banks and responses were received the 2nd week of February. DC WASA received 7 proposals for the Letter of Credit and 6 each for the CP Dealer and Equipment Lease Program. A panel was selected to review the responses and DC WASA requested our Financial Advisor PFM to assist with analysis of the data provided. The evaluation panel has rated the letter of credit and commercial paper dealer's responses and staff opened negotiations with the highest rated responders. As a result of the competitive bidding process and further negotiations J.P. Morgan and U.S. Bank are being recommended for the commercial paper letter of credit providers. The total amount desired for the letter of credit is \$225 million - \$ 150 million for J.P. Morgan and \$75 million for U.S. Bank. For Commercial Paper dealers we recommended J.P. Morgan for \$125 mil (\$50 tax exempt, \$75 mil taxable) and Barclays Bank for \$100 million in tax exempt commercial paper. The legal documents were sent with the package to the Committee, which include: 1) Issuing and Paying Agent Agreement with Deutsche Bank, 2) Dealer Agreement – J.P. Morgan (sent only one) same agreement with Barclays, 3) Eleventh Supplemental Indenture of Trust and 4) Reimbursement Agreements – J.P. Morgan and U.S. Bank. Finance staff, bond counsel and financial advisors have reviewed all documents and we anticipate closing on the new commercial paper program on Wednesday, June 2.

Other Business

Impervious Area Charge (IAC)

General Counsel Avis Russell reported that DC WASA received a letter in April from the United States General Accountability Office (GAO) and the Department of Navy formally protesting DC WASA's IAC charge, and indicating the intent not to pay such a charge. The letter indicated that this position was informed by a 2006 GAO opinion on impervious surface fees in the State of Washington, which determined the fee to be a tax. [The 2006 opinion determined that a surface fee charged to a federal agency for compliance with

permit requirements constituted a tax and not a fee]. General Counsel Russell indicated to the committee that her office has formally responded to GAO on this issue, noting our disagreement with their assessment that the DC WASA fee is a tax. A meeting has been requested for the May 2010 timeframe, for both parties to further discuss the issue.

Ms. Russell further explained that since the FY 2010 federal bill (which was prepared and approved in 2008, prior to the adoption of an impervious area charge) does not include the IAC, no impact to the July 2010 payment is anticipated. In fact, the Department of the Treasury has confirmed through email that they will pay the current approved FY 2010 payments. Potential impacts will begin with the FY 2011 federal payments and true-ups for all future fiscal years.

Mr. Bardin asked about the potential impact to the District Department of the Environment (DDOE) stormwater fee. Chief of Staff, Chris Carew, reported that he and General Manager Hawkins had participated in a telephone conference with the General Counsel (GC) from DDOE the night prior to the Committee meeting. During that teleconference, they were informed that GAO is applying this same standard to their fee and it was acknowledged that EPA appears to be siding with DC WASA. DC WASA is prepared to use all means available to resolve this matter, including national and local elected officials to approach the White House, as well as legal avenues, if necessary.

Fire Hydrant Fee Update

Mr. Olu Adebó (CFO) reported on the status of negotiations with the City Administrator's Office (DC CA) regarding the Fire Protection Services and PILOT payments. The Fire Protection Fee increase to \$680 per hydrant annually became effective April 12, 2010. The City has only \$1.9 million in their FY 2010 budget and has proposed paying for this increase through a reduction in the PILOT payment (essentially the \$4.3 million increase required will be deducted from the annual PILOT payment made by DC WASA). However, the Authority will have to accept the District CFO's certification of costs (without prejudice) and pay the increased PILOT amount stipulated under the existing PILOT/ROW MOU. The effect of this will be that the District will pay WASA \$6.2 million in Fire hydrant fees for FY 2010, in exchange for DC WASA releasing the balance due for the PILOT from FY 2008 and 2009, which is approximately \$2.3 million. As the Board directed the payment of the PILOT at the FY 2007 level pending receipt of acceptable certification, the General Manager will ask the Board to rescind its directive at the May 2010 meeting.

Action Items

After discussions, Committee members supported and referred to the full Board for consider the two action items (fact sheet recommendations):

- Recommendation for Commercial Paper Program – Letter of Credit providers
- Recommendation Legal Services Contract Modification – Douglas & Boykin, LLC.

Adjournment

Hearing no further business, Mr. Firestine adjourned the meeting at 11:25 a.m.

FOLLOW-UP ITEMS

1. Ms. Nancoo asked for improvement in the clarity of FY 2009/10 data points by adding colors to the FY 2009/10 data points on the FY 2010 Operating Receipts By Customer Class and FY 2010 Operating Expenditures tables, pages 3 and 5 of the financial report.
2. Mr. Firestine asked staff to reword the Operating Revenues & Receipts introductory paragraph consistent with details of the other revenue category as outlined in the Revenue Variance by Category table.
3. Mr. Bardin requested staff distribute to the Board a copy of the DCWASA & Aqueduct sections of the DC budget submitted by the Mayor to the City Council earlier in April 2010.
4. Mr. Bardin requested a report of the costs associated with the April 20, 2010 notification of chlorine burn and where the dollars are budgeted.
5. Mr. Bardin requested that the delinquent accounts data make reference to the change in the number of accounts from the previous month.
6. The Committee requested a fact sheet on the Commercial Paper Program.