



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

Finance & Budget Committee

Thursday, April 26, 2007

9:30 a.m.

MEETING MINUTES

COMMITTEE MEMBERS

Jacqueline F. Brown
Paul Folkers

WASA STAFF

Olu Adebo, Acting Chief Financial Officer
Webster Barnes, Principal Counsel
Linda Manley, Board Secretary

Other Board Members in Attendance

Joseph Cotruvo

Vice Chairman Jacqueline F. Brown called the meeting to order at 9:38 a.m. and explained that she would miss a portion of the meeting due to a Homeland Security exercise she must participate in at 10:00 a.m. Dr. Brown asked Mr. Folkers to chair the meeting in her absence until her return. Next, Dr. Brown asked Mr. Adebo, Acting Chief Financial Officer, to proceed with the action items section of the Agenda beginning with the selection of Property and Casualty Insurance Brokers.

Mr. Adebo referred to Attachments 6, 7 and 8, (Property and Casualty Insurance Broker Services) and explained that management had planned to first brief the Committee on the insurance process and broker selection proposals. As requested by Dr. Brown, Mr. Adebo continued with his review of the insurance broker services contract fact sheets and would later provide a more comprehensive insurance briefing, if needed. Mr. Adebo explained that WASA selects brokers to assist the Authority in marketing most of our property and casualty insurance. In February, WASA issued a request for proposals (RFP) which ultimately resulted in management's evaluation and recommendation of three firms to be a part of WASA's broker pool: Aon Risk Services (incumbent), Wachovia Insurance Services and Alliant Insurance Services. Mr. Adebo explained that all of WASA's insurance policies expire on June 15, 2007 and selection of broker(s) is the first step in the process of marketing the various lines and to assist WASA in placing the lines of coverage needed for the upcoming insurance year. Management will assign each of the pre-qualified brokerage firms with lines of coverages to compete in the market against other broker(s) in the broker pool. All three firms will compete; however WASA will only select one firm's insurance proposal for each insurance line based on our evaluation of the best coverage for the most competitive price.

Mr. Adebo reviewed each fact sheet, contract values and pricing for each firm. After Committee review and discussion, Dr. Brown asked management to revisit each of the contractor fact sheets, to improve both the content and clarity of information provided prior to full Board review at their

meeting in May. Mr. Cotruvo asked management to provide the Committee with an accounting at the end of the year to determine if the multiple broker process benefited WASA and to what extent.

Dr. Brown asked that Mr. Adebo continue with the Agenda as outlined, including the insurance overview, prior to the Committee proposing action on the insurance brokerage contracts.

March 2007 Financial Report

FINANCIAL OVERVIEW

Mr. Adebo proceeded with summary financial highlights for the month of March. At the end of March, which is the halfway mark of the fiscal year, revenues are on budget at 49.5 percent, or \$151.0 million in receipts; operating expenditures trail budget at 43.2 percent, or \$135.1 million; and, capital spending trails budget at 36.9 percent, or \$82.6 million. Actual average daily cash balances for the month totaled \$122.5 million; or, \$11.2 million above the Board's 180-day reserve requirement.

Operating Revenues and Receipts

Referring to the chart on page three of the Financial Report, Mr. Adebo summarized operating revenues and receipts for the month of March. At 49.5 percent of budget, revenues are slightly trailing budget. Mr. Adebo expects revenue will increase during the summer months when consumption increases. Next, Mr. Adebo provided a review of each revenue category and reported that all revenue and receipts categories are on track with budgetary expectations.

Operating Expenditures

Continuing with a report on operating expenditures, Mr. Adebo noted that at the end of March expenditures totaled 43 percent of budget and all spending categories are in line with budget.

At 46 percent of budget, personnel services at the end of March continue to lag budget due primarily to WASA's vacancy rate. Overtime spending continues to exceed budget at 62 percent of the annual budget of \$4.7 million. In response to a question by Mr. Cotruvo concerning the impact of current vacancies on WASA's overtime spending, Barbara Grier, Assistant General Manager for Support Services, reported that WASA currently has approximately 80 vacant positions under active recruitment. Approximately 70 to 80 percent of these vacancies are hourly positions that earn overtime. Mr. Adebo added that management continues its focus on filling vacant positions as well as monitor the overtime category to ensure that spending remains on target for the year.

Year-to-date contractual services spending totals 42 percent of budget. Water contractual purchases continue to trail the budget at 25 percent; however, WASA expect expenditures in this category will increase somewhat in the summer months as consumption increases. WASA expect to end the year on budget in this category.

Mr. Adebo expects WASA will overspend the budget for the chemical line item by approximately \$1.5 to \$2.0 million; and, he expects to absorb this increase and projects total operations and maintenance spending will remain within the authorized budget level.

Spending for utilities totaled 49 percent of budget, lead-related costs are at 46 percent of budget and small equipment is at 26 percent of budget. In the debt service category, year-to-date spending totals 34 percent of budget; the lag is primarily due to several debt service payments that occur towards year-end. At \$8.8 million on a GAAP basis for October through March, spending for the Right-of Way/Payment in Lieu of Taxes is on budget.

Capital Program

Mr. Adebo explained that next month the Department of Engineering and Technical Services will brief the Committee on the results of their mid-year capital program review. Spending for the capital program through March totaled \$82.6 million. Mr. Adebo reported that spending lags are occurring in the Water Service and Washington Aqueduct program areas, while spending for the Wastewater Treatment and Combined Sewer Overflow areas are on track with budget.

Cash Reserves and Investments

Continuing with his report of cash reserves and investments, Mr. Adebo reported that the total cash balance at the end of March was \$237.1 million. Of that balance, a total of \$114.9 million was for the operating reserve, \$58.5 million for the rate stabilization fund, and \$63.7 million for the CSO LTCP Appropriation (advance funding from the federal government).

Mr. Adebo reported that WASA's investment performance continues to outpace the T-bill benchmark rate. At the end of March, we exceeded our investment benchmark, with a yield on the portfolio of 5.24 percent, or 16 basis points higher than the target rate.

Other Reports

Electricity

For March 2007, the daily spot electric price for the PEPCO DC Zone averaged \$67.96/MWH and \$57.63/MWH for the first six months of FY 2007. By comparison, the average cost or January 2006 was \$62.72/MWH, while the first four months of FY 2006 (October 2005 to January 2006) averaged \$76.65/MWH.

So far, in FY 2007 electricity prices have been relatively low, due in part to the uncharacteristic warm weather from October 2006 through January 2007. Based on the historical and present market trends, Mr. Adebo reported that he anticipates electricity prices to rise and peak during the summer months, averaging approximately \$70/MWH for the year. An increase in the capacity rate may result in an almost \$620,000 increase in WASA's electricity costs for this fiscal year. At this point, Mr. Adebo expects electricity spending will remain within budget as staff considered a portion of these additional costs while developing this year's electricity budget.

In referencing WASA's continuing efforts to mitigate the Authority's exposure from higher electricity costs, Mr. Folkers asked what percentage of the load is currently locked and what are the plans to lock in the additional loads during the summer months. Mr. Adebo responded that right now WASA has locked 33 percent of the load at approximately \$60.00/MWH. This week will lock another 33 percent of the load at \$72.00/MWH, which will result approximately two-thirds of the load being locked during the summer peak period. WASA plans to ride the market for the remaining one-third of the load.

FY 2008 Rates Process Update

Mr. Adebo continued with a report on the Board's 7.5 percent rate proposal for FY 2008. In explaining WASA's public outreach efforts, Mr. Adebo referred to Attachment 3 of the report which provides a schedule of community meetings in all quadrants of the District. Management views the community meetings as an important part of the rates process. During these meetings, management interacts with our customers and links our capital program to various projects that impact their communities.

Mr. Cotruvo asked how well received the community rates meetings are. Mr. Adebo responded that the WASA-led meetings are sparsely attended; however, attendance at the regularly-scheduled civic association meetings is better.

FY 2007 Financing Activities

Joined by Barbara Bisgaier, WASA's Co-Financial Advisor, Mr. Adebo discussed FY 2007 financing activities. At today's 8:00 a.m. meeting, Board members received a briefing on the proposed \$300 million debt financing plan and associated activities. The new debt includes approximately \$225 million tax exempt, fixed rate, subordinate lien revenue bonds and \$75 million taxable, auction rate, subordinated lien revenue bonds (to finance private use project, i.e., the Washington Aqueduct Residual Project).

During the Committee meeting, Mr. Adebo focused his update on the proposed financing and various documents that the Committee is being asked to review and forward for full Board approval at their meeting on May 3. Next, WASA's Bond Counsels, David Goodman of Squire Sanders and Nicholas Penn, of Leftwich and Ludaway provided the Committee with an overview of the draft board resolution and other documents for Committee review. The documents include the Sixth and Seventh Supplemental Indentures of Trust, Auction Agent Agreement, Broker-Dealer Agreement, Purchase Contracts – Bond Purchase Agreement (BPA) and Official Statements (Series A and B), Continued Disclosure Agreements and Feasibility Study.

In discussing the \$75 million of taxable rate financing required to fund the Washington Aqueduct Residual Project, Ms. Bisgaier explained that the federal tax law views the federal government as a private person for tax law purposes. So that any project done by or on behalf of the federal government is taxable. Attorney Goodman added that WASA is also pursuing alternatives that may allow tax exempt financing for this series. Management is requesting that the Committee recommend to the full Board a proposal with two options: one to pursue the taxable rate financing, and a second to pursue the tax-exempt financing if it proves beneficial to WASA.

Mr. Folkers asked whether there is anything of significant difference in the documents from WASA's previous debt issuance. Mr. Adebo responded that the only major difference is that there are two series for the May 2007 debt issuance. Attorney Goodman made reference to the draft resolution, section 10. This section indicates that if a conclusion is reached, that an unqualified opinion could be given to tax-exempt facility bonds could be used this would supersede taxable auction rate securities. This difference is unique to the proposed debt issuance and was not a concern in previous debt issuances.

Mr. Adebo asked the Committee if they had any further questions, to which Mr. Cotruvo made reference to a question raised during the 8:00 a.m. work session pertaining to the need, if any, for multiple firms involved in the issuance process. Mr. Adebo referenced slide 32 and explained that this is part of WASA's Board and procurement strategy to ensure minority participation in as many of the contracts as possible. This does not mean that WASA will pay twice the amount; WASA's expectation is to receive one product at the same net cost. Mr. Adebo agreed, except that there may be some inherent costs relative to coordinating co-managing or partnering firms. Ms. Bisgaier explained that the underwriters' co-managers will receive payment if, and to the extent that they sell the bonds; and, there are no additional costs to having the co-managers. This potentially diversifies the customer outreach, which has the effect of producing the lowest interest rate costs for WASA.

Next, Attorney Goodman discussed a revision to the draft resolution. This proposed revision would authorize an additional bond series contingent upon meeting the Authority's three percent threshold for refunding of any outstanding bonds.

After discussion, Dr. Brown asked management to make necessary changes to the resolution prior to forwarding the document to the Board for action.

Broker Services and Insurance Policy Renewals

Mr. Adebo and Joe Underwood, a Senior Consultant with Albert Risk Management (WASA's insurance advisors) provided the Committee with a presentation on WASA's broker services contracts and insurance policy renewals. In order to provide some context to the action items for Committee consideration today, Mr. Underwood briefed the Committee on WASA's insurance purchasing background, current insurance coverages and WASA's procurement approach which is to maximize access to the insurance markets by securing quotes from multiple broker markets and direct markets in a competitive process. All of WASA's insurance policies come up for renewal on June 15. In February WASA issued a request for proposals (RFP) for property and causality insurance brokerage services. After concluding its interviews and evaluating each firm, management is recommending selection of three firms to be a part of WASA's broker pool. The three firms are Aon Risk Services (incumbent), Wachovia Insurance Services, and Alliant Insurance Services. WASA will continue to maintain direct relationships with its incumbent property insurer, FM Global, and its incumbent excess general liability/automobile liability insures, AEGIS Insurance Ltd. The brokers will be competing against the two direct writing insurers for the coverages that they handle.

Dr. Brown asked if WASA will determine how the various lines are assigned to the different brokers. Mr. Adebo responded that WASA will assign the various lines to the brokers, based on discussions with them, a review of their portfolios, experience in placing various lines of coverage and other information. Mr. Underwood added that as a part of the RFP submission and evaluation process, each broker provided information on the number of clients similar to WASA worked with, the volume of premiums placed annually, and their expressed preference in placing insurance.

At the conclusion of his presentation, Mr. Underwood explained that the June 15 renewal process is well underway, staff has pulled together information required and expect to receive quotes prior to on May 17. Prior to June 15 insurance binders will be issued which are temporary evidence of coverage and the actual insurance policies will follow several months later.

Next, Mr. Adebo reviewed each fact sheet and noted that selection of insurance will be based on the cost of insurance placement. In response to questions by Mr. Cotruvo and Dr. Brown concerning broker commissions, Mr. Underwood responded that placement on a commission basis may range from 5 to 15 percent and WASA's broker submissions are in the 10 percent range. After additional discussion and recommended corrections to the contract fact sheets, the Committee recommended the contracts for consideration by the full Board at their May 3 meeting.

Action Items

The Committee agreed to forward the insurance broker contracts, after corrections and clarifications noted, to the full Board for action in May.

In reference to the draft resolution and draft financing documents, Mr. Cotruvo asked to what extent is the Committee approving the documents and whether the General Counsel to provide an opinion that it is acceptable. Mr. Adebo explained that the General Counsel has reviewed all of the documents in addition to WASA's bond counsel. The Committee recommended the draft resolution and financing documents with Attorney Goodman's recommended revisions for full Board action at their May meeting.

FY 2009 Budget Kickoff

Mr. Adebo noted that the FY 2009 budget process will begin in May and continue throughout the summer. As in prior years, management will present its budget proposal to the Board in October.

Hearing no further business, Dr. Brown adjourned the meeting at 11:54 a.m.