DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Finance & Budget Committee
Thursday, May 27, 2010
9:30 AM

MEETING MINUTES

Committee Members	**DCWASA STAFF**
Timothy Firestine, Committee Chairman	George Hawkins, General Manager
David J. Bardin	Avis Russell, Interim General Counsel
Maurice Boissiere	Olu Adebo, Chief Financial Officer
Ralph Moultrie	Yvette Downs, Finance and Budget Director
Alethia Nancoo	Linda R. Manley, Secretary to the Board

Presenters
Mr. Joe Underwood, Albert Risk Management Consultants

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

May 2010 Financial Report
Ms. Yvette Downs, Finance and Budget Director, presented the April 2010 Financial Report. At the end of April, with approximately 58 percent of the fiscal year completed, DC WASA is on track with financial expectations. Revenues are at $190.7 million; Expenditures are at $201.1 million; and Capital Disbursements are at $156.2 million. While revenues (not including the Other Revenue category) are at 56 percent through April, Ms. Downs explained that certain customers make payments on a quarterly basis, which account for a large portion of the difference in actual and budgeted revenues. A small remaining portion of the variance is due to late payments from the DC Housing Authority which were subsequently received in May.

Mr. Bossiere requested clarification regarding the timing of the Rate Stabilization Fund (RSF) draw downs. Both Mr. Firestine and Ms. Russell explained that initially management decided when to transfer money from RSF; however, the Board adopted a resolution, which required approval prior to the transfer. Mr. Adebo concurred and further explained that last year the Board had additional discussion on the timing of draw downs given that it may distort the actual financial results. Also, in the previous year, the Board tightened the RSF policy and once the financial plan was approved, management does not have any discretion as to the withdrawal amount and is required to follow the financial plan and draw down the entire amount from the RSF. In July, staff will provide year-end projections and ask the Committee to right size the RSF draw down for the current fiscal year. Mr. Bardin asked the Chairman to consider reviewing three areas pertaining to the Rate Stabilization Fund (RSF); (1) revise the way the RSF is presented in the monthly financial report, (2) implement the existing policy and or, (3) review the existing policy. Mr. Firestine acknowledged several recent improvements to the monthly financial report, and asked staff to continue to work on presenting the information in a more user friendly manner. In order to provide newer board members with an opportunity to familiarize themselves, Mr. Firestine asked staff to provide an update of the RSF policy.

Ms. Nancoo requested clarification on the cost included in the indirect cost reimbursement. Is the payment for the prior year or is it segregated out? Ms. Downs explained that the IMA indirect cost reimbursement is scheduled for the fourth quarter and it includes settlements and reconciliations on indirect costs of the capital program under the IMA agreement. Mr. Adebo further explained that DC WASA bills the wholesale customers on a quarterly basis for the capital costs for direct cost related to the program. The indirect cost, (or overhead), tied to the capital cost is not determined until the operating settlement is complete for a one time annual payment. The indirect costs support both the capital and operating program. The annual operating costs must be settled first to determine the overhead rate that will be allocated for the capital and operating program cost. Mr. Bardin asked about the lag time between billing the direct and indirect cost and if the Authority charges interest for the time lag. Mr. Adebo reiterated that it is tied to the operating settlement which typically is not complete until March of each year, and the results are used as a basis for billing the capital overhead. It takes approximately one year to true up the costs. Interest calculations will need to be investigated.

Mr. Bardin informed the Committee that the Retail Services Committee is reviewing, among other things, consumption quantity trends in light of the decline in consumption experienced over the last 2 years. A detailed report is expected in July and may provide information that may be useful for the Finance and Budget Committee.

Mr. Bossiere asked for clarification on the debt service being higher than last year this time. Given this expenditure line is a large percentage of the overall budget, the committee needs to understand the debt service from a reporting stand point. Mr. Adebo explained that the debt service is tied to the pay down schedule on principal and interest payments and anticipates being within budget. The report compares expenditures to percentage of budget to the previous year. Mr. Adebo acknowledged that the Committee asked staff to prepare a report that projects expenditures based on the timing of disbursements which may further help the Committee review this budget category. Mr. Firestine recommending ascertaining how much was spent year to date versus projected spending in the category for the remainder of the year. The Committee will need to determine the best way to understand the budget situation and to perform due diligence. Ms. Downs noted that staff is working with IT, using the General Manager's Report as a guide, to develop a better reporting tool and hope to present it by the end of the fiscal year. Ms. Nancoo requested an overview of the total amount of debt outstanding, including variable versus fixed, the annual payment amounts and anticipated timing of additional issuances. Mr. Adebo replied that the total outstanding debt is approximately $1.3 billion and commercial paper will roll over on June 2, 2010. The next long-term financing issuance is scheduled for the October / November 2010 timeframe. DC WASA anticipates that the recent rating agency recalibrations from Moody's and Fitch will better position the agency for favorable rates for the upcoming bond issuance in the fall as it did for the commercial paper issuance scheduled for June. Mr. Firestine explained that the recalibrations weren't an indication of changing credit quality. As there are very few municipal bond defaults, the recalibration attempts to put municipal issuers on the same scale of a corporate issuer so that people understand the risk comparisons better between municipal bonds and corporate bonds.

A detailed capital disbursements quarterly report which included projections was provided to the Operations Committee and is available to the Finance and Budget Committee. The Wholesale Customer mid-year meeting was held May 21st at DC WASA, which included a discussion of current projections.

Operating Cash Reserves continues to meet the Board's objective of $125.5 million, with the actual average daily balance of $136.0 million. Mr. Adebo indicated that the investment policy was updated in 2007 and reaffirmed by the committee in 2009. There were some administrative changes (duration and strategy) in 2009, which did not change the policy. Mr. Firestine noted that staff prepared a presentation regarding the investment strategy and suggested that the presentation be shared with the Committee as there are several new members. A review will be provided at the next Committee meeting.

Ms. Downs reviewed the delinquency report and Mr. Bardin noted that the refusal by the federal government to pay for Impervious Area Charge (IAC) portion of their retail payment may add to the delinquencies. Mr. Hawkins explained that historically the cost of the sewer system, including any cost associated with the combined sewer system, was included within the volumetric sewer charge. Seeing that the LTCP expense would rise substantially in the years ahead, the Board made the decision to separate the sewer charge and base a new, separated fee on the amount on the impervious area. In a letter, the GAO, (followed by the GSA, Red Cross, and the Navy), determined in their preliminary review, that the IAC appears to be similar to a stormwater fee in the State of Washington that they believe to be a tax, not a fee, and the federal government does not pay taxes. DC WASA has responded in writing and the General Counsel has subsequently meet with legal representatives from GAO and various other federal groups to explain the IAC. A follow up meeting is being coordinated. Mr. Adebo and Ms. Russell worked with Treasury and the Federal government has confirmed that it will pay the current bill through FY 2010 which does not include the IAC since the Authority bills the Federal government two years in advance. The first potential impact will be in October 2010 (fiscal 2011) and could reduce revenues between $2.5 -$3 million for FY 2011. Many environmental groups have contacted DC WASA to indicate their support. Staff will continue to update the Board.

Insurance Renewals Update

Ms. Tanya DeLeon, Risk Manager, provided an update on the operational insurance renewal. DC WASA is on track to renew all policies for property insurance during June and July 2010. The procurement strategy maximizes competition and market access by involving multiple brokers. Ms. DeLeon expects the insurance premiums could increase up to 17% due to increased exposure of ratings base (property replacement cost value, payroll, and operating budget), recent large claims and changes in the FEMA flood zone that may necessitate purchase of additional 100-year flood coverage. An independent firm conducted an appraisal of the Blue Plains facility, which resulted in an increase in its replacement cost value to $1.6 billion which would increase property values by 18%. Mr. Joe Underwood, Albert Risk Management Consultants reported that the appraisal includes new construction, and is the primary driver contributing to the growth in value. Currently, multi-year insurance contracts are not available in the present insurance market so this will be a one-year renewal.

Ms. DeLeon explained that several years ago, our then flood insurance carrier, FM Global performed a study that estimated the loss at approximately $30 million if the Authority experienced a major flood event. Historical FEMA mapping did not place Blue Plains in the 100-year flood zone. Staff anticipates this will change with the map re-drawing in September 2010. When this happens, DC WASA's current insurance coverage will fall from $100 million to $25 million for flood events at Blue Plains. Staff will recommend purchasing an additional $25 million of coverage at an additional cost of approximately $50,000.

Mr. Underwood explained that the public officials' liability coverage is the most applicable coverage to Board activities. The insurer did not change; the language is similar to the prior policy; and enhancements have been negotiated in the current policy. The most notable restriction in the public officials' liability and excess liability policy is the absolute lead exclusion, which is industry standard, and we have not been able to negotiate this restriction from the coverage. This applies to any new lead contamination suit brought against the Board relating to the water after 2004. In

2004, the insurer at that time was put on notice for claims that were made or potential claims in the future relating to lead contamination in the water. The insurance coverage is tied to the notice in 2004, so that if a new claim arises, the present insurance policy has a lead exclusion.

Mr. Moultrie asked how the Authority would pay for a lead claim against a public official. Mr. Underwood explained that if the Authority is permitted by law to defend and indemnify a Board member for a non lead claim, the public officials' policy would be a funding mechanism for the Authority subject to a $250,000 deductible. If the Authority is not able to defend and indemnify a Board member by law, the insurance contract will provide direct coverage to the individual and there is no deductible. Finally, if a claim is brought against the Authority, there is a separate side of the coverage with a $250,000 deductible. Lead is self-insured for public officials because there is no third party providing funds to the Authority. Ms. Russell further noted that the Authority will have to pay if a Board member is acting in the course and scope of its responsibilities and had not breached its fiduciary duties. Mr. Adebo noted that the public officials' coverage is not specific to the Board but applies to staff.

Adjournment

Hearing no further business, Mr. Firestine adjourned the meeting at 10:55 a.m.

FOLLOW-UP ITEMS

1. Review the Rate Stabilization Policy to determine whether revisions are appropriate. (Mr. Firestine)
2. Does DC WASA apply interest to the IMA indirect cost settlement? (Mr. Bardin)
3. Reconcile the outstanding investments by maturity / duration report (page 18) with the cash reserves (page 8) and cash reserves and CSO LTCP balances. (Mr. Firestine)
4. Present the investment policy and strategy to the committee (Mr. Firestine)
5. Provide an overview of existing debt. (Ms. Nancoo)
6. What percent of the $1.6 billion insurable property is for Blue Plains? (Mr. Bardin)
7. Provide costs associated with the chlorine burn (Mr. Bardin)