

**MINUTES of the FINANCE COMMITTEE MEETING of the ERIE COUNTY WATER AUTHORITY** held in the office, 295 Main Street, Room 350, Buffalo, New York, on the 15th day of December, 2016.

**PRESENT:** Earl L. Jann, Chairman  
Jerome D. Schad, Vice Chairman  
Robert Anderson, Treasurer  
Joseph T. Burns, Secretary to the Authority  
Robert F. Gaylord, Executive Director  
Robert J. Lichtenthal, Jr., Deputy Director  
Paul H. Riester, Director of Administration  
Russell Stoll, Executive Engineer  
Karen A. Prendergast, Comptroller  
Steven D'Amico, Business Office Manager  
Ronald P. Bennett, Associate Attorney  
Ashley W. Johnson, Deputy Associate Attorney  
John Mogavero, Chemist/Chief WPTO  
Paul Whittam, Director of Water Quality  
Daniel J. NeMoyer, Director of Human Resources

**ATTENDEES:** Mike Wymer (Wendel)  
Sean Dwyer

#### **CALL TO ORDER**

#### **PLEDGE TO THE FLAG**

#### **I. - ROLL CALL**

#### **II. - READING OF MINUTES**

Motion by Mr. Anderson seconded by Mr. Schad and carried to waive the reading of the Minutes of the Meeting held on August 30, 2016.

#### **III. - APPROVAL OF MINUTES**

Motion by Mr. Anderson seconded by Mr. Schad and carried to approve the Minutes of the Meeting held on August 30, 2016.

**IV. - REPORTS**

**V. - COMMUNICATIONS AND BILLS**

**VI. - UNFINISHED BUSINESS**

**VII. - NEW BUSINESS**

**A. Debt Management Policy**

Bob Lichtenthal distributed proposed change to the Debt Management Policy (copy attached).

## ERIE COUNTY WATER AUTHORITY

## DEBT MANAGEMENT POLICY

**Purpose**

The following policy is enacted in an effort to standardize and rationalize the issuance and management of debt by the Erie County Water Authority (the "Authority"). The primary objective is to establish conditions for the use of debt and to create procedures and policies that minimize the Authority's debt service and issuance costs, retain the highest practical credit rating, and maintain full and complete financial disclosure and reporting. This policy is a guideline for general use, and allows for exceptions in extraordinary conditions. The policy applies to all debt issued by the Authority.

**Creditworthiness Objectives, Purposes and Uses of Debt**

**Policy 1. Credit Rating:** The Authority seeks to maintain the highest possible credit ratings for all categories of short and long-term debt that can be achieved without compromising delivery of water service and achievement of adopted policy objectives of the Authority.

The Authority recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. The Authority remains committed to ensuring the actions within its control are prudent and beneficial to its ratepayers.

**Policy 2. Financial Disclosure:** The Authority is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. The Authority is committed to complying with secondary disclosure requirements as outlined in Title 17 §240.15c of the Code of Federal Regulations on a timely and comprehensive basis. The Deputy Director of the Authority or his or her designee, or such other person as the Authority shall designate in writing to the Trustee or as part of a Continuing Disclosure Agreement shall be the Responsible Party as defined in the Secondary Market Disclosure requirements. The Cash Manager will be responsible for ensuring compliance for required secondary market disclosures made on the Municipal Securities Rulemaking Board (MSRB's) Electronic Municipal Market Access system (EMMA).

**Policy 3. Capital Planning:** To enhance creditworthiness and prudent financial management, the Authority is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to systematic capital planning will be demonstrated through adoption of an annual Capital Budget, supplemented by an additional four year Capital Budget Forecast.

**Policy 4. Capital Financing:** The Authority normally will rely on internally generated funds and/or grants and contributions from other governments to finance its capital needs on a pay-as-you-go basis. Debt will be issued only for capital projects.

**Policy 5. Debt Limits:** The Authority will keep outstanding debt at levels consistent with its creditworthiness objectives, financial plan and Capital Budget and Capital Budget Forecast. The Authority's debt ratio (defined as Total Liabilities divided by Total Assets as of the most recently issued December 31st independently audited financial statements and expressed as a percentage) shall not exceed 40% except in an emergency or an extraordinary event.

### **Debt Standards and Structure**

**Policy 6. Coverage Ratio:** So long as any Bonds are Outstanding, the Authority's Board of Commissioners each year shall adopt a budget plan that shall at all times maintain rates, fees, rentals and other charges with respect to the Water Works System as shall be required in order that in each fiscal year the net revenues shall equal at least 1.35 times the sum of the debt service on the outstanding bonds for such fiscal year computed as of the beginning of such fiscal year.

**Policy 7. Length of Debt:** Debt will be structured for a period consistent with a fair allocation of costs to current and future ratepayers.

**Policy 8. Debt Structure:** Debt will be structured to achieve the lowest possible net cost to the Authority given market conditions and the urgency of the capital projects. Moreover, to the extent possible, the Authority will design the repayment of its overall debt so as to repay principal as rapidly as possible consistent with maintaining a level debt service profile.

**Policy 9. Types of Bonds:** Bonds may be issued as serial bonds, term bonds, capital appreciation bonds, put bonds or variable rate bonds. Variable rate bonds will be limited to 20% of the Authority's total outstanding bond principal. The use of short-term borrowing, such as bond anticipation notes (BANs) will be undertaken only if the transaction costs plus interest on the debt are less than the cost of internal financing, or available cash is insufficient to meet capital requirements.

**Policy 10. Use of Derivatives:** The Authority will not use derivatives when issuing debt for Authority purposes. A derivative is a financial instrument created from or whose value depends upon (is derived from) the value of one or more separate assets or indices of asset values. As used in public finance, derivatives may take the form of interest rate swaps, futures and options contracts, options on swaps and other hedging mechanisms such as caps, floors, collars and rate locks.

### **Debt Administration and Process**

The following policies apply to all Authority debt issuance:

**Policy 11. Bond Counsel:** The Authority will retain an external Bond Counsel for all debt issues.

**Policy 12. Financial Advisor:** The Authority will retain an external Financial Advisor for all debt issues. The Financial Advisor shall advise and make recommendations on the execution of bond issuances, redemptions and defeasances.

**Policy 13. Types of Bond Sales:** Authority debt will be issued either through a competitive bidding process or by negotiated sale. The Authority shall retain the services of a Financial Advisor to assist in the administration of the sale process.

**Policy 14. Investment of Bond Proceeds:** All bond proceeds shall be invested in accordance with applicable New York State Statutes and the Authority's adopted Investment Guidelines

**Policy 15. Arbitrage Bonds:**Title 26 §1.148 of the Code of Federal Regulations (IRS Code) restricts the direct and indirect investment of bond proceeds in higher yielding investments and requires that certain earnings on higher yielding investments be rebated to the United States. Violation of these provisions cause the bonds in the issue to become arbitrage bonds, the interest on which is not excludable from the holders gross income. It is the policy of the Authority to comply with all of the IRS Code provisions necessary to protect the tax-exempt status of their bond issues.

The Cash Manager will monitor the computation process which is generally completed by the Authority's Financial Advisor and promptly make any arbitrage rebates resulting from the computation. The initial computation date can be no later than five years after the issue date. Each additional computation is due no later than five years from each proceeding computation date. The final maturity date of a bond issue is also the final computation date.

Motion was made by Mr. Anderson and seconded by Mr. Schad and carried recommending that the Board of Commissioners of the Erie County Water Authority proceed with amending the Debt Management Policy as set forth in the draft.

**B. Retention of a Rate Consultant**

Bob Lichtenthal distributed a memo regarding the retention of a rate consultant. He gave a summary to the Board. The Board agreed to approach the rate consultant and come to an agreement to be on hand for an "as needed" basis.



**ERIE COUNTY WATER AUTHORITY**  
INTEROFFICE MEMORANDUM

December 6, 2016

To: Commissioners Jann, Schad and Anderson

From: Robert J. Lichtenthal, Jr., Deputy Director *RJL*

Subject: Retention of a Rate Consultant

The Authority's Fourth General Water Revenue Bond Resolution sets out a great number of requirements with respect to the ongoing operations of the Authority for however long any bonds issued under this resolution may be outstanding.

Article VIII, Section 8.5 addresses the issue of a Rate Consultant as follows (*italics for emphasis*):

SECTION 8.5. Rate Consultant; Consulting Engineers. *The Authority shall retain and appoint, as a Rate Consultant, one or more independent consulting engineers or engineering firms (each a "Consulting Engineer"), accounting firms, investment bankers or corporations having special skill, knowledge and experience in analyzing the operations of water utility systems, preparing rate analyses, forecasting the loads and revenues of water utility systems, preparing feasibility reports respecting the financing of water utility systems and advising on the operation of water facilities, who shall be available to advise the Authority, upon request, and to make such investigations and determinations as may be necessary from time to time under the provisions of the Resolution.* In addition to the other purposes for which a Consulting Engineer shall be retained and appointed pursuant to the Resolution, the Authority shall retain and appoint a Consulting Engineer, which may also serve as a Rate Consultant, and which shall not later than 180 days following the end of every fifth calendar year from the date of the last such examination and report make an examination of and report on the properties and operations of the Water Works System. Each such report shall be in sufficient detail to show whether the Authority has satisfactorily performed and complied with the covenants, agreements and conditions set forth in the Resolution with respect to the management of the business of the Water Works System, the sufficiency of the amount being charged and collected for services under the requirements of the Resolution, the proper maintenance of the Water Works System, and the making of repairs, renewals, replacements, modifications, additions and betterments necessary or desirable to improve operating reliability or reduce costs and recommendations thereof. Such Consulting Engineer may rely upon audit reports rendered pursuant to Section 8.6. If the Authority in any material way shall have failed to perform or comply with such covenants, agreements and conditions, such report shall specify the details of such failure. A copy of each such report shall be filed with the Authority and the Trustee and sent to any Bondholder filing with the Trustee a written request for a copy thereof. On the filing of such report, the Authority shall undertake a review of the management of the business of

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the Water Works System and shall cause the prompt taking of such action as shall be necessary to fully perform and comply with the covenants, agreements and conditions as to which the report specified such failure of performance or compliance.

At the regular meeting of the Board of Commissioners held on September 24, 2015 a resolution to enter into a Professional Services Contract for a Cost of Service and Rate Structure Review with Raftelis Financial Consultants, Inc. was approved. The contract was executed and was effective October 1, 2015. The original term of the contract was for one year from the effective date. As it took additional time to prepare and analyze the cost of service data and to design alternative rate structures for the Board's review the contract was extended to January 31, 2017 to allow for the project to be completed.

The original contract and the extended contract now in place through January 31, 2017 includes Article 4. - Additional Services which reads as follows:

At the Client's request, RFC may submit proposals for the expansion of the scope of work of this Agreement or additional professional services. Each proposal submitted shall detail: (1) scope of work for the additional services or expansion of the scope of work of this Agreement, (2) period of services to be performed, and (3) method and amount of compensation. The Client and RFC shall enter into a new Agreement prior to the commencement of work on any proposed additional services; or amend this Agreement in the event of the expansion of the scope of work of this Agreement.

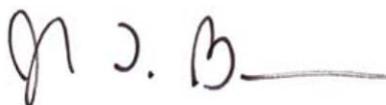
As the Board of Commissioners has approved a major change in the Authority's rate structure which will become effective January 1, 2017 and discussions have taken place regarding a major expansion of the Authority's pipeline replacement program which will involve the regular issuance of water revenue bonds, I am recommending that the Authority retain Raftelis as its Rate Consultant for the next three years. I would envision this to be on an as-needed basis whereby the Authority would only incur an expense if it had a specific project to be performed or if Raftelis was needed to answer questions or offer advice on a matter.

With the Board's consent I would like to notify Raftelis that that the Authority has an interest in expanding the scope of work to act as the Authority's Rate Consultant from February 1, 2017 to January 31, 2020 at rates to be agreed upon and if Raftelis is in agreement, then a resolution approving the amendment and extension be considered by the Commissioner's at a future Board meeting.

Please let me know if you are in agreement with this course of action and if I should proceed.

**VIII. - ADJOURNMENT**

Motion by Mr. Anderson, second by Mr. Schad and carried that the meeting adjourn.

A handwritten signature in black ink, appearing to read "J. T. Burns", followed by a horizontal line.

Joseph T. Burns  
Secretary to the Authority

SLZ