

MINUTES of the **FINANCE COMMITTEE MEETING** of the **ERIE COUNTY WATER AUTHORITY** held in the office, 350 Ellicott Square Building, Buffalo, New York, on the 26th day of April, 2012.

PRESENT: Francis G. Warthling, Chairman
 Earl L. Jann, Jr., Vice Chairman
 John F. O'Donnell, Treasurer (via teleconference)
 Robert A. Mendez, Executive Director
 Matthew J. Baudo, Secretary to the Authority/Personnel Director
 Robert J. Lichtenthal, Jr., Deputy Director
 Wesley C. Dust, Executive Engineer
 Mark J. Fuzak, Attorney
 Edward A. Betz, Associate Attorney
 Paul H. Riester, Director of Administration
 Karen A. Prendergast, Comptroller
 Susan Rinaldo, Cash Manager
 Steven V. D'Amico, Budget and Financial Analyst

ATTENDEES: Tracy Keays (via teleconference)
 Timothy Cashmore, Esq.
 Brian Gould

CALL TO ORDER

PLEDGE TO THE FLAG

I. - ROLL CALL

II. - READING OF MINUTES

Motion by Mr. O'Donnell seconded by Mr. Jann and carried to waive the reading of the Minutes of the Finance Committee Meeting held on Thursday, November 10, 2011.

III. - APPROVAL OF MINUTES

Motion by Mr. O'Donnell seconded by Mr. Jann and carried to approve the Minutes of the Finance Committee Meeting held on Thursday, November 10, 2011.

IV. - REPORTS (See "Report" Minutes for Details)

A) Update on Proposed Debt Issuance and Recommendation

Motion by Mr. O'Donnell seconded by Mr. Jann to recommend to the Board of Commissioners of the Erie County Water Authority the borrowing of \$12.5 million for ten (10) years at 2.41% (projected) with annual principal payments.

V. - COMMUNICATIONS AND BILLS

VI. - UNFINISHED BUSINESS (NONE)

VII. - NEW BUSINESS

VIII. - ADJOURNMENT

Motion by Mr. O'Donnell seconded by Mr. Jann and carried that the meeting adjourn.



Matthew J. Baudo
Secretary to the Authority/Personnel Director

SLZ



The PFM Group
Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

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Suite 3602
New York, NY 10004

212 809-4212
215 809-5874 fax
www.pfm.com

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April 24, 2012

Memorandum

To: Erie County Water Authority Finance Committee
From: Public Financial Management, Inc.
Re: Direct Purchase Bond Issue

Overview

At the request of Robert J. Lichtenthal, Jr., Deputy Director of the Erie County Water Authority ("ECWA" or the "Authority"), Public Financial Management, Inc. ("PFM") drafted a Request for Proposals ("RFP") on behalf of ECWA soliciting interest in a Direct Purchase bond issue. A Direct Purchase bond issue is a private purchase of ECWA bonds by a bank. There is no need for a rating on the bonds, it requires only limited documentation, and the interest rate is typically below that of a public market issue. After receiving responses to the RFP, and allowing the responding banks to comment on the ECWA bond documents, Key Government Finance, Inc. ("Key Bank") has emerged as the institution providing the best combination of terms and conditions for the Authority. As financial advisor to the Authority, PFM recommends that ECWA execute this transaction with Key Bank.

RFP Process and Results

An RFP for a Direct Purchase \$10 million bond issue was sent to four banks deemed most likely to respond to the RFP, whether due to existing relationships, or as a result of marketing efforts on the part of the banks. The four banks are: Key Bank, J. P. Morgan Chase Bank ("Chase"), M & T Bank ("M & T") and Bank of America. Only three of the banks responded: Key Bank, Chase and M & T. The RFP permitted the banks to offer both fixed and variable rate terms, although the preference was for a fixed rate bond issue. This would allow the Authority to take advantage of the current historically low level of interest rates without taking on the interest rate risk of a variable rate transaction. Given the Authority's preference to issue fixed rate bonds with a 10-year amortization, only those terms are discussed below.

Key Bank - Key Bank initially offered a fixed rate of 2.86% on a 10-year bond with a 10-year amortization, but also required a 20 basis point up-front commitment fee. The bank offered to provide up to \$20 million of funding, and some call flexibility on the bonds. Importantly, Key Bank's terms included a provision that if the bonds were determined to be taxable bonds after the purchase date, there would be an increase in the interest rate or a "gross-up" to a taxable rate. In PFM's experience with Direct Purchase bond issues, we have found that every institution requires this condition. There were no other conditions which would produce a rate increase. Asked to provide a best and final interest rate, Key Bank reduced its rate to 2.41%.

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Chase - Chase offered the lowest interest rate of the three responding banks, 2.14% for a 10-year bond with a 10-year amortization. They offered no prepayment or call flexibility, and limited the bond size to \$10 million. However, in addition to provisions similar to Key Bank's that required an increase in interest rates if the bonds were determined to be taxable bonds after the purchase date, Chase also required an increase in the bond interest rate if the corporate tax rate increased. When asked if Chase would allow the Authority to repay the bonds at par within 180 days of a change in the corporate tax rate in order to avoid the increased interest rate, Chase responded that ECWA could buy call protection that was date, but not event, driven. Chase would not provide a fee quote for the call protection, indicating that it would only be priced out after ECWA was in negotiations with Chase as the bond purchaser, and that it would be "relatively expensive". Chase's best and final interest rate was 1.99%.

M & T - M&T did not respond to the questions in the RFP. The bank sent a brief letter offering a 10-year bond with a 10-year amortization at an interest rate of 3.50%. Given that M & T did not technically respond to the RFP, and that the rate was significantly higher than the other two banks, it was eliminated from the process.

Bank of America – Bank of America did not respond the RFP.

Both Key Bank and Chase agreed to the subordination of the Direct Purchase bonds to outstanding ECWA debt, and to use "standard" ECWA documents. These documents were drafted by Damon Morey LLP, Bond Counsel to the Authority. The draft documents were reviewed and commented on by both banks. Key Bank had very limited comments, and essentially accepted the Authority's documentation as written. Chase appended its term sheet to the documents and stated that if it were selected to purchase the bonds, the documents would be subject to additional comments and negotiation. This would include the determination of the formula to derive the taxable gross-up rate as well as call protection terms and pricing.

PFM's Recommendation

PFM recommends that the Authority execute this transaction with Key Bank. PFM believes that if the bonds were to be sold in a public sale, the interest rate would be greater than the interest rate provided by Key Bank given the small size of the bond issue and relative infrequency of the Authority's issuance, which would require potential investors to do some amount of research prior to purchasing the bonds. Issuing debt through a public sale would require a significant amount of additional documentation, including a disclosure document (Preliminary Official Statement and Official Statement) as well as bond ratings. The rating agencies have been made aware of the Authority's plan to issue Direct Purchase bonds, and will review the draft documents and terms, but there will be no ratings on the bonds, and no associated cost.

Although the interest rate offered by Chase is lower than the Key Bank interest rate, PFM believes that the Chase taxable gross-up terms and conditions expose ECWA to an unacceptable risk over



which it has no control. Chase appears to be able to offer a lower interest rate by transferring significant risk to the bond issuer. We are additionally concerned that Chase would not deliver final terms prior to being selected as the Direct Purchaser of the bond issue, leaving ECWA subject to negotiation of terms with limited leverage.

I hope this memo has been helpful. Please let me know if you have any questions or would like additional information.

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ERIE COUNTY WATER AUTHORITY INTEROFFICE MEMORANDUM

April 26, 2012

TO: Commissioners Warthling, Jann and O'Donnell

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

SUBJECT: Recommendation on the Issuance of Debt

As discussed in my memo of April 5, 2012, the Authority has focused on the proposal from Key Government Finance Inc. to develop a proper sizing of the proposed bond issue. This memo will outline the alternatives the Authority has and make a recommendation for the Finance Committee to consider. For consideration and deliberation are three alternatives.

The first is to not do any borrowing. The ramifications of this alternative are that the Authority will not be able to complete the current five year capital plan without a further projected rate/fee increase. Currently, the adopted budget shows an insufficient cash level to complete the current five year capital plan of nearly \$4.6 million (Attachment A). If the \$10 million of borrowing is removed from the plan, the cash insufficiency will only get worse (\$8.5 million insufficiency), creating the need for either steep rate and fee increases or significant reductions in the capital program. Even taking into account that the Authority's end of year cash availability exceeded the amount projected at budget time by almost \$2.7 million thus lowering the cash insufficiency to almost \$1.9 million (Attachment B), there is still a significant shortfall in the projections without borrowing (\$5.9 million). For these reasons, this alternative is not recommended.

The second alternative is to borrow \$10 million for 10 years at 2.41% (projected) with annual principal payments. Following through with the borrowing at this time as proposed in the budget and rate projections helps the Authority close the cash insufficiency to just over \$1.1 million. The reduction in the insufficiency is created by the additional cash at year-end of \$2.7 million as mentioned above, the projected interest rate being just over 1% lower than the rate used in the budget projections and the delay in the closing of the deal for five months (Attachment C). This alternative is acceptable as staff believes that since this insufficiency occurs in the last year of the projections that other minor adjustments can be made over the next three and a half years to address this issue without greater rate and fee increases than those used in the projections.

The third alternative is to borrow \$12.5 million for 10 years at 2.41% (projected) with annual principal payments. This alternative inserted into the Authority rate projections model eliminates the cash insufficiency under all the current assumptions used in the model (Attachment D). It gives the Authority future flexibility in regard to the use of any additional

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cash generated in the future such as the potential early redemption of higher cost debt, which in⁷ itself will generate more savings, additional capital spending for projects that may present themselves or which had to be deleted from the current five year plan due to funding restrictions or to deal with other unexpected contingencies. This is the alternative that is recommended to the Finance Committee and the Board to accept and approve. It is prudent, it is affordable, it takes advantage of intermediate term rates that are very low, the terms offered by Key Government Finance are acceptable and it allows the Authority to keep the current budget and rate projections on track.

If the Finance Committee selects the second or third alternative, the next steps will be to complete the draft borrowing documents for submission to the rating agencies and the NYS Comptroller's Office for approval. On receipt of approval from these entities, the Board will need to pass a bond resolution and other resolutions authorizing these actions and then the Authority can proceed with the closing and receipt of the funds.

Attachment A - Alternative #1

3 Dollar per Quarter Increase of Infrastructure Investment Charge Across the Board borrowing \$10,000,000 in 2011

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**Erie County Water Authority
Rate Projections**

- Meet Minimum Debt Coverage Ratio of 1.35
- Avoid Loss on GAAP Basis
- Maintain 20% of Gross Revenues

(Based on 2012 Annual Budget Numbers and Assumptions)

****As of November 23, 2011****

Year		2012	2013	2014	2015	2016
Enter Rate Percentage Change		0.0000	0.0000	0.0000	0.0000	0.0000
Amount Increased per 1,000 Gallons		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
New Rate per 1,000 Gallons		\$2.96	\$2.96	\$2.96	\$2.96	\$2.96
Enter Dollar Amount Increase in Infrastructure Charge		\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
New Quarterly Infrastructure Investment Charge		\$6.00	\$9.00	\$12.00	\$15.00	\$18.00
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CASH BASIS		2012	2013	2014	2015	2016
Operating Revenue:						
Metered Revenue:	Residential and Commercial	41,364,063	41,364,063	41,364,063	41,364,063	41,364,063
	Industrial	1,548,199	1,548,199	1,548,199	1,548,199	1,548,199
	Public Authorities	2,050,692	2,050,692	2,050,692	2,050,692	2,050,692
	Sales to Other Utilities	5,067,535	5,067,535	5,067,535	5,067,535	5,067,535
Total Metered Revenue		50,030,489	50,030,489	50,030,489	50,030,489	50,030,489
Fire Protection:	Private Fire Prot	540,000	540,000	540,000	540,000	540,000
	Public Fire Prot (Direct Service)	2,003,305	2,003,305	2,003,305	2,003,305	2,003,305
	Public Fire Prot (Lease-Managed)	1,396,950	1,396,950	1,396,950	1,396,950	1,396,950
Total Fire Protection:		3,940,255	3,940,255	3,940,255	3,940,255	3,940,255
Other Water Revenue		1,759,751	1,759,751	1,759,751	1,759,751	1,759,751
Infrastructure Investment Charge		3,790,254	5,685,381	7,580,508	9,475,635	11,370,762
Total Operating Revenue		59,520,749	61,415,876	63,311,003	65,206,130	67,101,257
Add: Interest and Misc Income		929,081	925,861	907,969	926,643	936,173
Total Income		\$ 60,449,830	\$ 62,341,737	\$ 64,218,972	\$ 66,132,773	\$ 68,037,430
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LESS: Operating & Maintenance Expenses:						
	Payroll	14,873,087	15,170,549	15,473,960	15,783,439	16,099,108
	Power Purchased	4,836,983	4,982,092	5,131,555	5,285,502	5,444,067
	Chemicals	1,196,048	1,315,653	1,447,218	1,591,940	1,751,134
	Employee Benefits	8,989,800	9,626,044	10,299,583	11,029,735	11,821,689
	Insurance(Other than Workers Comp and Automobile)	580,557	609,585	640,064	672,067	705,671
	Other Expenses	10,844,874	11,061,771	11,283,007	11,508,667	11,738,840
Total O&M Expense		41,321,349	42,765,694	44,275,387	45,871,351	47,560,508
Deduct: Administrative Credits		(3,240,462)	(3,311,538)	(2,289,231)	(2,469,231)	(2,584,615)
Net O&M Expense		\$ 38,080,887	\$ 39,454,156	\$ 41,986,156	\$ 43,402,120	\$ 44,975,893
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Total Available for Debt Service		22,368,943	22,887,581	22,232,816	22,730,653	23,061,537
Less: Debt Service Payments (Reflects EFC Subsidy)		11,358,658	11,356,142	11,376,217	11,393,250	11,435,206
Available for Capital Budget		\$ 11,010,285	\$ 11,531,439	\$ 10,856,599	\$ 11,337,403	\$ 11,626,331
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GAAP Adjustments						
Add:	Adjustment for Bond Principal	7,390,417	7,644,583	7,974,167	8,318,333	8,705,833
Less:	Adjustment for Depreciation	(12,182,385)	(12,482,385)	(12,782,385)	(13,082,385)	(13,382,385)
	Adjustment for OPEB Cost	(4,395,988)	(4,703,707)	(5,032,967)	(5,385,274)	(5,762,244)
	Adjustment for Amortization	(432,522)	(432,522)	(432,522)	(432,522)	(432,522)
Total GAAP Adjustments		(9,620,478)	(9,974,031)	(10,273,707)	(10,581,848)	(10,871,318)
Projected Net Income(Loss) on GAAP basis		\$ 1,389,807	\$ 1,557,408	\$ 582,892	\$ 755,555	\$ 755,014
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Calculation of Debt Coverage Ratio:						
Debt Service to Be Paid out in Year		11,358,658	11,356,142	11,376,217	11,393,250	11,435,206
Debt Coverage Ratio		1.97	2.02	1.95	2.00	2.02
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Capital Resource Summary						
Funds Available for Capital Budget:						
O&M Available		11,010,285	11,531,439	10,856,599	11,337,403	11,626,331
All Other Cash (Unrestricted/Restricted for Capital)		35,400,427	28,106,262	20,912,451	17,001,050	13,285,453
Proceeds from Sale of Vehicles		450,000	575,000	1,000,000	1,025,000	1,070,000
Total Available for Capital		\$ 46,860,712	\$ 40,212,701	\$ 32,769,050	\$ 29,363,453	\$ 25,981,784
Less: Capital Projects Requested in Budget		\$ 18,754,450	\$ 19,300,250	\$ 15,768,000	\$ 16,078,000	\$ 16,958,000
Balance of Funds Remaining		\$ 28,106,262	\$ 20,912,451	\$ 17,001,050	\$ 13,285,453	\$ 9,023,784
Proposed Newly Issued Bond Proceeds/Funds		-	-	-	-	-
Total Balance of All Funds		\$ 28,106,262	\$ 20,912,451	\$ 17,001,050	\$ 13,285,453	\$ 9,023,784
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4/26/12		Maintaining 20% of Gross Revenues:				
		\$ 12,089,966	\$ 12,468,347	\$ 12,843,794	\$ 13,226,555	\$ 13,607,486
Differ of:		\$ 16,016,296	\$ 8,444,104	\$ 4,157,255	\$ 58,898	\$ (4,583,702)
		-33.69%				
		Sufficient	Sufficient	Sufficient	Sufficient	Insufficient

Attachment B - Alternative #1

3 Dollar per Quarter Increase of Infrastructure Investment Charge Across the Board, borrowing \$10,000,000 in 2012

- Adjusted All Other Cash to reflect actual amount as of 12/31/2011; Debt Service amount not changed (Currently reflects principal and interest for borrowing \$10,000,000 at 3.5% for 10 Years; 2012 has a full 12 months of principal and interest)

**Erie County Water Authority
Rate Projections**

- Meet Minimum Debt Coverage Ratio of 1.35
- Avoid Loss on GAAP Basis
- Maintain 20% of Gross Revenues

As of December 31, 2011

(Based on 2012 Annual Budget Numbers and Assumptions)

Year	2012	2013	2014	2015	2016
Enter Rate Percentage Change	0.0000	0.0000	0.0000	0.0000	0.0000
Amount Increased per 1,000 Gallons	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
New Rate per 1,000 Gallons	\$2.96	\$2.96	\$2.96	\$2.96	\$2.96
Enter Dollar Amount Increase in Infrastructure Charge	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
New Quarterly Infrastructure Investment Charge	\$6.00	\$9.00	\$12.00	\$15.00	\$18.00
CASH BASIS					
	2012	2013	2014	2015	2016
Operating Revenue:					
Metered Revenue:					
Residential and Commercial	41,364,063	41,364,063	41,364,063	41,364,063	41,364,063
Industrial	1,548,199	1,548,199	1,548,199	1,548,199	1,548,199
Public Authorities	2,050,692	2,050,692	2,050,692	2,050,692	2,050,692
Sales to Other Utilities	5,067,535	5,067,535	5,067,535	5,067,535	5,067,535
Total Metered Revenue	50,030,489	50,030,489	50,030,489	50,030,489	50,030,489
Fire Protection:					
Private Fire Prot	540,000	540,000	540,000	540,000	540,000
Public Fire Prot (Direct Service)	2,003,305	2,003,305	2,003,305	2,003,305	2,003,305
Public Fire Prot (Lease-Managed)	1,396,950	1,396,950	1,396,950	1,396,950	2,003,305
Total Fire Protection	3,940,255	3,940,255	3,940,255	3,940,255	3,940,255
Other Water Revenue	1,759,751	1,759,751	1,759,751	1,759,751	1,759,751
Infrastructure Investment Charge	3,790,254	5,685,381	7,580,508	9,475,635	11,370,762
Total Operating Revenue	59,520,749	61,415,876	63,311,003	65,206,130	67,101,257
Add Interest and Misc Income	929,081	925,861	907,969	926,643	936,173
Total Income	\$ 60,449,830	\$ 62,341,737	\$ 64,218,972	\$ 66,132,773	\$ 68,037,430
LESS: Operating & Maintenance Expenses:					
Payroll	14,873,087	15,170,549	15,473,960	15,783,439	16,099,108
Power Purchased	4,836,983	4,982,092	5,131,555	5,285,502	5,444,067
Chemicals	1,196,048	1,315,653	1,447,218	1,591,940	1,751,134
Employee Benefits	8,989,800	9,626,044	10,299,583	11,029,735	11,821,689
Insurance (Other than Workers Comp and Automobile)	580,557	609,585	640,064	672,067	705,671
Other Expenses	10,844,874	11,061,771	11,283,007	11,508,667	11,738,840
Total O&M Expense	41,321,349	42,765,694	44,275,387	45,871,351	47,560,508
Deduct Administrative Credits	(3,240,462)	(3,311,538)	(2,289,231)	(2,469,231)	(2,584,615)
Net O&M Expense	\$ 38,080,887	\$ 39,454,156	\$ 41,986,156	\$ 43,402,120	\$ 44,975,893
Total Available for Debt Service	22,368,943	22,887,581	22,232,816	22,730,653	23,061,537
Less: Debt Service Payments (Reflects EFC Subsidy)	11,358,658	11,356,142	11,376,217	11,393,250	11,435,206
Available for Capital Budget	\$ 11,010,285	\$ 11,531,439	\$ 10,856,599	\$ 11,337,403	\$ 11,626,331
GAAP Adjustments					
Add: Adjustment for Bond Principal	7,390,417	7,644,583	7,974,167	8,318,333	8,705,833
Less: Adjustment for Depreciation	(12,182,385)	(12,482,385)	(12,782,385)	(13,082,385)	(13,382,385)
Adjustment for OPEB Cost	(4,395,988)	(4,703,707)	(5,032,967)	(5,385,274)	(5,762,244)
Adjustment for Amortization	(432,522)	(432,522)	(432,522)	(432,522)	(432,522)
Total GAAP Adjustments	(9,620,478)	(9,974,031)	(10,273,707)	(10,581,848)	(10,871,318)
Projected Net Income(Loss) on GAAP basis	\$ 1,389,807	\$ 1,557,408	\$ 582,892	\$ 755,555	\$ 755,014
Calculation of Debt Coverage Ratio:					
Debt Service to Be Paid out in Year	11,358,658	11,356,142	11,376,217	11,393,250	11,435,206
Debt Coverage Ratio	1.97	2.02	1.95	2.00	2.02
Capital Resource Summary					
Funds Available for Capital Budget:					
O & M Available	11,010,285	11,531,439	10,856,599	11,337,403	11,626,331
All Other Cash (Unrestricted/Restricted for Capital)	28,084,538	30,790,373	23,596,562	19,685,161	15,969,564
Proceeds from Sale of Vehicles	450,000	575,000	1,000,000	1,025,000	1,070,000
Total Available for Capital	\$ 39,544,823	\$ 42,896,812	\$ 35,453,161	\$ 32,047,564	\$ 28,665,895
Less: Capital Projects Requested in Budget	\$ 18,754,450	\$ 19,300,250	\$ 15,768,000	\$ 16,078,000	\$ 16,958,000
Balance of Funds Remaining	\$ 20,790,373	\$ 23,596,562	\$ 19,685,161	\$ 15,969,564	\$ 11,707,895
Proposed Newly Issued Bond Proceeds/Funds	10,000,000				
Total Balance of All Funds	\$ 30,790,373	\$ 23,596,562	\$ 19,685,161	\$ 15,969,564	\$ 11,707,895
Maintaining 20% of Gross Revenues:	\$ 12,089,966	\$ 12,468,347	\$ 12,843,794	\$ 13,226,555	\$ 13,607,486
Differ of:	\$ 18,700,407	\$ 11,128,215	\$ 6,841,366	\$ 2,743,009	\$ (1,899,591)
	Sufficient	Sufficient	Sufficient	Sufficient	Insufficient

-13.96%

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Attachment C - Alternative #2

3 Dollar per Quarter Increase of Infrastructure Investment Charge Across the Board, borrowing \$10,000,000 in 2012

- Adjusted All Other Cash to reflect actual amount as of 12/31/2011; Debt Service amount changed (Reflecting principal and interest for borrowing \$10,000,000 at 2.41% for 10 Years; 2012 has 7 months of principal and interest)

**Erie County Water Authority
Rate Projections**

- Meet Minimum Debt Coverage Ratio of 1.35
- Avoid Loss on GAAP Basis
- Maintain 20% of Gross Revenues

(Based on 2012 Annual Budget Numbers and Assumptions)

****As of December 31, 2011****

Year	2012	2013	2014	2015	2016
Enter Rate Percentage Change	0.0000	0.0000	0.0000	0.0000	0.0000
Amount Increased per 1,000 Gallons	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
New Rate per 1,000 Gallons	\$2.96	\$2.96	\$2.96	\$2.96	\$2.96
Enter Dollar Amount Increase in Infrastructure Charge	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
New Quarterly Infrastructure Investment Charge	\$6.00	\$9.00	\$12.00	\$15.00	\$18.00
CASH BASIS					
Operating Revenue:					
Metered Revenue					
Residential and Commercial	41,364,063	41,364,063	41,364,063	41,364,063	41,364,063
Industrial	1,548,199	1,548,199	1,548,199	1,548,199	1,548,199
Public Authorities	2,050,692	2,050,692	2,050,692	2,050,692	2,050,692
Sales to Other Utilities	5,067,535	5,067,535	5,067,535	5,067,535	5,067,535
Total Metered Revenue	50,030,489	50,030,489	50,030,489	50,030,489	50,030,489
Fire Protection					
Private Fire Prot	540,000	540,000	540,000	540,000	540,000
Public Fire Prot (Direct Service)	2,003,305	2,003,305	2,003,305	2,003,305	2,003,305
Public Fire Prot (Lease-Managed)	1,396,950	1,396,950	1,396,950	1,396,950	1,396,950
Total Fire Protection	3,940,255	3,940,255	3,940,255	3,940,255	3,940,255
Other Water Revenue	1,759,751	1,759,751	1,759,751	1,759,751	1,759,751
Infrastructure Investment Charge	3,790,254	5,685,381	7,580,508	9,475,635	11,370,762
Total Operating Revenue	59,520,749	61,415,876	63,311,003	65,206,130	67,101,257
Add Interest and Misc Income	929,081	925,861	907,969	926,643	936,173
Total Income	\$ 60,449,830	\$ 62,341,737	\$ 64,218,972	\$ 66,132,773	\$ 68,037,430
LESS: Operating & Maintenance Expenses:					
Payroll	14,873,087	15,170,549	15,473,960	15,783,439	16,099,108
Power Purchased	4,836,983	4,982,092	5,131,555	5,285,502	5,444,067
Chemicals	1,196,048	1,315,653	1,447,218	1,591,940	1,751,134
Employee Benefits	8,989,800	9,626,044	10,299,583	11,029,735	11,821,689
Insurance (Other than Workers Comp and Automobile)	580,557	609,585	640,064	672,067	705,671
Other Expenses	10,844,874	11,061,771	11,283,007	11,508,667	11,738,840
Total O&M Expense	41,321,349	42,765,694	44,275,387	45,871,351	47,560,508
Deduct Administrative Credits	(3,240,462)	(3,311,538)	(2,289,231)	(2,469,231)	(2,584,615)
Net O&M Expense	\$ 38,080,887	\$ 39,454,156	\$ 41,986,156	\$ 43,402,120	\$ 44,975,893
Total Available for Debt Service	22,368,943	22,887,581	22,232,816	22,730,653	23,061,537
Less Debt Service Payments (Reflects EFC Subsidy)	10,796,325	11,299,768	11,325,631	11,346,710	11,371,023
Available for Capital Budget	\$ 11,572,618	\$ 11,587,813	\$ 10,907,185	\$ 11,383,943	\$ 11,690,514
GAAP Adjustments					
Add: Adjustment for Bond Principal	7,037,500	7,679,166	8,005,834	8,345,000	8,705,416
Less: Adjustment for Depreciation	(12,182,385)	(12,482,385)	(12,782,385)	(13,082,385)	(13,382,385)
Adjustment for OPEB Cost	(4,395,988)	(4,703,707)	(5,032,967)	(5,385,274)	(5,762,244)
Adjustment for Amortization	(432,522)	(432,522)	(432,522)	(432,522)	(432,522)
Total GAAP Adjustments	(9,973,395)	(9,939,448)	(10,242,040)	(10,555,182)	(10,871,734)
Projected Net Income(Loss) on GAAP basis	\$ 1,599,224	\$ 1,648,365	\$ 665,145	\$ 828,761	\$ 818,780
Calculation of Debt Coverage Ratio:					
Debt Service to Be Paid out in Year	10,796,325	11,299,768	11,325,631	11,346,710	11,371,023
Debt Coverage Ratio	2.07	2.03	1.96	2.00	2.03
Capital Resource Summary					
Funds Available for Capital Budget:					
O&M Available	11,572,618	11,587,813	10,907,185	11,383,943	11,690,514
All Other Cash (Unrestricted/Restricted for Capital)	28,084,538	31,352,706	24,215,269	20,354,454	16,685,397
Proceeds from Sale of Vehicles	450,000	575,000	1,000,000	1,025,000	1,070,000
Total Available for Capital	\$ 40,107,156	\$ 43,515,519	\$ 36,122,454	\$ 32,763,397	\$ 29,445,911
Less: Capital Projects Requested in Budget	18,754,450	19,300,250	15,768,000	16,078,000	16,958,000
Balance of Funds Remaining	\$ 21,352,706	\$ 24,215,269	\$ 20,354,454	\$ 16,685,397	\$ 12,487,911
Proposed Newly Issued Bond Proceeds/Funds	10,000,000	-	-	-	-
Total Balance of All Funds	\$ 31,352,706	\$ 24,215,269	\$ 20,354,454	\$ 16,685,397	\$ 12,487,911
Maintaining 20% of Gross Revenues:	\$ 12,089,966	\$ 12,468,347	\$ 12,843,794	\$ 13,226,555	\$ 13,607,486
Differ of:	\$ 19,262,740	\$ 11,746,922	\$ 7,510,660	\$ 3,458,843	\$ (1,119,575)
	Sufficient	Sufficient	Sufficient	Sufficient	Insufficient

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Attachment D - Alternative #3

3 Dollar per Quarter Increase of Infrastructure Investment Charge Across the Board, borrowing \$12,500,000 in 2012

- Adjusted All Other Cash to reflect actual amount as of 12/31/2011; Debt Service amount changed (Reflecting principal and interest for borrowing \$12,500,000 at 2.41% for 10 Years; 2012 has a 7 months of principal and interest)

**Erie County Water Authority
Rate Projections**

- Meet Minimum Debt Coverage Ratio of 1.35
- Avoid Loss on GAAP Basis
- Maintain 20% of Gross Revenues

(Based on 2012 Annual Budget Numbers and Assumptions)

As of December 31, 2011

Year	2012	2013	2014	2015	2016
Enter Rate Percentage Change	0.0000	0.0000	0.0000	0.0000	0.0000
Amount Increased per 1,000 Gallons	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
New Rate per 1,000 Gallons	\$2.96	\$2.96	\$2.96	\$2.96	\$2.96
Enter Dollar Amount Increase in Infrastructure Charge	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
New Quarterly Infrastructure Investment Charge	\$6.00	\$9.00	\$12.00	\$15.00	\$18.00
CASH BASIS					
	2012	2013	2014	2015	2016
Operating Revenue:					
Metered Revenue					
Residential and Commercial	41,364,063	41,364,063	41,364,063	41,364,063	41,364,063
Industrial	1,548,199	1,548,199	1,548,199	1,548,199	1,548,199
Public Authorities	2,050,692	2,050,692	2,050,692	2,050,692	2,050,692
Sales to Other Utilities	5,067,535	5,067,535	5,067,535	5,067,535	5,067,535
Total Metered Revenue	50,030,489	50,030,489	50,030,489	50,030,489	50,030,489
Fire Protection					
Private Fire Prot	540,000	540,000	540,000	540,000	540,000
Public Fire Prot (Direct Service)	2,003,305	2,003,305	2,003,305	2,003,305	2,003,305
Public Fire Prot (Lease-Managed)	1,396,950	1,396,950	1,396,950	1,396,950	1,396,950
Total Fire Protection	3,940,255	3,940,255	3,940,255	3,940,255	3,940,255
Other Water Revenue	1,759,751	1,759,751	1,759,751	1,759,751	1,759,751
Infrastructure Investment Charge	3,790,254	5,685,381	7,580,508	9,475,635	11,370,762
Total Operating Revenue	59,520,749	61,415,876	63,311,003	65,206,130	67,101,257
Add Interest and Misc. Income	929,081	925,861	907,969	926,643	936,173
Total Income	\$ 60,449,830	\$ 62,341,737	\$ 64,218,972	\$ 66,132,773	\$ 68,037,430
LESS: Operating & Maintenance Expenses:					
Payroll	14,873,087	15,170,549	15,473,960	15,783,439	16,099,108
Power Purchased	4,836,983	4,982,092	5,131,555	5,285,502	5,444,067
Chemicals	1,196,048	1,315,653	1,447,218	1,591,940	1,751,134
Employee Benefits	8,989,800	9,626,044	10,299,583	11,029,735	11,821,689
Insurance(Other than Workers Comp and Automobile)	580,557	609,585	640,064	672,067	705,671
Other Expenses	10,844,874	11,061,771	11,283,007	11,508,667	11,738,840
Total O&M Expense	41,321,349	42,765,694	44,275,387	45,871,351	47,560,508
Deduct Administrative Credits	(3,240,462)	(3,311,538)	(2,289,231)	(2,469,231)	(2,584,615)
Net O&M Expense	\$ 38,080,887	\$ 39,454,156	\$ 41,986,156	\$ 43,402,120	\$ 44,975,893
Total Available for Debt Service	22,368,943	22,887,581	22,232,816	22,730,653	23,061,537
Less: Debt Service Payments (Reflects EFC Subsidy)	10,962,721	11,584,772	11,610,141	11,633,524	11,656,200
Available for Capital Budget	\$ 11,406,223	\$ 11,302,809	\$ 10,622,674	\$ 11,097,129	\$ 11,405,338
GAAP Adjustments					
Add: Adjustment for Bond Principal	7,168,750	7,907,083	8,238,750	8,585,833	8,950,416
Less: Adjustment for Depreciation	(12,182,385)	(12,482,385)	(12,782,385)	(13,082,385)	(13,382,385)
Adjustment for OPEB Cost	(4,395,988)	(4,703,707)	(5,032,967)	(5,385,274)	(5,762,244)
Adjustment for Amortization	(432,522)	(432,522)	(432,522)	(432,522)	(432,522)
Total GAAP Adjustments	(9,842,145)	(9,711,531)	(10,009,123)	(10,314,348)	(10,626,734)
Projected Net Income(Loss) on GAAP basis	\$ 1,564,078	\$ 1,591,278	\$ 613,551	\$ 782,780	\$ 778,603
Calculation of Debt Coverage Ratio:					
Debt Service to Be Paid out in Year	10,962,721	11,584,772	11,610,141	11,633,524	11,656,200
Debt Coverage Ratio	2.04	1.98	1.91	1.95	1.98
Capital Resource Summary					
Funds Available for Capital Budget:					
O & M Available	11,406,223	11,302,809	10,622,674	11,097,129	11,405,338
All Other Cash (Unrestricted/Restricted for Capital)	28,084,538	33,686,311	26,263,870	22,118,544	18,162,673
Proceeds from Sale of Vehicles	450,000	575,000	1,000,000	1,025,000	1,070,000
Total Available for Capital	\$ 39,940,761	\$ 45,564,120	\$ 37,886,544	\$ 34,240,673	\$ 30,638,010
Less: Capital Projects Requested in Budget	\$ 18,754,450	\$ 19,300,250	\$ 15,768,000	\$ 16,078,000	\$ 16,958,000
Balance of Funds Remaining	\$ 21,186,311	\$ 26,263,870	\$ 22,118,544	\$ 18,162,673	\$ 13,680,010
Proposed Newly Issued Bond Proceeds/Funds	12,500,000	-	-	-	-
Total Balance of All Funds	\$ 33,686,311	\$ 26,263,870	\$ 22,118,544	\$ 18,162,673	\$ 13,680,010
Maintaining 20% of Gross Revenues:	\$ 12,089,966	\$ 12,468,347	\$ 12,843,794	\$ 13,226,555	\$ 13,607,486
Differ of:	\$ 21,596,345	\$ 13,795,523	\$ 9,274,750	\$ 4,936,118	\$ 72,524
	Sufficient	Sufficient	Sufficient	Sufficient	Sufficient

ERIE COUNTY WATER AUTHORITY
Debt Service Maturity Schedule

	2007 Fourth		2008 Fourth		1998 & 2003 EFC		Proposed		Proposed Principal & Interest
	Resolution Bonds		Resolution Bonds		Serial Bonds		2012 \$12.5 Million		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2012	710,000	1,532,464	4,225,000	1,663,750	1,550,000	629,514	-	150,625	10,461,353
2013	740,000	1,500,513	4,395,000	1,494,750	1,595,000	598,255	1,120,000	287,754	11,731,272
2014	770,000	1,467,214	4,615,000	1,275,000	1,650,000	561,984	1,150,000	260,401	11,749,599
2015	800,000	1,432,564	4,845,000	1,044,250	1,705,000	519,723	1,175,000	232,384	11,753,921
2016	835,000	1,396,564	5,090,000	802,000	1,765,000	471,482	1,205,000	203,705	11,768,751
2017	865,000	1,358,989	5,340,000	547,500	1,820,000	416,437	1,230,000	174,364	11,752,290
2018	905,000	1,320,064	5,610,000	280,500	1,885,000	355,872	1,260,000	144,359	11,760,795
2019	940,000	1,279,339	-	-	1,950,000	290,587	1,290,000	113,632	5,863,558
2020	980,000	1,237,039	-	-	805,000	218,604	1,325,000	82,121	4,647,764
2021	1,025,000	1,192,939	-	-	830,000	183,868	1,355,000	49,827	4,636,634
2022	1,065,000	1,146,814	-	-	855,000	147,431	1,390,000	16,750	4,620,995
2023	1,115,000	1,098,889	-	-	2,430,000	109,350	-	-	4,753,239
2024	1,165,000	1,048,714	-	-	-	-	-	-	2,213,714
2025	1,215,000	996,289	-	-	-	-	-	-	2,211,289
2026	1,270,000	941,614	-	-	-	-	-	-	2,211,614
2027	1,325,000	882,876	-	-	-	-	-	-	2,207,876
2028	1,385,000	821,595	-	-	-	-	-	-	2,206,595
2029	1,445,000	756,500	-	-	-	-	-	-	2,201,500
2030	1,510,000	687,863	-	-	-	-	-	-	2,197,863
2031	1,575,000	616,137	-	-	-	-	-	-	2,191,137
2032-2036	9,025,000	1,882,775	-	-	-	-	-	-	10,907,775
2037	2,060,000	103,000	-	-	-	-	-	-	2,163,000
Total	\$ 32,725,000	\$ 24,700,755	\$ 34,120,000	\$ 7,107,750	\$ 18,840,000	\$ 4,503,107	\$ 12,500,000	\$ 1,715,920	\$ 136,212,532



BOND DEBT SERVICE

13

ECWA 2012 Direct Purchase
10 Million, Annual Principal

Dated Date 06/01/2012
Delivery Date 06/01/2012

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
12/01/2012			120,500.00	120,500.00	
06/01/2013	895,000	2.410%	120,500.00	1,015,500.00	1,136,000.00
12/01/2013			109,715.25	109,715.25	
06/01/2014	920,000	2.410%	109,715.25	1,029,715.25	1,139,430.50
12/01/2014			98,629.25	98,629.25	
06/01/2015	940,000	2.410%	98,629.25	1,038,629.25	1,137,258.50
12/01/2015			87,302.25	87,302.25	
06/01/2016	960,000	2.410%	87,302.25	1,047,302.25	1,134,604.50
12/01/2016			75,734.25	75,734.25	
06/01/2017	985,000	2.410%	75,734.25	1,060,734.25	1,136,468.50
12/01/2017			63,865.00	63,865.00	
06/01/2018	1,010,000	2.410%	63,865.00	1,073,865.00	1,137,730.00
12/01/2018			51,694.50	51,694.50	
06/01/2019	1,035,000	2.410%	51,694.50	1,086,694.50	1,138,389.00
12/01/2019			39,222.75	39,222.75	
06/01/2020	1,060,000	2.410%	39,222.75	1,099,222.75	1,138,445.50
12/01/2020			26,449.75	26,449.75	
06/01/2021	1,085,000	2.410%	26,449.75	1,111,449.75	1,137,899.50
12/01/2021			13,375.50	13,375.50	
06/01/2022	1,110,000	2.410%	13,375.50	1,123,375.50	1,136,751.00
	10,000,000		1,372,977.00	11,372,977.00	11,372,977.00

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ERIE COUNTY WATER AUTHORITY
Debt Service Maturity Schedule

	2007 Fourth		2008 Fourth		1998 & 2003 EFC		2012 \$10 Million		Proposed Principal & Interest
	Resolution Bonds		Resolution Bonds		Serial Bonds		Direct Purchase		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2012	710,000	1,532,464	4,225,000	1,663,750	1,550,000	629,514	-	120,500	10,431,228
2013	740,000	1,500,513	4,395,000	1,494,750	1,595,000	598,255	895,000	230,215	11,448,733
2014	770,000	1,467,214	4,615,000	1,275,000	1,650,000	561,984	920,000	208,345	11,467,543
2015	800,000	1,432,564	4,845,000	1,044,250	1,705,000	519,723	940,000	185,932	11,472,469
2016	835,000	1,396,564	5,090,000	802,000	1,765,000	471,482	960,000	163,037	11,483,083
2017	865,000	1,358,989	5,340,000	547,500	1,820,000	416,437	985,000	139,599	11,472,525
2018	905,000	1,320,064	5,610,000	280,500	1,885,000	355,872	1,010,000	115,560	11,481,996
2019	940,000	1,279,339	-	-	1,950,000	290,587	1,035,000	90,917	5,585,843
2020	980,000	1,237,039	-	-	805,000	218,604	1,060,000	65,673	4,366,316
2021	1,025,000	1,192,939	-	-	830,000	183,868	1,085,000	39,825	4,356,632
2022	1,065,000	1,146,814	-	-	855,000	147,431	1,110,000	13,376	4,337,621
2023	1,115,000	1,098,889	-	-	2,430,000	109,350	-	-	4,753,239
2024	1,165,000	1,048,714	-	-	-	-	-	-	2,213,714
2025	1,215,000	996,289	-	-	-	-	-	-	2,211,289
2026	1,270,000	941,614	-	-	-	-	-	-	2,211,614
2027	1,325,000	882,876	-	-	-	-	-	-	2,207,876
2028	1,385,000	821,595	-	-	-	-	-	-	2,206,595
2029	1,445,000	756,500	-	-	-	-	-	-	2,201,500
2030	1,510,000	687,863	-	-	-	-	-	-	2,197,863
2031	1,575,000	616,137	-	-	-	-	-	-	2,191,137
2032-2036	9,025,000	1,882,775	-	-	-	-	-	-	10,907,775
2037	2,060,000	103,000	-	-	-	-	-	-	2,163,000
Total	\$ 32,725,000	\$ 24,700,755	\$ 34,120,000	\$ 7,107,750	\$ 18,840,000	\$ 4,503,107	\$ 10,000,000	\$ 1,372,977	\$ 133,369,589



BOND DEBT SERVICE

ECWA 2012 Direct Purchase
12.5 Million, Annual Principal

Dated Date 06/01/2012
Delivery Date 06/01/2012

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
12/01/2012			150,625.00	150,625.00	
06/01/2013	1,120,000	2.410%	150,625.00	1,270,625.00	1,421,250.00
12/01/2013			137,129.00	137,129.00	
06/01/2014	1,150,000	2.410%	137,129.00	1,287,129.00	1,424,258.00
12/01/2014			123,271.50	123,271.50	
06/01/2015	1,175,000	2.410%	123,271.50	1,298,271.50	1,421,543.00
12/01/2015			109,112.75	109,112.75	
06/01/2016	1,205,000	2.410%	109,112.75	1,314,112.75	1,423,225.50
12/01/2016			94,592.50	94,592.50	
06/01/2017	1,230,000	2.410%	94,592.50	1,324,592.50	1,419,185.00
12/01/2017			79,771.00	79,771.00	
06/01/2018	1,260,000	2.410%	79,771.00	1,339,771.00	1,419,542.00
12/01/2018			64,588.00	64,588.00	
06/01/2019	1,290,000	2.410%	64,588.00	1,354,588.00	1,419,176.00
12/01/2019			49,043.50	49,043.50	
06/01/2020	1,325,000	2.410%	49,043.50	1,374,043.50	1,423,087.00
12/01/2020			33,077.25	33,077.25	
06/01/2021	1,355,000	2.410%	33,077.25	1,388,077.25	1,421,154.50
12/01/2021			16,749.50	16,749.50	
06/01/2022	1,390,000	2.410%	16,749.50	1,406,749.50	1,423,499.00
	12,500,000		1,715,920.00	14,215,920.00	14,215,920.00

4/26/12

