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 30th day of August, 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
Russell Stoll, Executive Engineer
Karen A. Prendergast, Comptroller
Ronald P. Bennett, Associate Attorney
Jacqueline Mattina, Deputy Associate Attorney
Ashley W. Johnson, Deputy Associate Attorney
John Mogavero, Chemist/Chief WPTO
Paul Whittam, Director of Water Quality
Paul H. Riester, Director of Administration
Daniel J. NeMoyer, Director of Human Resources
Terrence McCracken, Director of Employee Relations

ATTENDEES: **Sean Dwyer**
Rick Ganci
Timothy Cashmore

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 Finance Committee Meeting held on June 9, 2016.

III. - APPROVAL OF MINUTES

Motion by Mr. Anderson seconded by Mr. Schad and carried to approve the Minutes of the Finance Committee Meeting held on June 9, 2016.

IV. - REPORTS

V. - COMMUNICATIONS AND BILLS

VI. - UNFINISHED BUSINESS

VII. - NEW BUSINESS

A. **Debt Management Policy**

Bob Lichtenthal distributed a draft copy of a revised Debt Management Policy. He explained that this Policy has not been updated since its adoption in 2009. In reviewing the policy while preparing other documents for the upcoming bond refunding, it was determined that a revision with respect to, specifically naming the types of bonds the Authority will issue and the desire to place limits on the total amount of variable rate bonds the Authority can issue or have outstanding would improve the policy.

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.

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 meeting secondary disclosure requirements on a timely and comprehensive basis.

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 ~~BANs~~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 ~~U~~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

B. **Supplemental Resolution**

Rick Ganci discussed the Erie County Refunding Analysis, and Timothy Cashmore went over the Supplemental Bond Resolution in detail, including the draft Preliminary Offering Statement, Bond Purchase Agreement and Continuing Disclosure Agreement.

Motion by Mr. Anderson seconded by Mr. Schad and carried that the Authority proceed authorizing the issuance of the Water Revenue Refunding Bonds, Series 2016

Erie County Water Authority
Refunding Analysis

August 23, 2016

Disclaimer

Jefferies LLC ("Jefferies") is providing the information contained in this document for discussion purposes only.

As it relates to the issuance of municipal securities, Jefferies is not acting as a municipal advisor, financial advisor or fiduciary. Jefferies will not have any duties or liability to any person or entity in connection with the municipal securities information being provided herein. The information provided is not intended to be and should not be construed as "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934. The Issuer should consult with its own financial and/or municipal, legal, accounting, tax, and other advisors, as applicable, to the extent it deems appropriate as it relates to the issuance of municipal securities.

As it relates to the issuance of municipal securities (a) Jefferies is not recommending an action to you as the municipal entity or obligated person; (b) Jefferies is not acting as an advisor to you and does not owe a fiduciary duty pursuant to Section 15B of the Exchange Act to you with respect to the information and material contained in this communication; (c) Jefferies is acting for its own interests; (d) you should discuss any information and material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material; and (e) Jefferies seeks to serve as an underwriter on a future transaction and not as a financial advisor or municipal advisor. The information provided is for discussion purposes only in anticipation of being engaged to serve as underwriter. The primary role of an underwriter is to purchase securities with a view to distribution in an arm's-length commercial transaction with the issuer. The underwriter has financial and other interests that differ from those of the Issuer.

This document is intended to be reviewed in conjunction with an oral presentation by representatives of Jefferies and is therefore incomplete on a stand-alone basis. It is intended for the exclusive use of the entity identified on the cover page and may contain information proprietary to Jefferies. The fact that Jefferies has made the materials or any other materials available to you constitutes neither a recommendation that you enter into or maintain a particular transaction or position nor a representation that any transaction is suitable or appropriate for you.

This document is not a product of any Jefferies research department and should not be construed as a research report. All materials, including proposed terms and conditions, are indicative and for discussion purposes only. The information contained herein is confidential. By accepting this information, the recipient agrees that it will, and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the strategies described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited; except in so far as required to do so to comply with applicable law or regulation. No warranty, express or implied, including but not limited to, warranties as to quality, accuracy, performance, timeliness, continued availability or completeness of any information contained herein is made. Any pricing or value information provided herein are also only as of the date indicated, taking into account prevailing market conditions and forecasts of expected market conditions (which may or may not be realized), is subject to change without notice and is not a complete analysis of every material fact associated with a transaction. The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy. Transactions involving derivative or other financial products may involve significant risk and you should not enter into any transaction unless you fully understand all such risks and have independently determined that such transaction is appropriate for you. Jefferies does not provide accounting, tax or legal advice; however, you should be aware that any proposed indicative transaction could have accounting, tax, legal or other implications that should be discussed with your advisors and or counsel. In addition, Jefferies and/or affiliates may have served as manager or co-manager of a public offering of securities by any such entity. Further information regarding this material may be obtained upon request.

Jefferies shall have no liability, contingent or otherwise, to the user or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the data or formulae provided herein or for any other aspect of the performance of these materials. In no event will Jefferies be liable for any special, indirect, incidental or consequential damages which may be incurred or experienced on account of the user using the data provided herein or these materials, even if Jefferies has been advised of the possibility of such damages. Jefferies will have no responsibility to inform the user of any difficulties experienced by Jefferies or third parties with respect to the use of the materials or to take any action in connection therewith.

As permitted by law, we may share information about you with other companies affiliated with Jefferies, that is, companies that are owned or controlled by Jefferies Group LLC. You may instruct us not to share information with our affiliates for certain purposes by contacting the sender of this presentation

Refunding of Series 2007 and 2012 Erie County Water Authority Bonds

Key Points

- Jefferies has reviewed the Authority's outstanding bonds for the Series 2007 and 2012 Bonds for refinancing in the current low interest rate environment
- The Series 2007 and 2012 Bonds are both currently callable
- The Authority's outstanding 2007 and 2012 bonds can be refunded for economic savings in the current interest rate environment
- In the current market, the Authority can refund the $37.55 million of its Series 2007 and 2012 Bonds and generate $7.5 million in PV savings, or 20% of refunded par

Refunding Summary

Sources and Uses

	2007 Refunding Bonds	2012 Refunding Bonds	Total
Total Sources			
Par Amount	$ 25,730,000	$ 6,975,000	$ 32,705,000
Net Premium	3,050,165	1,017,447	4,067,611
Existing Debt Service Reserve Fund	2,284,054	-	2,284,054
Existing Debt Service Account	790,380	-	790,380
Total Sources	31,854,599	7,992,447	39,847,046
Total Uses			
Cash Deposit	0.42	0.04	0.46
SLGS Purchases	31,578,503	7,915,374	39,493,877
Cost of Issuance	157,346	42,654	200,000
Underwriter's Discount	117,433	31,834	149,268
Additional Proceeds	1,316	2,585	3,901
Total Uses	$ 31,854,599	$ 7,992,447	$ 39,847,046

Key Summary Statistics

	2007 Refunding Bonds	2012 Refunding Bonds	Total
Key Statistics			
Dated Date	9/8/2016	9/8/2016	
Last Maturity	12/1/2036	12/1/2022	
Arbitrage Yield	1.934%	1.934%	1.934%
All-In TIC	2.273%	1.045%	2.160%
Avergae Life (years)	11.72	3.85	10.04
Maximum Annual Debt Service	1,789,419	1,365,750	3,154,369
Average Annual Debt Service	1,517,350	1,349,203	2,324,876
Savings			
Net PV Savings	7,223,340	310,546	7,533,886
Percentage Savings of Refunding	24.32%	3.96%	20.06%

Indicative Erie County Water Authority Pricing Information

- The scale below has been used for the refinancing analysis and reflects interest rates as of August 19, 2016

Indicative Pricing Scale							
Year	Par	Coupon	MMD 8/19/2016	Spread	Yield to Worst	Yield to Maturity	Price[1]
12/1/2016	440,000	2.000%	N/A	N/A	0.400%	0.400%	$100.37
12/1/2017	1,895,000	3.000%	0.48%	+2	0.500%	0.500%	$103.06
12/1/2018	1,960,000	4.000%	0.55%	+4	0.590%	0.590%	$107.54
12/1/2019	2,025,000	5.000%	0.64%	+6	0.700%	0.700%	$113.71
12/1/2020	2,130,000	5.000%	0.77%	+8	0.850%	0.850%	$117.21
12/1/2021	2,235,000	5.000%	0.93%	+10	1.030%	1.030%	$120.16
12/1/2022	2,340,000	5.000%	1.06%	+11	1.170%	1.170%	$122.95
12/1/2023	1,095,000	5.000%	1.17%	+12	1.290%	1.290%	$125.53
12/1/2024	1,150,000	5.000%	1.26%	+13	1.390%	1.390%	$127.98
12/1/2025	1,205,000	5.000%	1.35%	+14	1.490%	1.490%	$130.16
12/1/2026	1,265,000	5.000%	1.44%	+15	1.590%	1.590%	$132.08
12/1/2027	1,325,000	4.000%	1.54%	+20	1.740%	1.905%	$121.09
12/1/2028	1,380,000	4.000%	1.62%	+25	1.870%	2.155%	$119.75
12/1/2029	1,430,000	2.000%	1.71%	+45	2.160%	2.160%	$98.17
12/1/2030	1,455,000	2.125%	1.76%	+50	2.260%	2.260%	$98.36
12/1/2031	1,475,000	2.250%	1.81%	+55	2.360%	2.360%	$98.60
12/1/2032	1,510,000	2.375%	1.86%	+60	2.460%	2.460%	$98.87
12/1/2033	1,540,000	2.375%	1.91%	+65	2.560%	2.560%	$97.43
12/1/2034	1,575,000	2.500%	1.96%	+70	2.660%	2.660%	$97.70
12/1/2035	1,610,000	4.000%	2.00%	+40	2.400%	3.006%	$114.43
12/1/2036	1,665,000	4.000%	2.02%	+40	2.420%	3.051%	$114.24
Total	32,705,000						

"Base Case" Projected ECWA Cash Flow Savings

- The analysis below reflects the refinancing of the Series 2007 and 2012 bonds and projected cash flow savings for the life of the bonds.

Year	Combined Prior Net Debt Service[1]	Refunding Debt Service	Cash Flow Savings	Present Value Savings
12/31/2016	837,494	730,504	106,990	106,516
12/31/2017	3,628,352	3,146,219	482,134	483,866
12/31/2018	3,629,423	3,154,369	475,054	468,084
12/31/2019	3,622,970	3,140,969	482,002	465,995
12/31/2020	3,624,160	3,144,719	479,441	455,187
12/31/2021	3,622,766	3,143,219	479,547	447,001
12/31/2022	3,618,563	3,136,469	482,095	441,181
12/31/2023	2,213,889	1,774,469	439,420	384,095
12/31/2024	2,213,714	1,774,719	438,995	376,429
12/31/2025	2,211,289	1,772,219	439,070	369,336
12/31/2026	2,211,614	1,771,969	439,645	362,790
12/31/2027	2,207,876	1,768,719	439,158	355,499
12/31/2028	2,206,595	1,770,719	435,876	346,097
12/31/2029	2,201,500	1,765,519	435,981	339,544
12/31/2030	2,197,863	1,761,919	435,944	332,895
12/31/2031	2,191,138	1,751,000	440,138	329,530
12/31/2032	2,191,325	1,752,813	438,513	321,912
12/31/2033	2,182,950	1,746,950	436,000	313,824
12/31/2034	2,181,250	1,745,375	435,875	307,600
12/31/2035	2,180,750	1,741,000	439,750	304,258
12/31/2036	2,171,500	1,731,600	439,900	298,462
12/31/2037	(121,054)	-	(121,054)	(80,116)
Total	**$ 53,225,925**	**$ 44,225,454**	**$ 9,000,471**	**$ 7,529,986**

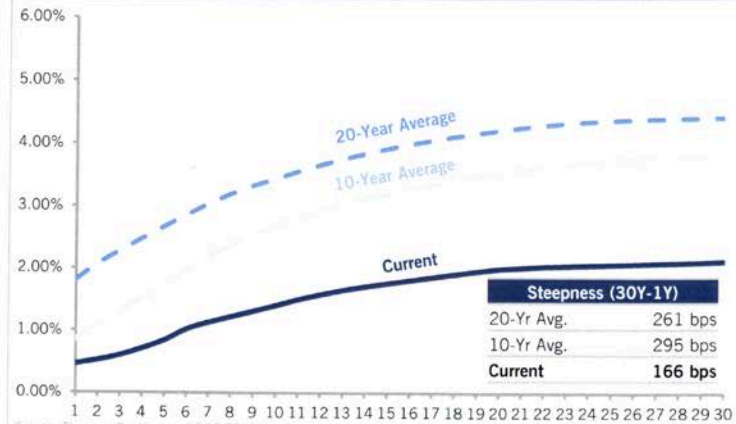
(1) Net of funds on deposit in the 2007 Debt Service Account and Debt Service Reserve Account.

Jefferies

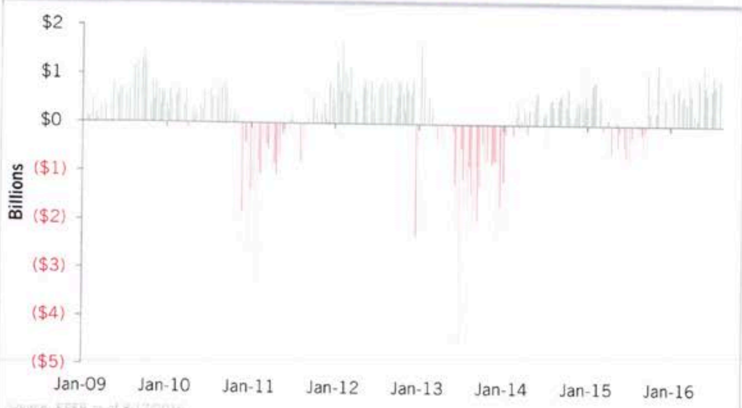
The interest rate environment is volatile, but attractive on a historical basis

Although rates plummeted in the wake of Brexit, rates have since increased to near pre-Brexit levels

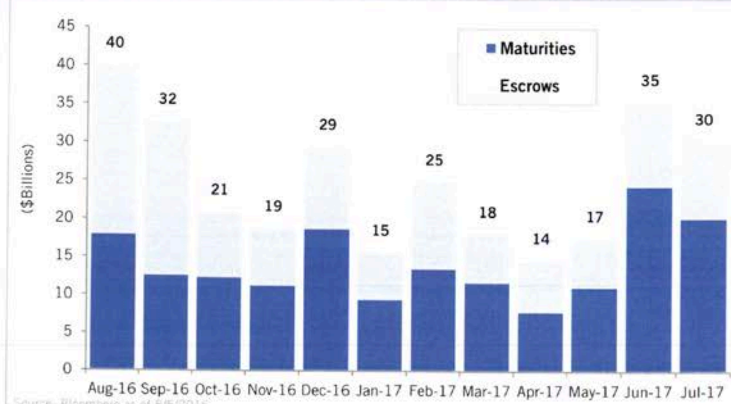
Over the last four months, the yield curve has flattened by as many as 66 bps and rates remain well below historical averages



Municipal bond funds have experienced 48 weeks of inflows totaling $35.0 billion



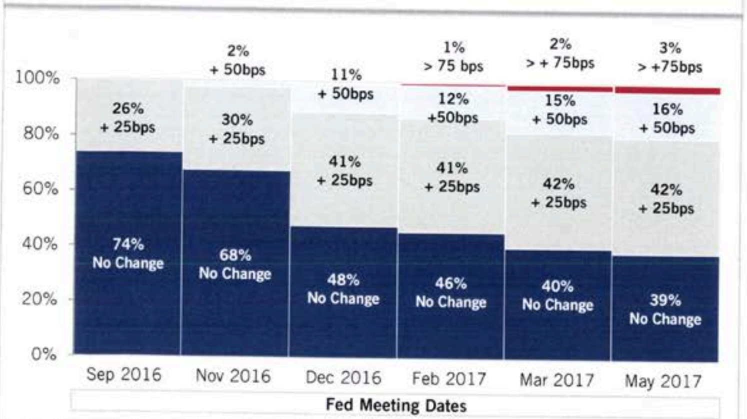
Summer months have the highest investor redemptions, and thus are critical months for reinvestment



Jefferies

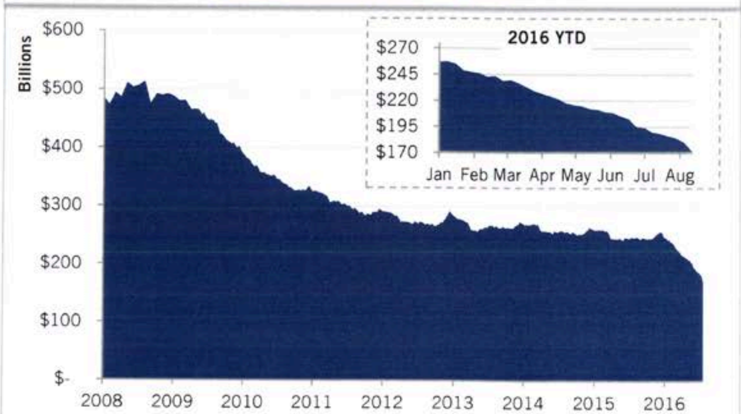
Short-term rates are responding to the uncertainty around money market fund reform and the expected impact of Fed action

Wall Street is pricing in 1 to 2 rate hikes in 2016



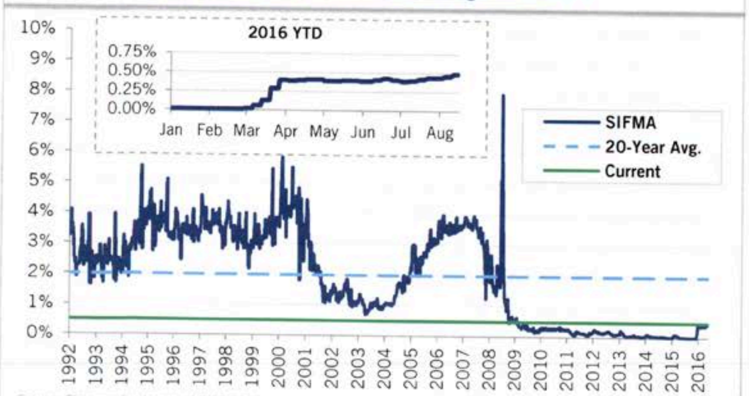
Source: World Interest Rate Implied Probability – Bloomberg as of 8/19/2016

Tax-exempt money market fund assets have declined 33% in 2016



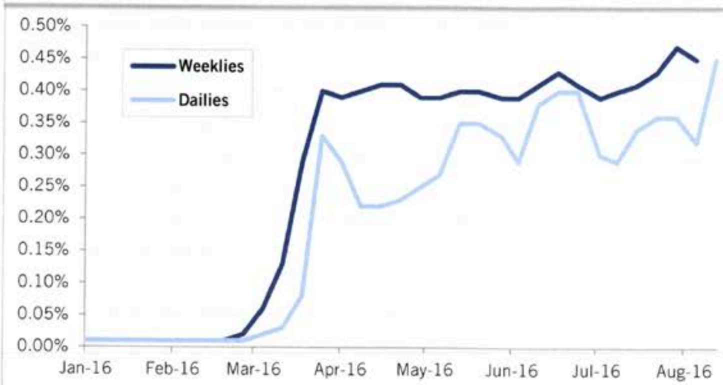
Source: EPFR as of 8/16/2016

SIFMA is currently 0.49% – well below the historical average of 1.98%



Source: Thomson Reuters as of 8/17/2016

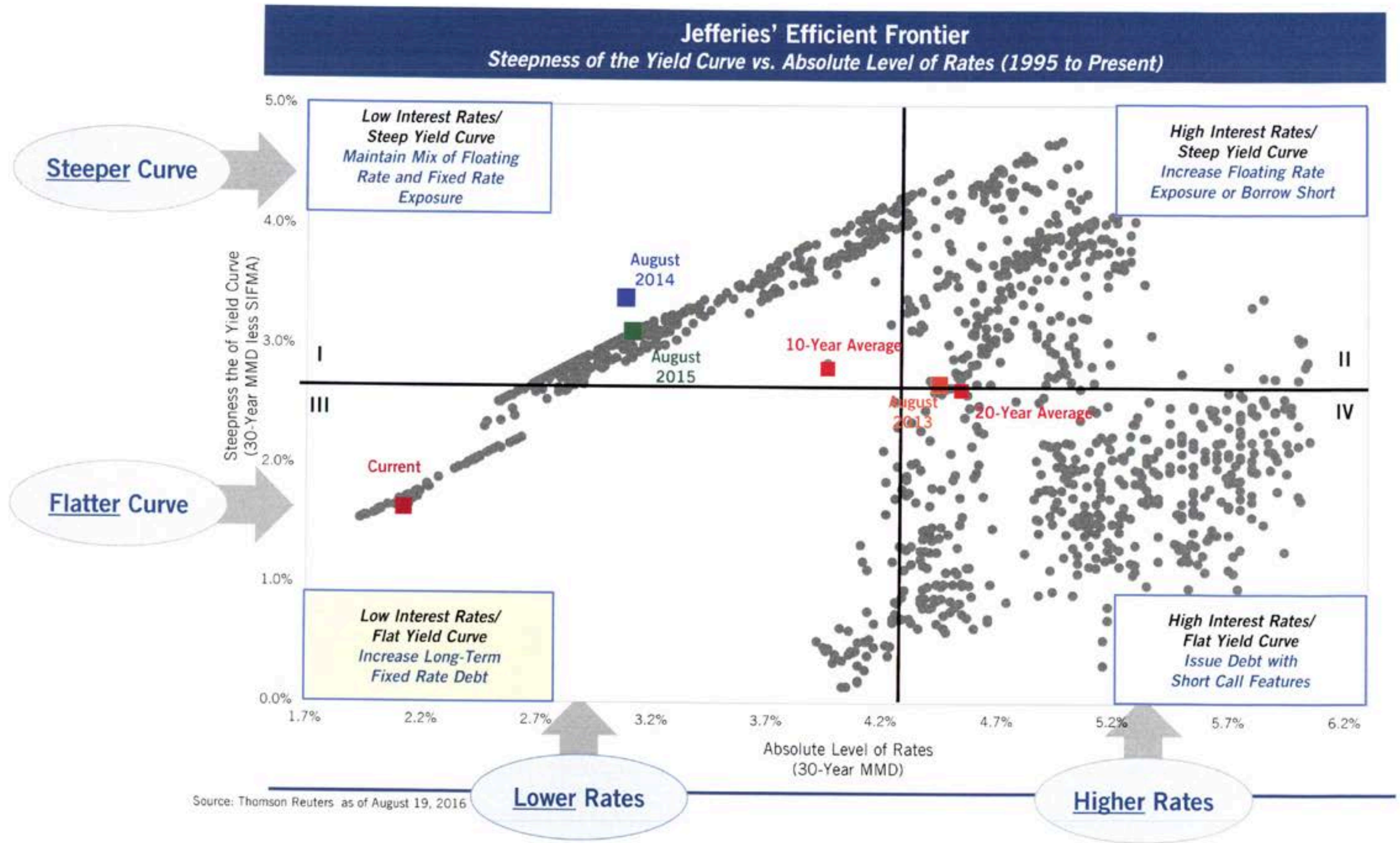
At elevated SIFMA levels and demand for liquidity due to MMF Reform, there is a Δ between dailies and weeklies



Source: EMMA. Illustrative results of NYC BMD programs & DUC JPMC Programs – 64972OC19, 686507E48

Jefferies

Jefferies' Efficient Frontier points to opportunities on both ends of the yield curve



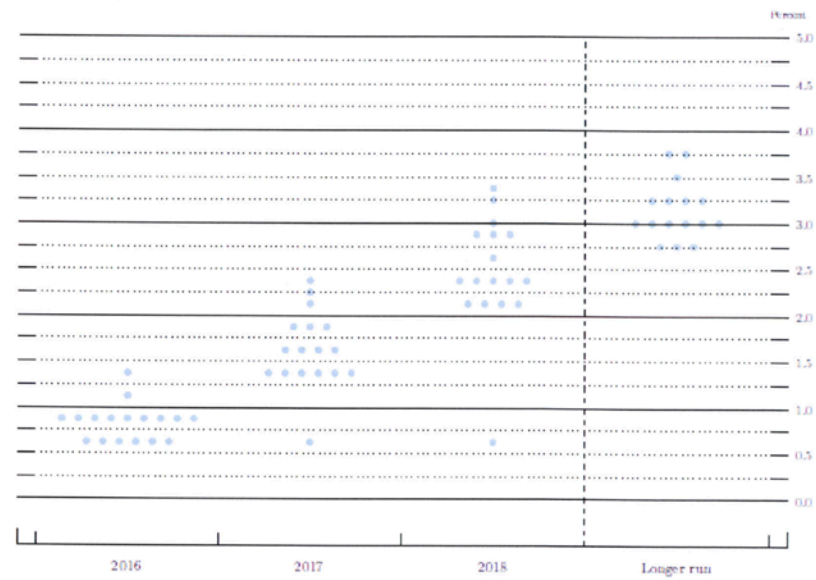
Source: Thomson Reuters as of August 19, 2016

Jefferies

Where are rates headed?

- Jefferies' U.S. Economics Team made the call for a December 2015 Fed Funds rate lift-off, **in December 2013**
- What do they expect now?
  - The FOMC's most recent June 2016 "dot plot" suggests that policymakers expect 0-1 rate hikes of 25 bps in 2016
  - **Following the FOMC's July minutes, Jefferies' U.S. Economics Team thinks that a December rate hike has become more probable but a September rate hike remains improbable**
  - The announcement of the Brexit vote on June 23rd brought about an immediate global financial fallout – although markets have since recovered
    - Although the Bank of England surprisingly held rates at 0.5% in July following the decision to leave the EU, on Thursday (8/4), it cut interest rates by 25 bps for the first time since 2009 and to the lowest point in the Bank's history indicating the Bank's low confidence in the post-Brexit UK economy
    - The Fed did not raise rates during the July meeting due to the Brexit vote but a December rate hike has become more probable
- Market consensus suggests a flatter yield curve heading into 2017

June 2016 FOMC Participants "Dot Plot" of CYE Fed Funds Rate



Note: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. One participant did not submit longer-run projections.

Market Consensus Interest Rate Forecasts (end of quarter)						
	Current	**Q3 2016**	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**
Fed Funds Target Rate	0.50%	0.55%	0.65%	0.75%	0.95%	1.00%
3-Month Libor	0.82%	0.70%	0.78%	0.89%	1.03%	1.18%
2-Year UST	0.74%	0.68%	0.78%	0.94%	1.08%	1.24%
10-Year UST	1.58%	1.53%	1.65%	1.81%	1.95%	2.06%
30-Year UST	2.29%	2.32%	2.46%	2.60%	2.72%	2.79%
Steepness (30Y- 2Y)	**147 bps**	**162 bps**	**168 bps**	**171 bps**	**169 bps**	**161 bps**

Source: Bloomberg, as of 8/19/2016

Jefferies

VIII. - ADJOURNMENT

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

Joseph T. Burns
Secretary to the Authority

SLZ