



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

717 14TH STREET N.W., SUITE 900
WASHINGTON, D.C. 20005
TEL. 202-727-3600 • FAX: 202-724-8814

Deborah K. Nichols
District of Columbia Auditor
006:09:SDG:VDJ:TM:gk

**Letter Report: Sufficiency Review of the Water and Sewer
Authority's Fiscal Year 2009 Revenue Estimate In Support
of the Issuance of \$300,000,000 in Public Utility Senior
Lien Revenue Bonds (Series 2009A)**

June 1, 2009



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

717 14TH STREET N.W., SUITE 900

WASHINGTON, D.C. 20005

TEL. 202-727-3600 • FAX: 202-724-8814

Deborah K. Nichols

District of Columbia Auditor

006:09:SDG:VDJ:TM:gk

The Honorable Vincent C. Gray, Chairman
and Members of the Council of the District of Columbia
The John A. Wilson Building
1350 Pennsylvania Ave., NW, Suite 504
Washington, D.C. 20004

Letter Report: Sufficiency Review of the Water and Sewer Authority's Fiscal Year 2009 Revenue Estimate in Support of the Issuance of \$300,000,000 in Public Utility Senior Lien Revenue Bonds (Series 2009A)

Dear Chairman Gray and Members of the Council of the District of Columbia:

Pursuant to D.C. Code, Section 34-2202.09 (h) and a request from the General Manager of the District of Columbia Water and Sewer Authority (WASA), the District of Columbia Auditor (Auditor) conducted a sufficiency review of WASA's fiscal year (FY) 2009 revenue estimate in support of a proposed \$300,000,000 issuance of Public Utility Senior Lien Revenue Bonds, Series 2009A.¹

The purpose of the bonds was to provide financing for some of WASA's FY 2009 capital improvements, refinance a portion of WASA's outstanding Series A Commercial Paper Notes, retire all outstanding Series B Commercial Paper Notes, and pay the issuance costs of the Series 2009A bonds. This report sets forth the results of the Auditor's analysis of WASA's FY 2009 revenue estimate of \$352,973,000 in support of the proposed bond issuance.

¹According to the Preliminary Official Statement the Series 2009A Bonds are being issued by WASA pursuant to a Master Indenture of Trust, dated April 1, 1998. The Series 2009A bonds shall be special limited obligations of WASA payable solely from the Net Revenues of WASA.

Auditor's Responsibilities Related to WASA's Issuance of Bonds, Notes or Other Obligations or Borrowing of Money

D.C. Code, Section 34-2202.09(h) states that:

During each fiscal year in which debt service on the proposed bonds and outstanding revenue bonds issued by the Authority, and the transfer provided in Section 34-2202.07(f) becomes due and payable, the Authority may not issue bonds, notes, or other obligations or borrow money unless the Authority first certifies, to the reasonable satisfaction of the District of Columbia Auditor [Auditor's Emphasis], that the revenues of the Authority are sufficient to pay its costs, the principal of and interest on and other requirements pertaining to the proposed bonds and outstanding revenue bonds issued by the Authority, and amounts equal to the debt service payments on District general obligation bonds issued by the District prior to October 1, 1996, which financed Department of Public Works, Water and Sewer Utility Administration capital projects, as such bonds and transfers become due and payable. The Authority's certification shall be supported by expert study and analysis.

Results In Brief

Based upon a review of the expert study and analysis and other information provided by WASA personnel in support of the proposed bond issuance, it appeared that the revenue estimate of \$352,973,000 would be sufficient to cover WASA's FY 2009 costs, debt service requirements, and other obligations. Therefore, with regard to WASA's planned \$300,000,000 issuance of Public Utility Senior Lien Revenue Bonds, Series 2009A, the Auditor determined that, at the time of the Auditor's examination, WASA's revenue estimate appeared sufficiently supported and achievable. Based on this determination, the Auditor certified WASA's revenue estimate of \$352,973,000.

Information upon which WASA's revenue estimate is based can, and often does, change rapidly. Further, relative uncertainty in the overall revenue estimating process and unforeseen national and local events may substantially change WASA's economic outlook and result in significant changes to the revenue estimate certified by the Auditor. The certification sufficiency review was especially challenging in light of current unprecedented economic factors including a recession, ongoing turmoil in the financial markets, and other factors.

The validity and accuracy of the Auditor's certification sufficiency are predicated upon the extent to which WASA officials have provided sound revenue estimates for FY 2009 and have fully disclosed and provided reliable and accurate information to the Auditor regarding WASA's operating

expenditures, debt service and contract costs, and any other expenses relevant to the Auditor's sufficiency certification.

This certification was conducted in accordance with standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States. The review included such tests of the documentation and other procedures as deemed necessary and appropriate under the circumstances. The Auditor believes the procedures used in conducting this examination provided a reasonable basis for certifying WASA's FY 2009 revenue estimate.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to determine whether WASA's FY 2009 revenue estimate of \$352,973,000, as certified by WASA's Chief Financial Officer (CFO) in a signed certificate dated January 15, 2009, was reasonably sufficient to pay WASA's FY 2009 costs,² the principal of and interest on and other requirements pertaining to the proposed bonds and outstanding revenue bonds issued by WASA, and the debt service payments on general obligation bonds issued by the District on behalf of the Department of Public Works, Water and Sewer Utility Administration (WASUA) prior to October 1, 1996.

In preparing this certification, the Auditor reviewed WASA's FY 2009 operating and capital budgets, the Comprehensive Annual Financial Reports for FY 2006 through FY 2008, and additional supporting documentation provided by WASA as deemed necessary by the Auditor. Discussions were held with WASA officials, including its General Manager, CFO, General Counsel, Internal Auditor, and others including WASA's co-financial advisors, Public Financial Management Group, and P.G. Corbin and Company, Inc. The Auditor also interviewed representatives and reviewed information from the rating agencies.

The Auditor also reviewed an expert study and analysis conducted by Amawalk Consulting Group LLC (Amawalk),³ an outside consultant retained by WASA, and held discussions with representatives from Amawalk. In its expert study and analysis, Amawalk, reported that WASA made reasonable revenue projections in that WASA: (1) provided adequate documentation of the

²According to WASA's Revised FY 2009 and Proposed FY 2010 Operating Budgets, page II-12 (Cash Flow Summary), dated October 23, 2008, operating expenses (costs) are projected to be \$352,587,000 for FY 2009.

³See Preliminary Official Statement Certificate, District of Columbia Water and Sewer Authority, dated November 20, 2008, issued by Amawalk Consulting Group LLC.

principal assumptions underlying the forecast; (2) developed the forecast using the most current information available; (3) thoroughly understood and considered the risk factors inherent in the forecast; and (4) computed projections accurately. Amawalk concluded that WASA's FY 2009 revenue estimate had been reasonably developed and was attainable. The Auditor relied, in part, on representations contained in Amawalk's expert study and analysis as well as additional information obtained directly from WASA to support the certification of the revenue estimate.

BACKGROUND

The Water and Sewer Authority (WASA) was established pursuant to D.C. Law 11-111, effective April 18, 1996. Prior to the establishment of WASA, the Water and Sewer Utility Administration (WASUA), which was under the organizational umbrella of the District's Department of Public Works (DPW), managed the District's water and sewer utility operations. In accordance with D.C. Law 11-111, WASUA was abolished and its functions were transferred from DPW to WASA. D.C. Law 11-111 was amended by D.C. Law 11-184 to clarify WASA's relationship with the District government and provided for the Auditor's analysis of revenues certified by WASA.

According to the Preliminary Official Statement, WASA provides retail water and wastewater services to more than 580,000 residents of the District of Columbia and more than 1.6 million residents of Prince George's and Montgomery Counties in Maryland and Fairfax and Loudoun Counties in Virginia.

WASA is governed by an 11-member board of directors. The chairperson and five members represent the District and are appointed by the Mayor of the District of Columbia with the advice and consent of the Council of the District of Columbia. The remaining five members represent Prince George's and Montgomery Counties in Maryland and Fairfax County in Virginia. A General Manager provides day-to-day management of WASA with the assistance of a management team consisting of one Deputy General Manager, two Assistant General Managers, and a Chief Financial Officer.

RESULTS OF ANALYSIS

AMAWALK CONSULTING LLC AND WASA MANAGEMENT DETERMINED THAT WASA'S ESTIMATED FY 2009 REVENUES WILL BE SUFFICIENT TO COVER ITS FY 2009 COSTS, DEBT SERVICE REQUIREMENTS, AND OTHER OBLIGATIONS

WASA's FY 2009 revenue estimate of \$352,973,000, is supported by Amawalk's expert study and analysis which is required by D.C. Code, Section 34-2202.09(h).⁴ Amawalk made the following observations:

1. Adequacy of supporting documentation - In addition to interviews and timely responses to requests for information, the Authority [WASA] provided sufficient documentation from which to verify their projections.
2. Best available information - The Authority used the most current information available to prepare its forecasts.
3. Accurate computation - All projections were accurately computed in all material respects.
4. Reasonableness of assumptions - The Authority gave appropriate consideration to the risks that would affect forecast values.

Amawalk further reported in its expert study and analysis that WASA's revenue projections were "reasonably developed and attainable." Amawalk's analysis indicated that the FY 2009 revenue projection was based on a 7.5% water and sewer rate increase approved by WASA's Board of Directors which was effective October 1, 2008.⁵ According to Amawalk officials, the FY 2009 revenue projection reflects a projected 1% per year net decline in water use consumption.

⁴See Preliminary Official Statement Certificate, District of Columbia Water and Sewer Authority, dated November 20, 2008, issued by Amawalk Consulting Group LLC.

⁵See WASA Board Minutes dated Thursday, September 4, 2008.

WASA Established Reserve Accounts

WASA's financial position is strengthened by several reserve accounts including, but not limited to:

1. an operating reserve equal to six months of operating and maintenance expenses totaling \$129,229,005.96⁶ (the Master Indenture of Trust only required WASA to maintain a balance equal to 60 days operating and maintenance expenses);⁷
2. a rate stabilization reserve fund totaling \$53,600,000, which consists of WASA's excess operating cash after funding the operating reserve at its required level.

As of January 12, 2009, the balance in the reserve accounts totaled \$182,829,005.96.

Based upon the Auditor's review of information contained in the expert study and analysis, the established reserves, and other information submitted by WASA, the Auditor was reasonably satisfied that WASA's FY 2009 revenue estimate of \$352,973,000 was sufficient to cover WASA's FY 2009 costs, the principal of and interest on and other requirements pertaining to the proposed bonds, outstanding revenue bonds issued by WASA, and the debt service payments on general obligation bonds issued by the District on behalf of the Department of Public Works, Water and Sewer Utility Administration (WASUA) prior to October 1, 1996.

Table 1 presents WASA's sufficiency calculation of projected revenues to cover projected costs, debt service payments, and other requirements for FY 2009.

⁶The operating and maintenance reserve included \$3,774,506 for other contingencies.

⁷See Master Indenture of Trust between WASA and Wells Fargo Bank, N.A., as trustee, dated April 1, 1998, as amended.

Table I⁸
Water and Sewer Authority's Sufficiency Calculation of Projected Revenues to Cover Costs,
Debt Service Requirements and Other Obligations for FY 2009
(Dollars in 000s)

Residential, Commercial & Multi- Family	171,600	
Federal	33,478	
Municipal	7,853	
D.C. Housing Authority	6,607	
Groundwater	5	
Metering Fee	5,500	
Right of Way Fee	<u>19,179</u>	
<i>Subtotal Retail</i>		\$244,222
Wholesale revenues		67,331
Other non-operating revenues		41,044 ⁹
Interest Earned from Bond Reserves		<u>376¹⁰</u>
Total Revenues		352,973
Personnel Services	84,517	
Contractual Services	72,124	
Water Purchases	25,766	
Chemicals & Supplies	29,560	
Utilities & Rent	38,656	
Small Equipment	<u>786</u>	
Total Operating Expenses		251,409
Debt Service	81,317	
Payment in Lieu of Taxes and Right of Way Fees	19,862	
Total Expenses		<u>352,588</u>
WASA's FY 2009 Balance from Operations		<u>\$385</u>

Source: D.C. Water and Sewer Authority Revised FY 2009 and Proposed FY 2010 Operating Budgets, submitted October 23, 2008, page II-12 (Cash Flow Summary) and WASA's Summary of Financial Forecast for the year ending September 30th

⁸Table may contain minor differences due to rounding.

⁹The FY 2009 other operating receipts includes a \$25 million transfer from and a \$10 million transfer to the Rate Stabilization Fund. According to Amawalk's expert study and analysis, the Rate Stabilization Fund is used by WASA "to assist in mitigating annual rate increases."

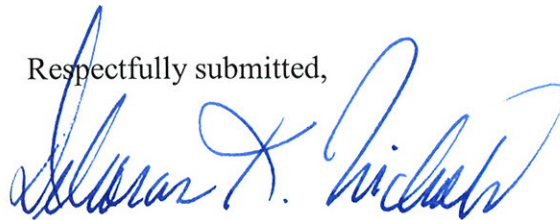
¹⁰Interest Earned from Bond Reserve is included in Cash Reserves section of the Cash Flow Summary.

CONCLUSION

Based on the analysis of all information presented by WASA, and other sources of relevant information, including the expert study and analysis completed by Amawalk, the Auditor was reasonably satisfied that WASA's FY 2009 revenue estimate of \$352,973,000 would be sufficient to support its FY 2009 costs, the principal of and interest on and other requirements pertaining to the proposed bonds, outstanding revenue bonds issued by WASA, and the debt service payments on general obligation bonds issued by the District on behalf of the Department of Public Works, Water and Sewer Utility Administration (WASUA) prior to October 1, 1996. Therefore, the Auditor signed a Certificate of the Auditor on January 15, 2009, in support of WASA's issuance of \$300,000,000 in Public Utility Senior Lien Revenue Bonds (Series 2009A).

Should you have any questions or need additional information regarding this matter, please do not hesitate to contact me at (202) 727-3600.

Respectfully submitted,



Deborah K. Nichols
District of Columbia Auditor