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Sufficiency Review of the Water and Sewer Authority's Fiscal Year 2003 Revenue Estimate in Support of the Issuance of \$176,220,000 in Revenue Bonds

September 16, 2003



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The Honorable Linda W. Cropp, Chairman
and Members

Council of the District of Columbia
1350 Pennsylvania Ave., NW, Suite 504
Washington, D.C. 20004

Letter Report: Sufficiency Review of the Water and Sewer
Authority's Fiscal Year 2003 Revenue
Estimate in Support of the Issuance of
\$176,220,000 in Revenue Bonds

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

Pursuant to D.C. Code, Section 34-2202.09(h), the General Manager of the District of Columbia Water and Sewer Authority (WASA) requested the District of Columbia Auditor to certify the sufficiency of WASA's fiscal year (FY) 2003 revenue estimate in support of a proposed \$176,220,000 in Public Utility Subordinated Lien Revenue Bonds, Series 2003. The Auditor received this request by letter dated February 25, 2003. D.C. Code, Section 34-2202.09(h), sets forth the Auditor's responsibilities with regard to the borrowing of money and issuance of bonds, notes or other obligations by WASA:

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, 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.

According to information provided by WASA officials, the purpose of the bond financing was to retire outstanding debt under WASA's commercial paper program and provide financing for a portion of its fiscal years 2003 and 2004 capital improvement budget. The Auditor reviewed WASA's revised fiscal year 2003 operating budget; the Comprehensive Annual Financial Report for the fiscal year ended September 30, 2002; relevant resolutions approved by WASA's Board of Directors; and an expert study and analysis conducted by PB Consult, Inc., an outside consultant retained by WASA. In addition, WASA provided such other supporting documentation as the Auditor deemed necessary and appropriate to this review.

Information upon which WASA's revenue estimates are 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 changes to the revenue estimate that differ significantly from the estimate certified by the Auditor. Thus, the Auditor has determined that, at the time of certification, WASA's estimate appeared sufficiently supported and achievable.

Based upon a review of the expert study and analysis and other information provided by WASA in support of the bond financing, the District of Columbia Auditor certified that the Authority's fiscal year 2003 revenue estimate of \$256,851,000 as presented in WASA's certificate appeared to be sufficient to pay its cost; the principal, interest, and other requirements pertaining to the proposed and outstanding bonds; and debt service payments on District general obligation bonds issued prior to October 1, 1996 which financed Water and Sewer Utility Administration capital projects. Table I presents WASA's fiscal year 2003 revenue estimate.

TABLE I
Water and Sewer Authority's Fiscal Year 2003
Revenue Estimate¹
(\$000's)

Account Type	
Residential and Commercial	
Muti-Family	
Federal Government	
District of Columbia Government	
D.C. Housing Authority	
Groundwater	
Metering Fee	
Total Retail	\$180,482
IMA Wastewater Charges	
Potomac Interceptor Wastewater Charges	
Total Wholesale	49,897
District Stormwater Revenue	
Misc. Rev (e.g. Tap installation fees, etc.)	
Washington Aqueduct Debt Service Revenue	
Interest Income	
Right of Way Fee	
Total Other	<u>26,472</u>
WASA's FY 2003 Revenue Estimate	<u>\$256,851</u>

Source: District of Columbia Water and Sewer Authority revised FY 2003 and approved FY 2004 operating budgets adopted January 10, 2003

¹ Rounding may affect some calculations presented in this report.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this analysis was to determine whether the fiscal year 2003 revenue estimate of \$256.9 million, as certified by WASA's Chief Financial Officer (CFO) in a signed certificate dated June 9, 2003, was reasonably sufficient to cover WASA's fiscal year 2003 costs², the principal of and interest on the proposed bonds and other requirements, outstanding revenue bonds, 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, prior to October 1, 1996.

The Auditor interviewed WASA officials, including the CFO and the Director of Budget and Finance, concerning the proposed bond issue. In addition, discussions were held with PB Consult Inc. a consulting firm retained by WASA to complete the expert study and analysis required by D.C. Code, Section 34-2202.09(h).³

According to PB Consult Inc., in conducting the expert study and analysis, they interviewed WASA's staff, reviewed financial records, conducted financial tests and analyses, and performed various other tasks. In the expert study dated May 7, 2003, PB Consult Inc. reported that the "Authority's projections have been reasonably developed." PB Consult Inc. further stated that "if fiscal year 2003 results continue along the present trend, end-of-year projections are attainable." PB Consult Inc. also confirmed the reasonableness of each element of the forecast on the basis of whether the Authority: (1) provided adequate documentation of the principal assumptions underlying the forecast which enabled PB Consult Inc. to readily verify the forecast; (2) developed the forecast using the most current information available; (3) demonstrated a thorough understanding of the risk factors inherent in the forecast and took them into consideration; and (4) computed all information accurately in all material respects. The Auditor relied, in part, on representations contained in the expert study and analysis, as well as information obtained directly from WASA, to support the certification of the sufficiency of revenues.

² According to WASA's revised FY 2003 and Approved FY 2004 operating budgets, adopted January 10, 2003, total fiscal year 2003 operating disbursements are projected at \$243,717,216.

³ According to reported information, PB Consult, Inc. provides comprehensive management consulting services to infrastructure owners, operators, developers and builders worldwide.

BACKGROUND

The Water and Sewer Authority 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, which was under the organizational umbrella of the District's Department of Public Works, managed the District's water and sewer utility operations. In accordance with D.C. Law 11-111, the Water and Sewer Utility Administration was abolished and its functions were transferred from the Department of Public Works to WASA. D.C. Law 11-111 was amended by D.C. Law 11-184 to clarify WASA's relationship with the District government.

The Water and Sewer Authority 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 with the assistance of a management team consisting of two deputy general managers and an assistant general manager.

RESULTS OF ANALYSIS

WASA'S BOARD OF DIRECTORS APPROVED REVISED RATES AND FEE STRUCTURE

The achievement of WASA's fiscal year 2003 revenue estimate of \$256.9 million was based, in part, on a revised rates and fee structure which was adopted by WASA's Board of Directors in January 2002. According to WASA's budget, the revised rates and fee structure would:

1. Maintain retail rates at existing levels through FY 2002;
2. Change the effective date of future retail rate increases from April 1 to October 1 to match WASA's budget cycle;
3. Raise WASA's overall retail revenues by approximately \$10.6 million in FY 2003 through the following actions:
 - a. Implementation of new metering fees to recover costs associated with installing, operating and maintaining meters; and
 - b. Pass-through of the District of Columbia's right of way fee to customers as a separate line item on WASA's bill;
4. Reduce existing retail rates by approximately 5.3%.

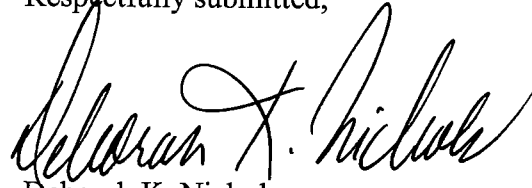
Although water rates were reduced under a revised rates and fee structure, WASA projected that overall retail revenues would increase from the collection of right of way fees and new metering fees. The revised rates and fee structure affects both commercial and residential customers. Based on WASA's analysis of the proposed rates and fee structure, the overall increase in residential water bills is estimated to be \$3.04 per month per customer. According to WASA officials, because of differences in the type and size of commercial customers, it is difficult to estimate the effect that the revised rates and fee structure will have on their monthly water bills.

Based upon the Auditor's review of the revised rates and fee structure, other information submitted by WASA, and information contained in the expert study and analysis, the Auditor was reasonably satisfied that WASA's fiscal year 2003 revenue estimate of \$256.9 million was sufficient to cover WASA's fiscal year 2003 costs, the principal of and interest on the proposed bonds and other requirements, outstanding revenue bonds, 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, prior to October 1, 1996.

CONCLUSION

The Auditor certified to the sufficiency of WASA's fiscal year 2003 revenue estimate of \$256.9 million in support of the \$176,220,000 in Public Utility Subordinated Lien Revenue Bonds, Series 2003. Based on the Auditor's analysis of all information presented by WASA, the revenue estimate of \$256.9 million appears sufficient to cover WASA's projected fiscal year 2003 expenses.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written in a cursive style.

Deborah K. Nichols

District of Columbia Auditor