

South Central Connecticut Regional Water Authority

Minutes of the October 19, 2011 Meeting

A regular meeting of the South Central Connecticut Regional Water Authority was held Wednesday, October 19, 2011 at the office of the Authority, 90 Sargent Drive, New Haven, CT, Chair DiSalvo presiding.

Present: Authority – Messrs. Bell, Cermola, DiSalvo, Edge, Marsh
Management – Ms. Discepolo, Mr. Bingaman
RPB – Messrs. Albrecht, Borowy
Janney Montgomery Scott LLC – Ms. Frzop, Messrs. LeBas (via telephone participation),
Schankel
Staff – Ms. Yoder

The Chair called the meeting to order at 8:00 a.m.

On motion duly made by Mr. Cermola, seconded by Mr. Bell and unanimously carried, the minutes of the meeting of the Authority held on September 21, 2011 were approved as distributed.

Bell	Aye
Cermola	Aye
DiSalvo	Aye
Edge	Aye
Marsh	Aye

Ms. Discepolo reviewed the September 2011 monthly financial report. She commented on draft, cash collections, operating revenues, operating expenses, interest income and the projected fiscal year 2012 maintenance test. Ms. Discepolo reviewed the analysis of accounts receivable.

A schedule of Capital Improvement Budget Expenditures for November 2011 was presented. Mr. Cermola moved for adoption of the following resolution:

Resolved, That the Controller is authorized to submit to the Trustee one or more requisitions in an aggregate amount not to exceed \$3,964,000 for the month of November 2011 for transfer from the Construction Fund for capital expenditures. Each such requisition shall contain or be accompanied by a certificate identifying such requisition and stating that the amount to be withdrawn pursuant to such requisition is a proper charge to the Construction Fund. Such requisitions are approved notwithstanding the fact that amounts to be withdrawn for a particular project may exceed the amount indicated for such month and year in the current Capital Improvement Budget but will not cause the aggregate amount budgeted for fiscal year 2012 for all Capital Improvement Projects to be exceeded. In the absence of the Controller, the Vice-President – Business Planning, Development and Finance or the Vice-President – Operations and Engineering is authorized to sign in her place.

Mr. Edge seconded the motion. After brief discussion, the Chair called for the vote:

Bell	Aye
Cermola	Aye
DiSalvo	Aye
Edge	Aye
Marsh	Aye

In accordance with the Authority's Capital Budget Amendment Procedure, a request to amend the Fiscal Year 2012 Capital Budget to reallocate a total of \$375,000 from three projects to purchase flocculation mixers at the Lake Gaillard Water Treatment Plant was presented. Mr. Cermola moved for adoption of the following resolution:

Resolved, That the Authority approves the following transfers totaling \$375,000 to the Lake Gaillard Water Treatment Plant Flocculation Mixer Replacement project fiscal year 2012 capital budget account: \$21,100 from the fiscal year 2012 Indian Ridge Approach Main capital budget account, \$150,000 from the fiscal year 2012 Ford Street Pump Station Reconstruction budget account and \$203,900 from the fiscal year 2012 State & Municipal Redevelopment capital budget account, as described in the Capital Budget Amendment Request Forms dated October 12, 2011 that are to be filed with the records.

Mr. Edge seconded the motion and, after brief discussion, the Chair called for the vote:

Bell	Aye
Cermola	Aye
DiSalvo	Aye
Edge	Aye
Marsh	Aye

In accordance with the Authority's Capital Budget Amendment Procedure, the Authority was notified in writing of the following fiscal year 2012 capital budget account transfers:

- \$18,000 from the Indian Ridge Approach Main project to the Lake Whitney Water Treatment Plant Sodium Hypochlorite Bulk Tank Repair project;
- \$20,000 from the Indian Ridge Approach Main project to the Motorola Base Radios at Plants project;
- \$24,000 from the Indian Ridge Approach Main project to the Well Rehabilitations project;
- \$42,000 from Trucks to Natural Resources Equipment – Remote Controlled Slope Mower project;
- \$66,000 from Trucks to the EZ Valve Insertion Equipment project;
- \$210,000 from the Advanced Metering Infrastructure Study project to Replacement of Whitney-Wintergreen Pump Station Fuel Oil Tank project;
- \$140,000 from the Saltonstall Ridge Tank Painting project to Upgrade of Transmitters for Radio Sites (Seven) project;
- \$255,000 from Saltonstall Ridge Tank Painting project to Lake Gaillard Water Treatment Plant Campus Flow Tube Bypass project;
- \$6,000 from Wheeler's Farm Road, Orange - New 16" Pipe project to Fire Marshal Radios project.

Ms. Discepolo briefly reviewed the Tax Exempt Bond and Build America Bond Post Issuance Tax Compliance Procedures required to comply with the Federal tax rules pertaining to the expenditure of proceeds, use of bond financed property, investment of proceeds and retention of records. Mr. Bell moved for adoption of the following resolution:

WHEREAS, in recent years, the Internal Revenue Service (the “IRS”) has suggested that issuers of tax exempt bonds should adopt post issuance written tax compliance procedures; and

WHEREAS, in April of 2010, at the request of management, bond counsel drafted such procedures, attached hereto (the “Procedures”) which have been followed by management to assure compliance with the IRS requirements for issuers of tax exempt bonds; and

WHEREAS, on July 1, 2011, the IRS released its final report on governmental and charitable financings summarizing data collected from two compliance questionnaire projects commenced in 2007; and

WHEREAS, the IRS concluded that the ongoing nature of post issuance compliance requirements applicable to tax exempt bonds requires issuers to actively monitor compliance throughout the entire time that their bonds remain outstanding and that the issuer should adopt written procedures applicable to all bond issues; and

WHEREAS, the South Central Connecticut Regional Water Authority (the “Authority”) wants to formally adopt the Procedures, as suggested by the IRS.

NOW, THEREFORE, be it resolved that the Authority hereby adopts the Procedures and requests that management follow the Procedures to improve the Authority’s ability to identify non-compliance and prevent violations of the Internal Revenue Code from occurring.

Mr. Cermola seconded the motion. During discussion, it was agreed that management would report regularly to the Audit-Risk Committee on compliance with the procedures adopted. After discussion, the Chair called for the vote:

Bell	Aye
Cermola	Aye
DiSalvo	Aye
Edge	Aye
Marsh	Aye

Ms. Discepolo reviewed the updated five-year financial plan for the fiscal years 2012-2016, including its underlying revenue, financing and expense assumptions, calculation of the issuance test for the next three planned rate applications, projected maintenance test calculations and changes to reserve balances. After discussion, it was agreed that the updated plan would be presented to the Finance Committee of the Representative Policy Board (“RPB”) and then to the RPB in November.

Mr. Bingaman reviewed the Regional Water Authority (“RWA”) Key Performance Indicators (“KPIs”) for the period ended September 30, 2011, focusing on the lost call rate, main failure response time, recordable injuries, estimated meter reads and unaccounted for water.

Mr. Bell briefly described the background and experience of Kate S. Powell and The Rev. Prof. John Henry Scott III and recommended that each be elected a director of The Watershed Fund. Mr. Bell moved for adoption of the following resolution:

Whereas, The Watershed Fund Bylaws provide that That Watershed Fund (the “Fund”) shall have one member, which shall be South Central Connecticut Regional Water Authority;

Whereas, the Fund Bylaws further provide that the Member has the sole right to elect directors of the Fund;

NOW, THEREFORE, BE IT

Resolved, That the Rev. Prof. John Henry Scott III be, and he hereby is, elected a Director of The Watershed Fund, Inc. to serve in such capacity until the Annual Meeting of the sole Member in 2014 or until he otherwise lawfully ceases to hold such office; and

Further Resolved, That Kate S. Powell be, and she hereby is, elected a Director of The Watershed Fund, Inc. to serve in such capacity until the next annual meeting of the Member, or until she otherwise ceases to fill such position.

Mr. Cermola seconded the motion and, after brief discussion, the Chair called for the vote:

Bell	Aye
Cermola	Aye
DiSalvo	Aye
Edge	Aye
Marsh	Aye

At 9:30 a.m., on motion duly made by Mr. Edge and seconded by Mr. Cermola, it was voted unanimously to recess the regular meeting to allow the Authority to meet as the Strategic Planning Committee.

Bell	Aye
Cermola	Aye
DiSalvo	Aye
Edge	Aye
Marsh	Aye

At 10:00 a.m. the Authority reconvened. Authority members reported on their attendance at recent RPB standing committee meetings.

Mr. Bingaman:

- Reported on the composition, goals and responsibilities of the SAP Executive Steering Committee that is monitoring the SAP Phase 2 stabilization activities. He commented on the communications plan developed by management and distributed a reference card for use by Board members should they receive calls from RWA customers.
- Reported on the status of the legislature's Regulations Review Committee's consideration of the proposed Stream Flow Regulations.
- Reported he attended the Association of Metropolitan Water Agencies annual meeting and accepted its Gold Award on behalf of the RWA.
- Stated the kick-off meeting for the operating efficiency and competitiveness assessment will be held next week.

Mr. Bingaman introduced Carolyn Frzop, Vice President, Investments, of Janney Montgomery Scott LLC. Ms. Frzop stated Janney would present an alternative investment strategy to gain a higher return on RWA funds that will not be needed in the short-term. She introduced Guy LeBas, Chief Fixed Income Strategist, and Alan Schankel, Managing Director, Fixed Income Research and Strategy. Mr. LeBas described the investment approach and sample portfolio recommended by Janney, including securities in the agency and mortgage backed securities/collateralized mortgage obligation sectors. He described both asset classes, focusing on credit quality, interest rate and timing risks, potential yield and portfolio liquidity. The Janney representatives responded to questions regarding risks, costs and the characteristics of the securities in the recommended portfolio. Authority members requested additional information concerning the amount to be considered for this type of investment, the sources of those

funds and potential risks. Mr. Bingaman indicated management would bring a recommendation to the November Authority meeting.

At 11:15 a.m., on motion duly made by Mr. Cermola and seconded by Mr. Edge, it was voted unanimously to go into executive session to discuss pending litigation and personnel. Present in executive session for the discussion of pending litigation were the Authority members, Mss. Discepolo, Yoder and Mr. Bingaman (11:15 a.m. – 12 noon). Present for the discussion of personnel were the Authority members and Mr. Bingaman (12 noon – 12:20 p.m.).

At 12:20 p.m. the Authority came out of executive session and, on motion duly made by Mr. Cermola and seconded by Mr. Bell, the meeting was adjourned.

Bell	Aye
Cermola	Aye
DiSalvo	Aye
Edge	Aye
Marsh	Aye

C. Anthony Edge, Secretary

Attachment: South Central Connecticut Regional Water Authority Tax Exempt Bond and Build America Bond Post Issuance Tax Compliance Procedures

**South Central Connecticut Regional Water Authority
Tax Exempt Bond and Build America Bond
Post Issuance Tax Compliance Procedures**

Purpose

The use of bond proceeds of tax-exempt bonds and build America bonds must comply with Federal tax rules pertaining to the expenditure of proceeds, use of bond financed property, investment of proceeds and retention of records. The South Central Connecticut Regional Water Authority's ("RWA") procedure for compliance with these rules is as follows:

Expenditure of Proceeds

Expenditure of bond proceeds will be reviewed by the Controller.

- Requisitions for the expenditure of bond proceeds must be consistent with the terms of the Tax Compliance Agreement and Certificate delivered by RWA in respect to the appropriate series of bonds (the "Tax Certificate").
- Requisitions must identify the financed property in conformity with the Tax Certificate, including certifications as to the character (property with long or short useful life) of the bond-financed property.
- Requisitions for costs that were paid prior to the issuance of the bonds, in general, must be limited to costs paid subsequent to, or not more than 60 days prior to, the date a "declaration of intent" to reimburse the costs was adopted by the RWA.
- In the case of build America bonds, no more than 2% of proceeds may be requisitioned to pay costs of issuing such bonds and all Available Project Proceeds, that is, all proceeds including investment proceeds but not proceeds used to pay issuance costs and fund the Debt Reserve Fund, are required to be used for capital expenditures. Capital expenditure means any cost of a type that is properly chargeable to a capital account.
- "Final allocation" of proceeds to uses shall be recorded not later than 18 months after the in-service date of the financed property (and in any event not later than 5 years and 60 days after the issuance of the appropriate series of bonds).
- Expenditure of proceeds shall be measured every 6 months against the tax certificate expectation to spend or commit 5% of net sale proceeds within 6 months, to spend 85% of net sale proceeds within 3 years, and to proceed with due diligence to complete the project and fully spend the net sale proceeds.
- Expenditure of "available construction proceeds" shall also be measured every 6 months against the following schedule for the arbitrage rebate exception for construction issues if applicable:

10% within 6 months

45% within 12 months

75% within 18 months

100% within 24 months

Use of Bond-Financed Property

Use of bond-financed property when completed and placed in service will be reviewed jointly by the Controller and Vice President Operations and Engineering.

- Generally, average private business uses of bond-financed property over the life of the appropriate bond issue cannot exceed 5% of the proceeds. For this purpose, private business use includes uses by private businesses arising under leases or management contracts or wholesale contracts. For purposes of the 5% test all such uses are aggregated. "Proceeds" do not include amounts deposited in the Debt Reserve Fund.
- Private business uses will be determined annually as a percentage of total use of proceeds of the appropriate bond issue. In the event that private uses approach 5%, then Bond Counsel should be contacted.
- Agreements with business users for lease, management services, wholesale contracts or any other potential nonexempt use of bond-financed property will be reviewed prior to execution for compliance with the 5% limit.
- No item of bond-financed property will be sold or transferred to a nonexempt party without prior consultation with Bond Counsel and only after implementing any recommendations of Bond Counsel so such disposition does not affect the tax status of any of RWA's bonds.

Investments

Investment of bond proceeds in compliance with the arbitrage bond rules and rebate of arbitrage will be supervised by the Controller.

- Guaranteed investment contracts ("GIC") will be purchased only using the three-bid "safe harbor" of applicable Treasury regulations, in compliance with fee limitations on GIC brokers in the regulations.
- Other investments will be purchased only in market transactions.
- Calculations of rebate liability will be performed annually by outside consultant.
- Rebate payments will be made with Form 8038-T no later than 60 days after (a) each fifth anniversary of the date of issuance of the appropriate series of bond and (b) the final retirement of the applicable series of bonds.
- Identify date for first rebate payment at time of issuance. Enter in records for the appropriate issue.

Records

Management and retention of records related to tax exempt bond issues will be supervised by Controller.

- Records will be retained for the life of the bonds plus any refunding bonds plus six years. Records may be in the form of documents or electronic copies of documents, appropriately indexed to specific bond issues and compliance functions.
- Retainable records pertaining to bond issuance include transcript of documents executed in connection with the issuance of the bonds and any amendments, and copies of rebate calculations and records of payments including Forms 8038-T.
- Retainable records pertaining to expenditures of bond proceeds include requisitions, trustee statements and final allocation of proceeds.
- Retainable records pertaining to use of property include all agreements for nonexempt use and any documents relating to unrelated business activity.
- Retainable records pertaining to investments include GIC documents under the Treasury regulations, records of purchase and sale of other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.

Build America Bond Filings

- Obtain from Underwriter amount of interest payable and amount of refundable credit for each interest payment date and confirm such amounts.
- File 8038CP no more than 90 nor less than 45 days prior to each interest payment date.

Overall Responsibility

Overall administration and coordination of this set of procedures is the responsibility of Vice President Business Planning, Development and Finance.