



Consent Decrees: A Manageable* Credit Risk

* Usually

Large Utilities Under Consent Decree

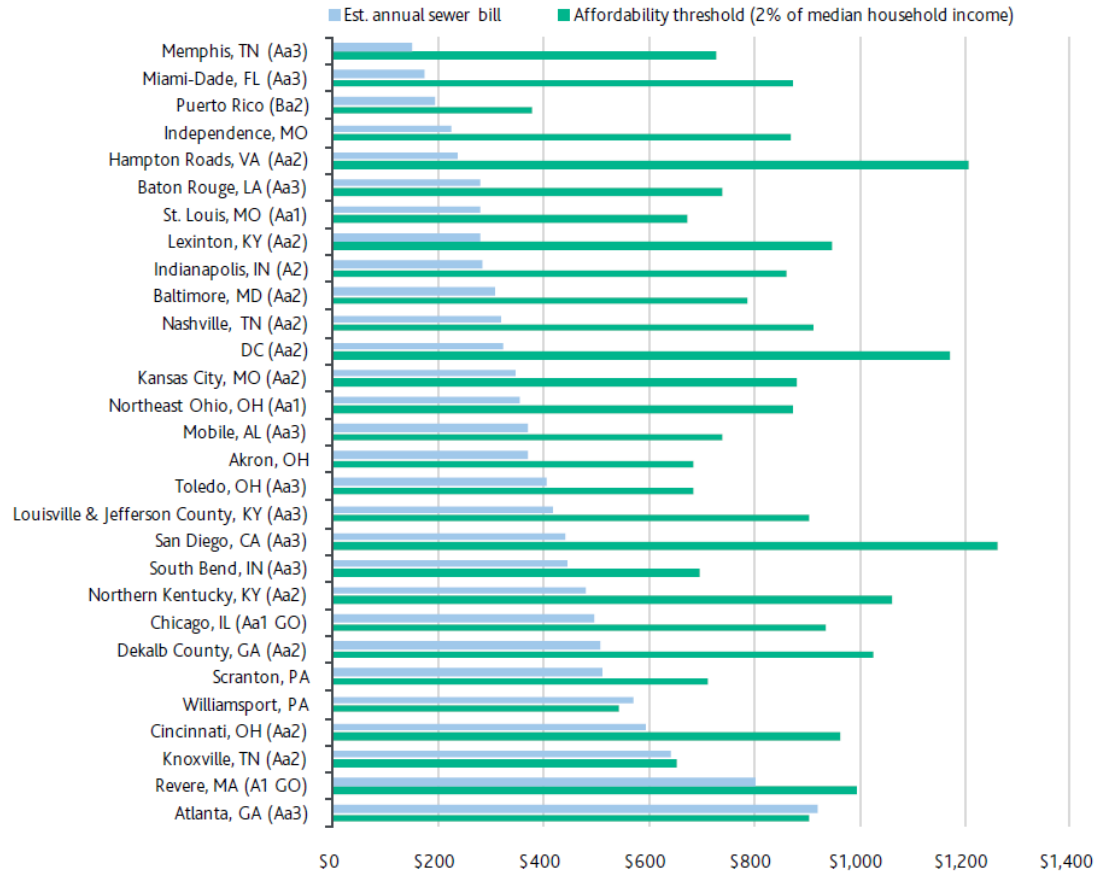
Issuer	Rating	Consent Decree	Operating Revenue	Consent decree to revenue
Honolulu Sewer Enterprise	Aa2	\$5,000,000,000	\$389,578,000	13
Metropolitan St. Louis Sewer District	Aa1	\$4,700,000,000	\$265,773,000	18
Northeast Ohio Regional Sewer District	Aa1	\$3,000,000,000	\$239,185,000	13
Kansas City Sewer Enterprise	Aa2	\$2,500,000,000	\$151,250,000	17
Hartford County Metropolitan District, CT	Aa2	\$2,100,000,000	\$142,969,700	15
Atlanta Water and Wastewater Enterprise	Aa3	\$2,000,000,000	\$436,644,000	5
Allegheny County Sanitary Authority	A1	\$2,000,000,000	\$126,630,000	16
Miami-Dade County Water and Sewer Enterprise	Aa3	\$1,600,000,000	\$578,850,000	3
Metropolitan Sewer District of Greater Cincinnati	Aa2	\$1,500,000,000	\$275,914,000	5
East Baton Rouge Sewerage Commission	Aa3	\$1,400,000,000	\$75,419,000	19
San Antonio Water System	Aa1	\$1,100,000,000	\$499,643,000	2
San Diego Sewer Enterprise	Aa3	\$1,000,000,000	\$364,548,000	3
Metropolitan Government of Nashville and Davidson County	Aa2	\$1,000,000,000	\$211,036,000	5
Northern Kentucky Sanitation District No. 1	Aa2	\$1,000,000,000	\$89,487,000	11

(Consent decree sizes are estimates; sizes often change)

Why Consent Decrees Are Usually Manageable

Factor #1: Most Utilities Have Room to Raise Rates

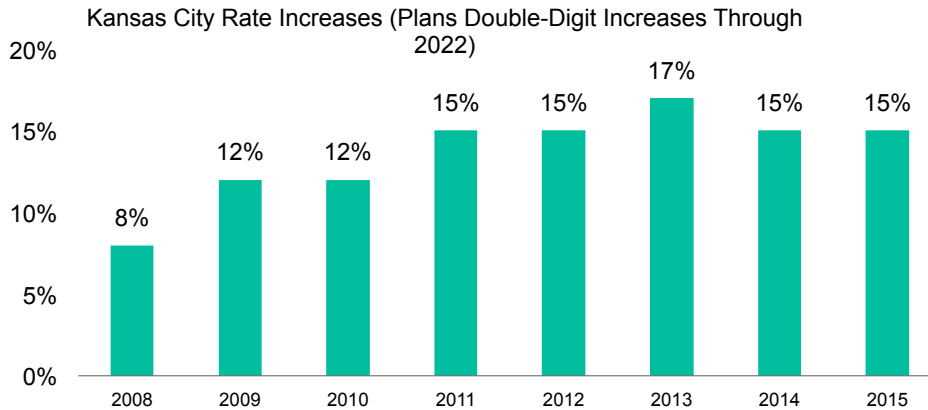
(Note: Ratings are related revenue ratings)



Source: GLC Advisors & Co.

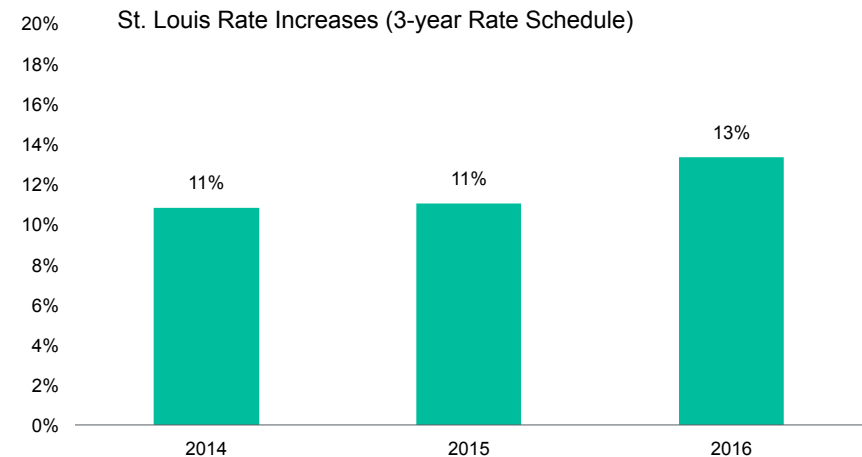
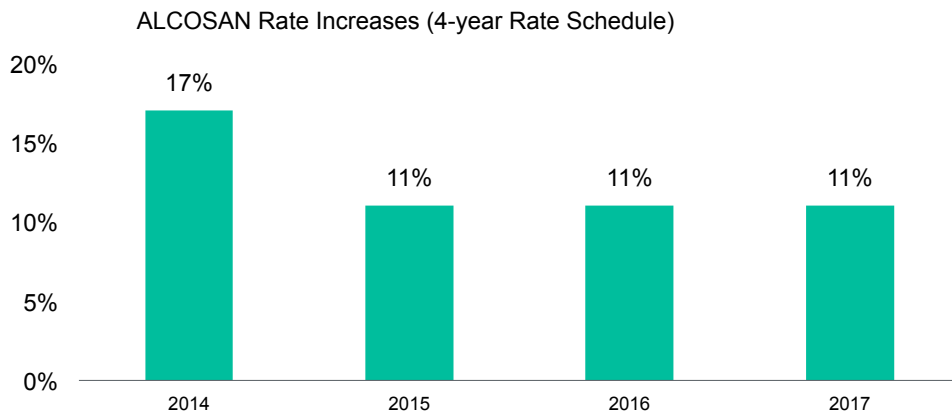
Why Consent Decreases Are Usually Manageable

Factor #2: Most Utilities Are Committed to Funding Their Settlements



Some Utilities Fund Consent Decreases From Other Sources

- Hartford MDC passed a special surcharge based on flow
- Atlanta voters authorized a 1-cent sales tax to fund upgrades



Why Consent Decrees Are Usually Manageable

Factor #3: Pushing Utilities into Insolvency Would Not Further EPA's Interests

EPA Guidance - Considered Factors

Cost per household as % of median household income
Bond ratings
Debt as % of property values
Unemployment
Median household income
Tax collection rate
Property tax revenues as % of property values

The ALCOSAN Experience

“The authority has an obligation to propose a feasible, doable and affordable plan, but *the EPA will not force a plan that is unaffordable.*”

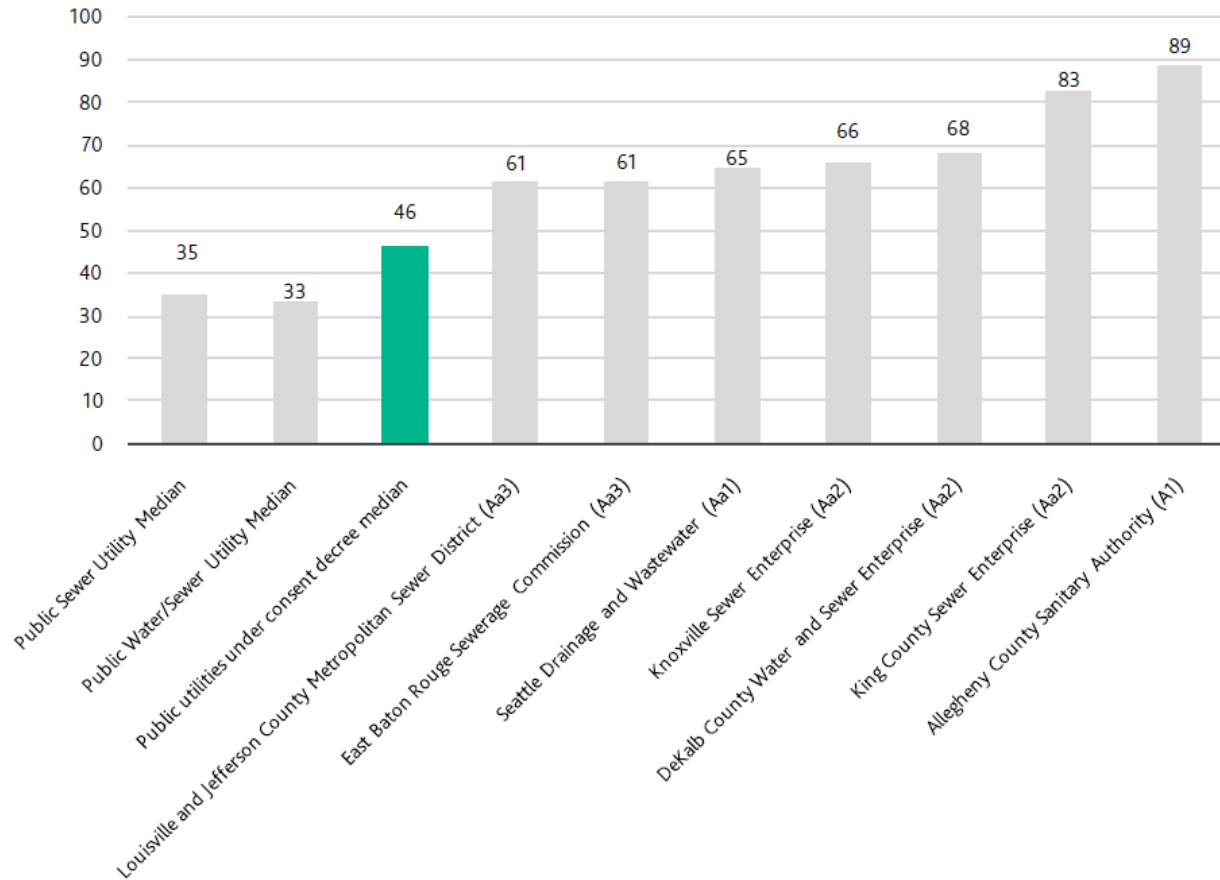
-- Director of water protection division at EPA's Region III office in Philadelphia

EPA CSO Control Policy

- “Provide sufficient flexibility to municipalities, *especially those that are financially disadvantaged*, to ... determine the most cost-effective means of reducing pollutants”
- “Allow a phased approach for implementation of CSO controls *considering a community's financial capability*”
- “... *consider the financial capability* of permittees when reviewing CSO control plans”
- “... an implementation schedule *may be phased* based on ... a permittee's financial capability”

The Downsides

Consent Decreases Often Contribute to Higher Debt Ratios



Note: Debt ratio is net funded debt to fixed assets. Chart shows Moody's-rated systems under consent decree with highest debt ratios

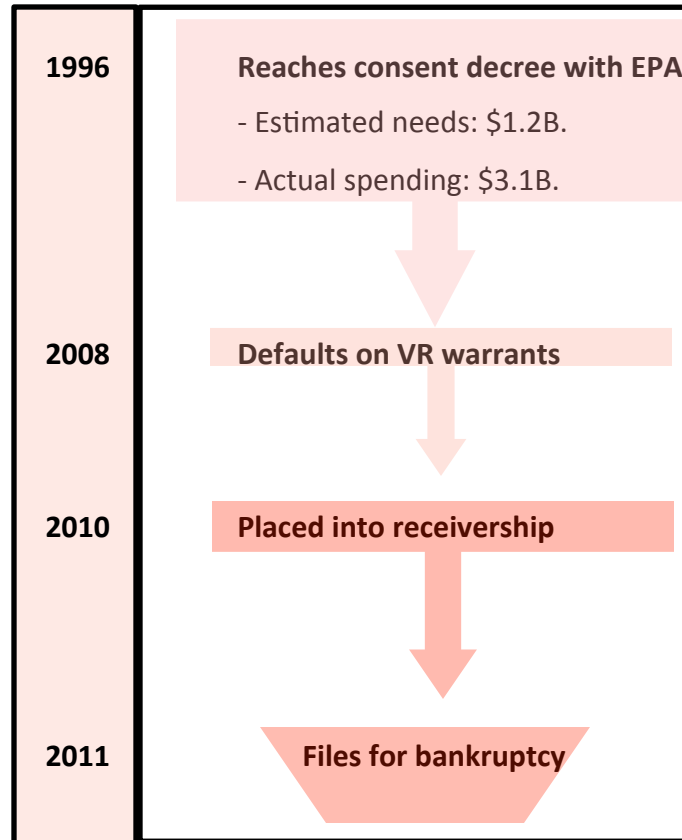
The Downsides

- Utilities under consent decree tend to have higher debt and greater capital needs
- Median debt service coverage for systems under consent decree is 1.6x, compared with sector median of 1.8x (sewer) and 2x (water/sewer)

Downgrades driven (in part) by consent decrees:

- Miami-Dade County Water and Sewer Enterprise, FL (to Aa3 from Aa2)
- East Baton Rouge Sewerage Commission (to Aa3 from Aa2)

The JeffCo Exception



A History of Underfunding

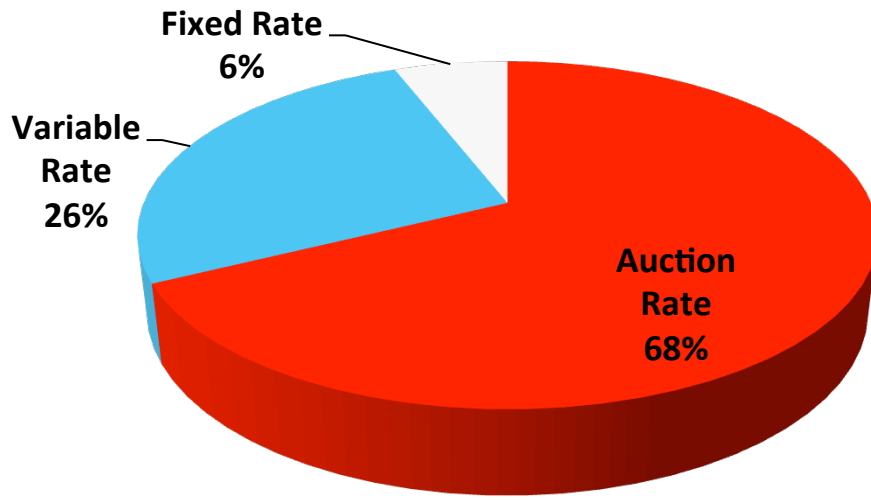
Year	Recommended Capital Improvements	Actual Capital Improvements
1931	\$1,500,000	\$450,000
1948	\$22,500,000	\$10,000,000
1957	\$30,000,000	Zero
1967	\$43,000,000	Zero
1981	\$157,000,000	\$94,000,000

Rate Increases	Recommender	Recommendation	Actual
2002	Paul B. Krebs & Associates	122% (2003 to 2006 total)	80%
2003	Paul B. Krebs & Associates	12.5% annually (2004 to 2011)	4% annually
2007	Red Oak Consulting	21% to 92% (2008 to 2010 total)	Zero
2008	Raftelis Consulting	2.22% annually (after 2008)	Zero
2010	Raftelis Consulting	6.76% (annual)	Zero

“The County’s sewer financing structure reflects a desire to finance a very large capital program **while delaying rate increases as long as possible.**” – BE&K, 2003

“The County’s **hostility to rate increases** has a long and consistent history.” – System receiver, 2011

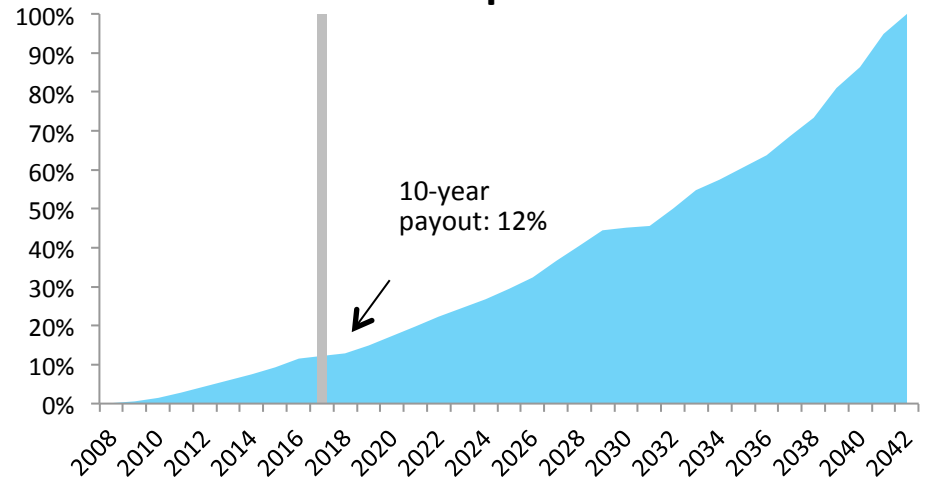
A Risky Debt Structure



Debt Composition

Debt Profile	March 2008
Auction Rate	\$2,182,000,000
Variable Rate	\$849,000,000
<u>Fixed Rate</u>	<u>\$191,000,000</u>
Total	\$3,222,000,000

Cumulative Principal Amortization



Criminal Corruption in the Structuring of the Bonds

Criminal convictions in connection with JeffCo's sewer warrants ...

County Commissioners	Sentence	Fines & Restitution
Larry Langford	15 years	\$361,828
Gary White	10 years	\$44,000
Mary Buckelew	Probation	\$20,000
Chris McNair	5 years	\$851,927

Financing	Sentence	Fines & Restitution
Bill Blount	4 1/3 years	\$1 million
Al LaPierre	4 years	\$470,365

➤ 21 people were convicted or pleaded guilty to crimes in connection with these bonds

County Employees	Sentence	Fines & Restitution
Clarence Barber	2 years	\$3,100
Harry Chandler	Probation	\$33,100
Larry Creel	Probation	\$3,600
Donald Ellis	Probation	\$5,100
Jack Swann	8 1/2 years	\$607,333
Ronald Wilson	13 months	\$250,300

Contractors	Sentence	Fines & Restitution
Bill Dawson	4 months	\$35,100
Pat Dougherty	4 1/2 years	\$750,200
Ed Key	5 years	\$452,955
Grady Pugh Jr.	5 months	\$2 million
Grady Pugh Sr.	45 months	\$250,100
Bobby Rast	4 1/4 years	\$2.5 million
Danny Rast	41 months	\$1 million
Sohan Singh	6 1/2 years	\$6.7 million
Eddie Yessick	2 years	\$126,800

Questions/Comments

