

**MINUTES OF A SPECIAL MEETING
OF THE NEW YORK CITY WATER BOARD**

A Special Meeting of the New York City Water Board (the “Board”) was held on September 25, 2009 at 8:30 a.m. at the New York City Department of City Planning, 22 Reade Street, Spector Hall, New York, New York. The following members of the Board were present:

Alan M. Moss;

Donald Capoccia

Dawn S. Davis;

Amaziah Howell; and

Mehul Patel;

constituting a quorum. Mr. Moss chaired the meeting, and Uyen Y. Nguyen., served as Secretary of the Meeting.

Adoption of Minutes

The first item on the agenda was approval of the minutes of the Board’s previous meeting held on June 26, 2009. There being no further discussion, upon motion duly made and seconded, the minutes of the Board’s meeting held on June 26 2009, were unanimously adopted.

Approval of Contract with Appleseed, Inc.

The next item on the agenda concerned additional funding and approval of an amendment to the contract with Appleseed, Inc. (“Appleseed”). Executive Director, Steven Lawitts, stated that additional funding is needed for Appleseed to provide an updated economic impact report of DEP’s operations and investments in the upstate watershed. He explained that

an updated report would be helpful to DEP's land acquisitions in the upstate watershed. One of DEP's obligations under the Filtration Avoidance Determination ("FAD") is land acquisitions in the watershed. Currently, DEP is two years into the ten-year FAD and there are concerns about curtailing land acquisitions.

The initial study performed by Appleseed four years ago analyzed the impact of the taxes paid by DEP on each watershed community. The study found that the taxes paid by DEP went to schools and education and provided a benefit to the communities.

Responding to a question from Mr. Capoccia, Mr. Lawitts explained that since the initial Appleseed contract was executed approximately four years ago, DEP has acquired more land in the upstate communities and worked with local municipalities. An updated economic impact report would reflect these changes.

Responding to a question from Mr. Moss regarding why approval for additional funds was needed from the Board, Mr. Lawitts explained that this would bring the cumulative amount paid to Appleseed over the \$100,000 threshold amount, which would require Board approval.

There being no further discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, pursuant to Section 1045-g(8) of the New York City Municipal Water Finance Authority Act (the "Act"), the Board is authorized to enter into contracts and to retain private consultants on a contract basis for the purpose of obtaining professional or technical services to assist the Board in carrying out its responsibilities; and,

WHEREAS, the Board entered into an agreement and first and second amendments to agreement with Appleseed, Inc. ("Appleseed"), in the amount of \$55,000 whereby Appleseed provided economic and financial analytical consulting services to the New York City Department of Environmental Protection ("DEP") for a term which expired on December 31, 2007 (the "Agreement"), and

WHEREAS, DEP staff have identified a need for further assistance from Appleseed in providing an updated economic impact report of DEP's operations and investments in the upstate watershed; and

WHEREAS, the Board has reviewed a September 11, 2009 memorandum from DEP Assistant Commissioner Kathryn Garcia, which details the additional requested services and sets forth a recommendation that the Board authorize an amendment to the Agreement with Appleseed to provide such services; and

WHEREAS, in accordance with the Water Board's Policy on the Procurement of Goods and Services, in particular, Section 5.i. (prior Board approval of contracts where the cumulative value exceeds \$100,000) and Section 6.iv. (waiver of competitive solicitation where the procurement is a continuation of existing services and it is desirable for purposes of continuity and compatibility), the Board finds such justification reasonable and appropriate in the present circumstances; it is therefore,

RESOLVED, that the Executive Director is hereby authorized and directed to execute a third amendment to the Agreement with Appleseed to provide the additional services, upon such terms and conditions as the Executive Director may deem reasonable and appropriate, for an additional amount not to exceed \$75,000. Total compensation for services performed under the Agreement and its three amendments shall not exceed \$130,000.

Financial Update

The next item on the agenda was a presentation by Mr. Lawitts regarding the financial update.

- **Revenue**

Mr. Lawitts discussed the revenues for fiscal year 2009 ("FY09") and fiscal year 2010 (current year). Revenues in fiscal year 2009 were 5% below target. This year for the months July through August the revenues were 3% below target, which were caused by falling water consumption. In-city consumption was down by 11% in July, 3% in August, and is projected to be down 6% in September.

Responding to a question from Mr. Capoccia, Mr. Lawitts explained that unpredictable weather this summer contributed to declines in water consumption. The past June was very rainy and in fact, the fourth rainiest June on record. Similarly, July's rainfall was significantly above average with temperatures colder than usual. Due to the weather conditions in June and July, lawn watering, tree watering, and hydrants opening were significantly down.

- **Collections**

Mr. Lawitts explained that DEP has continued collections aggressively and out of the 2155 notices sent, 774 were paid in full and only 27 resulted in termination of service. He indicated that with only 1% resulting in shutoff, the collections program has been very successful. He indicated that automated meter reading is the key to improving collections since the primary cause of delinquency is dispute over estimated bills. Bills are estimated when DEP is unable to gain access to the meter. Mr. Lawitts discussed the three-part automated meter reading program, which includes: (1) installation of the rooftop transmitters network, which will piggyback the City's system; (2) replacement of approximately 4000 meters; and (3) a new billing and collections system, which would allow customers to view their water consumption in almost real-time on a website DEP is currently in the process of building. He explained that the pace of the installation of the transmitters and meters is ahead of DEP's project plan.

Responding to a question from Mr. Capoccia, Mr. Lawitts explained that with respect to the installation of the transmitters, DEP would not have to pay for the rooftop locations because DEP is piggybacking off the City's emergency network.

Responding to a question from Miss Davis regarding the schedule for the rollout of the new website, Mr. Lawitts explained that DEP is currently in the process of reviewing proposals from vendors. The final selection will occur in October and the timeframe for

installation and testing of the website will be 18 months from the date of the contract execution. The completion of the website should coincide with the completion of the receiving network and installation of the new meters.

- **Operations and Maintenance Expenses**

Mr. Lawitts next discussed the operations and maintenance expenses incurred in FY09. DEP achieved a total savings of \$46M in operations and maintenance expenses in FY09 primarily due to savings in chemicals and the contract bid process. DEP achieved savings in the bid process by 25%. Bids received were below the budgeted amount for the largest and most significant projects. Responding to a question from Mr. Patel, Mr. Lawitts explained that the savings of \$250M on bids reflected the total savings over the life of the contracts. Responding to a question from Mr. Capoccia, Mr. Lawitts explained that it would be difficult to renegotiate contracts because while the City was willing to share some of the risk regarding material costs, it would be the contractor that takes on all the risk with respect to labor cost.

Mr. Lawitts next described the federal stimulus funds received by DEP. Recently DEP received \$220M in federal stimulus funds for New York City clean water projects. These funds are grants rather than loans and allows DEP to free up water rate funded monies and allows DEP to advance projects such as building out sewer capacity and water mains, which normally would have been postponed for another 3-5 years. Responding to a question from Mr. Capoccia, Mr. Lawitts explained that no bids have been made on these projects yet but DEP hopes to achieve savings in the bid process.

- **Projected NYW Issuance – FY 2010**

Mr. Lawitts next described the projected bond issuance schedule and amounts for this fiscal year. Approximately \$400-500M bonds are scheduled to be issued in each of the following upcoming months: October, December, January, March and June.

DEP Briefing to the NYC Water Board on the Natural Gas Impact Assessment Project

The next item on the agenda was a presentation on the Natural Gas Impact Assessment Project by Paul Rush, DEP's Deputy Commissioner of the Bureau of Water Supply. Mr. Rush described the NYC Water Supply and natural gas exploration in Marcellus Shale, the formation underlying the entire NYC watershed. Mr. Rush explained that improved drilling technology and higher prices have made shale drilling more feasible. The new drilling technology called the hydraulic fracturing process causes the most concern. A discussion ensued as Mr. Rush explained the hydraulic fracturing process.

Mr. Rush stated that in January 2009, the Board hired Hazen and Sawyer/Leggette, Brashears and Graham ("HSLBG") to conduct an assessment of potential impacts to the NYC watershed from natural gas drilling. Mr. Rush further described the scope of work and reports required of HSLBG, including the Rapid Impact Assessment Report and Final Impact Assessment Report. DEP has received the Rapid Impact Assessment Report. The Final Impact Assessment Report should be completed by the end of the year.

The Rapid Impact Assessment report concluded that the hydraulic fracturing process would result in a number of risks, including contamination of the water supply, which would be detrimental to the NYC watershed. The site preparation on the surface is likely to increase erosion and run-off into the reservoirs. The stimulation of the well introduces

hazardous chemicals into the watershed. The hydrofracing process creates enormous volumes of industrial wastewater that cannot be effectively treated by conventional processes. In addition, a serious issue is the difficulty involved with obtaining full disclosure of the chemicals used in the hydrofracing process.

Mr. Rush described site visits to two Chesapeake natural gas drilling sites in Bradford County, Pennsylvania and included photos of the sites in the presentation. The photos shown depicted the Judd Well site in a vertical drilling phase, the Evanchick Well site in the gas producing phase, and the Chesapeake pipeline under construction.

Responding to a question from Mr. Capoccia, Mr. Lawitts explained that DEP will speak with the New York State Department of Environmental Conservation (“NYSDEC”) regarding the Rapid Assessment Impact results. He explained that the State is scheduled to issue an environmental impact statement (“EIS”) shortly. Last December, they issued an impact scoping document, to which DEP responded by submitting 8 pages of comments regarding more rigorous analytical processes and assessments. He explained that our primary concern for the watershed is protecting water quality. Due to the excellent quality of our water, we were able to obtain a Filtration Avoidance Determination and thereby achieved savings by not having to build and maintain a billion dollar filtration system. He hopes that NYSDEC will recognize the uniqueness of the NYC Water System, which is a system of surface water that is unfiltered supplying water to 9 million people.

Mr. Capoccia noted that at this point in time, the only thing stopping companies from coming in and conducting natural gas drilling is the market since the price of natural gas is currently low.

Mr. Moss acknowledged Al Appleton, the former DEP Commissioner, for being an excellent advocate and seeking honest answers with respect to natural gas drilling in the watershed.

Mr. Patel noted that we have yet to see a successful model where natural gas drilling is not detrimental to the watershed.

Responding to a question from Miss Davis, Mr. Lawitts indicated that the Board will have an opportunity to comment on the EIS when it is issued.

Approval of Motion to Proceed to Executive Session

- **Discussion of Appointment of Lindsey Ganson as Acting Treasurer of the Water Board and other personnel matters**
- **Approval of Motion to End Executive Session**

The next item on the agenda was the approval of a motion to proceed to Executive Session. Upon motion duly made and seconded the Board resolved to convene in Executive Session to discuss personnel matters. Following such discussion, upon motion duly made and seconded, the Board resolved to reconvene in open session without having taken any action in Executive Session.

Appointment of Lindsey Ganson as Acting Treasurer of the Water Board

There being no further discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, pursuant to Section 1045-g(8) of the New York City Municipal Water Finance Authority Act, the Board is authorized to appoint such officers and employees as it may require for the performance of its duties; and

WHEREAS, the Board has been advised of the departure of William Kusterbeck as the Board's Treasurer effective as of September 3, 2009, creating a vacancy in the office of Treasurer of the Board; and

WHEREAS, the Board has reviewed the qualifications of Lindsey Ganson, Chief of Staff of the New York City Department of Environmental Protection, and has determined that Ms. Ganson should be appointed Acting Treasurer of the Board; it is therefore,

RESOLVED, that Lindsey Ganson is hereby appointed Acting Treasurer of the Board with such duties and responsibilities as are set forth in the By-Laws of the Board, until such time as the Board shall by resolution otherwise provide; and it is further

RESOLVED, that the JPMorgan Chase Bank (hereinafter called the Bank) as a designated depository of the Board is hereby requested, authorized and directed to honor all checks less than \$2,500, drafts or other orders for the payment of money drawn in the Board's name on its accounts when bearing or purporting to bear the facsimile signatures of both of the following:

Lindsey Ganson, Acting Treasurer
Carmelo Emilio, Deputy Treasurer

And the Bank shall be entitled to honor and to charge the Board for all such checks, drafts or other orders for the payment of money, regardless of by whom or by what means the actual or purported facsimile signature or signatures thereon may have been affixed thereto, if such facsimile signature or signatures resemble the facsimile specimens from time to time filed with the Bank by the Secretary or other officer of the Board.

Adjournment

There being no further business to come before the Board, upon motion duly made and seconded, the meeting was duly adjourned.

SECRETARY