NEW YORK CITY WATER BOARD MEETING

PRELIMINARY AGENDA

Friday, September 21, 2012 - 8:30 A.M.

Location: New York City Department of City Planning
22 Reade Street, 1st Floor, Spector Hall
New York, New York 10007

1. Roll Call

2. Resolution: Approval of Minutes of June 15, 2012 Meeting

3. Presentation: DEP Operational and Financial Update

MINUTES OF A MEETING OF THE
NEW YORK CITY WATER BOARD

A meeting of the New York City Water Board (the "Board") was held on June 15, 2012 at 8:30 a.m. at the New York City Department of City Planning, 22 Reade Street, Spector Hall, New York, New York 10007. The following members of the Board were present:

Alan M. Moss,

Marcia Bystryn,

Donald A. Capoccia,

Alfonso L. Carney, Jr.,

Mehul J. Patel, and

Arlene Payne

constituting a quorum. Mr. Moss chaired the meeting, and Olivia A. O'Neill served as secretary of the meeting.

Approval of Minutes of May 4, 2012 Meeting

The first item on the agenda was approval of the minutes of the Board's previous meeting held on May 4, 2012. There being no discussion, upon motion duly made and seconded, the minutes of the meeting held on May 4, 2012, were unanimously adopted.

Adoption of Fiscal Year 2013 Water Rates for Communities Outside of the City

The next item on the agenda was the adoption of Fiscal Year 2013 water rates for Communities outside of the City. The proposed entitlement rate, effective July 1, 2012, for wholesale water service is $1,332.30 per million gallons, which represents a 9.8% increase over the Fiscal Year 2012 rate of $1,213.84 per million gallons. For quantities that upstate communities consume in excess of their entitled consumption, the Board is asked to adopt an "excess" rate that is equivalent to the in-City rate. Mr. Lawitts said that a hearing on the rates

had been held on June 11, at which he presented the upstate rates for FY 2013 to the upstate representatives in attendance. In response, one attendee presented testimony, and three written submissions were also received from the water utilities. Mr. Moss thanked Mr. Lawitts for representing the Board at the hearing. Mr. Moss then raised the question that if upstate customers did not get the benefit of improvements to the City's water system, why should they be charged for those improvements? Mr. Lawitts explained that amounts invested in the City's system in-City are excluded from costs that go into the calculation of the rates for upstate customers, while amounts invested in the system north of the City are included in calculation of the rates for upstate customers. Mr. Capoccia observed that despite fixed costs, some customers would benefit and others would not.

Mr. Lawitts noted that the Board had reached agreement last year with representatives of upstate customers regarding the entitlement rate through FY 2008, and had met with them at least twice since the Board's approval of last year's rates. He said that the Board's approach was to try to partner with upstate customers, in contemplation of the 2020 shutdown of the Delaware Aqueduct for an extended period of time for the purpose of connecting the Aqueduct with a three-mile by-pass tunnel, so that demands for water could be met at that time.

There being no further discussion, upon motion duly made and seconded, the following resolution, in principle, was unanimously adopted, the final text to be approved by adoption of these minutes:

> **WHEREAS,** the Board is authorized pursuant to Section 1045-j of the New York City Municipal Water Finance Authority Act to establish rates and charges for services furnished by the Water System of the City of New York (the "City"); and

WHEREAS, the Board has received a report dated May 7, 2012 from the Amawalk Consulting Group LLC, Rate Advisor to the Board, on the cost of supplying water to upstate customers for the Fiscal Year 2013 rate year, and such report indicates that the anticipated unit cost of water supply service for municipalities and water districts north of the City in Fiscal Year 2013 will be $1,332.30 per million gallons; and

WHEREAS, upon appropriate notice, a public hearing was held on June 11, 2012 in Valhalla, New York, concerning the proposed increase in the rates for water supply from the City system sold to users outside of the City pursuant to the Water Supply Act of 1905; and

WHEREAS, the Board has received a copy of the hearing transcript, and staff has recommended the proposed increase based on the cost of service evaluation in the report noted above; it is therefore

RESOLVED, that effective July 1, 2012, the regulated rate for water sold to users outside of the City from either the Croton or Catskill/Delaware Systems that is within the allowance quantities of water set forth in Section 24-360 of the Administrative Code of the City of New York shall be increased to $1,332.30 per million gallons; and the rate and charge for water provided to users outside the City that exceeds the allowance quantities of water set forth in Section 24-360 of the Administrative Code of the City of New York shall be continued at a level equal to the retail metered rate effective within the City of New York, which as of July 1, 2012 shall be equal to $4,532.09 per million gallons.

Approval of Selection of Service Line Protection Provider and Contract Authorization

The next item on the agenda was the selection of a provider for a water and sewer service line protection program following an RFP process. Four companies responded to the RFP, and three were invited to be interviewed by the selection committee. The selection committee unanimously recommended the retention of American Water Resources ("AWR") to provide the service line protection program to the Board. Mr. Lawitts noted that the City is charged with protecting the water mains while each property owner is responsible for

maintaining his/her water service line from the water line connection in the street to the customer's building, likewise for sewer mains and service lines. He also noted that when private owners could not respond to a problem and make repairs quickly, additional system failure could result, making the necessary repairs incrementally more expensive. Mr. Lawitts pointed out that, under AWR's proposal, the additional Board and DEP program expenses will be covered by the shared revenue directed to the Board. Mr. Capoccia and Mr. Moss discussed the relative fairness of applying the same rate to large and small pipes. Mr. Lawitts said that the pricing approach took that concern into consideration and was aimed at producing a blended rate. He also noted that the program is voluntary. Discussion was had concerning the information that the program might generate substantial revenues. Mr. Carney inquired as to whether the contract with AWR could be terminated in five years. Mr. Moss stated that his preference would be to check back in a year or so to see how the program is operating, and Mr. Capoccia said that he would like to revisit the compensation sharing arrangement once the program is stabilized (in one or two years). Both noted that if the program was successful and generated substantial revenue, the Board would want a share of those revenues to offset any additional expenses or to reduce the program charges. They said that the contract with AWR should include a mechanism providing that after program stabilization, the program's generation of revenue should be reviewed, and a portion of the revenues should be re-allocated to the Board, if appropriate. Mr. Capoccia also noted that customer-vendor relations should be monitored to be sure that AWR was working with customers in a satisfactory manner so that the Board was not subject to criticism.

There being no further discussion, upon motion duly made and seconded, the following resolution, in principle, was unanimously adopted, with the understanding that the adoption of the resolution approving the AWR contract was contingent upon the Board

performing a look-back one year after program enrollment stabilization and adjusting charges to achieve an appropriate revenue share for the Board:

> **WHEREAS,** pursuant to Section 1045-g(5) and (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 contractors to assist the Board in carrying out its responsibilities; and
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> **WHEREAS,** under the terms of the terms of the Lease Agreement between the City and the Board, the City has leased to the Board all of its rights, title and interest in the water and sewer system (the "System") of the City; and
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> **WHEREAS,** the Board's primary duty under the Act is to establish and collect water and wastewater rates and charges in an amount sufficient to place the System on a self-sustaining basis; and
>
> **WHEREAS**, the Lease Agreement provides that the New York City Department of Environmental Protection ("DEP") will administer, operate, maintain and repair the System; and
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> **WHEREAS,** each property owner in the City is responsible for maintaining his/her water service line beginning at the connection to the water main in the street and continuing to the building line and sewer service line from the building line to the connection to the city sewer, private sewer, private drain or approved outlet; and
>
> **WHEREAS,** failure of a service line may threaten City infrastructure and is unpredictable, resulting in expensive repairs for which individual property owners may not be prepared to respond quickly or with full knowledge of how to remedy the situation; and
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> **WHEREAS,** the Board is of the opinion that there could be significant benefits of a service line protection program for the City's water and sewer customers and that such a program would be in the best interest of the City, as the expeditious repair of leaking and broken service lines under the program would help prevent damage to City infrastructure, reduce response costs for the city, limit damage to homes, and enable City resources to be used more efficiently; and

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WHEREAS, in the interest of minimizing City and customer risks associated with water and sewer service lines, the Board and DEP seek to procure the services of a company that will offer service line protection policy services; in March 2011, Board staff issued a Request for Expressions of Interest of said services; and on December 2, 2011, Board staff commenced a competitive solicitation process for said services with the advertisement of a Request for Proposals ("RFP") in the City Record, the New York Daily News, and on the Board's website; and

WHEREAS, four conforming technical proposals and cost proposals were received for consideration and review; and

WHEREAS, a Technical Evaluation Committee ("the Committee"), consisting of five qualified persons, rated and ranked each technical proposal and statement of qualifications received in accordance with the criteria stated in the RFP; and

WHEREAS, the three proposing teams, which the Committee ranked most highly based on the technical proposal and qualifications criteria set forth in the RFP, were invited to interview with the Committee; and

WHEREAS, the Committee determined that the proposal and presentation by American Water Resources, Inc. ("AWR"), was the most highly-rated on technical approach and qualifications and, after consideration of the cost proposals, determined that its cost proposal was fair and reasonable; and

WHEREAS, in accordance with the Water Board's Policy on the Procurement of Goods and Services, in particular, Section 4 (selection based on the best combination of technical merit and price) and Section 5.i (prior approval of contracts where the cumulative value exceeds $100,000), the Board finds the selection of AWR appropriate; it is, therefore,

RESOLVED, that the Executive Director is hereby authorized and directed to execute an agreement with AWR to provide a service line protection program to the Board, for a five-year term, with two additional five-year extensions at the Board's option, upon such terms and conditions as the Executive Director may deem reasonable and appropriate; and be it further

RESOLVED, that the total compensation for services performed, shall be determined based on the participation rate of Board customers. Including all expenses, such compensation shall

not be more than the premiums charged to Board customers, which will be established in the Board's annual Water and Wastewater Rate Schedule, and be it further

RESOLVED, that the Board perform a contract review and look-back one year after program enrollment stabilization and adjust charges to achieve an appropriate revenue share for the Board.

Financial Update

The last item on the agenda was a financial update provided by Mr. Lawitts.

Revenues Mr. Lawitts said that revenues for FY 2012 are currently 1% ahead of the plan target amount and are on target for June. He noted that this is only the second time since 2005 that collections have been ahead of the plan target amount towards the end of the fiscal year.

Second Lien Sale Discussion then turned to second lien sales for FY 2012. Lien sale authorization was extended in March 2011, and two lien sales have occurred in FY 2012. The second FY 2012 lien sale took place on May 25, 2012. It was noted that with respect to payment agreements between home owners and the City, the City Council liberalized payment agreement terms which now provide for terms of up to ten years with no down payment, compared to the previous terms of a minimum 10% down payment with up to five years to pay the remaining balance. Since the current payment agreements were implemented in January 2012, 58% of all customers who entered into payment agreements did so without making a down payment. Ms. Payne inquired as to whether, as a general matter, people understood the terms of payment agreements. Mr. Lawitts explained that customer service representatives talked with home owners as to the specific terms of the payment agreements, and that he would provide the Board with an example of the information DEP provides to its customers regarding the total

amounts that would be paid in connection with any payment agreement. Ms. Bystryn noted that it was important to educate customers as to the ramifications of entering into a payment agreement.

Meter Installation The next discussion concerned an update as to meter installations and related matters. DEP has now installed wireless meter reading devices on 95% of meters Citywide. The percentage of estimated bills in May 2012 has dropped 64% since 2010.

It was noted that there has been a lot of press about meter inaccuracies in recording and/or transmitting data with respect to consumption, as well as attention from the NYC Public Advocate. Staff requested and received from the Public Advocate information about specific customer complaints; information concerning 269 accounts was received. The staff researched all 269 complaints, and not a single case was found where there was a recording or transmission error. The causes included situations where the meter had stopped, access to the meter had been refused, or an adjustment had been made from the estimated to the actual water consumed. In response to a question from Mr. Capoccia, Mr. Lawitts confirmed that substantial amounts of staff time had been expended in order to determine the accuracy of these customer complaints. It was noted that about half of the customers communicated their complaints directly to the Public Advocate without contacting DEP or the Board first.

NYC Municipal Water Finance Authority Mr. Lawitts reported on bond issuance by the NYC Municipal Water Finance Authority. $3.0 billion of bonds have been issued to date in the current fiscal year (including $1.3 billion of refunding bonds, in order to take advantage of current low interest rates). Another $700 million of bond issuance has been approved.

OpX Phase 1 Report Mr. Lawitts gave an update on the status of the OpX Phase 1 actions and findings. The six-month diagnostic Phase 1 included full analysis of improvement opportunities available to DEP; $5 million in annual savings has already been implemented as a result of contract review and training of personnel. In excess of 800 DEP person-hours of work were expended during Phase 1 for the review of Central Functions alone, including the review of the specifications of 35 contracts covering a range of goods and services, negotiation training for DEP and DCAS staff, as well as interviews and workshops with leadership, supervisors and field staff. Phase 1 reviews by the operating bureaus also included site assessment of treatment plants, pump stations, reservoirs and repair yards.

OpX Phase II Over the next four years, Phase II will involve the consultants working with DEP to implement the recommendations made in Phase I. In connection with revenue initiatives, Phase II will prioritize large meters needing replacement that could generate more than $40 million in additional revenues.

As part of OpX, DEP is also undertaking an organizational evaluation that will help determine the health of DEP as an organization. Specifically, it will include results of a study of organizational resources, including how to attract and retain employees. A survey was conducted in order to determine relative organizational health. Information provided by the survey will pinpoint areas for improvement in the management of the organization and its employees. It was noted that the expected 40% participation in the survey was a large sampling and therefore would be more representative.

Planning

It was stated that for the future, the Board would like to have a better understanding of federal and state regulatory actions that will require substantial Board

investment and consequent increased costs. An agenda item for the next meeting will be added to include educational information on this process. Also, a request for a trip in the field, as a part of the Board's educational process, is being planned for August. The next Board meeting will be held in September 2012. The Audit Committee meeting and subsequent Board meeting are scheduled to be held in mid-October at 75 Park Place, now known as 255 Greenwich Street.

Mr. Lawitts stated that as it was the last Board meeting of the fiscal year, he wanted to thank the Board for its help and support through the fiscal year. He also thanked Ms. McLean for her work, noting that she will have been employed at DEP for two years as of July 6, 2012. The Board enthusiastically expressed their appreciation of Ms. McLean's efforts.

Mr. Moss thanked Mr. Lawitts and the staff for their terrific support throughout the year and its "patience in dealing with the Board."

Adjournment

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

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