

**MINUTES OF THE ANNUAL MEETING
OF THE NEW YORK CITY WATER BOARD**

The Annual Meeting of the New York City Water Board (the “Board”) was held on May 16, 2008 at 8:30 a.m. at St. John’s University, 101 Murray Street, New York, N.Y. The following members of the Board were present:

James T.B. Tripp;

Donald Capoccia;

Dawn S. Davis;

Amaziah Howell;

Alan Moss; and

Maria Santos Valentin;

constituting a quorum. Mr. Tripp chaired the meeting, and Albert F. Moncure, Jr., 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 April 11, 2008. There being no discussion, upon motion duly made and seconded, the minutes of the Board’s meeting held on April 11, 2008 were unanimously adopted.

Opportunity for Public comment

Next, members of the public were invited to address the Board.

City Comptroller, William C. Thompson, Jr. spoke in opposition to the proposed 14½ % rate increase. He said the increase would not be required if the Bloomberg administration had accepted his proposal from last year that the so-called “excess rent” portion of the System Lease rental be used for pay as you go capital or rebated to the Water and Sewer

System. The Comptroller said the purpose of the rental should be to reimburse the City for debt service on general obligation bonds issued for Water and Sewer System purposes and any amount in excess of this should be applied to benefit the Water and Sewer System and not paid into the City's general fund. Currently, the annual System Lease rental is in an amount equal to 15% of Water Authority debt service, all of which is paid to the City. The Comptroller said this amounts to a back door tax on Water and Sewer System customers. He urged the Board to continue to work with the Bloomberg administration to restructure the rental payment.

Next DEP Commissioner Emily Lloyd addressed the Board. She said that consideration of the proposed rate increase should not be deferred until after the May 19 lien sale. She acknowledged that certain members of the City Council have requested such a delay in order for the Board to take into account the amount of lien sale proceeds as part of the rate setting process. Commissioner Lloyd said that DEP has a good estimate of the amount expected to be realized from the sale and that amount will not be enough to create a surplus. Moreover, it is imperative to adopt rates today so that frontage bills can be mailed, thereby generating early receipt of flat rate collections needed to alleviate the shortfall in Fiscal Year 2008 plan revenues. She then said that the Mayor's office, DEP, and the Board will participate in a joint study of the costs, resources, and uses of revenues of the Water and Sewer System. The study will consider revenue structures of other utilities, unfunded mandates, and the System Lease Rental structure. Responding to a question from Mr. Tripp, Commissioner Lloyd said that Fiscal Year 2010 Water and Sewer Rates would take into account the results of the study.

Adoption of Fiscal Year 2009 Annual Budget and Fiscal Year 2009 Rate Schedule

The next item on the agenda was consideration of the Fiscal Year 2009 Annual Budget and Fiscal Year 2009 Rate Schedule.

Executive Director Steven Lawitts presented a financial update. He said that although actual year-to-date collections of \$1.875 billion are 11% higher than revenues received at this time last year, collections are nevertheless \$72 million or 4% below the plan target amount. When proceeds from the sale of water and sewer liens having a face value of \$30 million are taken into account, the net Fiscal Year 2008 shortfall is \$41 million necessitating a 14½% Fiscal Year 2009 rate increase. Mr. Lawitts then explained the relationship between the proceeds expected to be realized by the Board from the lien sale and the face value of the liens being sold. He said that the proceeds are less than the face value of the liens because the liens must be over-collateralized.

Mr. Lawitts next summarized the Fiscal Year 2009 Annual Budget which he said was unchanged from the version presented to the Board at its last meeting. He described the debt service and operating and maintenance cost certifications from the Water Authority, Office of Management and Budget, and Consulting Engineer required by the Financing Agreement and System Lease. Responding to a question from Mr. Capoccia, Mr. Lawitts said the projected debt service costs in the proposed budget reflect savings attributable to refundings of Water Authority bonds.

At this point Mr. Tripp recognized Councilmember Gennaro who had just arrived and offered him the opportunity to address the Board. The Councilmember re-stated Mr. Tripp's testimony before the City Council Finance Committee in opposition to the current System Lease rental structure and asserted that the rate increase would be only 3% if the rental payment were restructured. He then urged the Board to delay a vote on the rate increase until after the May 19 lien sale.

Mr. Tripp next asked each Board member to speak about the System Lease rental and the proposed rate increase.

Mr. Moss said he would support the rate increase because the proposed study described by Commissioner Lloyd is an adequate response to the Board's concerns about the rental payment.

Mr. Capoccia acknowledged the public testimony in opposition to the rate increase and the fact that the Board had communicated its concerns over the rental payment to the Bloomberg administration. However, he said he will support the rate increase because the Board is contractually obligated in the Financing Agreement among the City, the Water Authority, and the Board to adopt rates based on the current Lease rental structure in an amount which will make the System self-sustaining.

Ms. Davis said the Board has a fiduciary responsibility to the System and its customers. She said she will support the rate increase because next year's rates will reflect the results of the proposed study and will take into account the Board's concerns about the System Lease rental payment.

Mr. Howell said DEP must do a better job controlling costs of operating the Water and Sewer System, but he will support the rate increase because the Board must act within the existing System financial constraints.

Ms. Santos said the study announced by Commissioner Lloyd represents a milestone in Mr. Tripp's long standing efforts to restructure the rental payment. She will support the rate increase because she believes the administration is now paying serious attention to Mr. Tripp's and the Board's concerns.

Mr. Tripp next expressed his own views on the subject. He thanked the City Council for adopting new lien sale legislation and confirmed that he had testified before the City Council Finance Committee in opposition to the current System Lease rental structure. He reiterated his view that excess rent should be used for rate relief or to fund the capital program. He said the Mayor's office is now fully committed to re-examining the Rental structure. This is underscored by the DEP Request for Proposals for a consultant to study Alternative Rate Structures. He said there needs to be a dialogue among DEP, the New York State Department of Environmental Conservation and the U.S. Environmental Protection Administration about how to moderate the growth of the capital budget by determining which mandated capital improvements to construct and which should not be built. He said consideration of the rate increase should not be delayed and he will support the rate increase because the City now has a genuine understanding of the Board's misgivings about the System Lease rental payment and a serious commitment to addressing those concerns.

At this point, Mr. Tripp recognized Councilmember Weprin who had just arrived and offered him an opportunity to address the Board. The Councilmember urged a delay in adopting the rate increase until after the May 19th lien sale and noted that the Council had adopted stand alone lien sale authorization for the Board based on assurances that the lien sale was essential to moderate rate increases.

Mr. Tripp next reviewed the Fiscal Year 2009 Annual Budget. There being no further discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the Board has received certification from the New York City Municipal Water Finance Authority (the "Authority") regarding the Authority's Budget for the fiscal year commencing July 1, 2008 ("Fiscal Year 2009") reflecting

Authority Expenses and estimated Aggregate Debt Service (as such terms are defined in the Authority's General Revenue Bond Resolution); and

WHEREAS, the Board has received certification from the Director of Management and Budget of the City of New York (the "City") regarding: the amounts which the City reasonably anticipates it will have expended during Fiscal Year 2009 in connection with the operation and maintenance of the water and waste water system as described in paragraphs (a) through (e) of Section 8.1 of the Agreement of Lease dated as of July 1, 1985, as amended, between the Board and the City (the "Lease"); and the rental payments requested by the City for Fiscal Year 2009 pursuant to Section 8.2 of the Lease; and

WHEREAS, the Board has received certification from Metcalf & Eddy of New York, Inc., Consulting Engineer, pursuant to Section 8.3(a)(ii) of the Lease to the effect that amounts certified by the City for costs incurred or to be incurred in connection with paragraphs (a) and (b) of Section 8.1 of the Lease are reasonable and appropriate; and

WHEREAS, the Board has reviewed a proposed budget for the Board's own anticipated Expense Fund operating expenses for Fiscal Year 2009; and

WHEREAS, the Board has reviewed the proposed Annual Budget for the Board's expected expenditures for Fiscal Year 2009 (the "Annual Budget") based on the above-described certifications and Board Expense Fund budget, and has determined that such provision for anticipated expenditures is reasonable and appropriate to enable the Board to exercise its powers and carry out its purposes in accordance with the New York City Municipal Water Finance Authority Act; it is therefore

RESOLVED, that the Annual Budget of the Board, a copy of which is annexed hereto,¹ be and is hereby adopted.

Mr. Tripp next reviewed the Fiscal Year 2009 Rate Schedule. There being no further discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

¹ Filed with Minutes of the Meeting.

WHEREAS, the Board is authorized pursuant to Section 1045-g(4) of the New York City Municipal Water Finance Authority Act (the "Act") to establish, in accordance with Section 1045-j of the Act, fees, rates, rents or other charges for the use of, or services furnished, rendered or made available by the water and waste water system of the City of New York; and

WHEREAS, in accordance with Section 1045-j(9-a) of the Act, public hearings concerning certain proposals regarding water and waste water system rates and charges were held in each borough of the City on May 5, 6, 7 and 8, 2008, and transcripts of said hearings have been received and reviewed by the Board; and

WHEREAS, in accordance with certifications received from (i) the New York City Municipal Water Finance Authority (the "Authority") with respect to the Authority's annual budget for the fiscal year commencing July 1, 2008 ("FY2009"), (ii) The City of New York (the "City") with respect to (a) the amounts which the City reasonably anticipates it will expend during FY2009 in connection with the operation and maintenance of the water and sewer system and (b) rental payments requested from the Board, and (iii) Metcalf & Eddy, Inc. of New York, Consulting Engineer, with respect to the reasonableness of the City's certification of certain expenses, the Board has on this day adopted its annual budget for FY2009; and

WHEREAS, based on the requirements set forth in the Board's annual budget for FY2009 and the testimony and reports submitted at the aforementioned public hearings, the Board has determined that, effective July 1, 2008, the water rate for all in-City customers, flat rate and metered, should increase by 14.5% over the rate in effect in Fiscal Year 2008 and the rate for waste water services should remain at 159% of the applicable water charge; it is therefore

RESOLVED, that the FY2009 Rate Schedule (a copy of which is attached hereto as Exhibit A),² which reflects an increase of 14.5% for in-City water rates, is approved.

Mr. Tripp next thanked Councilmembers Gennaro and Weprin for the City

Council's adoption of new lien sale authority. He said the purpose of such legislation and DEP's other collection enforcement initiatives is to increase the on-time payment rate above the current

² Filed with Minutes of the Meeting.

88% but that the expected proceeds from this year's lien sale will not bring revenues up to the plan target amount.

Discussion of the Joint Audit Committee Meeting of May 5th and Approval of Deloitte & Touche LLP to Serve as Independent System Auditors for Fiscal Years 2008 – 2010

The next item on the agenda was the approval of Deloitte & Touche LLP to serve as Independent System Auditors.

Mr. Lawitts described the competitive request for proposals process which resulted in the recommendation by the Water Board and Water Authority staffs to select Deloitte and Touche. He then described the scope of the engagement and the proposed fee structure.

Mr. Tripp said that the joint Water Board/Water Authority Audit Committee, on which he sits, endorsed the staff recommendation to hire Deloitte & Touche at its last meeting.

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

WHEREAS, the New York City Water Board (the "Board") and the New York City Municipal Water Finance Authority (the "Authority") are authorized by the New York City Municipal Water Finance Authority Act to retain or employ independent financial auditors; and,

WHEREAS, pursuant to a request for proposals dated February 11, 2008, the Selection Committee, consisting of representatives of the Board, the Authority and the Office of the Comptroller of the City of New York, recommended the retention of the firm of Deloitte & Touche LLP to serve as the System's independent auditors for fiscal years 2008 through 2011; and,

WHEREAS, the Joint Audit Committee of the System received a report, which summarized the basis for the Selection Committee's recommendation, and concurs with the proposed retention of Deloitte & Touche LLP to serve as the System's independent auditors; and,

WHEREAS, both the Board and the Authority are required to approve the retention of the independent auditors; and

WHEREAS, the Authority approved the retention of Deloitte & Touche LLP as auditors on May 5, 2008; it is hereby

RESOLVED, that the Board approves the retention of Deloitte & Touche LLP as independent auditors; and be it

FURTHER RESOLVED, that the Authority is authorized to enter into an agreement with Deloitte & Touche LLP to serve as independent auditors for the System’s financial statements for fiscal years ending June 30, 2008, 2009 and 2010, with one one-year extension upon recommendation of the Joint Audit Committee to cover the audit of the System’s financial statements for the fiscal year ending June 30, 2011, and upon such other terms and conditions not inconsistent with this resolution as the staff of the System shall determine, provided that annual compensation shall not exceed the following for Audit Services.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
	\$225,000	\$236,000	\$248,000	\$260,000

and provided that compensation for any additional services requested shall be based on the following hourly rates:

Special Projects (per hour)

Partner	\$370	\$370	\$370	\$370
Senior Manager	\$300	\$300	\$300	\$300
Manager	\$250	\$250	\$250	\$250
Senior	\$170	\$170	\$170	\$170
Semi-Senior	\$140	\$140	\$140	\$140
Assistant	\$130	\$130	\$130	\$130

The staff of the system is authorized to execute any documents necessary to effectuate the retention of Deloitte & Touche LLP as independent auditors of the System and to take such other and further actions, as they deem necessary or appropriate in order to effectuate the foregoing resolution.

Discussion of Upstate Rate Adoption Schedule

The next item on the agenda was the discussion of the upstate Rate Adoption Schedule. Mr. Lawitts said the rate for “allowance” quantities of water is expected to be \$900 per million gallons for daily per capita amounts not in excess of daily per capita consumption in the City. The Board will consider this rate at its June 20th, meeting.

Alternative Rate Structure RFP

A scope of work for the Alternative Rate Structure consultant RFP was distributed to Board members. Responding to a question from Ms. Santos, Commissioner Lloyd said the scope of work must now be modified to require the selected consultant to analyze the current System Lease Rental structure and propose alternatives to support the efforts of the joint study to which she referred in her earlier remarks.

Adjournment

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

SECRETARY