

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 April 8, 2011, at 8:30 a.m. at St. John’s University - Downtown Manhattan Campus, 101 Murray Street, Room 118, New York, New York 10007. The following members of the Board were present:

Alan M. Moss,

Marcia Bystryn,

Donald Capoccia,

Mehul Patel,

Arlene Payne, and

Benjamin Tisdell,

constituting the entire membership of the Board. Mr. Moss 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 March 18, 2011. There being no discussion, upon motion duly made and seconded, the minutes of the meeting held on March 18, 2011 were unanimously adopted.

Fiscal Year 2012 Rate and Billing Policy Proposals

Mr. Moss explained that the Board will soon adopt Fiscal Year 2012 Water and Sewer rates. He said the Board’s most important obligation is to establish charges for use of or services provided by the System which will enable the System to be operated on a self-sustaining basis. With this mandate in mind, he introduced DEP Commissioner Holloway to present DEP’s

Fiscal Year 2012 rate and billing policy proposals ahead of public hearings to be held in May. DEP acts as staff for the Board.

Commissioner Holloway began his presentation with a summary of Fiscal Year 2011 highlights. He said these include implementation of the Automated Meter Reading program and establishment of the leak notification program. DEP's operating budget has been trimmed by 8% or \$75 million, and the capital program has been reprioritized to emphasize, among other things, repair of the Delaware Aqueduct leak. In addition DEP has unveiled its Green Infrastructure Program to remediate Combined Sewer Overflows ("CSO's").

The Commissioner then summarized DEP's proposed 7.5% increase in Water and Sewer rates for Fiscal Year 2012 which, he noted, is 35% lower than the 11.5% increase projected in March 2010. He said that DEP has tried to be responsive to Mr. Moss's request to avoid a double digit increase. Commissioner Holloway added that the effective rate increase is actually only 5.4% for customers participating in the Direct Debit and Paperless Billing programs who benefit from an additional 2% discount.

Next the Commissioner described DEP's mission which is to provide safe drinking water to 9 million customers at the lowest cost, to construct capital projects on time and on budget and to provide a sustainable quality of life for all New Yorkers.

He then re-capped actual and projected Fiscal Year 2011 budget results. Consumption is 7% above the plan target amount resulting in revenues which are 3% above plan. Debt-related expenses are 16% above plan; debt service paid during the year is lower than planned primarily due to favorable interest rates, but an additional \$260 million is being used to defease outstanding bonds. Operating and maintenance costs are 13% below the target amount.

Describing the capital outlook, he said that mandated expenditures accounted for \$14.9 billion or 72% of capital commitments for Fiscal Years 2002 - 2010. DEP is working with state and federal regulators to eliminate, reduce and defer future mandates, he added. He observed that the impact of capital commitments on ratepayers does not occur until years after a commitment has been made when construction is actually underway and debt must be incurred to fund ongoing construction costs. He described progress on mandated capital commitments including the Croton Filtration Plant, the Catskill/Delaware Ultraviolet (UV) Disinfection Facility and the Newtown Creek Sewage treatment plant, as well as other critical system investments.

He then described projected Fiscal Year 2012 operating and maintenance costs. He discussed cost reduction measures such as the elimination 100 DEP personnel positions, landfilling biosolids and space consolidation. Those reductions, however, are offset by new needs such as the cost of the Catskill/Delaware UV Disinfection Facility and implementation of the Green Infrastructure Plan. He further described the Direct Debit and Paperless Billing programs and the plan to offer a 2% discount to incentivize customers to use these technologies that reduce DEP operating costs. DEP will also implement strategic initiatives to reduce costs such as the Green Infrastructure Plan. This plan, which is subject to Department of Environmental Conservation (“DEC”) and Environmental Protection Agency (“EPA”) approval, will reduce CSO’s by developing innovative green infrastructure solutions for handling rainwater and reducing the number of large retention tanks that would have to be constructed to mitigate CSO’s as part of a traditional infrastructure plan, thereby saving \$2.5 billion over ten years. He said that for next year overall operating and maintenance costs are projected to increase.

Therefore a 7.5% increase in Water and Sewer rates is necessary to cover the shortfall in projected revenues below projected expenses.

Discussions are ongoing, he said, with the EPA over the requirement to construct a 90-acre cover over Hillview Reservoir at a cost of \$2 billion. DEP has suggested monitoring contamination at the reservoir as an alternative method to protect water quality.

Discussion next ensued among Mr. Capoccia, Mr. Moss and Ms. Bystryn. Mr. Capoccia asked that Commissioner Holloway address the financial impact of real estate taxes, payable with respect to City-owned land in the upstate watershed. Commissioner Holloway responded that real estate taxes account for approximately \$140 million or 11% of the System operating budget. The City's land acquisition program, which restricts development on environmentally sensitive lands, is mandated by the Watershed Memorandum of Agreement pursuant to which EPA has issued the City a Filtration Avoidance Determination. The tax burden on acquired lands is cheaper than the alternative of constructing a multibillion dollar facility to filter Catskill/Delaware System water.

Mr. Moss expressed concern about the safety of the System in light of the Japanese earthquake and tsunami. Commissioner Holloway assured Mr. Moss that DEP and the operators of the Indian Point nuclear power plant are in constant communication with regard to safety matters. The Commissioner added that a supplemental water supply is key to crisis management in an emergency and that the Croton System will be available for this purpose upon completion of the Croton Filtration Plant.

Ms. Bystryn expressed concern about DEP's response to unfunded mandates. Commissioner Holloway reiterated that DEP continues to discuss the Green Infrastructure Plan initiative with DEC and EPA as an alternative to costly tanks and tunnels to abate CSO's.

Scope of Services for Financial Advisor Contracts

The final item on the agenda was a presentation relating to the Scope of Services for the Financial Advisor Contracts with KPMG LLP (“KPMG”) and Greenhill & Co., Inc. (“Greenhill”). The Board approved the contracts at its last meeting but requested an opportunity to review the Scope of Services before the contracts were executed. Mr. Lawitts described the Scope of Services. He said Greenhill will perform advisory work regarding the Wards Island Cogeneration initiative and alternative operations of the Catskill/Delaware UV Disinfection Facility, and KPMG will perform advisory work regarding the Upstate Hydroelectric Generation projects and the Beneficial Reuse of Biosolids.

Responding to a suggestion from Mr. Capoccia, Mr. Lawitts said DEP would attempt to assess Con-Edison’s interest in purchasing excess hydroelectric power which may be generated by DEP at upstate dams. Mr. Moss then asked whether the Catskill/Delaware UV Disinfection Facility would have excess capacity which could be marketed to other users. Mr. Lawitts explained that the UV facility will only be sized to meet the System’s needs but that municipalities and water districts north of the City which are located downstream of the facility who are entitled to water supply service from the System will benefit by receiving treated water from the facility.

Adjournment

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

Secretary