

**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 17, 2011 at 8:30 a.m. at the New York City Department of Planning, 22 Reade Street, Spector Hall, New York, New York 10007. The following members of the Board were present:

Alan M. Moss,
Alfonso Carney,
Donald Capoccia,
Mehul Patel, and
Benjamin Tisdell;

constituting a quorum. Mr. Moss chaired the meeting, and Albert F. Moncure, Jr., served as secretary of the meeting.

Approval of Minutes of May 13, 2011 Meeting

The first item on the agenda was approval of the minutes of the Board’s previous meeting held on May 13, 2011. There being no discussion, upon motion duly made and seconded, the minutes of the meeting held on May 13, 2011 were unanimously adopted.

Adoption of Fiscal Year 2012 Water Rates for Communities Outside of New York City

The next item on the agenda was the adoption of Fiscal Year 2012 water rates for communities outside of New York City. Executive Director, Steven Lawitts, described the statutory method of determining the so-called “allowance” rate for quantities of water not in excess of daily per-capita consumption in the City. Responding to Mr. Capoccia, he explained that the first step is to determine the net cost of service by subtracting from the total System cost of service certain expenses applicable only to the City. These include items such as financing costs for in-City capital improvements and sewage treatment costs. The net cost of service is then divided by upstate consumption to determine the allowance rate. Quantities of water in

excess of the allowance amount are billed at the in-City metered rate. Mr. Lawitts explained that application of the statutory formula this year initially resulted in a proposed rate increase of 7.7%. This has now been reduced to 5.6% to give effect to a litigation settlement recently approved by the New York State Department of Environmental Conservation. Pursuant to the settlement, the net cost of service has been reduced by \$10 million. Mr. Lawitts explained, in response to a question from Mr. Patel, that the revenue loss associated with the rate reduction attributable to the \$10 million settlement is actually \$1 million. Because the net cost of service reflects costs for system-wide consumption and upstate communities consume only 10% of total system consumption, upstate communities' allowance payments are calculated to cover 10% of the net cost of service, and a \$10 million reduction in the net cost of service equates to a \$1 million reduction in the revenue generated from upstate communities.

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

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 9, 2011 from the Amawalk Consulting Group LLC, Rate Advisor to the Board, on the cost of supplying water to upstate customers for the Fiscal Year 2012 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 2012 will be \$1,238.45 per million gallons; and

WHEREAS, the Commissioner of the New York State Department of Environmental Conservation entered an order on June 3, 2011 approving a reduction in the calculated "Total Costs for Facilities North of the City" pursuant to the terms of a stipulation between the Board and certain upstate communities; and

WHEREAS, upon appropriate notice, a public hearing was held on June 6, 2011 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 June 8, 2011 addendum to the May 9, 2011 report from the Amawalk Consulting Group LLC, Rate Advisor to the Board, which reflects the terms of the stipulation and results in a reduction in the unit cost of water supply service for municipalities and water districts north of the City in Fiscal Year 2012 from \$1,238.45 to \$1,213.84 per million gallons; and

WHEREAS, the Board has received a copy of the hearing transcript, the report and addendum, and upon recommendations from staff regarding the proposed increase; it is therefore

RESOLVED, that effective July 1, 2011, 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 \$1,213.84 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, 2011 shall be equal to \$4,237.97 per million gallons.

Approval of Selection of Risk and Insurance Consultant and Contract Authorization

The next item on the agenda was the approval of the selection of a Risk and Insurance Consultant.

Mr. Lawitts explained that DEP awards capital construction contracts in the amount of more than \$1 billion annually. DEP customarily requires that its construction contractors provide a range of insurance coverages, as well as performance and payment bonds. However, DEP does not have a risk insurance unit to provide guidance with respect to whether these requirements are adequate or appropriate. Therefore DEP now proposes to engage an

insurance and risk consultant to provide advice in this regard. Board staff has identified a prospective consultant through a competitive request for proposals (“RFP”) process.

Mr. Lawitts said that pursuant to the RFP process, nine proposals were received, proposals were reviewed and interviews were conducted with two short-listed respondents. An evaluation committee determined that Willis of New York, Inc. offered the best combination of technical merit and price.

Discussion ensued among Mr. Moss, Mr. Capoccia and Mr. Carney about whether the risk and insurance consultant should also be permitted to provide insurance brokerage services and the potential for conflict of interest if that occurs.

Mathilde McLean, the Board’s Treasurer, said this risk would be minimized by prohibiting the consultant from preparing procurement documents for the selection of insurance brokers and by the maintenance of an ethical wall between its divisions which provide insurance advisory services and its divisions which provide insurance brokerage services. Mr. Lawitts added that in connection with any future selection of an insurance broker, Board staff would treat all applicants equally on an arm’s length basis and would make a decision without regard to any prior relationship between a broker and DEP.

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's primary duty under the Act is to establish and collect water and wastewater rates and charges in an amount sufficient to place the water supply and wastewater systems (the “System”) of the City on a self-sustaining basis; and

WHEREAS, the System is operated and maintained by the Department of Environmental Protection of the City of New York (“DEP”); and

WHEREAS, in the course of operating and maintaining the System, DEP, as one of the largest City construction agencies, enters into a large number of contracts with private entities, awarding more than \$1 billion annually in contracts for construction, construction-related services and engineering services; and

WHEREAS, DEP generally requires each of its contractors to purchase a wide array of insurance policies as well as requiring payment and performance bonds, but currently has no risk or insurance unit to provide guidance in this undertaking; and

WHEREAS, in the interest of implementing more innovative approaches to insurable risk, the Board seeks to procure the services of a qualified firm that will provide broad-based risk and insurance consulting services to DEP regarding the insurable risks encountered in DEP projects involving private contractors; and

WHEREAS, on April 12, 2011, Board staff commenced a competitive solicitation process for said risk and insurance consulting services with the advertisement of a Request for Proposals (“RFP”) on the Board’s website and in the City Record and the New York Daily News on April 14, 2011; and

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

WHEREAS, a Technical Evaluation Committee (“the Committee”), consisting of four 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 two 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 Willis of New York, Inc. 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, the Board has reviewed a memorandum dated June 10, 2011 from the Executive Director of the Board, Steven W. Lawitts, on behalf of the Committee, which summarizes the RFP and evaluation process and sets forth a recommendation that the Board authorize the Executive Director to enter into a contract with Willis of New York, Inc. to provide risk and insurance consulting services to the Board and regarding private contractors retained by DEP; and,

WHEREAS, in accordance with the 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 Willis of New York, Inc. appropriate;

RESOLVED, that the Executive Director is hereby authorized and directed to execute an agreement with Willis of New York, Inc. to provide risk and insurance consulting services to the Board, for a two-year term, which may also include an option for three one-year extensions at the Board's discretion, 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 for the initial two-year term of the agreements shall not exceed \$300,000 of Board funds.

Governance Committee Appointments

The appointment of a new member to the Governance Committee was deferred to a future meeting. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, pursuant to New York State Public Authorities Law, the New York City Water Board (the "Board") established a Governance Committee and adopted a Governance Committee Charter (the "Charter"); and,

WHEREAS, pursuant to Section II.b. of the Charter, the Chair of the Board may designate one member of the committee as the Chair of the Governance Committee; it is therefore

RESOLVED, that Marcia Bystryn is hereby designated Chair of the Governance Committee.

Audit Committee Appointment

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”) established a joint Audit Committee and adopted an Audit Committee Charter (the “Charter”) in light of their joint role in the financial operations of the water and wastewater system of the City of New York (the “System”); and,

WHEREAS, pursuant to Section II.a.iv. of the Charter, the committee includes three members of the Board, and there is currently one Board member vacancy in the committee; it is therefore

RESOLVED, that Alfonso L. Carney, Jr. is hereby appointed as a member of the Audit Committee, joining current Board members, Donald A. Capoccia and Benjamin A. Tisdell; and

FURTHER RESOLVED, that in the event of the unavailability or absence of any of the committee members from a meeting, any other Board member may serve as an alternate committee member at that meeting.

Financial Update

Next Ms. McLean presented a Financial Update.

She said that collections are 2% or \$51 million ahead of the plan target amount, not taking into account an \$84 million payment just received from the City for service provided to City agencies.

Delinquent charges in the amount of \$126 million have been included in the 60-day lien sale notices. Because of a delay in the issuance of lien sale notices attributable to the requirements of the new lien sale legislation, collections during April and May did not include

additional payments from delinquent customers incentivized to pay by the threat of having their liens sold. However, this so-called “halo” effect is expected to generate payments of \$80 million in delinquent charges in the two months prior to this year’s lien sale, which is scheduled for August.

Ms. McLean next displayed charts comparing year-over-year in-City water distribution and metered consumption “same customer sales” for the first eleven months of the fiscal year. DEP distributed 2.6% more water by volume to customers in the first eleven months of Fiscal Year 2011 than during the comparable period last year, and the percentage of the total dollar amount billed to “same customer sale” metered accounts has risen by more than the Fiscal Year 2011 rate increase of 12.9% in eight of the eleven months.

Miscellaneous

Mr. Moss requested that Board staff maintain a correspondence log of letters addressed to the Board and distribute the log to the Board from time to time. Mr. Lawitts agreed to this request.

Mr. Lawitts explained that DEP will organize a field trip to one or more of its facilities for Board members.

Adjournment

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

SECRETARY