

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 March 30, 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,

Alfonso L. Carney, Jr.,

Mehul J. Patel,

Arlene Payne, and

Benjamin Tisdell,

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

Approval of Minutes of February 24, 2012

The first item on the agenda was approval of the minutes of the Board’s previous meeting held on February 24, 2012. There being no discussion, upon motion duly made and seconded, the minutes of the meeting held on February 24, 2012, were unanimously adopted.

Presentation: Fiscal Year 2013 Rate and Billing Policy Proposals

DEP Commissioner Carter Strickland presented DEP’s Rate and Billing Policy Proposals for the next Fiscal Year.

Rate Increase - DEP is proposing a 7% rate increase. This is the lowest rate increase in 7 years and is 29% lower than the 2010 projection of the Fiscal Year 2013 increase. The lower rate increase is possible because of reduced Water Authority debt service, which is attributable to lower interest rates and a reduction in the magnitude of unfunded mandates

financed through the System Capital Plan. Additionally DEP's operating budget has been reduced by 15% over the past three years.

Expiration of Frontage Billing and Conversion to MCP - Commissioner Strickland explained that frontage-based billing for Tax Class 2 multi-family properties will expire on June 30, 2012. Properties may then elect to be billed based on metered consumption or convert to the Multi-Family Conservation Program ("MCP"), in which case, the cost of service will be based on a fixed charge per dwelling unit.

Service Line Protection Plan – DEP, through the Board, intends to offer customers an optional Service Line Protection Plan. The Plan will be provided by a contractor, which DEP is in the process of selecting through an RFP process. The plan, which will be provided at no cost to DEP, will save homeowners the costs of unexpected service line repairs, minimize overall disruption to the local community and reduce the expense to DEP of terminating water service on service line leaks that have not been repaired.

Capped Rental Payment Pilot - The Board's rental payment to the City pursuant to the System Lease will be capped at the Fiscal Year 2011 amount for Fiscal Year 2012. The annual cap will be increased at the rate of inflation for a 3-year pilot period through Fiscal Year 2015. The amount of the gross rental, based on 15% of Water Authority debt service, in excess of the cap will be used for partial mitigation of future rate increases, green infrastructure, and other programs.

Fiscal Year 2012 Highlights - Commissioner Strickland summarized certain of DEP's major achievements in Fiscal Year 2012.

There has been a \$3.4 billion reduction in unfunded mandates for combined sewer overflows, which has been accomplished by replacing gray infrastructure with environmentally sound green infrastructure projects.

Construction of the \$1.6 billion Hillview Reservoir cover has been deferred to 2023.

Negotiated increases in labor costs have been offset with productivity gains.

OpX initiatives already implemented will result in \$5 million of savings in Fiscal Year 2013.

Strategy 2011-2014 -

Commissioner Strickland said that DEP's mission is to supply, deliver, and treat water for 9 million people. He then summarized 100 strategies and initiatives to accomplish this goal in four core areas: customer service, worker safety, capital construction, and sustainability. He said that 63 of the initiatives have been fully or partially implemented thus far.

Fiscal Year 2012 Budget - Commissioner Strickland summarized actual and projected Fiscal Year 2012 Budget results. Debt service accounts for 46% of the Budget, Operating and Maintenance expenses for 34%, and the System rental payment to the City 6%. Total consumption for Fiscal Year 2012 is projected to equal the plan target amount. Projected Revenues, Operating and Maintenance Expenses, and Debt Service are forecast to be 1%, 2%, and 4% higher than the respective plan target amounts. The System rental payment is projected to be 11% less than the plan target amount because the Authority's debt service has been lower than projected as a result of low interest rates.

DEP's Capital Priorities 2012 - 2016 - Commissioner Strickland discussed DEP's Capital Priorities for the current period through Fiscal Year 2016. These include Green

Infrastructure related projects, Staten Island Siphon construction, repair of the Manhattan Pump Station, and repair of the Delaware Aqueduct.

Projected Fiscal Year 2013 Operations and Maintenance Changes - Reductions in Operating and Maintenance expenses from the OpX program for Fiscal Year 2013 are projected to be \$10 million. The savings are attributable to OpX initiatives regarding chemical usage, vehicle maintenance, and a number of other small individual interventions, which collectively result in significant reductions.

The reductions are offset by new needs which include Operating and Maintenance expenses for the Croton Filtration Plant and the Catskill/Delaware Ultraviolet Disinfection Facility.

Financial Outlook for Fiscal Year 2013 - For Fiscal Year 2013, Operating and Maintenance expenses, consisting of new needs net of cost reductions, are expected to increase by \$67 million or 5%. Debt service, excluding FY 2012 debt defeasance, is projected to increase by \$138 million or 9%; and the System Rental Payment will be capped at \$196 million, adjusted for inflation, pursuant to the new pilot program. Additional revenue of \$205 million will be needed, which accounts for the proposed 7% rate increase.

The Commissioner then discussed the schedule of public hearings to be held ahead of rate adoption at the next Board meeting in May.

Following the conclusion of Commissioner Strickland's presentation, individual Board members commented.

Mr. Moss commended the Commissioner's leadership. He added that the System Rental adjustment is a surprising and unexpected benefit. Early results indicate that the OpX

Program represents a good return on investment. However, he expressed concern about the potential threat to the Water System from hydrofracking.

Commissioner Strickland replied that the Department of Environmental Conservation has banned hydrofracking in the watershed, and DEP is requesting a further exclusion zone in the area adjacent to the watershed.

Mr. Patel also praised the System Rental adjustment as well as the transition from frontage billing to the MCP.

Ms. Payne said she is very impressed by the “phenomenal” job done by DEP in supplying high quality water to residents of the City and DEP’s ability to construct capital projects on time and under budget.

Ms. Bystryn praised DEP’s creative thinking on public/private green infrastructure projects as well as the System Rental pilot program.

Mr. Carney thanked Commissioner Strickland for his explanation of the financial impact of unfunded mandates, which he said was very clear. He congratulated DEP on the deferral of unnecessary federally mandated capital projects.

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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Secretary