

**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 4, 2012 at 8:30 a.m. at the New York City Office of Management and Budget, 75 Park Place, 8th floor conference room, New York, New York 10007. The following members of the Board were present:

Alan M. Moss,

Marcia Bystryn,

Donald Capoccia,

Mehul J. Patel,

Arlene Payne, 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 March 30, 2012

The first item on the agenda was approval of the minutes of the Board’s previous meeting held on March 30, 2012. There being no discussion, upon motion duly made and seconded, the minutes of the meeting held on March 30, 2012, were unanimously adopted.

Introductory Remarks by the Chairman

Mr. Moss explained that the purpose of the meeting was to establish Water and Sewer rates for Fiscal Year 2013.

He said that prior to creation of the Board, the City's Water and Sewer System was characterized by "benign neglect" as a result of inadequate funding. Groundwater sources in the Upstate Watershed were not sufficiently insulated from development activities, and raw sewage was often discharged into the Hudson River and Jamaica Bay.

The Board, created in 1984 by State legislation, is charged with establishing rates and charges sufficient to establish the Water and Sewer System on a self-sustaining basis.

The seven members of the Board are non-City employees. Although appointed by the Mayor, Board members are independent. They receive nominal consideration and are motivated solely by a commitment to public service.

Adoption of Fiscal Year 2013 Annual Budget

The next item on the agenda was adoption of the Fiscal Year 2013 Budget for the Water and Sewer System.

Executive Director Steven Lawitts described the certifications the Board is required to receive pursuant to the System Financing Agreement prior to adopting the annual budget. The Water Authority is required to certify projected debt service on Water Authority bonds. The City's Budget Director is required to certify projected Operating and Maintenance Expenses and the rental payment requested by the City pursuant to the System Lease. The System's Consulting Engineer is required to certify that the projected Operating and Maintenance Expenses are reasonable and appropriate to operate the Water and Sewer System.

Mr. Lawitts said the proposed \$3.35 billion budget contains \$1.6 billion for debt service costs and \$1.276 billion for Operating and Maintenance Expenses. The budget includes \$150 million for cash-funded capital expenses and \$237 million for the rental payment to the City pursuant to the System Lease.

Mr. Lawitts next described the Board's Expense Fund Budget. He said that Board expenses contained in the Expense Fund Budget include incentive compensation of up to \$11.475 million to be paid to Veolia Water North America Operating Services, LLC ("Veolia") for Phase 2 of the OpX program in the event DEP elects to proceed with Phase 2. Mr. Lawitts reminded the Board that Veolia's compensation for Phase 1 in which Veolia identified potential operational efficiencies in connection with the management of the Water and Sewer System is fixed but that the compensation for Phase 2 is based on a percentage of the savings expected to be realized from implementation of Veolia's recommendations. The budgeted fee is based on expected savings in the amount of \$100 million.

The Board's Expense Fund Budget also includes \$14.855 million for the service line protection plan, which is actually a pass through of charges from customers to the service line contractor but such amount is required to be recognized as a Board expense under Generally Accepted Accounting Principles.

Responding to Mr. Capoccia's request for clarification as to whether the Annual Budget for the System reflects \$100 million in savings, Mr. Lawitts said the Budget reflects an estimate of savings based on the initiatives currently being implemented but that the Budget will be adjusted if the actual savings are different.

Mr. Capoccia requested that Board staff, in future presentations, quantify the correlation between operational efficiencies achieved pursuant to the OpX Program and reductions realized in future rate increases.

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") 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, 2012 ("Fiscal Year 2013") 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 2013 in connection with the operation and maintenance of the water and wastewater 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 2013 pursuant to Section 8.2 of the Lease; and

WHEREAS, the Board has received certification from AECOM USA, 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 2013; and

WHEREAS, the Board has reviewed the proposed Annual Budget for the Board's expected expenditures for Fiscal Year 2013 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 for Fiscal Year 2013, a copy of which is attached hereto,¹ is hereby adopted.

¹ Filed with Minutes of the Meeting.

Adoption of Fiscal Year 2013 Rate Schedule

The next item on the agenda was the establishment of Fiscal Year 2013 Water and Sewer Rates. Mr. Lawitts said the Board is being asked to adopt a 7% rate increase as previously announced and publicly noticed.

Also Frontage Billing for Tax Class 2 properties will be replaced with either a fixed charge per dwelling unit pursuant to the Multi-Family Conservation Program or, at the customer's election, metered billing. The fixed charge is intended to approximate a 7% increase in the existing flat-rate charge.

As mentioned in the discussion of the Board's Expense Fund Budget, the proposed Rate Schedule also provides a charge for the service line protection program which Board staff intends to present to the Board for approval at a future meeting.

In addition a \$450 charge is authorized to be imposed for a service call by DEP in response to a water or sewer service line problem where the leak or blockage is determined not to be DEP's responsibility or fault. Replying to a question from Mr. Capoccia as to how disputes regarding the location of the blockage will be resolved, Mr. Lawitts said DEP will exercise discretion in determining whether to assess the charge.

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-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 wastewater system of the City of New York (the "City"); and

WHEREAS, in accordance with Sections 1045-j (3) and (9-a) of the Act, public hearings concerning certain proposals regarding water and wastewater system rates and charges were

held in each borough of the City on April 23, 24, 25, 26 and 27, 2012, and a summary or transcript of each hearing along with all written statements submitted by April 27, 2012 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, 2012 ("FY 2013"), (ii) the City with respect to (a) the amounts which the City reasonably anticipates it will expend during FY 2013 in connection with the operation and maintenance of the water and sewer system and (b) rental payments requested from the Board, and (iii) AECOM USA, Inc., 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 FY 2013; and

WHEREAS, based on the requirements set forth in the Board's annual budget for FY 2013 and the testimony and statements submitted at the aforementioned public hearings, the Board has determined that, effective July 1, 2012, the water rate for all in-City customers, flat rate and metered, should increase by 7% over the rate in effect in Fiscal Year 2012 and the rate for wastewater services should remain at 159% of the applicable water charge; and

WHEREAS, the Board has further determined that the billing policy proposals of 1) an amendment to the Multiple-family Conservation Program (MCP) to include automatic enrollment of qualifying Tax Class 2 residential properties and annual MCP rates of \$894.15 per residential dwelling unit, \$736.13 per low-consumption commercial unit and \$253.56 per boarder, roomer or lodger unit, as well as, for such automatically enrolled properties, the allowance of grace periods until January 1, 2014 to comply with MCP requirements to install approved meter(s) and until June 30, 2015 to install high-efficiency plumbing fixtures, 2) annual rates of up to \$47.88 per water service line and \$95.88 per sewer service line for a Service Line Protection Policy Program that is expected to be implemented in FY 2013 for residential customers with a water service line of 2" or less, and 3) a revision in the Service Call fee for a charge of up to a maximum of \$450 for an inspection at the request of a customer where the complaint is found to be outside the jurisdiction of DEP, all as set forth and described in the public notice, the Public Information Regarding Water and Wastewater Rates booklet dated April 2012, and the

Board's Water and Wastewater Rate Schedule for Fiscal Year 2013, should be approved as recommended by staff; it is therefore

RESOLVED, that the Water and Wastewater Rate Schedule for Fiscal Year 2013, a copy of which is attached hereto,² which reflects an increase of 7% for in-City water rates as well as the new and modified billing policies, programs and fees as described above is hereby approved.

Upstate Rate Report and Adoption Schedule

The final item on the agenda was a presentation regarding the approval of upstate water rates which are scheduled to be adopted at the Board's next meeting in June.

Mr. Lawitts explained that upstate communities are charged an "entitlement" rate for quantities of water not in excess of their population multiplied by daily per capita consumption in the City. The "entitlement" rate is a wholesale rate based on the cost of supplying water to such communities. It is proposed to establish an "entitlement" rate of \$1,332.30 per million gallons which is a 9.8% increase over the current "entitlement" rate. Last year's projected increase in the "entitlement" rate for Fiscal Year 2013 was 18.2%. Responding to a question from Mr. Capoccia, Mr. Lawitts said the "entitlement" rate is 29.4% of the in-City metered rate.

Amounts of water consumed in excess of the "entitlement" amount are charged a rate equal to the in-City metered rate.

Mr. Capoccia said there should be an upward adjustment to the rate charged to upstate communities to reflect the real estate taxes paid by DEP to such communities. The Board's Treasurer Mathilde McLean responded that DEP pays taxes to 71 upstate communities but supplies water to only 18 of these communities.

² Filed with Minutes of the Meeting.

Mr. Patel requested that the staff provide a map graphically illustrating upstate communities where DEP is both supplying water and paying real estate taxes.

Adjournment

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

original signed by
SECRETARY