

**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 December 7, 2012 at 8:30 a.m. at the New York City Department of City Planning, 22 Reade Street, 1st Floor, Spector Hall, New York, New York 10007. The following members of the Board were present:

Alan Moss,

Marcia Bystryn,

Donald Capoccia,

Alfonso Carney,

Mehul Patel,

Arlene Shaw, 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 November 9, 2012 Meeting

The first item on the agenda was approval of the minutes of the Board’s previous meeting held on November 9, 2012. There being no discussion, upon motion duly made and seconded, the minutes of the meeting held on November 9, 2012 were unanimously adopted.

Consent to Grant of Easement by the City of New York to the Town of Gardiner

The next item on the agenda was the request that the Board approve the grant of an easement over City-owned property in the Town of Gardiner which is leased to the Board

pursuant to the System Lease. Under the System Lease, the City may grant interests in the leased property with the consent of the Board.

The Town of Gardiner has requested the easement in the area adjacent to DEP's proposed construction of an interconnection between the Catskill and Delaware Aqueducts adjacent to Shaft 4. The Town is requesting the easement as a condition to its approval of the site plan for the interconnection. DEP is legally required to obtain the Town's approval prior to construction of the interconnection.

Steven Lawitts, the Board's Executive Director, explained that the interconnection will provide DEP with greater flexibility to manage water from the Catskill and Delaware Systems, and it will permit shut down of the Delaware Aqueduct during repair of the leak in the Delaware Aqueduct.

The Town needs the easement to construct an access road from Route 208 across a parcel of land, which is isolated from any road, in order to accommodate future development in the adjoining area.

Responding to Mr. Moss, DEP counsel, Robin Levine, said the interconnection will facilitate the transfer of higher quality Delaware water to the Catskill System during periods of elevated turbidity in the Catskill System.

Responding to Mr. Carney, Ms. Levine said the Town has no immediate plans for development of the subject property.

Mr. Capoccia raised several questions about alternatives to the easement, the specific property description of the easement and DEP's approval of the layout, as well as the market value of the easement. Ms. Levine responded that use of an existing right of way for the Town's proposed access road was not a viable alternative to the easement because the right of

way would have to be widened in order to comply with the Town code. This would create security issues for DEP related to the interconnection. She said the final metes and bounds description of the easement would be agreed upon in the future but would be subject to DEP approval. The appraised value of the easement is approximately \$8,000 although the actual value to private developers of the property benefitted by the easement is unknown at this time and would depend on the nature of that private development. The cost to DEP of constructing the interconnection, on the other hand, is \$21 million.

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

WHEREAS, the water and wastewater systems (the “Systems”) of the City of New York (the “City”) have been leased by the City to the New York City Water Board (the “Board”) pursuant to an Agreement of Lease, dated as of July 1, 1985, as amended, between the City and the Board (the “Lease”); and

WHEREAS, the New York City Department of Environmental Protection (“DEP”) operates and maintains the Systems; and

WHEREAS, pursuant to Section 11.1(d)(ii) of the Lease, the City may, with the prior written consent of the Board, grant interests in property covered by the Lease which, in the reasonable judgment of the Board, do not interfere with the operation, maintenance and the collection of revenues from the Systems; and

WHEREAS, DEP is constructing a water supply connection that will allow the interconnection of the Delaware and Catskill Aqueducts at the site of Shaft 4 in the Town of Gardiner, Ulster County; and

WHEREAS, DEP sought site plan approval from the Town of Gardiner for this project, known as CDIS4; and

WHEREAS, the Town of Gardiner unanimously approved a site plan subject to the condition that the site plan shall provide for a 50-foot easement sufficient for the construction of a standard town road across the subject parcel at a location to be determined based on further development in the area; and

WHEREAS, it is the judgment of the Board that such transfer provides benefits to the City and will not interfere with the operation and maintenance of the Systems or the collection of revenues from the Systems, it is therefore

RESOLVED, that pursuant to the powers granted to the Board by the Lease, the Board hereby approves the grant of an easement, the location of which is to be determined in the future, and authorizes DEP to take such actions as may be required to effectuate the granting of the easement described herein.

Approval of Selection of Lockbox and Payment Processing Contractor and Contract Authorization

The next item on the agenda was the approval of the selection of a Lockbox and Payment Processing contractor to replace the Board's expiring contract with Bank of New York Mellon ("BNYM"). Mr. Lawitts explained that the recommended contractor, Citibank, N.A. ("Citi"), was selected pursuant to a competitive Request for Proposals ("RFP") process. An RFP was issued, nine proposals were received, and interviews were conducted with four proposing firms. The evaluation committee recommended Citi as the proposer providing the best technical merit and the lowest price.

Citi will process paper lockbox remittances from rate payers in New York City on Staten Island and will also provide Automated Clearing House processing services. A five-year contract with two three-year extensions at the Board's option is proposed. The annual cost is expected to be \$586,000 with an overall maximum contract price of \$16 million. By comparison, the annual payment under the current BNYM contract is \$790,000. In determining the maximum compensation to be paid to Citi, Board staff assumed that customers will be billed quarterly for the first three years of the contract term followed by a transition to monthly billing.

Responding to a question from Ms. Bystryn about the relative economics of quarterly versus monthly billing, Mr. Lawitts said that monthly billing is more efficient for customers.

Responding to a question from Mr. Tisdell about potential difficulties with the transition from the existing contractor, Mr. Lawitts explained that BNYM will continue to provide services at its current pricing on an interim basis for up to six months during the switch over to Citi.

Responding to a question from Mr. Carney as to whether the Board has the option to renegotiate the contract price after the initial term, Mr. Lawitts said DEP will try to keep the pricing constant over the contract term, with no increase during the renewal period.

Mr. Moss asked how the particular contract term was determined. Mr. Lawitts said two three-year renewal options have been proposed to provide flexibility to permit termination of the contract in the event that changes in technology after the initial five year term render the services provided by the contract obsolete.

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 New York City Water Board (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 of the City of New York on a self-sustaining basis; and

WHEREAS, on June 5, 2012, Board staff commenced a competitive solicitation process for lockbox and other payment

processing services with the advertisement of a Request for Proposals (“RFP”) in the City Record, the New York Daily News, and on the Board’s website; and

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

WHEREAS, a Technical Evaluation Committee (“the Committee”), consisting of five qualified persons from the Board, the New York City Department of Environmental Protection and the New York City Department of Finance, rated and ranked each technical proposal and statement of qualifications received in accordance with the criteria stated in the RFP; and

WHEREAS, the four 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 Citibank, N.A. (“Citibank”) 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, in accordance with the Water 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 Citibank appropriate; it is therefore

RESOLVED, that the Executive Director is hereby authorized and directed to execute an agreement with Citibank to provide lockbox and other payment processing services to the Board, for an initial five-year term with two additional three-year extensions at the Board’s option, 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 five-year term and the two three-year extensions shall not exceed \$16,000,000 of Board funds.

Financial Update

The final item on the agenda was a financial update provided by Mr. Lawitts. Mr. Lawitts said that collections to date are 1% or \$2 million ahead of the plan target amount. He added that year-over-year metered consumption has declined, but because of the rate increase, year-over-year total billed dollar amount has increased.

Mr. Moss expressed his hope that the Board can continue the trend of adopting declining annual rate increases.

Responding to Ms. Bystryn, Mr. Lawitts said it was too early to know the effects of Hurricane Sandy on collections.

Mr. Lawitts said the pace of customers converting from flat rate billing to metered consumption initially accelerated in Fiscal Year 2013 due to changes in the Multi-Family Conservation Program (“MCP”). This prompted a question from Mr. Capoccia as to whether metered consumption is more beneficial to the Board or to customers inasmuch as customers converting from the MCP presumably perceive metered consumption to be cheaper. Mr. Lawitts responded that remaining on the MCP actually improves the Board’s cash flow because annual charges for water and wastewater are collected at the beginning of the fiscal year, before the water is consumed, while customers who switch to metered billing are billed quarterly, after the water is consumed. He added that certain multi-family rental properties have actually elected to remain on the MCP because of the difficulty in passing on increases in metered consumption charges to tenants.

With respect to Hurricane Sandy, Mr. Lawitts said there had been approximately 2,800 Automated Reading Device failures attributable to the storm and that DEP has suspended payment for accounts with devices which are not transmitting consumption.

He also said DEP had suspended late charges until June 2013 and temporarily suspended enforcement efforts. In addition Mr. Lawitts said collections have been suspended for 7,100 properties that were significantly structurally damaged by the storm. There will be a house-by-house inspection to determine if properties should be added to or deleted from this list.

Responding to Ms. Shaw, Mr. Lawitts said DEP will make follow-up telephone calls to owners of damaged properties after the physical inspections, and that customers will be notified on their bills that they are entitled to special billing reviews for accounts impacted by the storm.

Mr. Lawitts said that \$92.2 million is the preliminary estimate of costs attributable to Hurricane Sandy. This consists of \$43.7 million in increased operating and maintenance (“O & M”) expenses and \$48.5 million in long-term capital costs. Responding to questions from Mr. Tisdell and Mr. Moss about whether these costs will be borne by rate payers, Mr. Lawitts said the O& M costs are expected to be reimbursed by FEMA, and that even though FEMA funds will not be received immediately, the expected payments will be accrued as accounts receivable under generally accepted accounting principles, and will therefore not be the basis for a rate increase.

Responding to questions from Ms. Bystryn, Ms. Levine said DEP satisfied all DEC reporting requirements related to storm damage, and DEP does not anticipate the imposition of any hurricane-related penalties by DEC.

Mr. Lawitts said that DEP will include storm hardening measures in the biennial update to the 10-year Water and Sewer System Capital Plan and that four years ago, DEP took into account the effects of sea-level rise on the design of Water and Sewer System infrastructure. This initiative will continue in the aftermath of Hurricane Sandy.

Mr. Lawitts gave a brief update on this year's lien sale scheduled to take place in May. He said that liens on properties which incurred substantial damage from Hurricane Sandy will not be sold.

Adjournment

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

SECRETARY