

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 January 24, 2014 at approximately 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. A roll call of the Board’s members was called and the following members of the Board were present at the meeting:

Alan Moss,

Adam Freed,

Jonathan Goldin,

Alfonso Carney, and

Arlene Shaw,

constituting a quorum. Mr. Moss chaired the meeting and Greg Ascierito served as acting Secretary of the meeting.

Prior to the next agenda item being taken up by the Board, Mr. Moss addressed the public and the Board. He explained that while Board members are appointed by the Mayor, they continue to exercise their own independent judgment in accordance with conclusions reached after conducting their own diligent research. The Chair also requested updates on contingency plans for the City’s water and sewer systems (the “System”), including protection of the System, drought and flood planning, water main replacement strategy, and the status of OpX, noting that all of these contingencies have an impact on the rates.

The Board’s Executive Director, Steven Lawitts, noted that the System has benefited from robust resiliency and contingency planning as demonstrated by the System’s performance during recent extreme weather events. Mr. Lawitts advised the Board that DEP is in the process of revising drought rules, which will include provisions on drought-related rates. He also noted

that water main breaks for the last year were the lowest of record, and that DEP's OpX program is active and continues to result in enhanced operational efficiencies.

Approval of Minutes

The second item on the agenda was approval of the minutes of the Board's previous meeting held on December 13, 2013. There being no discussion, upon motion duly made and seconded, the minutes of the meeting held on December 13, 2013 were unanimously adopted.

Appointment of Audit Committee Members

The next item on the agenda was the appointment of two audit committee members.

Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board.

Resolution

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 are currently two Board member vacancies in the committee; it is therefore

RESOLVED, that Adam Freed and Jonathan E. Goldin are hereby appointed as members of the Audit Committee, joining current Board member, Alfonso L. Carney, Jr.; and it is

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.

Approval of Selection of Conservation Plan Consultant and Contract Authorization

The next item on the agenda was the approval of the selection of Water Demand Management, LLC ("WDM") to create conservation plans for ten of the Board's upstate

consumers. Mr. Lawitts noted the importance of conservation planning in water supply contingency planning, specifically with respect to the period when the Delaware Aqueduct will need to be temporarily shut down to connect to the by-pass tunnel. He stated that upstate conservation will supplement in-city conservation initiatives, and that the goal for upstate conservation is to achieve a 5% reduction. He explained that the recommended contractor, WDM, was selected pursuant to a competitive Request for Proposals (“RFP”) process. An RFP was issued, three proposals were received, and interviews were conducted with all proposing teams. The evaluation committee recommended WDM as the proposer providing the best technical merit and the lowest price.

Responding to a question from Mr. Carney, Mr. Lawitts explained that the ten largest users account for approximately 86% of upstate consumption. Therefore, the conservation goal may be met by working with only the top ten customers, and it may not be as effective to create conservation plans for the other upstate communities.

Responding to a question from Mr. Freed, Mr. Lawitts agreed that there is a general downward trend in consumption, and that the stated goal of a 5% reduction is in addition to the general reduction.

Mr. Goldin questioned whether the contract payment was based on performance goals. Mr. Lawitts responded that they were not, but that the plans will include a detailed implementation plan and budget to help ensure reductions in consumption at the consumer level. Several Board members questioned how the contractor’s performance will be measured and whether the contractor will tailor each plan to each community. The Board’s Treasurer, Mathilde McLean, noted that experts from DEP’s Bureau of

Environmental Planning and Analysis must approve each plan. She also explained that the plans will require customization due to the diverse nature of the upstate consumers, which include industrial users and communities with varying population densities. In response to a question from Mr. Moss, Mr. Lawitts explained that if further reductions are needed, the plans can be supplemented with enhanced water supply shortage rules to be enacted by DEP.

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

Resolution

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 September 11, 2013, Board staff commenced a competitive solicitation process for a water conservation plan consultant 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, three technical proposals and cost proposals were received for consideration and review, and the three proposing teams were invited to interview with the Committee; and

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

WHEREAS, the Committee determined that the proposal and presentation by Water Demand Management, LLC ("WDM") was the most highly-rated on technical approach and qualifications and, after consideration of the cost proposals, determined that its cost proposal was the lowest; 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 WDM appropriate; it is therefore

RESOLVED, that the Executive Director is hereby authorized and directed to execute an agreement with WDM to provide water conservation planning services to the Board for an initial two-year term with two additional one-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 two-year term and the two one-year extensions shall not exceed \$350,000 of Board funds.

Financial and Investment Update

The next item on the agenda was a financial and investment update provided by Mr. Lawitts and Ms. McLean. Mr. Lawitts reported the following:

- From July 1, 2013 through January 22, 2014, revenue collections totaled \$104 million, or 5%, ahead of plan. He noted that Fiscal Year 2014 collections to date were at their highest level above plan than in the previous eleven fiscal years and attributed this outcome to the increased collection rates that have resulted from the automated meter reading program.
- For the first six months of Fiscal Year 2014, water consumption, as measured by "same-customer sales", has dropped 1.4% compared to the same period for Fiscal Year 2013.
- Planning for the 2014 lien sale is underway with 13,302 properties on the preliminary list with total outstanding charges of \$181 million. The first lien sale notice will be mailed to all eligible properties on February 10, 2014 indicating that customers have until May 15, 2014 to pay the charges or enter into a payment

agreement. Mr. Lawitts advised that the City's law authorizing lien sales expires in December 2014 and that all parties must work closely with the City Council to re-authorize this law.

- The pace of customers converting from flat-rate to metered billing continues to drop, as many customers have decided to stay on a flat-rate charge. Responding to a question from Mr. Goldin, Mr. Lawitts noted that customers that wish to stay on flat-rate charges must have their properties equipped with an automated meter reading device and must have at least 70% low-consumption fixtures. He also affirmed that the Board has the power to eliminate flat-rate charges upon proper notice, if so desired.
- As of the first six months of FY 2014, the percentage of estimated bills is down to 3.8% City-wide compared to 17.4% as of January 2009. Mr. Lawitts explained that the percentage may decrease further upon completion of DEP's large meter replacement program.
- Mr. Lawitts advised the Board that pursuant to Local Law 103, all Board meetings subsequent to March 2, 2014 will need to be digitally recorded and posted on the Board's website.

Ms. McLean reported that the Board's current investments are earning approximately 12 basis points per annum. In response to a request at a previous Board meeting, she presented her findings on the advisability of uncollateralized bank deposits as an investment vehicle for the Board. Ms. McLean determined that uncollateralized demand deposit accounts and certificates of deposit are not currently authorized by the Board's investment guidelines; although, within the laws governing the Board, the Investment Guidelines could be amended to include such options.

Additionally, she stated that current competitive rates offered by authorized New York City depository banks for uncollateralized demand deposit accounts are roughly 8 basis points higher than what the Board is currently earning in Treasury bills. Upon a question from Mr. Carney, she opined that 8 basis points may not be enough of an incentive to move all of the Board's investments to an uncollateralized account. Ms. McLean presented graphs on treasury investments, which showed that the yields of two and three-year Treasury notes have increased since January 2013. Mr. Goldin noted that the 8 basis point difference between the Board's current rate of return and the return of uncollateralized demand deposit accounts could be made up by investing approximately one-third of the account in a Treasury note and continuing to invest the remainder in Treasury bills. Ms. McLean agreed that this might be a preferable option. Ms. Mclean noted, however, that investing in Treasury bills, which have maturities longer than Treasury notes, increases market pricing risk. If the Board's Treasury securities needed to be cashed out prior to maturity in a rising interest rate environment, the principle portion of the security would be worth less than the original purchase price. The longer the maturity, the greater this risk becomes.

Adjournment

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

SECRETARY