

NEW ISSUE

In the opinion of Nixon Peabody LLP, Bond Counsel to the Authority, under existing law, and assuming compliance with the tax covenants described herein, interest on the Refunding Bonds is, and interest on the Fiscal 2002 B and C Bonds, if and when issued, will be excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. However, Bond Counsel is of the opinion that interest on the Refunding Bonds is, and interest on the Fiscal 2002 B and C Bonds, if and when issued, will be included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Bond Counsel is further of the opinion that under existing law, interest on the Refunding Bonds is, and interest on the Fiscal 2002 B and C Bonds, if and when issued, will be exempt from personal income taxes of the State of New York and its political subdivisions, including The City of New York, as described more fully herein. See, however, "TAX EXEMPTION" herein regarding certain other tax considerations.

\$218,035,000

New York City Municipal Water Finance Authority

\$171,455,000 Crossover Refunding Bonds, 2002 B Issue and \$46,580,000 Crossover Refunding Bonds, 2002 C Issue

Dated: Date of Delivery

Due: June 15, as shown on the inside cover

The Refunding Bonds will be issued as registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Refunding Bonds. Purchases of beneficial interests in such Refunding Bonds will be made in book-entry only form. Purchasers will not receive certificates representing their ownership interest in the Refunding Bonds purchased by them. See "BOOK-ENTRY ONLY FORM".

Interest on the Refunding Bonds will accrue from their date of delivery and will be payable semiannually on each June 15th and December 15th commencing December 15, 2001. The Refunding Bonds will be issued in authorized denominations of \$5,000 and integral multiples thereof. The 2002 B Refunding Bonds are subject to mandatory tender on June 15, 2006 and the 2002 C Refunding Bonds are subject to mandatory tender on June 15, 2010 (collectively, the "Tender Dates"). Upon tender, each 2002 B Refunding Bond will be exchanged for a Fiscal 2002 B Bond, and each 2002 C Refunding Bond will be exchanged for a Fiscal 2002 C Bond, in each case bearing the same interest rate, having the same maturity and of the same principal amount as such Refunding Bond. The Fiscal 2002 B and C Bonds will be subject to redemption prior to maturity as described herein. If the Fiscal 2002 B Bonds are not issued on the 2002 B Tender Date, the 2002 B Refunding Bonds will be redeemed on such date at a redemption price of 100% of the principal amount thereof, plus accrued interest to the Tender Date. If the Fiscal 2002 C Bonds are not issued on the 2002 C Tender Date, the 2002 C Refunding Bonds will be redeemed on such date at a redemption price of 100% of the principal amount thereof, plus accrued interest to the related Tender Date. The proceeds of the Refunding Bonds are (i) to be held in escrow to the Tender Date and thereafter are expected to be applied to refund a portion of the Authority's Outstanding Water and Sewer Revenue Bonds and (ii) to be applied to pay certain costs of issuance.

The Refunding Bonds are special obligations of the Authority, payable solely from and secured by a pledge of and first lien on the proceeds thereof and investment income thereon and a subordinate lien on certain moneys of the Authority as described herein. The Fiscal 2002 B and C Bonds, if and when issued, will be special obligations of the Authority, payable solely from and secured by a pledge of and first lien on the gross revenues of the System. The Authority has no taxing power. The Refunding Bonds are not, and the Fiscal 2002 B and C Bonds will not be, a debt of the State of New York, The City of New York or the New York City Water Board and neither the State of New York, The City of New York nor the New York City Water Board is liable on the Refunding Bonds or will be liable on the Fiscal 2002 B and C Bonds.

The Refunding Bonds are offered when, as and if issued by the Authority and received by the Underwriters and subject to the approval of legality by Nixon Peabody LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Willkie Farr & Gallagher, New York, New York. It is anticipated that the Refunding Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about August 15, 2001.

UBS PaineWebber Inc.

First Albany Corporation

Bear, Stearns & Co. Inc.

Dain Rauscher Inc.

Goldman, Sachs & Co.

Lehman Brothers

JPMorgan

Morgan Stanley

Salomon Smith Barney

David Lerner Associates Inc.

Quick & Reilly

Roosevelt & Cross Incorporated

August 3, 2001

\$218,035,000
New York City
Municipal Water Finance Authority

\$171,455,000 Crossover Refunding Bonds, 2002 B Issue

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Price or Yield</u>
2007	\$ 235,000	3 ⁵ / ₈ %	3.65%
2008	245,000	3 ³ / ₄	3.80
2009	255,000	3.90	3.92
2010	265,000	4	4.02
2011	275,000	4.10	4.12
2012	285,000	4 ¹ / ₄	100
2013	300,000	4.40	100
2014	310,000	4 ¹ / ₂	100
2015	325,000	4.60	100
2016	340,000	4.70	4.72
2017	355,000	4.80	4.82
2018	375,000	4 ⁷ / ₈	4.89
2019	390,000	4.90	4.94
2020	410,000	4.90	4.97
2021	12,660,000	5	5.06
2022	13,280,000	5	5.08
2023	13,935,000	5	5.10
2024	14,615,000	5	5.11

\$112,600,000 5% 2002 B Term Bonds Due June 15, 2026, Yield 5.14%

\$46,580,000 Crossover Refunding Bonds, 2002 C Issue

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Price or Yield</u>
2011	\$ 60,000	4.10%	4.12%
2012	60,000	4 ¹ / ₄	100
2013	65,000	4.40	100
2014	65,000	4 ¹ / ₂	100
2015	70,000	4.60	100
2016	75,000	4.70	4.72
2017	75,000	4.80	4.82
2018	80,000	4 ⁷ / ₈	4.89
2019	85,000	4.90	4.94
2020	90,000	4.90	4.97
2021	95,000	5	5.06
2022	95,000	5	5.08
2023	105,000	5	5.10
2024	110,000	5	5.11
2025	115,000	5.10	5.12
2026	120,000	5 ¹ / ₈	5.14
2027	125,000	5 ¹ / ₈	5.14
2028	130,000	5 ¹ / ₈	5.14
2029	140,000	5 ¹ / ₈	5.14

\$44,820,000 5% 2002 C Term Bonds Due June 15, 2032, Yield 5.18%

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Arthur B. Hill	<i>Member</i>
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Agustin Rivera	<i>Member</i>
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Diana Chapin, Ph.D.	<i>Executive Director</i>
William Kusterbeck	<i>Treasurer</i>
Carmelo Emilio	<i>Deputy Treasurer</i>
Albert F. Moncure, Jr.	<i>Secretary</i>

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Consulting Engineer	<i>Metcalfe & Eddy of New York, Inc.</i>
Financial Advisors	<i>Lamont Financial Services Corporation/Ramirez & Co., Inc.</i>
Rate Consultant	<i>Black & Veatch New York LLP</i>

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the Refunding Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesperson or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of any of the Refunding Bonds and if given or made, such information or representation must not be relied upon. Information contained on the Authority's web page, or on any other web page, on the City's web site is not a part of this Official Statement. Neither the delivery of this Official Statement nor the sale of any of the Refunding Bonds implies that there has been no change in the affairs of the Authority, the Board or the City or the other matters described herein since the date hereof.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Authority. These forward-looking statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE REFUNDING BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTORY STATEMENT	1	THE BOARD	E-11
PLAN OF FINANCE	3	Purpose and Powers	E-11
THE REFUNDING BONDS AND THE FISCAL 2002 B & C		Membership	E-11
BONDS	4	THE DEPARTMENT OF ENVIRONMENTAL PROTECTION ...	E-12
General	4	Organization	E-12
Redemption of Refunding Bonds and Fiscal 2002 B & C		Labor Relations	E-13
Bonds	4	CAPITAL IMPROVEMENT AND FINANCING PROGRAM	E-14
Notice of Redemption	6	Capital Improvement Program	E-14
Mandatory Tender and Exchange or Redemption of Refunding		Historical Capital Program	E-17
Bonds	6	Financing Program	E-18
Conditions to Issuance of the Fiscal 2002 B & C Bonds	7	Sources and Uses of Capital Funds	E-19
Covenants for the Benefit of the Owners of the		Debt Service Requirements	E-21
Refunding Bonds	7	FINANCIAL OPERATIONS	E-22
USE OF PROCEEDS	8	Revenues	E-22
GUARANTEED INVESTMENT CONTRACTS	8	Expenses	E-23
BOOK ENTRY ONLY FORM	9	Projected Revenues	E-24
FURTHER INFORMATION	10	Projected Operating and Maintenance Expenses	E-25
TAX EXEMPTION	11	Projected Financial Operations	E-27
General	11	RATES AND BILLING	E-28
Original Issue Discount	11	Rates	E-28
Certain Federal Tax Information	11	Accounts, Billing and Collection	E-30
CONTINUING DISCLOSURE UNDER RULE 15C2-12	13	THE SYSTEM	E-33
RATINGS	14	Overview	E-33
UNDERWRITING	14	The Water System	E-33
VERIFICATION OF MATHEMATICAL CALCULATIONS	15	The Sewer System	E-43
LEGALITY FOR INVESTMENT AND DEPOSIT	15	ECONOMIC AND DEMOGRAPHIC STATISTICS	E-49
FINANCIAL ADVISORS	15	New York City Economy	E-49
APPROVAL OF LEGAL PROCEEDINGS	15	Population	E-49
ANNEX A—DEFINITIONS	A-1	Employment Trends	E-50
ANNEX B — SUMMARY OF CERTAIN PROVISIONS OF THE		Sectoral Distribution of Employment and Earnings	E-51
CROSSOVER RESOLUTIONS	B-1	Personal Income	E-52
ANNEX C — GUARANTEED INVESTMENT CONTRACTS		Housing	E-52
PROVIDER	C-1	LITIGATION	E-53
ANNEX D — FORM OF APPROVING OPINIONS OF BOND		INVESTMENTS	E-54
COUNSEL	D-1	FINANCIAL STATEMENTS	E-54
ANNEX E — CERTAIN INFORMATION RELATING TO THE		ENGINEERING FEASIBILITY REPORT AND FORECASTED	
AUTHORITY AND THE SYSTEM	E-1	CASH FLOWS	E-54
NEW YORK CITY MUNICIPAL WATER FINANCE		CERTAIN LEGAL OPINIONS	E-55
AUTHORITY	E-3	APPENDICES	
INTRODUCTORY STATEMENT	E-3	Appendix A — LETTER OF METCALF & EDDY OF NEW	
SECURITY FOR THE BONDS	E-3	YORK, INC., CONSULTING ENGINEERS	E-A-1
Revenues	E-3	Appendix B — LETTER OF BLACK & VEATCH NEW YORK	
Debt Service Reserve Fund	E-6	LLP, RATE CONSULTANTS	E-B-1
Rate Covenant	E-6	Appendix C — GLOSSARY AND SUMMARY OF CERTAIN	
Additional Bonds	E-7	DOCUMENTS	E-C-1
Authority Debt	E-7	Appendix D — FINANCIAL STATEMENTS	E-D-1
Covenant of the State	E-8		
THE AUTHORITY	E-9		
Purpose and Powers	E-9		
Membership	E-9		

OFFICIAL STATEMENT

\$218,035,000

New York City Municipal Water Finance Authority

\$171,455,000 Crossover Refunding Bonds, 2002 B Issue
and
\$46,580,000 Crossover Refunding Bonds, 2002 C Issue

INTRODUCTORY STATEMENT

The purpose of this Official Statement, including the ANNEXES hereto, is to set forth certain information pertaining to the New York City Municipal Water Finance Authority (the "Authority"), a public benefit corporation duly created and existing under the New York City Municipal Water Finance Authority Act, as amended (the "Act"); the New York City Water Board (the "Board"), a public benefit corporation created and existing under Chapter 515 of the Laws of 1984, both of which laws were enacted by the Legislature of the State of New York (the "State"); the Authority's \$171,455,000 Crossover Refunding Bonds, 2002 B Issue (the "2002 B Refunding Bonds"); its \$46,580,000 Crossover Refunding Bonds, 2002 C Issue (the "2002 C Refunding Bonds" and together with the 2002 B Refunding Bonds, the "Refunding Bonds"); and its \$171,455,000 Water and Sewer System Revenue Bonds, Fiscal 2002 Series B (the "Fiscal 2002 B Bonds") and \$46,580,000 Water and Sewer System Revenue Bonds, Fiscal 2002 C (the "Fiscal 2002 C Bonds" and together with the Fiscal 2002 B Bonds, the "Fiscal 2002 B & C Bonds") expected to be issued on June 15, 2006 and June 15, 2010, respectively, as hereinafter described. Capitalized terms used in this Official Statement and not defined herein shall have the meanings ascribed thereto in "ANNEX E—APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS."

The 2002 B Refunding Bonds will be issued by the Authority pursuant to its Crossover Refunding Bond Resolution, 2002 B Issue, adopted on August 3, 2001 (the "2002 B Crossover Resolution"). The 2002 C Refunding Bonds will be issued by the Authority pursuant to its Crossover Refunding Bond Resolution, 2002 C Issue, adopted on August 3, 2001 (the "2002 C Crossover Resolution" and together with the 2002 B Crossover Resolution, the "Crossover Resolutions"). The Bank of New York, New York, New York, will serve as trustee under each of the Crossover Resolutions (in such capacity, the "Trustee") and will continue to serve as Trustee under such Crossover Resolutions unless a successor is appointed in accordance therewith. The 2002 B Refunding Bonds are special obligations of the Authority payable solely from and secured by a pledge of the Authority to the Trustee made in the 2002 B Crossover Resolution of (i) the moneys and investments and earnings on such investments held by the Trustee under the 2002 B Crossover Resolution and (ii) the moneys or securities on deposit in the Subordinated Indebtedness Fund held under the Resolution (as defined below). The 2002 C Refunding Bonds are special obligations of the Authority payable solely from and secured by a pledge of the Authority to the Trustee made in the 2002 C Crossover Resolution of (i) the moneys and investments and earnings on such investments held by the Trustee under the 2002 C Crossover Resolution and (ii) the moneys or securities on deposit in the Subordinated Indebtedness Fund held under the Resolution. The pledges of moneys or securities on deposit in the Subordinate Indebtedness Fund are subject and subordinate to the pledges thereof contained in (1) the Authority's Resolution and Second Resolution (as defined below), (2) all of the Authority's Commercial Paper Note Resolutions (Series One through Series Five) and (3) any other resolution of the Authority pursuant to which the Authority may hereafter authorize and issue bonds or notes secured by a pledge of the moneys and securities on deposit in the Subordinated Indebtedness Fund, if such resolution expressly provides that the pledge thereof is prior to the pledges of the Crossover Resolutions. The 2002 B Refunding Bonds are subject to mandatory tender on June 15, 2006 (the "2002 B Tender Date") and the 2002 C Refunding Bonds are subject to mandatory tender on June 15, 2010 (the "2002 C Tender Date" and together with the 2002 B Tender Date, the "Tender Dates").

If on the 2002 B Tender Date the Authority can satisfy the conditions precedent to the issuance of the Fiscal 2002 B Bonds, the Fiscal 2002 B Bonds will be issued and exchanged for the 2002 B Refunding Bonds. If on the 2002 C Tender Date the Authority can satisfy the conditions to the issuance of the Fiscal 2002 C Bonds, the Fiscal 2002 C Bonds will be issued and exchanged for the 2002 C Refunding Bonds. The Fiscal 2002 B & C Bonds, when and if issued on their respective Tender Dates, will be issued under the Authority's Water and Sewer System General Resolution, adopted November 14, 1985, as amended (the "Resolution") and will be special obligations of the Authority, payable solely from and secured by a pledge of the Revenues, all moneys or securities in any of the funds and accounts established under the Resolution, including the Debt Service Reserve Fund, and all other moneys and securities to be received, held or set aside pursuant to the Resolution, subject only to provisions of the Resolution and the Agreement (as defined below) relating to the use and application thereof.

Pursuant to a lease agreement (the "Lease") between the Board and The City of New York (the "City"), dated as of July 1, 1985, as amended, the Board has leased from the City its facilities for the collection, transmission and distribution of water (the "Water System") and its facilities for the collection, treatment and disposal of sewage (the "Sewer System") (collectively, the "System"). As required by the Act and the Lease, the System is operated and maintained by the Department of Environmental Protection of the City ("DEP"). The Board has also entered into a financing agreement, dated as of July 1, 1985, as amended (the "Agreement"), with the Authority and the City for the financing of capital improvements to the System through the issuance of bonds, notes and other obligations (the "Bonds") under the Resolution or subordinate obligations of the Authority under its Water and Sewer System Second General Revenue Bond Resolution adopted March 30, 1994, as amended (the "Second Resolution"). Pursuant to the Lease and the Agreement, the Board has agreed to cause rates, fees and charges to be collected.

The Board has covenanted in the Agreement to maintain rates, fees and charges at sufficient levels to produce in each twelve month period beginning on July 1 (a "Fiscal Year") an amount equal to 115% of the Aggregate Debt Service and Projected Debt Service on the Bonds issued under the Resolution (excluding Refundable Principal Installments for the payment of which funds are held in trust) to become due in such Fiscal Year on Bonds, plus 100% of the operation and maintenance expenses of the System certified by the City and of Required Deposits (which includes the debt service on the Second Resolution Bonds and other subordinate debt) to the extent required to be paid from Revenues. The Agreement requires a report of the Rate Consultant setting forth its recommendations as to any revisions of the rates, fees and charges necessary or advisable to meet the requirements of the rate covenant. The Agreement also requires a Consulting Engineer to review the operation and maintenance of the System, and further requires the City to operate and maintain the System in accordance with the advice and recommendations of the Consulting Engineer. See "ANNEX E—SECURITY FOR THE BONDS."

Rates, fees and charges are imposed by the Board and are not subject to regulatory approval nor are they subject to other regulations under current law except for the rates charged to a limited class of upstate users, representing approximately 1% of Revenues. See "ANNEX E—THE SYSTEM—The Water System Governmental Regulation" and "ANNEX E—RATES AND BILLINGS."

The estimates and projections contained or included by specific reference into this Official Statement are based on, among other factors, evaluations of historical revenue and expenditure data and analyses of economic trends affecting the Authority's finances. The financial projections contained herein or included by specific reference are subject to certain contingencies that cannot be quantified and are subject to the uncertainties inherent in any attempt to predict the results of future operations. Accordingly, such projections are subject to periodic revision which may involve substantial change. Consequently, the Authority makes no representation or warranty that these estimates and projections will be realized.

The Authority has relied upon the authority of its Consulting Engineer, Metcalf & Eddy of New York, Inc. ("Metcalf & Eddy"), for certain engineering feasibility information and upon the authority of its Rate Consultant, Black & Veatch New York LLP ("Black & Veatch"), for certain financial estimates and projections. See "ANNEX E—ENGINEERING FEASIBILITY REPORT AND FORECASTED CASH FLOWS."

PLAN OF FINANCE

The proceeds of the 2002 B Refunding Bonds are expected to be applied to redeem, on June 15, 2006, all of the \$165,960,000 presently outstanding principal amount of the Authority's 5.875% Water and Sewer System Revenue Bonds, Fiscal 1996 Series B (the "2002 B Refunded Bonds") maturing on June 15, 2026. The proceeds of the 2002 C Refunding Bonds are expected to be applied to redeem, on June 15, 2010, \$44,360,000 of the \$73,245,000 presently outstanding principal amount of the Authority's Water and Sewer System Revenue Bonds, Fiscal 2000 Series B (the "2002 C Refunded Bonds") maturing June 15, 2033 (collectively, the "Refunded Bonds").

Pursuant to the 2002 B Crossover Resolution, the Authority will deposit proceeds of the 2002 B Refunding Bonds into the 2002 B Proceeds Fund to be held by the Trustee. The deposit will be invested and reinvested under a guaranteed investment contract provided by Trinity Plus Funding Company, LLC (the "2002 B Guaranteed Investment Contract") so that sufficient moneys will be available to pay interest on the 2002 B Refunding Bonds as it becomes due on and prior to the 2002 B Tender Date and to pay the principal and redemption premium on the 2002 B Refunded Bonds on the 2002 B Tender Date. Pursuant to the 2002 C Crossover Resolution, the Authority will deposit proceeds of the 2002 C Refunding Bonds into the 2002 C Proceeds Fund to be held by the Trustee. The deposit will be invested and reinvested under a guaranteed investment contract provided by Trinity Plus Funding Company, LLC (the "2002 C Guaranteed Investment Contract") so that sufficient moneys will be available to pay interest on the 2002 C Refunding Bonds as it becomes due on and prior to the 2002 C Tender Date and to pay the principal and redemption premium on the 2002 C Refunded Bonds on the 2002 C Tender Date. Prior to such payment, the Refunded Bonds will remain Outstanding and will remain entitled to the benefit of the pledge and lien established by the Resolution, and to payment from Revenues of the System.

The moneys in a Proceeds Fund are not pledged to the payment of the related issue of Refunded Bonds and the owners of such Refunded Bonds have no lien on or other interest in the moneys in such Proceeds Fund. The Authority will direct the Trustee to redeem (i) the 2002 B Refunded Bonds on June 15, 2006 at the redemption price of 101% of par and (ii) 2002 C Refunded Bonds on June 15, 2010 at the redemption price of 101% of par.

The 2002 B Refunding Bonds may not be issued under the 2002 B Crossover Resolution until all conditions precedent to the issuance of the Fiscal 2002 B Bonds required by the Resolution and the Authority's Fifty-first Supplemental Resolution, authorizing the issuance of the Fiscal 2002 B Bonds, have been satisfied, except for certain conditions to issuance of the Fiscal 2002 B Bonds that can only be satisfied on the 2002 B Tender Date. The 2002 C Refunding Bonds may not be issued under the 2002 C Crossover Resolution until all conditions precedent to the issuance of the Fiscal 2002 C Bonds required by the Resolution and the Authority's Fifty-second Supplemental Resolution, authorizing the issuance of the Fiscal 2002 C Bonds, have been satisfied, except for certain conditions to issuance of the Fiscal 2002 C Bonds that can only be satisfied on the 2002 C Tender Date. See "THE REFUNDING BONDS AND FISCAL 2002 B & C BONDS—Conditions to Issuance of the Fiscal 2002 B & C Bonds" herein.

The 2002 B Refunding Bonds are subject to mandatory tender on the 2002 B Tender Date (i) in exchange for the Fiscal 2002 B Bonds in accordance with the 2002 B Crossover Resolution or (ii) if the Fiscal 2002 B Bonds have not been delivered to the Trustee on the 2002 B Tender Date, for redemption on the 2002 B Tender Date at a redemption price of 100% of the principal amount thereof plus accrued interest to the Tender Date. The 2002 C Refunding Bonds are subject to mandatory tender on the 2002 C Tender Date (i) in exchange for the Fiscal 2002 C Bonds in accordance with the 2002 C Crossover Resolution or (ii) if the Fiscal 2002 C Bonds have not been delivered to the Trustee on the 2002 C Tender Date, for redemption on the 2002 C Tender Date at a redemption price of 100% of the principal amount thereof plus accrued interest to the Tender Date. The Authority is obligated to issue the Fiscal 2002 B & C Bonds if the conditions to the issuance thereof can be satisfied on the respective Tender Dates. See "THE REFUNDING BONDS AND THE FISCAL 2002 B & C BONDS—Conditions to Issuance of the Fiscal 2002 B & C Bonds" herein.

If, as expected, the Fiscal 2002 B & C Bonds are delivered to the Trustee on the respective Tender Dates, the available proceeds of the Refunding Bonds and earnings thereon will be applied to redeem the Refunded Bonds as described above. Otherwise, such proceeds, together with other moneys then to be made available by the Authority, will be used to effect the mandatory redemption of the Refunding Bonds on the Tender Date. The proceeds deposited in the respective Proceeds Funds will not be sufficient to provide for payment of the redemption price of the related Refunding Bonds if the Fiscal 2002 B or the Fiscal 2002 C Bonds cannot be issued on the respective Tender Dates. As a consequence, the Authority is obligated to provide the amounts of \$3,835,390 and \$1,776,390, respectively, necessary to pay the portion of the redemption price of the Refunding Bonds to be redeemed not provided for by the proceeds. The Authority's obligation is secured by the lien created by the Crossover Resolutions on the Subordinated Indebtedness Fund.

THE REFUNDING BONDS AND THE FISCAL 2002 B & C BONDS

Although the security for the 2002 B Refunding Bonds and the Fiscal 2002 B Bonds differs, certain provisions of the 2002 B Refunding Bonds and the Fiscal 2002 B Bonds are identical. Although the security for the 2002 C Refunding Bonds and the Fiscal 2002 C Bonds differs, certain provisions of the 2002 C Refunding Bonds and the Fiscal 2002 C Bonds are identical.

General

The Refunding Bonds initially delivered to the Underwriters will be dated their date of delivery. The Fiscal 2002 B Bonds will be dated June 15, 2006 and the Fiscal 2002 C Bonds will be dated June 15, 2010. The 2002 B Refunding Bonds will mature on and bear interest payable on the dates and at the rates shown on the inside cover of this Official Statement. The Fiscal 2002 B Bonds will mature on the same dates and bear interest payable on the same dates and at the same rates as those indicated for the 2002 B Refunding Bonds. The 2002 C Refunding Bonds will mature on and bear interest payable on the dates and at the rates shown on the inside cover of this Official Statement. The Fiscal 2002 C Bonds will mature on the same dates and bear interest payable on the same dates and at the same rates as those indicated for the 2002 C Refunding Bonds. Principal, redemption premium, if any, and interest on the Refunding Bonds and the Fiscal 2002 B & C Bonds will be payable in lawful money of the United States of America. The Refunding Bonds and the Fiscal 2002 B & C Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 and integral multiples thereof.

Redemption of Refunding Bonds and Fiscal 2002 B & C Bonds

The 2002 B Refunding Bonds and the Fiscal 2002 B Bonds are subject to identical redemption provisions for all periods on or after June 15, 2006. The 2002 C Refunding Bonds and the Fiscal 2002 C Bonds are subject to identical redemption provisions for all periods on or after June 15, 2010.

Sinking Fund Redemption. The 2002 B Refunding Bonds and the Fiscal 2002 B Bonds due June 15, 2026 are subject to mandatory redemption prior to maturity in part, by lot, in such manner as the Trustee may reasonably determine, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date, on June 15 in each of the years and in the respective principal amounts, as follows:

2002 B Refunding Bonds and the Fiscal 2002 B Bonds maturing June 15, 2026

Year	Amount
2025	\$ 9,665,000
2026†	102,935,000

† Final Maturity

The 2002 C Refunding Bonds and the Fiscal 2002 C Bonds due June 15, 2032, are subject to mandatory redemption prior to maturity in part, by lot, in such manner as the Trustee may reasonably determine, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date, on June 15 in each of the years and in the respective principal amounts, as follows:

**2002 C Refunding Bonds
and the Fiscal 2002 C Bonds
maturing June 15, 2032**

<u>Year</u>	<u>Amount</u>
2030	\$ 145,000
2031	155,000
2032†	44,520,000

† Final Maturity

Purchased Bonds. The Authority may from time to time direct the Trustee to purchase Fiscal 2002 B & C Bonds subject to mandatory sinking fund redemption with moneys in the Debt Service Fund, at a price not greater than par, plus accrued interest to the date of such purchase, and apply such Fiscal 2002 B or C Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of the immediately succeeding Sinking Fund Installment on the Fiscal 2002 B or C Bonds of the same maturity. If the principal amount of 2002 Series B or C Bonds so purchased exceeds the amount of the immediately succeeding Sinking Fund Installment the excess will be applied against and in fulfillment of future Sinking Fund Installments in any order as the Authority may direct. The Authority may also purchase, redeem or defease Fiscal 2002 B & C Bonds with other moneys available to do so. If it does so, the amount of Fiscal 2002 B or C Bonds so purchased, redeemed or defeased will be credited against future Sinking Fund Installments in any order as the Authority may direct. To the extent that the Authority's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, redemptions or defeasances, the likelihood of redemption through mandatory Sinking Fund Installments of any Fiscal 2002 B or C Bonds of the issue and maturity so purchased, redeemed or defeased will be reduced for such year.

Optional Redemption. The 2002 B Refunding Bonds and the Fiscal 2002 B Bonds are subject to redemption prior to maturity at the option of the Authority from any moneys available therefore on and after June 15, 2011 in whole or in part at any time, by lot, at the redemption price (expressed as percentages of the principal amount of such 2002 B Refunding Bonds or Fiscal 2002 B Bonds to be redeemed) set forth below plus accrued interest to the redemption date.

<u>Redemption period (both dates inclusive)</u>	<u>Optional Redemption Price</u>
June 15, 2011 and thereafter	100%

Optional Redemption. The 2002 C Refunding Bonds and the Fiscal 2002 C Bonds are subject to redemption prior to maturity at the option of the Authority from any moneys available therefore on and after June 15, 2011 in whole or in part at any time, by lot, at the redemption price (expressed as a percentage of the principal amount of such 2002 C Refunding Bonds or Fiscal 2002 C Bonds to be redeemed) set forth below plus accrued interest to the redemption date.

<u>Redemption period (both dates inclusive)</u>	<u>Optional Redemption Price</u>
June 15, 2011 and thereafter	100%

Although the mandatory sinking fund and optional redemption provisions are a feature of the Refunding Bonds and the Fiscal 2002 B & C Bonds, the Refunding Bonds are not subject to mandatory sinking fund or optional redemption prior to the Tender Date. Accordingly, no Refunding Bonds will be redeemed through mandatory sinking fund payments or optional redemption and no source of payment for any redemption premium on the Refunding Bonds has been provided.

Notice of Redemption

Notice of redemption is to be given by first class mail, postage prepaid, at least 30 days prior to the date fixed for redemption, to the registered owners of Refunding Bonds or Fiscal 2002 B & C Bonds to be redeemed at their addresses shown on the books of registry. So long as Cede & Co., as nominee of DTC, is the registered owner of the Refunding Bonds or Fiscal 2002 B & C Bonds, notice of redemption is to be sent to DTC. No assurance can be given by the Authority that DTC and DTC participants will promptly transmit notices of redemption to Beneficial Owners.

If, on any redemption date, moneys for the redemption of the Refunding Bonds or Fiscal 2002 B & C Bonds to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available therefor on such date, and if notice of redemption has been mailed, then interest on the Refunding Bonds to be redeemed will cease to accrue from and after the redemption date and such Refunding Bonds will no longer be considered to be Outstanding under the Resolution.

Mandatory Tender and Exchange or Redemption of Refunding Bonds

The 2002 B Refunding Bonds are subject to mandatory tender on the 2002 B Tender Date (i) in exchange for the Fiscal 2002 B Bonds in accordance with the 2002 B Crossover Resolution or (ii) if the Fiscal 2002 B Bonds have not been delivered to the Trustee on the Tender Date, for redemption on the Tender Date at a redemption price of 100% of the principal amount thereof plus accrued interest to the Tender Date. The Authority is obligated to issue the Fiscal 2002 B Bonds if the conditions to the issuance thereof can be satisfied on the Tender Date.

The 2002 C Refunding Bonds are subject to mandatory tender on the 2002 C Tender Date (i) in exchange for the Fiscal 2002 C Bonds in accordance with the 2002 C Crossover Resolution or (ii) if the Fiscal 2002 C Bonds have not been delivered to the Trustee on the Tender Date, for redemption on the Tender Date at a redemption price of 100% of the principal amount thereof plus accrued interest to the Tender Date. The Authority is obligated to issue the Fiscal 2002 C Bonds if the conditions to the issuance thereof can be satisfied on the Tender Date.

If on the 2002 B Tender Date the Fiscal 2002 B Bonds are issued or if the Authority has sufficient funds to redeem the 2002 B Refunding Bonds on such Tender Date, the 2002 B Refunding Bonds will no longer be Outstanding under the 2002 B Crossover Resolution and interest on such Refunding Bonds will cease to accrue from and after such Tender Date. In the event the Fiscal 2002 B Bonds cannot be issued on such Tender Date, and insufficient available moneys are on hand with the Trustee to redeem the 2002 B Refunding Bonds at 100% of the principal amount thereof plus accrued interest to such Tender Date thereof, then the Authority will be in default under the 2002 B Crossover Resolution, the 2002 B Refunding Bonds will remain Outstanding under the 2002 B Crossover Resolution and will continue to accrue interest at their respective rates, and the owners thereof will have the rights conferred by the 2002 B Crossover Resolution. See "ANNEX B—SUMMARY OF CERTAIN PROVISIONS OF THE CROSSOVER RESOLUTION."

If on the 2002 C Tender Date the Fiscal 2002 C Bonds are issued or if the Authority has sufficient funds to redeem the 2002 C Refunding Bonds on such Tender Date, the 2002 C Refunding Bonds will no longer be Outstanding under the 2002 C Crossover Resolution and interest on such Refunding Bonds will cease to accrue from and after such Tender Date. In the event the Fiscal 2002 C Bonds cannot be issued on such Tender Date, and insufficient available moneys are on hand with the Trustee to redeem the 2002 C Refunding Bonds at 100% of the principal amount thereof plus accrued interest to such Tender Date thereof, then the Authority will be in default under the 2002 C Crossover Resolution, the 2002 C Refunding Bonds will remain Outstanding under the 2002 C Crossover Resolution and will continue to accrue interest at their respective rates, and the owners thereof will have the rights conferred by the 2002 C Crossover Resolution. See "ANNEX B—SUMMARY OF CERTAIN PROVISIONS OF THE CROSSOVER RESOLUTION."

Conditions to Issuance of the Fiscal 2002 B & C Bonds

The Resolution contains certain conditions to the issuance of Bonds under it, including the Fiscal 2002 B & C Bonds, that must be met on or prior to the issue date of such Bonds. A number of these conditions to issuance of the Fiscal 2002 B & C Bonds will be satisfied at the time the Refunding Bonds are issued. Other conditions are not required to be met because the Fiscal 2002 B & C Bonds will constitute "Refunding Bonds" under the Resolution. There are, however, some conditions to issuance that can only be satisfied on each of the Tender Dates, which are the issue dates of the Fiscal 2002 B & C Bonds, respectively. The issuance of the Fiscal 2002 C Bonds is not dependent upon the prior issuance of the Fiscal 2002 B Bonds. These conditions are (i) delivery by the Authority of a certificate setting forth the Authority's Cash Flow Requirements as of such issue date for the related Bonds and (ii) an opinion of Bond Counsel to the effect that:

- the Authority has the right and power to adopt the Resolution under the Act;
- the Resolution has been duly and lawfully adopted by the Authority and is enforceable against it;
- the Resolution creates the valid pledge it purports to create;
- the Fiscal 2002 B or C Bonds, as the case may be, are valid and binding special obligations of the Authority; and
- all other conditions required by the Resolution precedent to issuance of the Fiscal 2002 B or C Bonds, as the case may be, have been met and that such Bonds will have been duly and validly authorized and issued in accordance with the Act and the Resolution.

While certain of the opinions described above are contained in the approving opinions of Bond Counsel, the forms of which are appended hereto as ANNEX D, the Resolution requires that each of the opinions described above must also be rendered on June 15, 2006 and June 15, 2010.

Covenants for the Benefit of the Owners of the Refunding Bonds

To protect the interests of the Holders of the Refunding Bonds the Authority has made certain covenants in the Crossover Resolutions. More particularly, the Authority has covenanted:

- (i) so far as it may be authorized by law, to take such further action as may be necessary to cause the Fiscal 2002 B & C Bonds to be authenticated and delivered on the respective Tender Date;
- (ii) not to rescind or repeal the Fifty-first or Fifty-second Supplemental Resolution authorizing the Fiscal 2002 B & C Bonds;
- (iii) unless the Fiscal 2002 B & C Bonds can be issued as "Refunding Bonds" within the meaning of the Resolution, to consider the Fiscal 2002 B & C Bonds as outstanding under the Resolution for purposes of the additional Bonds test to be met in connection with the issuance of other Bonds under the Resolution that may be issued prior to the Tender Date;
- (iv) not to amend the Fifty-first Supplemental Resolution or the Resolution in any manner that solely affects the Fiscal 2002 B Bonds and would require the consent of the registered owners of the Fiscal 2002 B Bonds if the Fiscal 2002 B Bonds were then outstanding under the Resolution, unless the consent of the registered owners of the Refunding Bonds has been obtained in such percentage as would have been required if the registered owners of the Refunding Bonds were registered owners of the Fiscal 2002 B Bonds and the Fiscal 2002 B Bonds were then outstanding under the Resolution;
- (v) not to amend the Fifty-second Supplemental Resolution or the Resolution in any manner that solely affects the Fiscal 2002 C Bonds and would require the consent of the registered owners of the Fiscal 2002 C Bonds if the Fiscal 2002 C Bonds were then outstanding under the Resolution, unless the consent of the registered owners of the Refunding Bonds has been obtained in such percentage as would have been required if the registered owners of the Refunding Bonds were registered owners of the Fiscal 2002 C Bonds and the Fiscal 2002 C Bonds were then outstanding under the Resolution;
- (vi) not to amend the Resolution in any manner that would require the consent of the registered owners of the outstanding Bonds unless the consent of the registered owners of the percentage in principal amount of

such registered owners have been obtained, calculated as though the Fiscal 2002 B & C Bonds were then outstanding; and

(vii) not to invest the money in either Proceeds Fund in any Eligible Investment other than the Guaranteed Investment Contract unless the Authority has obtained the written report of a firm of independent certified public accountants verifying the accuracy of the arithmetical calculations establishing the adequacy of the cash and the maturing principal of and earnings on the Eligible Investment to pay the interest to become due on the respective Refunding Bonds on or prior to their Tender Date, to pay the redemption price of such Refunded Bonds on such Tender Date and, if either the Fiscal 2002 B or C Bonds have not been issued on the respective Tender Date, together with a payment by the Authority in no greater amount than is currently contemplated, to pay the Redemption Price of the Refunding Bonds on such Tender Date.

USE OF PROCEEDS

It is anticipated that the proceeds of the 2002 B Refunding Bonds will be applied in the following manner:

Investment in Guaranteed Investment Contract	\$156,395,000
Cash and other Eligible Investments	\$ 11,045,293
Original Issue Discount	\$ 2,847,090
Costs of Issuance	\$ 144,140
Underwriter's Discount	<u>\$ 1,023,477</u>
Total Use of Proceeds	<u><u>\$171,455,000</u></u>

It is anticipated that the proceeds of the 2002 C Refunding Bonds will be applied in the following manner:

Investment in Guaranteed Investment Contract	\$ 38,768,000
Cash and other Eligible Investments	\$ 6,246,427
Original Issue Discount	\$ 1,246,750
Costs of Issuance	\$ 40,776
Underwriter's Discount	<u>\$ 278,047</u>
Total Use of Proceeds	<u><u>\$ 46,580,000</u></u>

GUARANTEED INVESTMENT CONTRACTS

To be an Eligible Investment under either Crossover Resolution, the provider or the guarantor of the provider's obligations under an investment agreement or guaranteed investment contract (a "Guaranteed Investment Contract") must, at the time the investment is made, be rated at least "AA" and "Aa2" by S&P and Moody's, respectively, and, if the provider or guarantor is rated by Fitch, "AA" by Fitch. However, the provider's obligations under the Guaranteed Investment Contracts must be collateralized if at any time the provider or the guarantor is rated less than in the highest rating category of the required rating agencies. The proceeds of each issue of Refunding Bonds deposited to the related Proceeds Fund will be invested by the Trustee in a Guaranteed Investment Contract among Trinity Plus Funding Company, LLC, the Trustee and the Authority. NEITHER OF THE GUARANTEED INVESTMENT CONTRACTS INSURES, GUARANTEES OR OTHERWISE PROVIDES FOR PAYMENT OF PRINCIPAL, INTEREST OR OTHER AMOUNTS DUE ON THE REFUNDING BONDS IN THE EVENT OF NONPAYMENT BY THE AUTHORITY. The investment of such proceeds in the Guaranteed Investment Contracts has been verified by The Arbitrage Group, Inc. as sufficient to provide (i) moneys to pay interest on the Refunding Bonds until the Tender Dates, (ii) moneys to refund the Refunded Bonds or (iii) moneys, together with other funds to be provided by the Authority, to redeem the Refunding Bonds as described above under the heading "PLAN OF FINANCE." Under the Crossover Resolutions, the Authority is authorized to invest moneys in each Proceeds Fund in Eligible Investments other than the Guaranteed Investment Contract but has covenanted not to do so except in accordance with certain restrictions contained in the Crossover Resolutions. See "THE REFUNDING BONDS AND THE FISCAL 2002 B & C BONDS—Covenants for the Benefit of the Owners of the Refunding Bonds."

BOOK-ENTRY ONLY FORM

DTC will act as securities depository for the Refunding Bonds. The Refunding Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond certificate will be issued for each maturity of the Refunding Bonds and the Fiscal 2002 B & C Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its Participants deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Refunding Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Refunding Bonds on DTC's records. The ownership interest of each actual purchaser of each Refunding Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Refunding Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Refunding Bonds, except in the event that use of the book-entry system for the Refunding Bonds is discontinued.

To facilitate subsequent transfers, all Refunding Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of any series of bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of any Refunding Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Refunding Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Refunding Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Refunding Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Refunding Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this section "Book-Entry Only Form" has been extracted from information given by DTC. Neither the Authority, the Trustee nor any of the Underwriters makes any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereto.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS.

It is expected that the Fiscal 2002 B & C Bonds will also be issued as fully-registered securities in the name of Cede & Co. and that they will be similarly treated by DTC.

FURTHER INFORMATION

The references herein to and summaries of federal, State and local laws, and documents, agreements and court decisions, including but not limited to the Lease, the Agreement, the Resolution, the Second Resolution and the Crossover Resolutions are summaries of certain provisions thereof. Such summaries do not purport to be complete and are qualified in their entirety by reference to such acts, laws, documents, agreements or decisions. Copies of the Lease, the Agreement, the Resolution, the Second Resolution and the Crossover Resolutions are available for inspection during normal business hours at the office of the Authority.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. None of this Official Statement, or any statement which may have been made orally or in writing shall be construed as a contract or as a part of a contract with the original purchasers or any holders of the Refunding Bonds.

TAX EXEMPTION

General

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Refunding Bonds and the Fiscal 2002 B & C Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Refunding Bonds and the Fiscal 2002 B & C Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Refunding Bonds. The Authority has covenanted in the Crossover Resolutions and the Fifty-first and Fifty-second Supplemental Resolutions to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Refunding Bonds and the Fiscal 2002 B & C Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, interest on the Refunding Bonds is, and interest on the Fiscal 2002 B & C Bonds, which will be issued on the Tender Dates unless certain conditions are not satisfied, will be, excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. However, interest on the Refunding Bonds is, and interest on the Fiscal 2002 B & C Bonds will be, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

Bond Counsel is also of the opinion that the interest on the Refunding Bonds is, and interest on the Fiscal 2002 B & C Bonds will be, exempt, under existing law, from personal income tax of the State of New York and its political subdivisions, including The City of New York.

Original Issue Discount

Bond Counsel is further of the opinion that the difference between the principal amount of the 2002 B Refunding Bonds maturing on June 15, 2007 through June 15, 2011 and June 15, 2016 through June 15, 2026, inclusive, and the principal amount of the 2002 C Refunding Bonds maturing on June 15, 2011 and June 15, 2016 through June 15, 2032, inclusive (the "Discount Bonds"), and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of Discount Bonds of the same issue and maturity was sold constitutes original issue discount on the Discount Bonds and, if issued, the Fiscal 2002 B & C Bonds issued in exchange therefor, which is excluded from gross income for federal income tax purposes to the same extent as interest on the Refunding Bonds and the Fiscal 2002 B & C Bonds. Further, the original issue discount accrues actuarially on a constant interest rate basis over a period from the date of issuance of each Discount Bond through its maturity date and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof and of each Fiscal 2002 B or C Bond issued on the related Tender Date in exchange for such Discount Bond will be increased by the amount of the accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds and the Fiscal 2002 B or C Bonds issued in exchange therefor, even though there will not be a corresponding cash payment. Owners of Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning Discount Bonds.

Certain Federal Tax Information

General. The following is a discussion of certain additional tax matters under existing statutes. It does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Refunding Bonds or the Fiscal 2002 B & C Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Social Security and Railroad Retirement Payments. The Code provides that interest on tax-exempt obligations is included in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement benefits received are to be included in taxable income.

Branch Profits Tax. The Code provides that interest on tax-exempt obligations is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States.

Borrowed Funds. The Code provides that interest paid (or deemed paid) on borrowed funds used during a tax year to purchase or carry tax-exempt obligations is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

Property and Casualty Insurance Companies. The Code contains provisions relating to property and casualty insurance companies whereunder the amount of certain loss deductions otherwise allowed is reduced (in certain cases below zero) by a specified percentage of, among other things, interest on tax-exempt obligations acquired after August 7, 1986.

Financial Institutions. The Code provides that commercial banks, thrift institutions and other financial institutions may not deduct the portion of their interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than certain "qualified" obligations. Neither the Refunding Bonds nor the Fiscal 2002 B & C Bonds are "qualified" obligations for this purpose.

S Corporations. The Code imposes a tax on excess net passive income of certain S corporations that have subchapter C earnings and profits. Interest on tax-exempt obligations must be included in passive investment income for purposes of this tax.

Earned Income Credit. For any taxable year beginning after December 31, 1995, the Code denies the earned income credit to persons otherwise eligible for it if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds \$2,200, subject to adjustment for inflation for taxable years beginning after December 31, 1996. Interest on the Refunding Bonds and the Fiscal 2002 B & C Bonds will constitute disqualified income for this purpose.

Changes in Federal Tax Law and Post Issuance Events. From time to time proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for federal income tax purposes of the interest on the Refunding Bonds or the Fiscal 2002 B & C Bonds, and thus on the economic value of the Refunded Bonds or the Fiscal 2002 B & C Bonds. This could result from reductions in federal income tax rates, changes in the structure of the federal income tax rates, changes in the structure of the federal income tax or its replacement with another type of tax, repeal of the exclusion of the interest on the Refunded Bonds or the Fiscal 2002 B & C Bonds from gross income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of holders of the Refunded Bonds or the Fiscal 2002 B & C Bonds may be proposed or enacted.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Refunding Bonds may affect the tax status of interest on the Refunding Bonds or the Fiscal 2002 B & C Bonds. The opinions as to the federal, State and local tax consequences described above related to the treatment of interest on the Fiscal 2002 B & C Bonds assume no change in the applicable law after issuance of the Refunding Bonds. Further, Bond Counsel expresses no opinion as to any federal, State or local tax law consequences with respect to the Refunded Bonds or the Fiscal 2002 B & C Bonds, or the interest thereon, if any action is taken with respect to the Refunding Bonds or the Fiscal 2002 B & C Bonds or the proceeds thereof upon the advice or approval of other counsel.

CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12

To the extent that Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission ("SEC") under the Securities and Exchange Act of 1934, as amended (the "1934 Act"), requires the Underwriters to determine, as a condition to purchasing the Refunding Bonds, that the Authority will covenant to the effect of the provisions here summarized (the "Undertaking"), and the Rule as so applied is authorized by a federal law that as so construed is within the powers of Congress, the Authority agrees with the record and beneficial owners from time to time of the Refunding Bonds or the Fiscal 2002 B & C Bonds (collectively, the "Bondholders") that it will:

(1) within 240 days after the end of the 2002 Fiscal Year and each subsequent Fiscal Year, deliver to each nationally recognized municipal securities information repository and to any New York State information depository, core financial information and operating data for the prior Fiscal Year, including (i) the System's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical financial and operating data concerning the System and the Revenues of the System generally of the type included in ANNEX E in this Official Statement under the captions "CAPITAL IMPROVEMENT AND FINANCING PROGRAM," "FINANCIAL OPERATIONS," "RATES AND BILLING" and "THE SYSTEM;" and

(2) provide in a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to any New York State information depository, notice of any of the following events with respect to the Refunding Bonds and the Fiscal 2002 B & C Bonds, if material:

(a) principal and interest payment delinquencies;

(b) non-payment related defaults;

(c) in the case of credit enhancement that is provided in connection with the issuance of the Refunding Bonds or the Fiscal 2002 B & C Bonds, unscheduled draws on such credit enhancement reflecting financial difficulties and substitution of credit providers, or their failure to perform;

(d) unscheduled draws on debt service reserves reflecting financial difficulties;

(e) adverse opinions or events affecting the exclusion from gross income for federal income tax purposes of interest on the Refunding Bonds or the Fiscal 2002 B & C Bonds;

(f) modifications to rights of security holders;

(g) bond calls;

(h) defeasances;

(i) release, substitution, or sale of property securing repayment of the securities;

(j) rating changes; and

(k) failure by the Authority to comply with clause (1) above.

The Authority expects to provide the information described in clause (1) above by delivering its first bond official statement that includes its financial statements for the preceding fiscal year.

Currently, there is no New York State information depository and the nationally recognized municipal securities information repositories are: Bloomberg Municipal Repository, P.O. Box 840, Princeton, New Jersey 08542-0840; Kenny Information Systems, Inc., 65 Broadway, 16th Floor, New York, New York 10006; Interactive Data, Attn: Repository, 100 William Street, New York, New York 10038, and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07042.

No holder of a Refunding Bond or of a Fiscal 2002 B or C Bond may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the Undertaking or for any remedy for breach thereof,

unless such Bondholder has filed with the Authority evidence of ownership and a written notice of and request to cure such breach, and the Authority has not complied within a reasonable time; provided, however, that any Proceeding challenging the adequacy of any information provided pursuant to paragraphs (1) and (2) above may be brought only by the Trustee or the holders of a majority in aggregate principal amount of the issue of Refunding Bonds or series of Fiscal 2002 B & C Bonds affected thereby which at the time are Outstanding. All Proceedings may be instituted only as specified herein, in the Federal or State courts located in the Borough of Manhattan, State and City of New York, and for the equal benefit of all holders of the Outstanding Bonds benefited by the same or a substantially similar covenant. No remedy may be sought or granted other than specific performance of the covenant at issue.

Any amendment to the Undertaking will take effect only if:

(a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or the Board, or type of business conducted; the Undertaking, as amended, would have complied with the requirements of the Rule at the time of sale of the Refunding Bonds to the Underwriters, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the Authority (such as, but without limitation, the Authority's financial advisor or bond counsel) and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the "impact" (as that word is used in the letter from the staff of the SEC to the National Association of Bond Lawyers dated June 23, 1995) of the change in the type of operating data or financial information being provided; or

(b) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the Undertaking, ceases to be in effect for any reason, and the Authority elects that the Undertaking will be deemed terminated or amended (as the case may be) accordingly.

For purposes of the Undertaking, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares investment power which includes the power to dispose, or to direct the disposition of, such security, subject to certain exceptions, as set forth in the Undertaking. Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request to the Authority described above.

RATINGS

The Refunding Bonds have been rated "AA" by Standard & Poor's Ratings Services, "AA" by Fitch, Inc. and "Aa2" by Moody's Investors Service, Inc. Such ratings reflect only the views of the respective rating agencies, from which an explanation of the significance of such ratings may be obtained. There is no assurance that any or all of such ratings will continue for any given period of time or that any or all will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market price of the Refunding Bonds and the Fiscal 2002 B & C Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Refunding Bonds from the Authority at a price which is \$1,301,525 less than the total of the initial offering prices. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Refunding Bonds if any of the Refunding Bonds are purchased. The Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing the Refunding Bonds into investment trusts) and others at prices lower than such public offering prices and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters have designated UBS PaineWebber Inc. as their Representative.

VERIFICATION OF MATHEMATICAL CALCULATIONS

The Arbitrage Group, Inc., a professional firm specializing in rebate and verification calculations, has verified the accuracy of (i) the arithmetical and mathematical computations concerning the adequacy of the amounts invested and to be reinvested in the Guaranteed Investment Contracts and held under the Crossover Resolutions to meet the anticipated redemption price and interest on the Refunded Bonds or, assuming payment by the Authority of the amounts required to be paid by it, to redeem the Refunding Bonds on the Tender Dates as described above under the heading "PLAN OF FINANCE" and (ii) the mathematical computations of the yield on the Refunding Bonds. Such verification of the arithmetical accuracy of the mathematical computations is based upon information and assumptions supplied by the Authority.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the Act, the Bonds of the Authority are securities in which all public officials and bodies of the State and all municipalities, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, investment companies and other persons carrying on a banking business, and administrators, guardians, executors, trustees and other fiduciaries and all others persons whatsoever, who are now and may hereafter be authorized to invest in the Bonds of the Authority or obligations of the State, may properly and legally invest funds including capital in their control or belonging to them in such Bonds of the Authority. The Act further provides that the Bonds of the Authority are securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities for any purposes for which the deposit of bonds or other obligations of the State is or may hereafter be authorized.

FINANCIAL ADVISORS

Lamont Financial Services Corporation and Ramirez & Co., Inc. have served as financial advisors to the Authority with respect to the sale of the Refunding Bonds.

APPROVAL OF LEGAL PROCEEDINGS

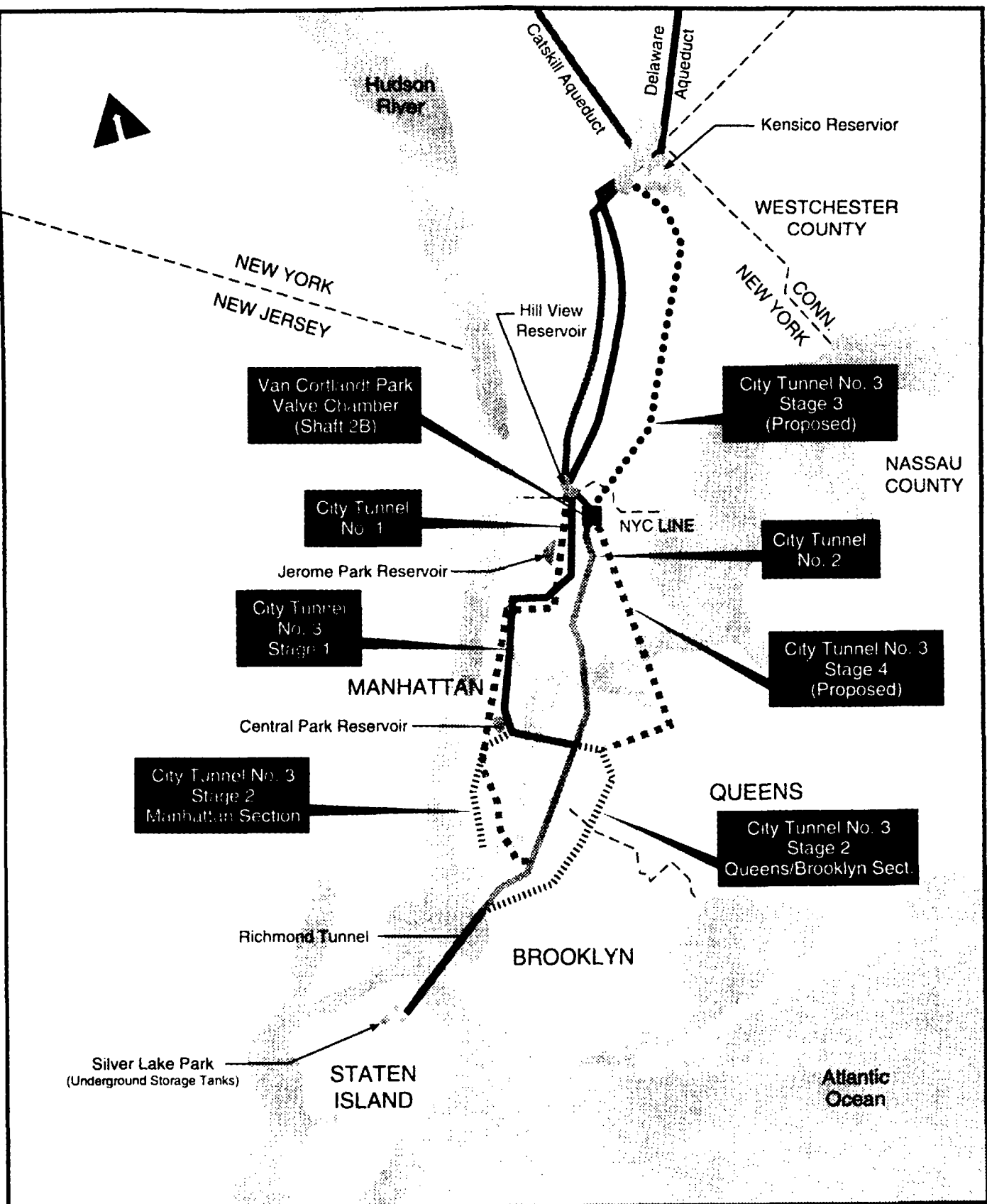
The issuance of the Refunding Bonds is subject to the approval of legality by Nixon Peabody LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the City and the Board by the City's Corporation Counsel. Certain legal matters will be passed upon for the Underwriters by Willkie Farr & Gallagher, New York, New York.

NEW YORK CITY MUNICIPAL WATER
FINANCE AUTHORITY

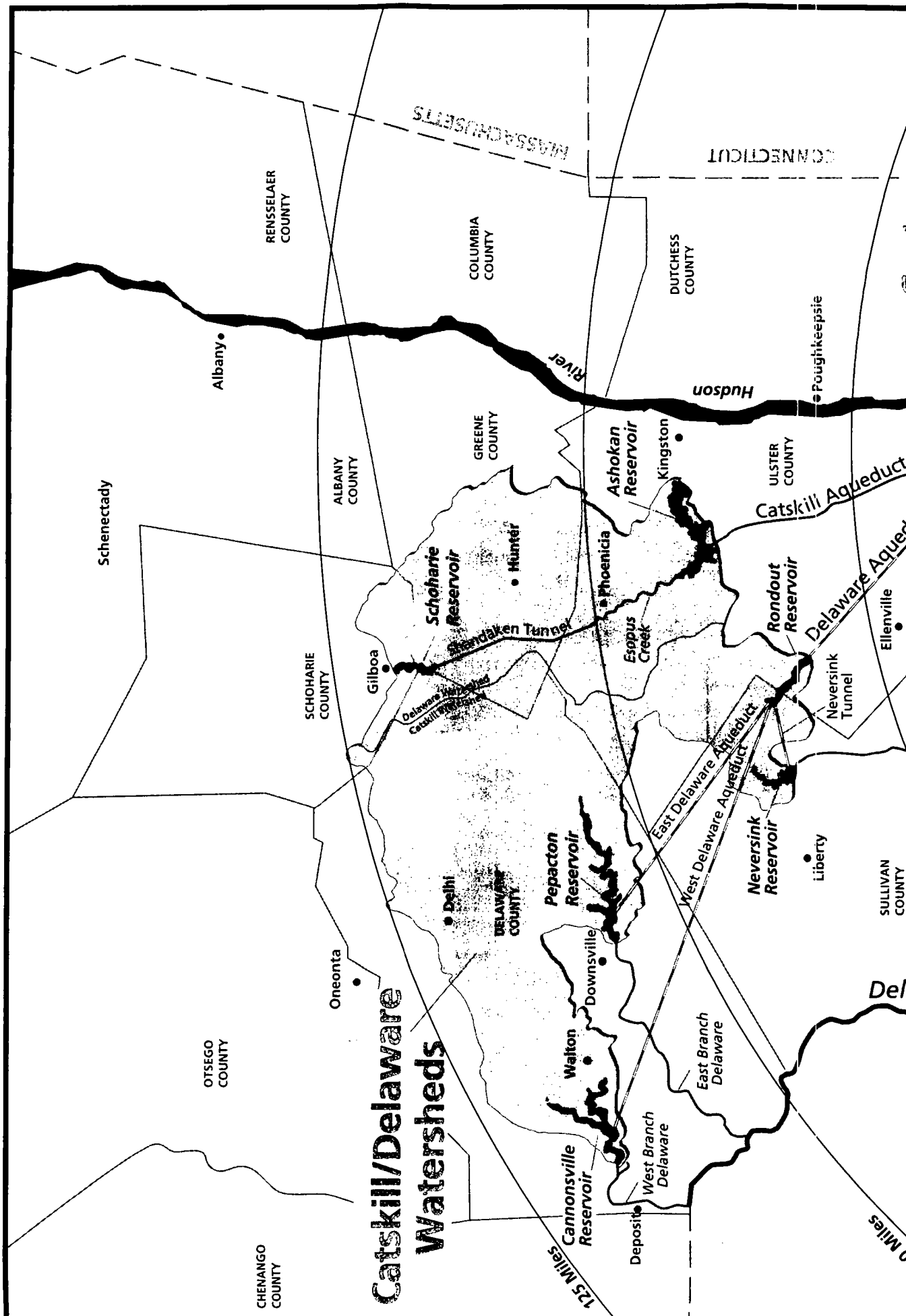
By: /s/ MARK PAGE

Mark Page
Executive Director

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New York City Water Tunnels



Catskill/Delaware Watersheds

Schenectady

Albany

RENSSELAER COUNTY

COLUMBIA COUNTY

DUTCHESS COUNTY

CONNECTICUT

Hudson River

Poughkeepsie

ALBANY COUNTY

GREENE COUNTY

Kingston

ULSTER COUNTY

Catskill Aqueduct

Schoharie Reservoir

Hunter

Phoenicia

Esopus Creek

Rondout Reservoir

Delaware Aqueduct

Gilboa

SCHOHARIE COUNTY

Delaware Reservoir

Catskill Aqueduct

Neversink Tunnel

Ellenville

OTSEGO COUNTY

Oneonta

Delhi

DELAWARE COUNTY

Pepacton Reservoir

Downsville

Walton

Cannonsville Reservoir

West Branch Delaware

East Branch Delaware

Neversink Reservoir

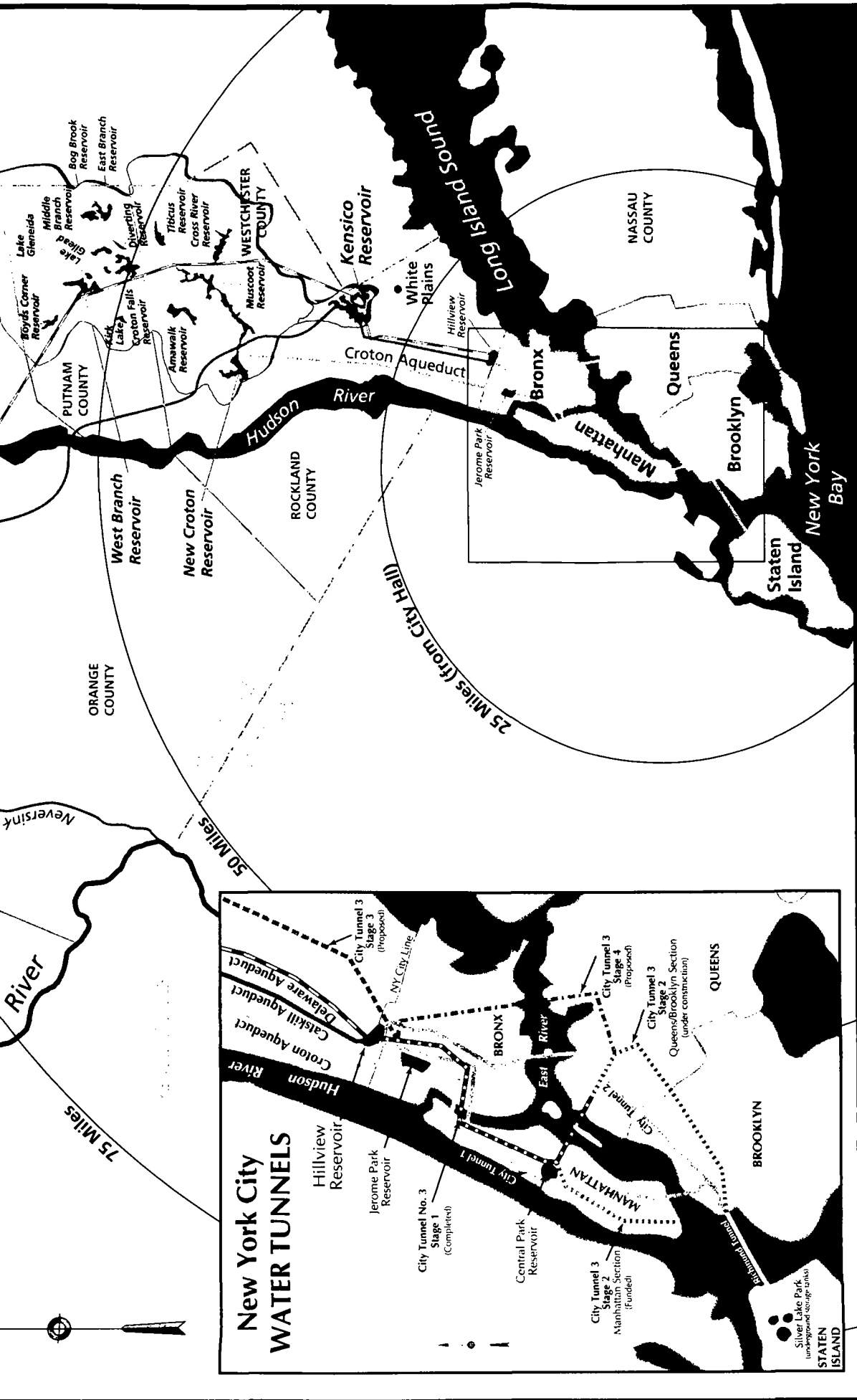
Liberty

SULLIVAN COUNTY

CHENANGO COUNTY

125 Miles

0 Miles



New York City Water Supply System

Plant Location **Capacity (MGD)**

MANHATTAN

Wards Island 250
 North River 170

BRONX

Hunts Point 200

BROOKLYN

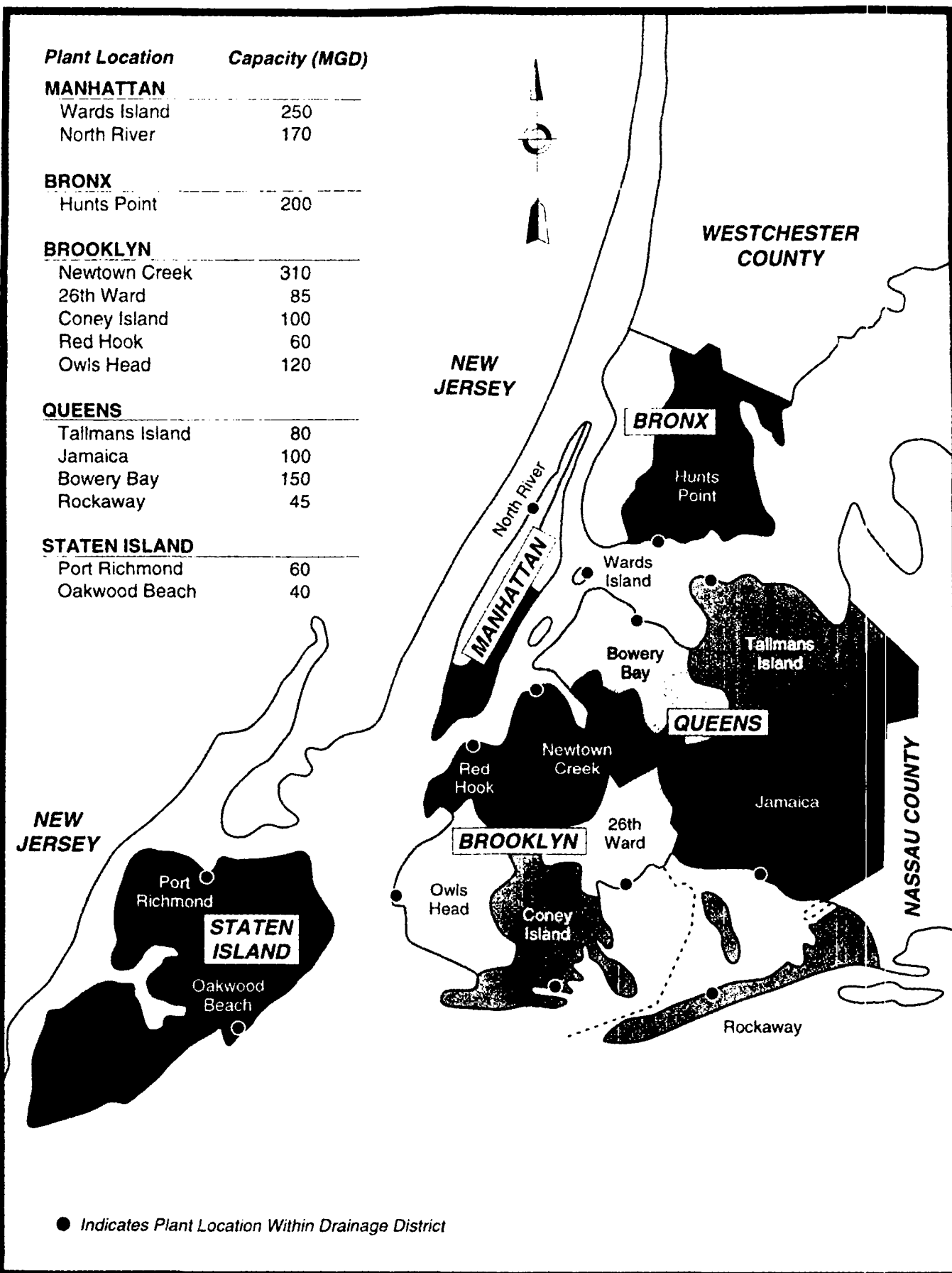
Newtown Creek 310
 26th Ward 85
 Coney Island 100
 Red Hook 60
 Owls Head 120

QUEENS

Tallmans Island 80
 Jamaica 100
 Bowery Bay 150
 Rockaway 45

STATEN ISLAND

Port Richmond 60
 Oakwood Beach 40



New York City Water Pollution Control Plants

ANNEX A
DEFINITIONS

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DEFINITIONS

The following are definitions of certain of the terms defined herein or in the Crossover Resolution and used in this Official Statement.

Act means the New York City Municipal Water Finance Authority Act constituting Title 2A of Article 5 of the Public Authorities Law of the State, as amended.

Agreement means the Financing Agreement, dated as of July 1, 1985, pursuant to Section 1045-i of the Act, by and among the Authority, the Board and the City, as amended prior to the date of the Crossover Resolution and as the same may be further amended and supplemented.

Authority means the New York City Municipal Water Finance Authority, a body corporate and politic constituting a public benefit corporation created and existing under and by virtue of the Act.

Authorized Newspaper means *The Bond Buyer* or any other newspaper of general circulation or financial journal printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York.

Authorized Representative means (i) in the case of both the Authority and the Board, the respective Chairman, Executive Director, Treasurer, Deputy Treasurer, Secretary or Assistant Secretary or any other person authorized by resolution of the Authority or the Board, as the case may be; and (ii) in the case of the City, the Mayor, unless a different city official is designated in the Crossover Resolution or in a Supplemental Resolution to perform the act or sign the document in question.

Board means the New York City Water Board, a body corporate and politic constituting a corporate municipal instrumentality of the State created and existing under and by virtue of the Act.

Bond Counsel means Nixon Peabody LLP or any attorney or a law firm, appointed by the Authority, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

Bondholder or *Holder* or any similar term, when used with reference to a Refunding Bond or Bonds, means any person who shall be the registered owner of any Outstanding Refunding Bond.

Bond Payment Date means each date on which interest or both principal and interest shall be due and payable on Outstanding Refunding Bonds according to their respective terms.

Business Day means any day which is not a Saturday, Sunday or a legal holiday in the State or a day on which banking institutions chartered by the State or the United States of America are legally authorized to close in The City of New York.

City means The City of New York.

Code means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

Cost of Issuance Fund means the Fund so designated, created and established pursuant to the Crossover Resolution.

Crossover Resolution means, when used in connection with the 2002 B Refunding Bonds, the 2002 B Crossover Resolution and, when used in connection with the 2002 C Refunding Bonds, the 2002 C Crossover Resolution, in each case as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions thereof.

DTC means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, in its capacity as securities depository for the Refunding Bonds and its successor or successors and any other entity which may at any time be substituted in its place as securities depository for the Refunding Bonds pursuant to the Crossover Resolution.

Eligible Investments means:

(i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;

(ii) obligations to which the full faith and credit of the United States are pledged;

(iii) obligations of any agency, instrumentality or corporation of the United States of America which (at the time such investment is made) is rated in the highest rating category by S&P and Moody's (and Fitch, if then rated by Fitch) and is approved by the Authority;

(iv) investment agreements or guaranteed investment contracts with any financial institution whose senior long term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract, are guaranteed by a financial institution whose senior long term debt obligations, have a rating (at the time such agreement or contract is entered into) at least "AA" and "Aa2" by S&P and Moody's, respectively (and "AA" by Fitch, if the provider is then rated by Fitch); **provided, however**, that if the provider of such an investment agreement or guaranteed investment contract is rated lower than the highest rating category by S&P and Moody's (and Fitch, if the provider is then rated by Fitch), such investment agreement or guaranteed investment contract shall be (x) collateralized at 105% of the agreement or contract value by securities of the type described in clauses (i), (ii) and (iii) above, (y) such collateral must be marked-to-market by the Trustee or a custodian at least not less than weekly and (z) the Trustee or a custodian will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation; and

(v) repurchase agreements collateralized at 105% of the agreement value by securities described in clauses (i), (ii) or (iii) above with any registered broker/dealer or with any domestic commercial bank whose long-term debt obligations are rated (at the time such agreement is entered into) at least "AA" and "Aa2" by S&P and Moody's, respectively (and "AA" by Fitch, if then rated by Fitch); **provided, however**, that (1) a specific written repurchase agreement governs the transaction, (2) the collateral is held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) such collateral must be marked-to-market by the Trustee or a custodian at least not less than weekly and the Trustee will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation and (4) the repurchase agreement meets the guidelines then applicable to such investments of each Rating Agency then maintaining a rating on Outstanding Refunding Bonds.

Fifty-first Supplemental Resolution means the "Fifty-first Supplemental Resolution Authorizing the Issuance of \$171,455,000 Water and Sewer System Revenue Bonds, Fiscal 2002 Series B", adopted on August 3, 2001.

Fifty-second Supplemental Resolution means the "Fifty-second Supplemental Resolution Authorizing the Issuance of \$46,580,000 Water and Sewer System Revenue Bonds, Fiscal 2002 Series C", adopted on August 3, 2001.

First General Resolution means the Water and Sewer System General Revenue Bond Resolution adopted by the Authority on November 14, 1985, as amended and supplemented in accordance therewith prior to the date of the Crossover Resolutions and as the same may be amended or supplemented in accordance therewith and with the Crossover Resolutions.

First General Resolution Bonds means either the Authority's Water and Sewer System Revenue Bonds, 2002 Series B or the Authority's Water and Sewer System Revenue Bonds, 2002 Series C to be issued on each Tender Date in exchange for the 2002 B Refunding Bonds and the 2002 C Refunding Bonds, respectively.

First General Resolution Supplemental Resolution means, when used in connection with the Fiscal 2002 B Bonds, the Fifty-first Supplemental Resolution and, when used in connection with the Fiscal 2002 C Bonds, the Fifty-second Supplemental Resolution.

First General Resolution Trustee means the bank or trust company appointed as trustee pursuant to First General Resolution and having the duties, responsibilities and rights provided for in the First General Resolution, and its successor or successors, and any other corporation which may at any time be substituted in its place pursuant to the First General Resolution.

Fitch means Fitch, Inc. or any successor thereto; references to Fitch are effective so long as Fitch is a Rating Agency.

Lease means the Agreement of Lease, dated as of July 1, 1985, by and between the Board, as lessee and the City, as lessor, of the System, as amended prior to the date of the Crossover Resolution and as the same may be further amended and supplemented thereafter.

Moody's means Moody's Investors Service and any successor thereto; references to Moody's are effective so long as Moody's is a Rating Agency.

Outstanding, when used in reference to Refunding Bonds, means, as of a particular date, all Refunding Bonds authenticated and delivered under the Crossover Resolutions except: (i) any Refunding Bond cancelled by the Trustee at or before such date; (ii) any Refunding Bond deemed to have been paid in accordance with the Crossover Resolutions; (iii) any Refunding Bond in lieu of or in substitution for which another Refunding Bond shall have been authenticated and delivered pursuant to the Crossover Resolutions and (iv) Refunding Bonds tendered or deemed tendered in accordance with the provisions of the Crossover Resolutions.

Proceeds Fund means the fund so designated, created and established pursuant to the Crossover Resolutions.

Rating Agency means each of Fitch, Moody's and S&P that has, at the request of the Authority, assigned a rating to Outstanding Refunding Bonds.

Record Date means the first day of any calendar month in which there occurs a Bond Payment Date.

Redemption Price, when used with respect to any Refunding Bond, means the principal amount of such Refunding Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to the Crossover Resolutions.

Refunded Bonds means, when used in connection with the 2002 B Crossover Resolution, \$165,960,000 aggregate principal amount of the Authority's 5.875% Water and Sewer System Revenue Bonds, Fiscal 1996 Series B, maturing on June 15, 2026, and, when used in connection with the 2002 C Crossover Resolution, \$44,360,000 aggregate principal amount of the Authority's Water and Sewer System Revenue Bonds, Fiscal 2000 Series B, maturing June 15, 2033.

Refunding Bond or Bonds means, when used in connection with the 2002 B Crossover Resolution, the Authority's Crossover Refunding Bonds, 2002 B Issue and, when used in connection with the 2002 C Crossover Resolution, the Crossover Refunding Bonds, 2002 C Issue authorized pursuant to the Crossover Resolutions.

S&P means Standard & Poor's Ratings Services or any successors thereto; references to S&P shall remain effective so long as S&P is a Rating Agency.

State means the State of New York.

Subordinated Indebtedness Fund means the Subordinated Indebtedness Fund established under and pursuant to the First General Resolution.

Supplemental Resolution means any resolution of the Authority amending or supplementing the Crossover Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms and provisions of the Crossover Resolutions.

Tender Date means, with respect to the 2002 B Refunding Bonds, June 15, 2006 and, with respect to the 2002 C Refunding Bonds, June 15, 2010.

Trustee means the bank or trust company appointed as Trustee for the Refunding Bonds pursuant to the Crossover Resolutions and having the duties, responsibilities and rights provided for in the Crossover Resolutions, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Crossover Resolutions.

ANNEX B

SUMMARY OF CERTAIN PROVISIONS OF THE CROSSOVER RESOLUTIONS

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SUMMARY OF CERTAIN PROVISIONS OF EACH OF THE CROSSOVER RESOLUTIONS

The following is a summary of certain provisions of each of the Crossover Resolutions. Such summary does not purport to be complete and reference is made to both Crossover Resolutions for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Annex A.

Issuance of Additional Bonds by the Authority

The Authority reserves the right to issue bonds, notes or any other obligations pursuant to other and separate resolutions of the Authority, so long as such bonds, notes or other obligations are not entitled to a charge or lien on the moneys and securities on deposit in the funds established under the Crossover Resolution.
(Section 2.13)

Pledge of Crossover Resolution

The Crossover Resolution provides for a pledge to the Trustee as security for the payment of the Refunding Bonds, subject only to provisions of the Crossover Resolution permitting the application of such pledge: (i) the moneys and investments and earnings on such investments held by the Trustee under the Crossover Resolution and (ii) the moneys or securities on deposit in the Subordinated Indebtedness Fund except that such pledge of the moneys or securities on deposit in the Subordinated Indebtedness Fund shall be subject and subordinate to the pledge thereof contained in (x) the Authority's (1) First General Resolution, (2) Water and Sewer System Second General Revenue Bond Resolution, adopted March 30, 1994, as amended and supplemented, (3) Commercial Paper Note Resolution (Series One), adopted October 13, 1994, as amended and supplemented, (4) Commercial Paper Note Resolution (Series Two), adopted October 13, 1994, as amended and supplemented, (5) Commercial Paper Note Resolution (Series Three), adopted December 1, 1994, as amended and supplemented, (6) Commercial Paper Note Resolution (Series Four), adopted December 1, 1994, as amended and supplemented, (7) Crossover Refunding Bond Resolution, 2001 E Issue, adopted April 27, 2001, and (8) Commercial Paper Note Resolution (Series Five), adopted December 18, 1996, as amended and supplemented and (y) any other resolution of the Authority pursuant to which the Authority may authorize and issue bonds or notes secured by a pledge of the moneys and securities on deposit in the Subordinated Indebtedness Fund, if such resolution expressly provides that the pledge thereof is prior to the pledge of the Crossover Resolution. Such pledge is valid, binding and perfected from the time when the pledge attaches and the moneys and investments and earnings on such investments and other funds so pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. The Refunding Bonds shall be special obligations of the Authority payable solely from and secured by a pledge of the moneys and investments and earnings on such investments held by the Trustee under the Crossover Resolution.
(Section 5.01)

Establishment of Proceeds Fund

A special fund designated the "Proceeds Fund" is established under the Crossover Resolution and shall be held and maintained by the Trustee. All moneys at any time deposited in the Proceeds Fund shall be held in trust for the benefit of the Holders of Refunding Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided the Crossover Resolution.
(Section 5.02)

Establishment of Cost of Issuance Fund

A special fund designated the "Cost of Issuance Fund" is established under the Crossover Resolution and shall be held and maintained by the Trustee. Amounts on deposit in the Cost of Issuance Fund shall be used to pay the costs relating the authorization, offering, sale and delivery of the Refunding Bonds. Amounts on deposit in the Cost of Issuance Fund may be invested by the Trustee, upon written direction of an Authorized Representative, in Investment Securities (as such term is defined in the First General Resolution). Any amounts remaining on deposit in the Cost of Issuance Fund after all costs of issuance relating to the Bonds have been paid shall, upon receipt by the Trustee of a written direction of an Authorized Representative of the Authority, be transferred to the Construction Fund established under the First General Resolution.
(Section 5.03)

Application of Proceeds

If on the Tender Date the First General Resolution Bonds have been delivered to the Trustee, the Trustee shall, after making provision for the payment of interest due and payable on the Refunding Bonds on the Tender Date, withdraw from the Proceeds Fund an amount of money equal to the principal of, and the applicable redemption premium on, the Refunded Bonds then outstanding and shall pay such amount to the First General Resolution Trustee for application in accordance with the provisions of this paragraph, upon delivery to the Trustee of a certificate of an Authorized Representative of the Authority, dated the Tender Date, setting forth or stating:

- (i) the aggregate principal amount of Refunded Bonds outstanding on such date;
- (ii) the applicable redemption premium payable upon redemption of such Refunded Bonds on the Tender Date;
- (iii) that the Authority has given the First General Resolution Trustee irrevocable instructions to publish, in accordance with the provisions of the First General Resolution, a notice of redemption to redeem on the Tender Date the Refunded Bonds then outstanding and that the Authority has given to the First General Resolution Trustee the required written notice therefor;
- (iv) that the Authority has delivered to the First General Resolution Trustee the documents required by the First General Resolution to be delivered to the First General Resolution Trustee on or prior to the delivery of the First General Resolution Bonds; and
- (v) that the Authority has given the First General Resolution Trustee irrevocable instructions to authenticate and deliver the First General Resolution Bonds to the Trustee upon receipt of the payment to be made pursuant to the Crossover Resolution.

The moneys so paid to the First General Resolution Trustee shall be applied by it to the redemption on the Tender Date of the Refunded Bonds.

If on the Tender Date, the conditions to issuance of the First General Resolution Bonds have not been met in accordance with the Crossover Resolution, the Trustee shall apply the amounts on deposit in the Proceeds Fund, together with other moneys then to be provided by the Authority, to the payment of the Redemption Price of the Refunding Bonds plus accrued interest to such date.
(Section 5.04)

Payment of Principal and Interest

The Authority has covenanted in the Crossover Resolution to pay or cause to be paid, from the sources pledged to the payment thereof, the principal or Redemption Price of and interest on every Refunding Bond on the dates and at the places and in the manner mentioned in the Refunding Bonds according to the true intent and meaning thereof.

The Trustee shall, on each date on which interest on the Refunding Bonds is payable, pay from the Proceeds Fund to the persons entitled thereto the interest on Outstanding Refunding Bonds payable on such date.

If on any Bond Payment Date or on the Tender Date, there are insufficient moneys on deposit in the Proceeds Funds to pay the principal or Redemption Price and interest due and payable on such date, the Trustee shall submit a written requisition to the Authority and the First General Resolution Trustee which requisition shall set forth the amount on deposit in the Proceeds Fund and the amount of the payment due on such date. Upon receipt of such a requisition, an Authorized Representation of the Authority shall instruct the First General Resolution Trustee to transfer from amounts on deposit in the Subordinated Indebtedness Fund, subject to the pledge of Crossover Resolution summarized herein under the caption "Pledge of Crossover Resolution," to the Trustee an amount equal to the deficiency set forth in the requisition.
(Sections 5.04 and 7.01)

Mandatory Tender

The Refunding Bonds shall be subject to mandatory tender on the Tender Date by the Holders thereof (i) in exchange for the First General Resolution Bonds or (ii) if such First General Resolution Bonds have not been delivered to the Trustee on the Tender Date, for redemption on such Tender Date at a Redemption Price equal to the principal amount thereof plus accrued interest to such Tender Date. All Refunding Bonds, whether or not surrendered on or prior to the Tender Date, will be deemed tendered on such date.
(Section 6.01)

Covenant as to Rescission, Repeal or Amendment of First General Resolution Supplemental Resolution

The Authority has covenanted in the Crossover Resolution that prior to the Tender Date or the date on which no Refunding Bonds are Outstanding thereunder it will not rescind or repeal the First General Resolution Supplemental Resolution pursuant to which the First General Resolution Bonds are to be issued.

Except as provided below, and subject to the rights of holders of notes and bonds issued pursuant to the First General Resolution, the Authority has covenanted not to modify or amend the First General Resolution or the First General Resolution Supplemental Resolution pursuant to which the First General Resolution Bonds are to be issued in any manner that requires the consent of the holders of any percentage in principal amount of all notes and bonds outstanding under the First General Resolution or in any manner that requires the consent of any percentage in principal amount of the First General Resolution Bonds if the First General Resolution Bonds were then outstanding.

Neither the First General Resolution nor the First General Resolution Supplemental Resolution pursuant to which the First General Resolution Bonds are to be issued shall be amended or modified in any manner which would require the consent of holders of all outstanding notes and bonds issued thereunder unless the consent thereto of at least the percentage in principal amount of the holders of such notes and bonds, computed in accordance with below, required by the First General Resolution to be obtained, has been obtained; **provided, however,** that no modification or amendment which adversely affects the source of or security for payment of only the First General Resolution Bonds shall be made without the consent of the Holders of all Outstanding Refunding Bonds. No amendment or modification of the First General Resolution or the First General Resolution Supplemental Resolution pursuant to which the First General Resolution Bonds are to be issued which, if the First General Resolution Bonds were then outstanding, would require the consent of holders of outstanding First General Resolution Bonds, shall be made unless the consent thereto of the Holders of a percentage in principal amount of Outstanding Refunding Bonds at least equal to the percentage in principal amount of outstanding First General Resolution Bonds the consent of the holders of which is required by the First General Resolution to be obtained, has been obtained.

In computing the principal amount of notes and bonds outstanding under the First General Resolution for the purposes of this section, a principal amount of First General Resolution Bonds equal to the principal amount

of Refunding Bonds then Outstanding shall be deemed to be outstanding. For purposes of this section, in computing the principal amount of notes and bonds outstanding under the First General Resolution, the consent of the holders of which have been obtained, the principal amount of Outstanding Refunding Bonds, the consent of the Holders of which have been obtained, shall be included.

Nothing in the Crossover Resolution shall prevent the Authority from amending or supplementing the First General Resolution or the First General Resolution Supplemental Resolution pursuant to which the First General Resolution Bonds are to be issued in any manner in which the consent of holders of notes or bonds issued thereunder is not required or to provide for the issuance of notes or bonds pursuant to the First General Resolution as provided therein.

(Section 7.10)

Limitation on Additional First General Resolution Bonds

Unless at the time the Bonds are initially issued an Authorized Representative of the Authority has delivered to the Trustee a certificate to the effect that the First General Resolution Bonds are "Refunding Bonds" within the meaning of the First General Resolution and will upon issuance on the Tender Date comply with the provisions of the First General Resolution applicable to the issuance of "Refunding Bonds" thereunder, no notes or bonds shall be issued unless (i) the same may be issued without compliance with the First General Resolution, (ii) the same are issued in compliance with the First General Resolution or (iii) the same may be issued in accordance with the First General Resolution assuming for purposes of the calculation required to make thereof that the First General Resolution Bonds are then Outstanding and that the Refunded Bonds are no longer Outstanding.

(Section 7.12)

Investment of Proceeds Fund

Subsequent to the initial investment of the moneys deposited in the Proceeds Fund, the Authority shall not invest or instruct the Trustee to invest moneys in the Proceeds Fund in any Eligible Investment other than the Guaranteed Investment Contract unless the Authority obtains a report of a firm of independent public accountants verifying the mathematical accuracy of the mathematic computation of the adequacy of the moneys, maturing principal amount and interest on such Eligible Investments to pay (i) interest on the Refunding Bonds as the same comes due on and prior to the Tender Date, (ii) the Redemption Price of the Refunded Bonds payable on the Tender Date and (iii) together with other moneys required to be provided by the Authority, assuming payment on or prior to the Tender Date by the Authority of the amount required by the Crossover Resolution to be paid by the Authority, the Redemption Price of the Refunding Bonds payable on the Tender Date if the First General Resolution Bonds have not been issued on the Tender Date.

(Section 7.13)

Modification and Amendment Without Consent

Notwithstanding any other provisions of the Crossover Resolution, the Authority may adopt at any time or from time to time Supplemental Resolutions: (a) to add additional covenants and agreements of the Authority, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Crossover Resolution; (b) to prescribe further limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect; (c) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Crossover Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Crossover Resolution; or (d) to confirm, as further assurance, any pledge under the Crossover Resolution, and the subjection to any lien, claim or pledge created or to be created by the provisions of the Crossover Resolution, of any moneys, obligations, investments or funds.

(Section 9.01)

Supplemental Resolutions Effective With Consent of Holders of Bonds

The provisions of the Crossover Resolution may also be modified or amended at any time and from time to time by a Supplemental Resolution, subject to the consent of the Holders of Refunding Bonds in accordance with and subject to the Crossover Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Representative of the Authority.

(Section 9.02)

General Provisions Relating to Supplemental Resolutions

The Crossover Resolution shall not be modified or amended in any respect except in accordance with and subject to the provisions of the Crossover Resolution. Nothing contained in the Crossover Resolution shall affect or limit the rights or obligations of the Authority to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of the Crossover Resolution.

A copy of every Supplemental Resolution filed with the Trustee, shall be accompanied by an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the Crossover Resolution, is authorized or permitted by the Crossover Resolution and is valid and binding upon the Authority.

The Trustee is authorized to accept delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized pursuant to the Crossover Resolution and to make all further agreements and stipulations which may be contained therein, and, in taking such action, the Trustee shall be fully protected in relying on the opinion of Bond Counsel that such Supplemental Resolution is authorized or permitted by the provisions of the Crossover Resolution.

No Supplemental Resolution changing or modifying any of the rights or obligations of the Trustee shall become effective without the written consent of the Trustee.

(Section 9.03)

Powers of Amendment

Any modification or amendment of the Crossover Resolution and of the rights and obligations of the Authority and of the Holders of the Refunding Bonds under the Crossover Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Crossover Resolution, of the Holders of at least two-thirds ($\frac{2}{3}$) in principal amount of the Refunding Bonds Outstanding at the time such consent is given; **provided, however**, that if such modification or amendment will, by its terms, not take effect so long as any Refunding Bonds of any specified like maturity remain Outstanding, the consent of the Holders of such Refunding Bonds shall not be required and such Refunding Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Refunding Bonds under the Crossover Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Refunding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Refunding Bond, or shall reduce the percentages or otherwise affect the classes of Refunding Bonds the consent of the Holders of which is required to effect any such modification or amendment.

(Section 10.01)

Consent of Holders of Bonds

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the Crossover Resolution to take effect when and as provided in the Crossover Resolution. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to Holders of Refunding Bonds for their consent thereto in

form satisfactory to the Trustee, shall promptly after adoption be mailed by the Authority to the Holders of Refunding Bonds. Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of Holders of the percentages of Outstanding Refunding Bonds specified in and (b) an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Crossover Resolution, is authorized or permitted by the Crossover Resolution, and is valid and binding upon the Authority, and (ii) a notice shall have been given as provided in the Crossover Resolution.

Any consent given by a Holder of Refunding Bonds shall be binding upon the Holder of the Refunding Bonds giving such consent and, anything in the Crossover Resolution to the contrary notwithstanding, upon any subsequent Holder of such Refunding Bonds and of any Refunding Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof). Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Authority, the Trustee, and the Holders of all Refunding Bonds upon the filing with the Trustee of proof of the mailing of such notice.
(Section 10.02)

Modifications by Unanimous Consent

The terms and provisions of the Crossover Resolution and the rights and obligations of the Authority and of the Holders of the Refunding Bonds may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of a Supplemental Resolution certified by an Authorized Representative of the Authority and the consent of the Holders of all of the Refunding Bonds then Outstanding, such consent to be given as provided in the Crossover Resolution, except that no notice to Holders of Refunding Bonds either by mailing or publication shall be required; **provided, however**, no such modification or amendment shall change or modify any of the rights or obligations of the Trustee without the written assent thereto of the Trustee in addition to the consent of the Refunding Bondholders.
(Section 10.03)

Events of Default

Events of default under the Crossover Resolution include: failure to pay the principal or Redemption Price of, or an installment of interest on, any Refunding Bond when the same shall become due and payable; default in the due and punctual performance of any of the other covenants, conditions or agreements contained in the Crossover Resolution or in the Refunding Bonds on the part of the Authority to be performed and such default shall continue for forty-five (45) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than a majority in principal amount of the Outstanding Refunding Bonds.
(Section 11.01)

Acceleration of Maturity

Upon the happening and continuance of any event of default specified in the Crossover Resolution the Trustee may, and upon the written request of the Holders of not less than a majority in principal amount of the Outstanding Refunding Bonds, shall, by a notice in writing to the Authority, declare the principal of all of the Outstanding Refunding Bonds and the interest accrued thereon to be due and payable immediately. At the expiration of thirty (30) days from the giving of notice of such declaration, such principal and interest shall become and be immediately due and payable. If all defaults shall have been remedied to the satisfaction of the Trustee, the Trustee may with the written consent of the Holders of not less than a majority in principal amount of the Refunding Bonds not then due by their terms and then Outstanding and by written notice to the Authority, annul such declaration and its consequences.
(Section 11.02)

Enforcement of Remedies

Upon the happening and continuance of any event of default specified in the Crossover Resolution, the Trustee may proceed, and upon the written request of the Holders of not less than a majority in principal amount of the Outstanding Refunding Bonds shall proceed (upon receiving indemnity to its satisfaction), to protect and enforce its rights and the rights of the Holders of the Refunding Bonds under the laws of the State or under the Crossover Resolution by such suits, actions or special proceedings in equity or at law as the Trustee shall deem most effectual to protect and enforce such rights.

(Section 11.03)

Limitation of Rights of Individual Holders of Bonds

No Holder of any of the Refunding Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Crossover Resolution, or for any other remedy under the Crossover Resolution, unless such Holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than a majority in principal amount of the Outstanding Refunding Bonds shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Crossover Resolution or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

(Section 11.07)

Defeasance

If the Authority shall pay or cause to be paid to the Holders of all Refunding Bonds then Outstanding, the principal or Redemption Price thereof and interest thereon, at the times and in the manner stipulated therein and in the Crossover Resolution, then, at the option of the Authority, expressed in an written instrument delivered to the Trustee, the pledge, covenants, agreements and other obligations of the Authority, and all other rights granted by the Crossover Resolution, to the Refunding Bondholders shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver all such instruments to evidence such discharge and satisfaction and the Trustee shall pay over or deliver to the Authority all moneys, securities and funds held by it pursuant to the Crossover Resolution which are not required for the payment or redemption of Refunding Bonds not theretofore surrendered for such payment or redemption. Such moneys, investments and securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Crossover Resolution.

Refunding Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the paragraph above. All Outstanding Refunding Bonds of any maturity or a portion of a maturity shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the paragraph above if (i) in case any of said Refunding Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to publish as provided in the Crossover Resolution notice of redemption of such Refunding Bonds on said redemption date, (ii) there shall have been deposited with the Trustee either moneys, in an amount which shall be sufficient, or direct obligations of the United States of America the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Refunding Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Refunding Bonds are not by their terms subject to redemption within the

next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper a notice to the Holders of such Refunding Bonds that the deposit required by (ii) above has been made with the Trustee and that said Refunding Bonds and coupons are deemed to have been paid in accordance with the Crossover Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of and interest on said Refunding Bonds. Neither direct obligations of the United States of America nor moneys deposited with the Trustee pursuant to the Crossover Resolution nor principal or interest payments on any such direct obligations of the United States of America shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, of and interest on said Refunding Bonds; **provided, however,** that any moneys received from such principal or interest payments on such direct obligations of the United States of America deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in direct obligations of the United States of America maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, of and interest to become due on said Refunding Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required to pay the principal or Redemption Price, if applicable, and interest on such Refunding Bonds, as realized, be paid to the Authority by the Trustee free from any trust, pledge, lien, encumbrance or security interest created by the Crossover Resolution.

Anything in the Crossover Resolution to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Refunding Bonds which remain unclaimed for one (1) year after the date when all of the Refunding Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for one (1) year after the date of deposit of such moneys if deposited with the Trustee after such date when all of the Refunding Bonds become due and payable, shall, at the written request of the Authority, be repaid by the Trustee to the Authority as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged; provided, however, that, before being required to make any such payment to the Authority, the Trustee may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than thirty (30) days after the date of the first publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

(Section 12.01)

ANNEX C
GUARANTEED INVESTMENT CONTRACTS PROVIDER

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Trinity Plus Funding Company, LLC (the "Company") is a special purpose New York limited liability company that may issue investment agreements, other debt, repurchase agreements (that have been designated as Investment Contracts) and similar contracts (the "Investment Contracts") to trustees, municipalities and other parties engaged in municipal finance and other transactions. The Company may, consistent with its current business plans, issue Investment Contracts in an aggregate principal amount of up to \$9 billion. Certain of these Contracts may provide for allocation of specific collateral to a designated Collateral Agent. All Investment Contracts will be secured obligations of the Company and will pay the holder of each Investment Contract a rate of return, as specified therein, which is determined through a bidding process with competing investment agreement providers or through negotiation.

Pursuant to the Operating Agreement of the Company, between FGIC MRCA Corp. ("FGIC MRCA"), as non-controlling common member (the "Non-Controlling Common Member"), and IC Funding Corp. ("IC Funding"), as controlling common member (in such capacity, the "Controlling Common Member," and, together with the Non-Controlling Common Member, the "Common Members"), IC Funding and FGIC MRCA have made capital contributions to the Company. In addition, the Company has raised equity by the sale of \$90,000,000 in aggregate liquidation preference of preferred membership interests issued on June 23, 1997, August 5, 1998, April 16, 1999 and September 19, 2000 (together, the "Outstanding Preferred Securities") in private placements to investors that were not affiliated with the Common Members.

Pursuant to the terms of the Collateral Trust and Security Agreement (the "Security Agreement") between the Company, General Electric Capital Corporation ("GE Capital"), as letter of credit agent and liquidity agent, and Bankers Trust Company, as security trustee (the "Security Trustee"), the Company utilizes the proceeds from issuing Investment Contracts and Outstanding Preferred Securities to purchase a portfolio of securities and other investments (the "Permitted Investments") that are within specified investment categories and that, taken together, satisfy specified portfolio composition requirements approved by the Moody's Investors Service Inc. ("Moody's") and Standard & Poor's Ratings Group ("S&P"). The Company intends to maintain an investment portfolio sufficient to support payments, when due, of amounts due on the Investment Contracts, distributions on and the redemption price of the Outstanding Preferred Securities, and other costs and expenses of the Company's operations, with any remainder providing a return to the Common Members. As of the date hereof, the Company has more than 300 Investment Contracts outstanding representing an aggregate principal amount in excess of \$6.3 billion.

As of December 31, 2000, the Company had admitted total assets of \$5.7 billion (audited), total liabilities of \$5.6 billion (audited) and total capital and surplus of \$105.9 million (audited) determined in accordance with auditing standards generally accepted in the United States of America. Copies of the Company's year-end financial statements are available without charge from the Company.

Proceeds held in the Proceeds Funds will be invested by the Trustee in investment agreements (the "Investment Agreements") with the Company. Moody's and S&P have assigned program ratings of Aaa/P-1 and AAA/A-1+, respectively, to the obligations of the Company under its investment agreements so secured. Neither of the Investment Agreements nor the Security Agreement guarantees or otherwise provides for payment of amounts due on the Refunding Bonds in the event of nonpayment by the Authority.

The Company's executive offices are located at 115 Broadway, New York, New York 10006. Communications to the Company may be directed to Operations Manager, telephone: (212) 312-3284.

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ANNEX D
FORM OF APPROVING OPINIONS OF BOND COUNSEL

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FORM OF APPROVING OPINIONS OF BOND COUNSEL

August , 2001

New York City Municipal
 Water Finance Authority
 75 Park Place
 New York, New York 10007

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$171,455,000 aggregate principal amount of Crossover Refunding Bonds, 2002 B Issue (the "Refunding Bonds") of the New York City Municipal Water Finance Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation, created and existing under and pursuant to the Constitution and statutes of the State of New York, including the New York City Municipal Water Finance Authority Act, being Title 2A of Article 5 of the Public Authorities Law of the State of New York, as amended (which, together with Section 1046 of the Public Authorities Law of the State, is referred to herein as the "Act").

The Refunding Bonds are issued under and pursuant to the Act and the Crossover Refunding Bond Resolution, 2002 B Issue of the Authority, adopted on August 3, 2001 (the "Crossover Resolution"). Capitalized terms used herein and not otherwise defined have the meanings given to them in the Crossover Resolution.

The Refunding Bonds are dated August , 2001 and mature on June 15 in each of the years and in the principal amounts, and bear interest at the respective rates per annum set forth below:

<u>Year</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Rate</u>
2007	\$235,000	3.625%	2017	\$ 355,000	4.800%
2008	245,000	3.750	2018	375,000	4.875
2009	255,000	3.900	2019	390,000	4.900
2010	265,000	4.000	2020	410,000	4.900
2011	275,000	4.100	2021	12,660,000	5.000
2012	285,000	4.250	2022	13,280,000	5.000
2013	300,000	4.400	2023	13,935,000	5.000
2014	310,000	4.500	2024	14,615,000	5.000
2015	325,000	4.600	2026	112,600,000	5.000
2016	340,000	4.700			

Interest on the Refunding Bonds is payable on December 15, 2001 and semiannually thereafter on June 15 and December 15 in each year.

The Refunding Bonds are issuable in the form of fully registered Bonds in the denomination of \$5,000 or integral multiples thereof. The Refunding Bonds are numbered "02B- ", followed by the number of the Refunded Bond. The Refunding Bonds are numbered consecutively from one upward.

The Refunding Bonds are being issued to provide moneys for the redemption on June 15, 2006 of a portion of the Authority's Water and Sewer System Revenue Bonds, Fiscal 1996 Series B (the "Refunded Bonds").

The Refunding Bonds are payable solely from and secured by the moneys and Eligible Investments held or set aside under the Crossover Resolution and moneys on deposit in the Subordinated Indebtedness Fund established under the Authority's Water and Sewer System Revenue Bond Resolution, adopted November 14, 1985, as amended and supplemented (the "First General Resolution"), which are pledged to secure payment of the principal and redemption price of and interest on the Refunding Bonds.

The Authority has authorized the issuance of its Water and Sewer System Revenue Bonds, Fiscal 2002 Series B (the "Fiscal 2002 B Bonds") under and pursuant to the Act, the First General Resolution and the Authority's Fifty-first Supplemental Resolution Authorizing the Issuance of \$171,455,000 Water and Sewer System Revenue Bonds, Fiscal 2002 Series B adopted August 3, 2001 (the "Fifty-first Supplemental Resolution" and, together with the First General Resolution, the "Resolutions").

The Resolutions require that the Fiscal 2002 B Bonds be authenticated and delivered on June 15, 2006 if certain conditions are satisfied. The Fiscal 2002 B Bonds will mature at the times and in the principal amounts, bear interest at the rates and be subject to redemption prior to maturity as the Refunding Bonds.

If the Fiscal 2002 B Bonds are issued on June 15, 2006, the outstanding Refunding Bonds are to be exchanged for the Fiscal 2002 B Bonds of the same principal amount, maturity date and interest rate, all as provided in the Crossover Resolution, and from and after such date, the Refunding Bonds will no longer be outstanding and holders of the Refunding Bonds will have no rights with respect thereto (other than to receive Fiscal 2002 B Bonds in exchange therefor). If the Fiscal 2002 B Bonds have not been issued on June 15, 2006, the outstanding Refunding Bonds will be redeemed on such date at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, and from and after such date, the Refunding Bonds will cease to bear interest and the holders thereof will have no rights with respect thereto, other than to receive payment of the redemption price thereof.

The proceeds of the Refunding Bonds will be invested in Eligible Investments the principal of and interest on which will be sufficient to pay the interest on the Refunding Bonds as it becomes due to and including June 15, 2006 and, if the Fiscal 2002 B Bonds are not issued on such date, to pay, together with other moneys then to be provided by the Authority, the redemption price of the Refunding Bonds on June 15, 2006. If the Fiscal 2002 B Bonds are issued, the principal and interest on such Eligible Investments will be applied to the redemption of the Refunded Bonds.

The Fiscal 2002 B Bonds are part of an issue of bonds of the Authority (the "Bonds") which the Authority has created under the terms of the Resolution and is authorized to issue from time to time for the purposes authorized by the Act and the First General Resolution, as then in effect, and without limitation as to amount except as provided in the First General Resolution or as may be limited by law. The Fiscal 2002 B Bonds are being issued for the purposes set forth in the Resolutions.

Pursuant to the Act, the New York City Water Board (the "Board"), a public benefit corporation of the State, created and existing under the laws of the State, and The City of New York (the "City"), a municipal corporation of the State, have entered into a lease agreement, dated as of July 1, 1985, as amended (the "Lease"), whereby the Board has leased the New York City Water and Sewer System from the City for a term ending on the date on which all bonds, notes or other obligations of the Authority have been paid in full or provision for such payment shall have been made in accordance with the instruments under which they were issued. Pursuant to the Act, the Authority, the Board and the City have entered into a financing agreement, dated as of July 1, 1985, as amended (the "Financing Agreement"), relating to, among other things, the financing of Water Projects.

The Authority is authorized to issue Bonds, in addition to the Fiscal 2002 B Bonds, only upon the terms and conditions set forth in the First General Resolution, and such Bonds, when issued, shall, with the Fiscal 2002 B Bonds and with all other such Bonds theretofore issued, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the First General Resolution.

We are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State, duly created and existing under the laws of the State with the right and lawful authority and power to adopt the Crossover Resolution, the First General Resolution and the Fifty-first Supplemental Resolution, to issue the Fiscal 2002 B Bonds and to enter into the Financing Agreement.

2. The First General Resolution and the Fifty-first Supplemental Resolution have been duly and lawfully adopted by the Authority, are in full force and effect and are the legal, valid and binding agreements of the Authority enforceable in accordance with their terms. The First General Resolution and the Fifty-first Supplemental Resolution create the valid, binding and perfected pledges they purport to create of the Revenues and any moneys or securities on deposit in the Funds and Accounts created thereby, subject only to the provisions of the First General Resolution, the Fifty-first Supplemental Resolution and the Financing Agreement permitting the application thereof for or to the purposes and on the terms and conditions permitted thereby, including the making of any required payments to the United States with respect to arbitrage earnings.

3. The Crossover Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is a legal, valid and binding obligation of the Authority enforceable in accordance with its terms. The Crossover Resolution creates the valid, binding and perfected pledge it purports to create of the moneys or securities on deposit in the Funds created thereby and of the subordinate lien on the Subordinated Indebtedness Fund created under the First General Resolution.

4. The Refunding Bonds have been duly and validly authorized and issued. The Refunding Bonds are valid and binding special obligations of the Authority payable as provided in the Crossover Resolution, are enforceable in accordance with their terms and the terms of the Crossover Resolution and are entitled to the benefits of the Crossover Resolution and the Act.

5. The Fiscal 2002 B Bonds have been duly and validly authorized. The Fiscal 2002 B Bonds, when and if issued on June 15, 2006 upon compliance with the terms and conditions to issuance set forth in the Resolutions, will be legal, valid and binding special obligations of the Authority payable as provided in the First General Resolution, will be enforceable in accordance with their terms and the terms of the First General Resolution and will be entitled, together with all other Bonds issued under the First General Resolution, to the benefits of the First General Resolution and the Act. The Fiscal 2002 B Bonds are payable solely from the Revenue and other amounts pledged to such payment under the First General Resolution.

6. Neither the Refunding Bonds nor the Fiscal 2002 B Bonds are a debt of the State, the City or the Board and neither the State, the City, the Board nor any other political subdivision of the State is liable thereon.

7. The Lease and the Financing Agreement have been duly authorized, executed and delivered by the respective parties thereto and constitute valid and binding obligations of such parties, enforceable in accordance with their terms.

8. The Revenues derived from the operation of the System are the property of the Board. The Financing Agreement validly transfers the right, title and interest of the Board in the Revenues to the Authority to the extent and as provided in the Financing Agreement, subject only to the provisions of the Act, the Financing Agreement and the Resolution permitting the application thereof for or to the purposes, and on the terms and conditions, therein set forth.

9. By virtue of the Act, the Authority has a valid, binding and perfected statutory lien upon the Revenues to be paid by the Board to the Authority pursuant to the Financing Agreement and such lien constitutes a first priority security interest therein.

10. The Internal Revenue Code of 1986 (the "Code") imposes certain requirements which must be met subsequent to the issuance and delivery of the Refunding Bonds and the Fiscal 2002 B Bonds for interest thereon to be and remain excluded from gross income for federal tax purposes. Noncompliance with such requirements

could cause the interest on the Refunding Bonds and the Fiscal 2002 B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Refunding Bonds. Pursuant to the Fifty-first Supplemental Resolution and the Crossover Resolution, the Authority has covenanted to maintain the exclusion from gross income of the interest on the Refunding Bonds and the Fiscal 2002 B Bonds pursuant to Section 103 of the Code, in furtherance thereof, to comply with the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Code, with respect to the Refunding Bonds and the Fiscal 2002 B Bonds and to provide for any required rebate to the United States.

11. Under existing law and assuming compliance with the aforementioned tax covenants, interest on the Refunding Bonds is, and interest on the Fiscal 2002 B Bonds, if issued on June 15, 2006, will be, excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest on the Refunding Bonds is not, and Fiscal 2002 B Bonds will not, be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations for purposes of computing the alternative minimum tax on such corporations. Interest on the Refunding Bonds and the Fiscal 2002 B Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax on such corporations.

Interest on the Refunding Bonds is, and interest on the Fiscal 2002 B Bonds will be, exempt, under existing law, from personal income tax of the State of New York and its political subdivisions, including The City of New York.

The difference between the principal amount of the Refunding Bonds maturing on June 15, 2007 through June 15, 2011 and June 15, 2016 through June 15, 2026, inclusive (collectively, the "Discount Bonds"), and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of Discount Bonds of the same maturity was sold constitutes original issue discount on the Discount Bonds and, if issued, the Fiscal 2002 B Bonds, which is excluded from gross income for federal income tax purposes to the same extent as interest on the Refunding Bonds and Fiscal 2002 B Bonds. Further, the original issue discount accrues actuarially on a constant interest rate basis over the period from the date of initial issuance of the Discount Bonds through its maturity date and the basis of each Discount Bond acquired at the initial offering price by its initial purchaser and of each Fiscal 2002 B Bond issued in exchange therefor will be increased by the amount of the accrued original issue discount. The accrual or original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning Discount Bonds and Fiscal 2002 B Bonds, even though there will not be a corresponding cash payment.

12. Under existing statutes, regulations, rulings and court decisions, a holder of a Refunding Bond who exchanges such Refunding Bonds for a Fiscal 2002 B Bond on or after June 15, 2006 will not, solely as a result of such exchange, recognize any gain or loss on such exchange for federal income purposes.

Except as stated in the preceding paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Refunding Bonds or the Fiscal 2002 B Bonds. Furthermore, we express no opinion as to any federal state or local tax law consequences with respect to the Refunding Bonds or the Fiscal 2002 B Bonds, or the interest thereon, if any action is taken with respect to the Refunding Bonds or the Fiscal 2002 B Bonds or the proceeds thereof upon the advice or approval of other counsel.

We have examined an executed Refunding Bond, and, in our opinion, the form of said bond and its execution are regular and proper. However, we have not verified and express no opinion as to the accuracy of, any "CUSIP" identification number which may be printed on any of the Refunding Bonds.

The above opinions are qualified to the extent that the enforceability of rights and remedies may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and the unavailability of equitable remedies.

Very truly yours,

August , 2001

New York City Municipal
Water Finance Authority
75 Park Place
New York, New York 10007

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$46,580,000 aggregate principal amount of Crossover Refunding Bonds, 2002 C Issue (the "Refunding Bonds") of the New York City Municipal Water Finance Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation, created and existing under and pursuant to the Constitution and statutes of the State of New York, including the New York City Municipal Water Finance Authority Act, being Title 2A of Article 5 of the Public Authorities Law of the State of New York, as amended (which, together with Section 1046 of the Public Authorities Law of the State, is referred to herein as the "Act").

The Refunding Bonds are issued under and pursuant to the Act and the Crossover Refunding Bond Resolution, 2002 C Issue of the Authority, adopted on August 3, 2001 (the "Crossover Resolution"). Capitalized terms used herein and not otherwise defined have the meanings given to them in the Crossover Resolution.

The Refunding Bonds are dated August , 2001 and mature on June 15 in each of the years and in the principal amounts, and bear interest at the respective rates per annum set forth below:

<u>Year</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Rate</u>
2011	\$ 60,000	4.100%	2021	\$ 95,000	5.000%
2012	60,000	4.250	2022	95,000	5.000
2013	65,000	4.400	2023	105,000	5.000
2014	65,000	4.500	2024	110,000	5.000
2015	70,000	4.600	2025	115,000	5.100
2016	75,000	4.700	2026	120,000	5.125
2017	75,000	4.800	2027	125,000	5.125
2018	80,000	4.875	2028	130,000	5.125
2019	85,000	4.900	2029	140,000	5.125
2020	90,000	4.900	2032	44,820,000	5.000

Interest on the Refunding Bonds is payable on December 15, 2001 and semiannually thereafter on June 15 and December 15 in each year.

The Refunding Bonds are issuable in the form of fully registered Bonds in the denomination of \$5,000 or integral multiples thereof. The Refunding Bonds are numbered "02C- ", followed by the number of the Refunded Bond. The Refunding Bonds are numbered consecutively from one upward.

The Refunding Bonds are being issued to provide moneys for the redemption on June 15, 2010 of a portion of the Authority's Water and Sewer System Revenue Bonds, Fiscal 2000 Series B (the "Refunded Bonds").

The Refunding Bonds are payable solely from and secured by the moneys and Eligible Investments held or set aside under the Crossover Resolution and moneys on deposit in the Subordinated Indebtedness Fund established under the Authority's Water and Sewer System Revenue Bond Resolution, adopted November 14, 1985, as amended and supplemented (the "First General Resolution"), which are pledged to secure payment of the principal and redemption price of and interest on the Refunding Bonds.

The Authority has authorized the issuance of its Water and Sewer System Revenue Bonds, Fiscal 2002 Series C (the "Fiscal 2002 C Bonds") under and pursuant to the Act, the First General Resolution and the Authority's Fifty-second Supplemental Resolution Authorizing the Issuance of \$46,580,000 Water and Sewer System Revenue Bonds, Fiscal 2002 Series C, adopted August 3, 2001 (the "Fifty-second Supplemental Resolution" and, together with the First General Resolution, the "Resolutions").

The Resolutions require that the Fiscal 2002 C Bonds be authenticated and delivered on June 15, 2010 if certain conditions are satisfied. The Fiscal 2002 C Bonds will mature at the times and in the principal amounts, bear interest at the rates and be subject to redemption prior to maturity as the Refunding Bonds.

If the Fiscal 2002 C Bonds are issued on June 15, 2010, the outstanding Refunding Bonds are to be exchanged for the Fiscal 2002 C Bonds of the same principal amount, maturity date and interest rate, all as provided in the Crossover Resolution, and from and after such date, the Refunding Bonds will no longer be outstanding and holders of the Refunding Bonds will have no rights with respect thereto (other than to receive Fiscal 2002 C Bonds in exchange therefor). If the Fiscal 2002 C Bonds have not been issued on June 15, 2010, the outstanding Refunding Bonds will be redeemed on such date at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, and from and after such date, the Refunding Bonds will cease to bear interest and the holders thereof will have no rights with respect thereto, other than to receive payment of the redemption price thereof.

The proceeds of the Refunding Bonds will be invested in Eligible Investments the principal of and interest on which will be sufficient to pay the interest on the Refunding Bonds as it becomes due to and including June 15, 2010 and, if the Fiscal 2002 C Bonds are not issued on such date, to pay, together with other moneys then to be provided by the Authority, the redemption price of the Refunding Bonds on June 15, 2010. If the Fiscal 2002 C Bonds are issued, the principal and interest on such Eligible Investments will be applied to the redemption of the Refunded Bonds.

The Fiscal 2002 C Bonds are part of an issue of bonds of the Authority (the "Bonds") which the Authority has created under the terms of the Resolution and is authorized to issue from time to time for the purposes authorized by the Act and the First General Resolution, as then in effect, and without limitation as to amount except as provided in the First General Resolution or as may be limited by law. The Fiscal 2002 C Bonds are being issued for the purposes set forth in the Resolutions.

Pursuant to the Act, the New York City Water Board (the "Board"), a public benefit corporation of the State, created and existing under the laws of the State, and The City of New York (the "City"), a municipal corporation of the State, have entered into a lease agreement, dated as of July 1, 1985, as amended (the "Lease"), whereby the Board has leased the New York City Water and Sewer System from the City for a term ending on the date on which all bonds, notes or other obligations of the Authority have been paid in full or provision for such payment shall have been made in accordance with the instruments under which they were issued. Pursuant to the Act, the Authority, the Board and the City have entered into a financing agreement, dated as of July 1, 1985, as amended (the "Financing Agreement"), relating to, among other things, the financing of Water Projects.

The Authority is authorized to issue Bonds, in addition to the Fiscal 2002 C Bonds, only upon the terms and conditions set forth in the First General Resolution, and such Bonds, when issued, shall, with the Fiscal 2002 C Bonds and with all other such Bonds theretofore issued, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the First General Resolution.

We are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State, duly created and existing under the laws of the State with the right and lawful authority and power to adopt the Crossover Resolution, the First General Resolution and the Fifty-second Supplemental Resolution, to issue the Fiscal 2002 C Bonds and to enter into the Financing Agreement.

2. The First General Resolution and the Fifty-second Supplemental Resolution have been duly and lawfully adopted by the Authority, are in full force and effect and are the legal, valid and binding agreements of the Authority enforceable in accordance with their terms. The First General Resolution and the Fifty-second Supplemental Resolution create the valid, binding and perfected pledges they purport to create of the Revenues and any moneys or securities on deposit in the Funds and Accounts created thereby, subject only to the provisions of the First General Resolution, the Fifty-second Supplemental Resolution and the Financing Agreement permitting the application thereof for or to the purposes and on the terms and conditions permitted thereby, including the making of any required payments to the United States with respect to arbitrage earnings.

3. The Crossover Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is a legal, valid and binding obligation of the Authority enforceable in accordance with its terms. The Crossover Resolution creates the valid, binding and perfected pledge it purports to create of the moneys or securities on deposit in the Funds created thereby and of the subordinate lien on the Subordinated Indebtedness Fund created under the First General Resolution.

4. The Refunding Bonds have been duly and validly authorized and issued. The Refunding Bonds are valid and binding special obligations of the Authority payable as provided in the Crossover Resolution, are enforceable in accordance with their terms and the terms of the Crossover Resolution and are entitled to the benefits of the Crossover Resolution and the Act.

5. The Fiscal 2002 C Bonds have been duly and validly authorized. The Fiscal 2002 C Bonds, when and if issued on June 15, 2010 upon compliance with the terms and conditions to issuance set forth in the Resolutions, will be legal, valid and binding special obligations of the Authority payable as provided in the First General Resolution, will be enforceable in accordance with their terms and the terms of the First General Resolution and will be entitled, together with all other Bonds issued under the First General Resolution, to the benefits of the First General Resolution and the Act. The Fiscal 2002 C Bonds are payable solely from the Revenue and other amounts pledged to such payment under the First General Resolution.

6. Neither the Refunding Bonds nor the Fiscal 2002 C Bonds are a debt of the State, the City or the Board and neither the State, the City, the Board nor any other political subdivision of the State is liable thereon.

7. The Lease and the Financing Agreement have been duly authorized, executed and delivered by the respective parties thereto and constitute valid and binding obligations of such parties, enforceable in accordance with their terms.

8. The Revenues derived from the operation of the System are the property of the Board. The Financing Agreement validly transfers the right, title and interest of the Board in the Revenues to the Authority to the extent and as provided in the Financing Agreement, subject only to the provisions of the Act, the Financing Agreement and the Resolution permitting the application thereof for or to the purposes, and on the terms and conditions, therein set forth.

9. By virtue of the Act, the Authority has a valid, binding and perfected statutory lien upon the Revenues to be paid by the Board to the Authority pursuant to the Financing Agreement and such lien constitutes a first priority security interest therein.

10. The Internal Revenue Code of 1986 (the "Code") imposes certain requirements which must be met subsequent to the issuance and delivery of the Refunding Bonds and the Fiscal 2002 C Bonds for interest thereon to be and remain excluded from gross income for federal tax purposes. Noncompliance with such requirements

could cause the interest on the Refunding Bonds and the Fiscal 2002 C Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Refunding Bonds. Pursuant to the Fifty-second Supplemental Resolution and the Crossover Resolution, the Authority has covenanted to maintain the exclusion from gross income of the interest on the Refunding Bonds and the Fiscal 2002 C Bonds pursuant to Section 103 of the Code, in furtherance thereof, to comply with the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Code, with respect to the Refunding Bonds and the Fiscal 2002 C Bonds and to provide for any required rebate to the United States.

11. Under existing law and assuming compliance with the aforementioned tax covenants, interest on the Refunding Bonds is, and interest on the Fiscal 2002 C Bonds, if issued on June 15, 2010, will be, excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest on the Refunding Bonds is not, and Fiscal 2002 C Bonds will not, be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations for purposes of computing the alternative minimum tax on such corporations. Interest on the Refunding Bonds and the Fiscal 2002 C Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax on such corporations.

Interest on the Refunding Bonds is, and interest on the Fiscal 2002 C Bonds will be, exempt, under existing law, from personal income tax of the State of New York and its political subdivisions, including The City of New York.

The difference between the principal amount of the Refunding Bonds maturing on June 15, 2011 and June 15, 2016 through June 15, 2032, inclusive (collectively, the "Discount Bonds"), and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of Discount Bonds of the same maturity was sold constitutes original issue discount on the Discount Bonds and, if issued, the Fiscal 2002 C Bonds, which is excluded from gross income for federal income tax purposes to the same extent as interest on the Refunding Bonds and Fiscal 2002 C Bonds. Further, the original issue discount accrues actuarially on a constant interest rate basis over the period from the date of initial issuance of the Discount Bonds through its maturity date and the basis of each Discount Bond acquired at the initial offering price by its initial purchaser and of each Fiscal 2002 C Bond issued in exchange therefor will be increased by the amount of the accrued original issue discount. The accrual or original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning Discount Bonds and Fiscal 2002 C Bonds, even though there will not be a corresponding cash payment.

12. Under existing statutes, regulations, rulings and court decisions, a holder of a Refunding Bond who exchanges such Refunding Bonds for a Fiscal 2002 C Bond on or after June 15, 2010 will not, solely as a result of such exchange, recognize any gain or loss on such exchange for federal income purposes.

Except as stated in the preceding paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Refunding Bonds or the Fiscal 2002 C Bonds. Furthermore, we express no opinion as to any federal state or local tax law consequences with respect to the Refunding Bonds or the Fiscal 2002 C Bonds, or the interest thereon, if any action is taken with respect to the Refunding Bonds or the Fiscal 2002 C Bonds or the proceeds thereof upon the advice or approval of other counsel.

We have examined an executed Refunding Bond, and, in our opinion, the form of said bond and its execution are regular and proper. However, we have not verified and express no opinion as to the accuracy of, any "CUSIP" identification number which may be printed on any of the Refunding Bonds.

The above opinions are qualified to the extent that the enforceability of rights and remedies may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and the unavailability of equitable remedies.

Very truly yours,

ANNEX E

CERTAIN INFORMATION RELATING TO THE AUTHORITY AND THE SYSTEM

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NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY

INTRODUCTORY STATEMENT

The purpose of this ANNEX E is to set forth certain information pertaining to the Authority, the Board and the Authority's Fiscal 2002 B & C Bonds. Capitalized terms used in this Official Statement and not defined herein shall have the meanings ascribed thereto in APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Glossary.”

SECURITY FOR THE BONDS

Revenues

The Act empowers the Board to establish and collect rates, fees and charges for the use of service provided by the System in order to receive Revenues, which together with other available amounts, will be sufficient to place the System on a self-sustaining basis. All Revenues of the System are deposited by the Board in the Local Water Fund held by the Board. The Authority holds a statutory first lien on the Revenues for the payment of all amounts due to the Authority under the Agreement. In the event that the Board fails to make any required payment to the Authority, the Authority or the Trustee may petition for the appointment, by any court having jurisdiction, of a receiver to administer the affairs of the Board, and, with court approval, establish rates and charges to provide Revenues sufficient to make required payments. However, no holder or owner of any bond or note issued by the Authority, or any receiver of the System, may compel the sale of any part of the System.

The City has covenanted in the Agreement to operate and maintain the System in accordance with the advice and recommendations of the Consulting Engineer. Such obligation to operate and maintain the System may be enforced by the Authority in accordance with the provisions of the Act and the terms of the Agreement and the Lease and is not contingent on payment by the Board. The amounts required to operate and maintain the System are certified to the Board by the City and reviewed by the Consulting Engineer.

Beginning on the first day of each month the Board is required to pay to the Trustee under the Resolution the Revenues in the Local Water Fund, for deposit in the Revenue Fund established under the Resolution until the amount so deposited equals the Minimum Monthly Balance and the Required Deposits for such month. The Minimum Monthly Balance is the amount required to accumulate the funds necessary for timely payment of all debt service on Outstanding Bonds. Required Deposits are the amounts required to be paid from Revenues for deposit to the Authority Expense Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund, including amounts required for payment of the Second Resolution Bonds and other subordinate debt. See “APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Summary of the Agreement—Minimum Monthly Balance.”

Amounts on deposit in the Revenue Fund are required to be paid to the following funds established under the Resolution in the following order of priority: first, to the Debt Service Fund; second, to the Authority Expense Fund; third, to the Debt Service Reserve Fund to replenish any deficiency therein; and fourth, to the Subordinated Indebtedness Fund. If amounts on deposit in such Debt Service Fund or such Debt Service Reserve Fund are less than the requirements thereof, amounts on deposit in the Subordinated Indebtedness Fund are required to be used to make up such deficiency. See “APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Summary of the Resolution—Payments into Certain Funds.”

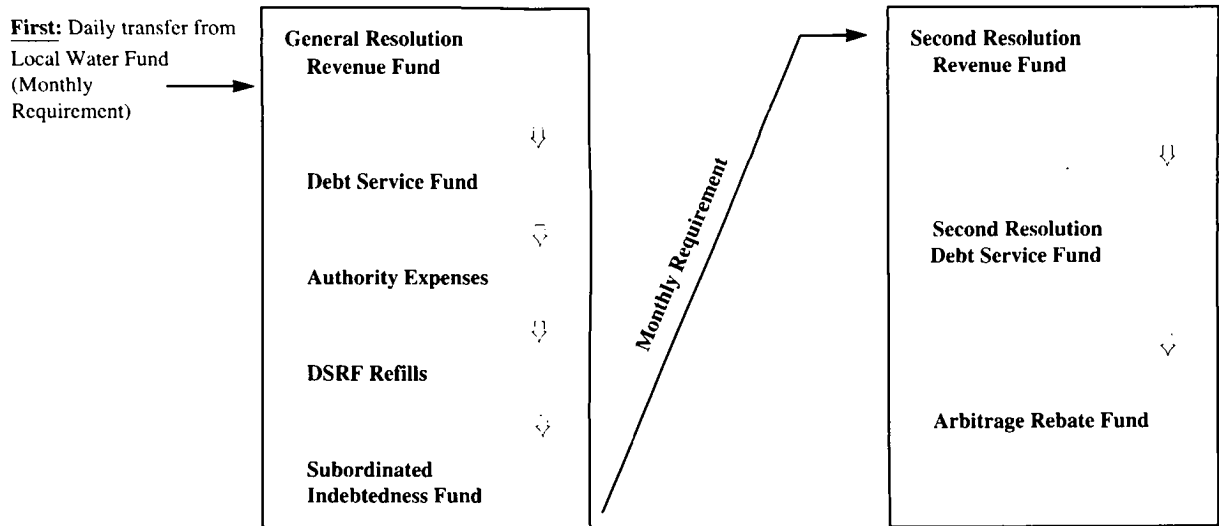
In each month, after making required payments to the Revenue Fund the Board is required, after paying monthly Board Expenses, to pay the City $\frac{1}{2}$ of the Operating Expenses for the current Fiscal Year from the balance remaining in the Local Water Fund. After making such payments, any amounts remaining in the Local Water Fund in each month are paid proportionately (a) to the Trustee for deposit in the Revenue Fund until the total of all amounts deposited in the Revenue Fund equals the Cash Flow Requirement for such Fiscal Year and (b) to the City until all amounts required to be paid to the City for Operating Expenses for such Fiscal Year have

been paid. For a more complete description of the required payments from the Local Water Fund, see “APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Summary of the Resolution” and “Summary of the Agreement.”

The Fiscal 2002 B & C Bonds will be on a parity with the currently Outstanding Bonds and with Bonds hereafter issued and are payable from and secured by a pledge of (i) all Revenues, (ii) all moneys or securities in any of the Funds and Accounts established under the Resolutions, except that moneys or securities on deposit in a Special Account are pledged only to the Series of Bonds to which such Account relates and moneys and securities on deposit in the Common Account are pledged only to the Bonds for which a Special Account has not been established pursuant to the General Resolution, and (iii) all other moneys and securities to be received, held or set aside pursuant to the Resolution, subject only to the provisions of the Resolution and the Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, including the making of any required payments to the United States with respect to arbitrage earnings. No such Special Account has been established by the Authority. See “APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Summary of the Resolution” and “Summary of the Agreement.”

Pursuant to the Agreement, the Resolution and the Second Resolution, the Revenues received by the Board will be applied in the manner set forth in the following chart. The information contained in such chart is qualified by reference to the Agreement, the Resolution and the Second Resolution.

Consolidated Flow of Funds



Second: Daily transfer from Local Water Fund (Monthly Requirement) → • Water Board Expenses

Third: Daily transfer from Local Water Fund (Monthly Requirement) → • System Operating and Maintenance

Fourth: Daily transfer from Local Water Fund (Up to Annual Requirement) → Pro rata to:

- General Resolution Revenue Fund: for annual Debt Service, Authority expenses, DSRF, Subordinate Indebtedness (Second Resolution)
- Systems Operations and Maintenance

Fifth - Seventh: Daily transfer from Local Water Fund (After Debt Service is set aside; typically funded during the last few months of the fiscal year) → • City lease payment, operating and maintenance reserve replenishment, surplus including pay as you go capital

Debt Service Reserve Fund

The Resolution establishes a Debt Service Reserve Fund and requires as a condition to the issuance of each Series of Bonds that there be deposited into the Debt Service Reserve Fund the amount, if any, necessary to make the amount on deposit therein equal to the Debt Service Reserve Requirement, after giving effect to the issuance of such Bonds. The Debt Service Reserve Requirement is an amount equal to maximum annual Adjusted Aggregate Debt Service in the then current or any future Fiscal Year on all Bonds Outstanding. Amounts on deposit in the Debt Service Reserve Fund will be applied, to the extent Revenues are not available, to pay Principal Installments and interest on the Bonds. See "APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Summary of the Resolution—Debt Service Reserve Fund."

In lieu of making cash deposits to the Debt Service Reserve Fund, the Authority may satisfy the Debt Service Reserve Requirement by depositing Financial Guaranties into the Debt Service Reserve Fund. See "APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Summary of the Resolution—Debt Service Reserve Fund."

On June 30, 2001 the market value of the securities and cash in the Debt Service Reserve Fund was in excess of the Debt Service Reserve Fund Requirement, which was approximately \$607 million as of such date.

Rate Covenant

The Board has covenanted in the Agreement to establish, fix, revise and collect rates, fees and charges for the use of, or the services furnished by the System, adequate, together with other available funds, to provide for (i) the timely payment of Principal Installments of and interest on all Bonds, and the principal of and interest on any other indebtedness of the Authority (which includes Second Resolution Bonds and other subordinate debt) payable from Revenues, (ii) the proper operation and maintenance of the System, (iii) all other payments required for the System not otherwise provided for, and (iv) all other payments required pursuant to the Agreement and the Lease.

Without limiting the generality of the foregoing, the Board has covenanted to establish and collect rates, fees and charges sufficient in each Fiscal Year so that Revenues collected in such Fiscal Year will be at least equal to the sum of 115% of Aggregate Debt Service and Projected Debt Service on all Bonds (excluding Refundable Principal Installments that are payable from funds held in trust therefor) payable in such Fiscal Year, and 100% of the Operating Expenses and Required Deposits (including debt service on Second Resolution Bonds and other subordinate debt) required to be paid from Revenues for such Fiscal Year (the "Rate Covenant"). Amounts on deposit in the Revenue Fund on July 1 of a Fiscal Year will reduce the amount of Revenues required to be raised to meet the Required Deposits for such Fiscal Year. A failure to generate Revenues as set forth in this paragraph will not constitute an "event of default" under the Agreement if the Board takes timely action to correct any such deficiency as described in the following paragraph.

Under the Resolution and the Second Resolution, the Authority is required to submit to the Board by May 1 of each year the Authority Budget for the ensuing Fiscal Year showing the itemized estimated Cash Flow Requirement for such Fiscal Year. At the beginning of each month, the Authority is to recalculate the Cash Flow Requirement for the then current Fiscal Year and to submit any revisions to the Authority Budget required as a consequence to the Board. The Authority Budget and Cash Flow Requirement are to be used by the Board to set rates, fees and charges.

The Board has covenanted in the Agreement to review the adequacy of rates, fees and charges at least annually. If such annual review, or the report of the Rate Consultant required pursuant to the Agreement, indicates that the rates, fees and charges are or will be insufficient to meet the requirements of the Rate Covenant described above, the Board will promptly take the necessary action to cure or avoid any such deficiency. In

addition, under the Agreement, the City, which is responsible for billing, collecting and enforcing collections of rates and charges established by the Board, has agreed that it will diligently pursue all actions necessary to cure or avoid any such deficiency.

The Board has covenanted in the Agreement that it will not furnish or supply or cause to be furnished or supplied any product, use or service of the System free of charge or at a nominal charge, and will enforce (or cause the City to enforce) the payment of any and all amounts owing to the Board for use of the System, except to the extent required by the Act, as in effect on July 24, 1984.

Additional Bonds

The Authority may issue additional Bonds to pay for capital improvements to the System, to pay or provide for the payment of Bonds, Second Resolution Bonds and bond anticipation notes, including commercial paper notes, to refund general obligation bonds of the City issued for water or sewer purposes and to fund certain reserves. Under the Resolution, additional Bonds may be issued only upon satisfaction of certain requirements, including receipt by the Trustee of:

(a) a certificate by an Authorized Representative of the Authority to the effect that the Revenues for either of the last two Fiscal Years immediately preceding the Fiscal Year in which such Bonds are to be issued were at least equal to the sum of 115% of the Aggregate Debt Service during such Fiscal Year (excluding from Aggregate Debt Service any Principal Installments, or portion thereof, paid from a source other than Revenues), and 100% of the sum of the Operating Expenses of the System certified by the City and the Required Deposits for such Fiscal Year, and

(b) a certificate of the Rate Consultant to the effect that the estimated Revenues for each of the following five Fiscal Years (plus the Fiscal Year in which such Bonds are issued) after giving effect to any increases or decreases in rates, fees and charges projected for such Fiscal Years will be at least equal to the sum of 115% of the maximum estimated Adjusted Aggregate Debt Service on all Bonds then Outstanding including the Bonds to be issued, and 100% of the sum of the projected Operating Expenses and Required Deposits for such Fiscal Years.

The Authority may issue additional Bonds for the purpose of refunding Outstanding Bonds without satisfaction of the requirements described above only if:

(a) the average annual debt service on the refunding Bonds does not exceed the average annual debt service on the Bonds to be refunded, and

(b) the maximum debt service in any Fiscal Year on the refunding Bonds does not exceed the maximum debt service in any Fiscal Year on the Bonds to be refunded.

See "APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Summary of the Resolution."

Authority Debt

At the date of this Official Statement, the Authority has approximately \$8.03 billion aggregate principal amount of Outstanding Bonds (Capital Appreciation Bonds are included at their accreted value as of July 30, 2001). In addition, at the date of this Official Statement, the Authority has approximately \$2.23 billion aggregate principal amount of outstanding Second Resolution Bonds. The Authority is authorized to have outstanding up to \$600 million of commercial paper notes (the "Commercial Paper Notes"). As of the date of this Official Statement, the Authority has \$600 million aggregate principal amount of Commercial Paper Notes outstanding.

Second Resolution Bonds are payable from, among other sources, and secured by, a pledge of amounts on deposit in the Subordinated Indebtedness Fund, subject to the first lien on such amounts in favor of the Bonds. Amounts on deposit in the Subordinated Indebtedness Fund will be available, to the extent not utilized for Bonds, to pay debt service on Second Resolution Bonds.

The Commercial Paper Notes are special obligations of the Authority the proceeds of which are used to pay the costs of capital improvements to the System and are payable from moneys derived from irrevocable, direct pay letters of credit. Interest on the Commercial Paper Notes is secured by the Revenues of the System and the moneys and investments from time to time on deposit in the Subordinated Indebtedness Fund and the funds and accounts established under the resolutions authorizing their issuance. The pledge of the Revenues and the moneys and investments from time to time on deposit in the Subordinated Indebtedness Fund is subject and subordinate to the pledge thereof made by the Resolution for the benefit of the holders of Bonds. The pledge of the moneys and investments on deposit in the Subordinated Indebtedness Fund securing Commercial Paper Notes is of equal priority with the pledge securing Second Resolution Bonds.

The Authority's obligations to reimburse the banks for moneys advanced by them pursuant to the letters of credit securing the Commercial Paper Notes, and to pay interest on the moneys advanced are secured by a pledge of the moneys and investments on deposit in the Subordinated Indebtedness Fund on a parity with the pledge to secure the Second Resolution Bonds. Interest on such advances is also secured by a pledge of Revenues which is subordinate to the pledge securing the Bonds.

On May 15, 2001, the Authority issued \$86,105,000 of its Crossover Refunding Bonds, 2001 E Issue (the "Crossover Bonds") pursuant to the Authority's Crossover Refunding Bond Resolution. The Crossover Bonds are secured by the proceeds thereof and any investment income thereon, until June 15, 2010. The guaranteed investment contract is expected to provide sufficient amounts to pay debt service on the Crossover Bonds until June 15, 2010. The Crossover Bonds also have a subordinate lien on the Subordinate Indebtedness Fund under the Resolution but have no lien on the Revenues. If certain conditions can be met on June 15, 2010, the Crossover Bonds will be exchanged for the Authority's Water and Sewer System Revenue Bonds, Fiscal 2001 Series E to be issued pursuant to the Resolution and the proceeds of the Crossover Bonds will be applied to redeem a portion of the Authority's Water and Sewer System Revenue Bonds, Fiscal 2000 Series B.

Covenant of the State

Section 1045-t of the Act constitutes a pledge of the State to the holders of Bonds not to limit or alter the rights vested in the Authority or the Board by the Act to fulfill the terms of any agreement made with or for the benefit of the holders of the Bonds until such obligations together with the interest thereon are fully met and discharged.

THE AUTHORITY

Purpose and Powers

The New York City Municipal Water Finance Authority is a public benefit corporation created pursuant to the Act. Among its powers under the Act, the Authority may borrow money, issue debt and enter into the Agreement, and refund its bonds and notes and general obligation bonds of the City issued for water or sewer purposes. Additionally, the Authority has the power to require that the Board charge and collect sufficient rates to pay the costs of operating and financing the System and to enforce the obligation of the City adequately to operate and maintain the System, regardless of reimbursement by the Board of the costs incurred by the City for operation and maintenance.

Pursuant to the Act, there is a statutory first lien upon the Revenues in favor of the payment of all amounts due to the Authority under the Agreement. The Revenues remain subject to this lien until provision for payment of all indebtedness issued by the Authority has been made. See "CERTAIN LEGAL OPINIONS" for a description of the opinion rendered by Bond Counsel that in the event of a City bankruptcy, a court, exercising reasonable judgment after full consideration of all relevant factors, would not hold that the Revenues are property of the City.

Membership

The Act authorizes a seven-member board to administer the Authority. Four of the members of the Board of Directors are designated in the Act as *ex officio* members: the Commissioner of Environmental Protection of the City, the Director of Management and Budget of the City, the Commissioner of Finance of the City and the Commissioner of Environmental Conservation of the State. Of the three remaining public members, two are appointed by the Mayor and one is appointed by the Governor. The public members have terms of two years. Pursuant to the Act, all members continue to hold office until their successors are appointed and qualified.

The current members of the Board of Directors are:

<u>Member</u>	<u>Occupation</u>
Adam L. Barsky (1)	Director of Management and Budget of the City
Erin M. Crotty (1)	Commissioner of Environmental Conservation of the State
Andrew S. Eristoff (1)	Commissioner of Finance of the City
Joel A. Miele, Sr, P.E. (1)	Commissioner of Environmental Protection of the City
Charles E. Dorkey III (2)	Partner, Torys
Arthur B. Hill (3)	United Parcel Service, Retired
James P. Stuckey (2)	Senior Vice President and Director of Commercial Development, Forest City Ratner Companies

(1) *Ex officio*.

(2) Appointed by the Mayor.

(3) Appointed by the Governor.

The following is a brief description of certain officers and staff members of the Authority:

Mark Page, Executive Director

Mr. Page was appointed Acting Executive Director in December 1984 and Executive Director in October 1985. Mr. Page also serves as the Deputy Director and General Counsel of the Office of Management and Budget of the City. Mr. Page has worked for the City since 1978. Mr. Page is a graduate of Harvard University and New York University School of Law.

Alan Anders, Treasurer

Mr. Anders was appointed Treasurer in October 1990. Mr. Anders also serves as Director of Financing Policy and Coordination for the Office of Management and Budget of the City. Prior to joining the Authority and the City in September 1990, Mr. Anders was a senior investment banker for J. P. Morgan Securities since 1977 and prior to that date was Executive Director of the Commission on Governmental Efficiency and Economy in Baltimore, Maryland. Mr. Anders is a graduate of the University of Pennsylvania and the University of Maryland Law School.

Marjorie E. Henning, Secretary

Ms. Henning was appointed Secretary in November 1993. Ms. Henning also serves as Counsel to the Office of Management and Budget of the City. Ms. Henning is a graduate of the State University of New York at Buffalo and the Harvard Law School.

Lawrence R. Glantz, Comptroller

Mr. Glantz was appointed Comptroller in January 2000. He is a graduate of Hofstra University.

Thomas G. Paolicelli, Deputy Treasurer

Mr. Paolicelli was appointed Deputy Treasurer in November 2000. He is a graduate of the State University of New York at Buffalo and the University at Albany's Rockefeller College of Public Affairs and Policy.

Philip Wasserman, Assistant Treasurer

Mr. Wasserman joined the Authority in June of 2000 as a financial analyst and was appointed Assistant Treasurer in November 2000. He is a graduate of Cornell University, Columbia University, and the University of Texas at Austin.

Prescott D. Ulrey, Assistant Secretary

Mr. Ulrey was appointed Assistant Secretary in February 1998. Mr. Ulrey also serves as Deputy Counsel of the Office of Management and Budget of the City. He is a graduate of the University of California at Berkeley, the Fletcher School of Law and Diplomacy of Tufts University and Columbia Law School.

Raymond Orlando, Manager of Investor Relations

Mr. Orlando was appointed Manager of Investor Relations in June 2000. He is a graduate of the University of Pennsylvania and the John F. Kennedy School of Government at Harvard University.

THE BOARD

Purpose and Powers

The Board is a public benefit corporation of the State created by Chapter 515 of the Laws of 1984. The primary responsibility of the Board is to fix, revise, charge, collect and enforce rates and other charges for the System.

The Board is required under the Act to establish rates that will provide adequate funds to pay the debt service on outstanding Authority indebtedness and the City's cost of operating and maintaining the System. In each Fiscal Year, any amounts remaining in the Local Water Fund, after making the required payments under the Agreement, shall be deposited in the General Account in the Operation and Maintenance Reserve Fund and shall be available either as a source of funding for System expenditures or upon certification of the City for deposit to the Authority's Construction Fund to pay for the costs of System capital projects. See "APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Summary of the Agreement—Application of Moneys in the Operation and Maintenance Reserve Fund."

Pursuant to the Lease, the Board has a leasehold interest in the System for a term continuing until all Bonds or other obligations issued by the Authority are paid in full or provision for payment has been made. Under the Lease, the City will provide billing, collection, enforcement and legal services to the Board. The Board is required to compensate the City for the cost of these services.

Membership

The Board consists of seven members who are appointed by the Mayor for terms of two years. The Act also provides that at least one member will have experience in the science of water resource development and that no member of the Board will be a member of the Authority. The Chairman is appointed by the Mayor. Pursuant to the Act, all members continue to hold office until their successors are appointed and qualified.

The current members of the Board are:

<u>Member</u>	<u>Occupation</u>
Mark R. Hellerer, Chairman	Partner, Pillsbury Winthrop LLP
Susan Millington Campbell	Partner, Hughes Hubbard & Reed LLP
Leroy Carmichael	Executive Director, Bronx Psychiatric Center
Amaziah Howell	President, Howell Petroleum Products, Inc.
Agustin Rivera	Special Advisor, New York City Technical College
David B. Rosenauer	Partner, Gibson Dunn & Crutcher
James T.B. Tripp	General Counsel, Environmental Defense Fund

The following is a brief description of the staff members of the Board:

Diana Chapin, Ph.D., Executive Director

Ms. Chapin was appointed Executive Director of the Board in October 1996 and First Deputy Commissioner of DEP in August 1996. She began her career in City government in 1978, most recently as Deputy Commissioner for Policy and Administration at the Department of Buildings, where she chaired the Plumbing Board and coordinated the One Stop Permitting Program. Prior to that, she was the Deputy Commissioner in charge of Planning, Revenue and Capital Projects at the Department of Parks and Recreation. Ms. Chapin is a graduate of the University of Michigan, and received a Ph.D. from Cornell University where she was both a Woodrow Wilson Fellow and a Dissertation Fellow.

William Kusterbeck, Treasurer

Mr. Kusterbeck was appointed Acting Treasurer in June 1985 and Treasurer in November 1985. Mr. Kusterbeck has worked for DEP since 1979. He has served in various positions in DEP including Director

of Rates and Revenue, and Director of the Office of Planning. Mr. Kusterbeck is a graduate of Hunter College of the City University of New York and Columbia University Graduate School of Business.

Carmelo Emilio, Deputy Treasurer

Mr. Emilio was appointed Deputy Treasurer in June 2000. He has worked for the City since 1976, and has served as the Chief of Financial Operations at the Water Board from 1996. Prior to joining the Water Board, Mr. Emilio worked with the New York City Office of Management and Budget as a Revenue Analyst. Mr. Emilio is a graduate of Baruch College of the City University of New York.

Albert F. Moncure, Jr., Secretary

Mr. Moncure was named Acting Secretary in February 1997 and Secretary in April 1997. Mr. Moncure also serves as Chief of the Municipal Finance Division of the New York City Law Department. Mr. Moncure has worked for the Law Department since 1986. Mr. Moncure is a graduate of Dartmouth College and the Yale Law School.

THE DEPARTMENT OF ENVIRONMENTAL PROTECTION

Organization

Over 5,700 DEP staff members are assigned to the System. Approximately 800 people within the System staff are assigned to the design and construction of ongoing capital projects, including projects within the Capital Improvement Program, as hereinafter defined, and approximately 400 provide administrative and support services to both System and non-System staff. There are approximately 300 additional employees within the DEP staff whose duties are not related to water and sewer service and whose cost is not included as a System cost.

The New York City Department of Design and Construction (the "DDC") has responsibility for the construction and reconstruction of water and sewer mains in the City. Based upon current workloads, a proportion of DDC's staff equivalent to 450 full-time positions is devoted to System construction projects.

DEP is managed by a Commissioner, who is appointed by the Mayor. It is organized into seven bureaus: Customer Services; Water and Sewer Operations; Water Supply; Environmental Engineering; Wastewater Treatment; Management and Budget; and Executive Bureaus.

The following are brief descriptions of certain management personnel responsible for the operation of the System.

Joel A. Miele Sr., P.E., Commissioner

Mr. Miele was appointed Commissioner in August 1996. Prior to joining DEP he served as Commissioner of the Department of Buildings ("DOB") from 1994 to 1996, and as a Commissioner of the City Planning Commission from 1990 to 1994. Mr. Miele is a Professional Engineer with more than thirty-eight years of experience and was a founding partner in the firm of Miele Associates, the successor to the firm of Yudell and Miele where he was employed as a design engineer from 1955 through 1965. Mr. Miele enlisted in the U.S. Navy in 1957, and remained active in the reserve of the Civil Engineer Corps until his retirement in 1988 with the rank of Captain and the title of Commodore. He was promoted to Rear Admiral in the New York Naval Militia in May 1998. Mr. Miele is a graduate of the Polytechnic Institute of New York.

Diana Chapin, Ph.D., First Deputy Commissioner

Ms. Chapin was appointed First Deputy Commissioner of DEP in August 1996 and Executive Director of the Board in October 1996. She began her career in City government in 1978, most recently as Deputy Commissioner for Policy and Administration at the Department of Buildings, where she chaired the Plumbing Board and coordinated the One Stop Permitting Program. Prior to that, she was the Deputy Commissioner in charge of Planning, Revenue and Capital Projects at the Department of Parks and Recreation. Ms. Chapin is a graduate of the University of Michigan, and received a Ph.D. from Cornell University where she was both a Woodrow Wilson Fellow and a Dissertation Fellow.

Betsy Collins, Deputy Commissioner

Betsy Collins was appointed Deputy Commissioner for Customer Services in February 2001. Prior to joining DEP she served as a policy advisor to the Deputy Mayor for Operations. Ms. Collins entered City government in 1989 and has worked at the City's Office of Management and Budget, the City Council Office of Oversight and Investigation and the Department of Parks and Recreation. She is a graduate of Barnard College and received a Master's Degree in Public Administration from Baruch College of the City University of New York.

Douglas S. Greeley, P.E., Deputy Commissioner

Mr. Greeley was appointed Director of the Bureau of Water and Sewer Operations in 1996. He has been with the Department of Environmental Protection since 1973 and has served in numerous capacities, including Chief of System Operations, Chief of the Maintenance Division, and Chief of the Repairs Division of DEP's Bureau of Water Supply and Wastewater Collection. Mr. Greeley is a graduate of the Stevens Institute of Technology. He is a Professional Engineer.

Michael A. Principe, Ph.D., Deputy Commissioner

Dr. Principe was appointed Acting Deputy Commissioner of the Bureau of Water Supply ("BWS") in June 2000. He has been with DEP since 1981, serving in a variety of roles, most recently as the Deputy Director of BWS and Chief of the Division of Drinking Water Quality Control within BWS. Dr. Principe graduated from Cornell University with a B.S. in Natural Resources, received a M.S. in Environmental Science from SUNY College of Environmental Science and Forestry at Syracuse, New York, and a Ph.D. in Biology from CUNY Graduate School and University Center.

Robert Gaffoglio, P.E., Deputy Commissioner

Mr. Gaffoglio was appointed Director of the Bureau of Environmental Engineering in 1996. He has been with the Department of Environmental Protection since 1970, and has served as the Chief of the Division of Combined Sewer Overflow Abatement, Deputy Director for Sewer Design, and most recently as First Deputy Director of Environmental Engineering. Mr. Gaffoglio received a B.S. degree, an M.S. in Transportation Planning, and an M.S. in Management from the Polytechnic Institute of New York. He is a Professional Engineer.

Alfonso R. Lopez, P.E., Deputy Commissioner

Mr. Lopez was appointed Acting Deputy Commissioner of the Bureau of Wastewater Treatment in January 2001. He has been with the DEP since 1973 and has served in numerous positions including Chief of Process Engineering, Chief of North Facilities Operations, Chief of Biosolids Engineering and Planning Division and most recently as Deputy Director of Facilities Operations. Mr. Lopez is a graduate of New York University with a degree in Civil Engineering and is a Professional Engineer.

Labor Relations

During the last decade, there have been no strikes or major work stoppages of DEP employees affecting the System. Approximately 95% of DEP's employees are members of labor unions which represent such employees in collective bargaining with the City. With minor exceptions, the collective bargaining agreements currently covering DEP employees who are members of labor unions expired more than one year ago. The City has reached an agreement with District Council 37 of the American Federation of State, County and Municipal Employees ("DC 37"). The majority of DEP employees who are members of unions are members of DC 37. The agreement covers the period from April 1, 2000 through June 30, 2002 and provides for a 4% wage increase effective April 1, 2000 and an additional 4% increase on April 1, 2001.

CAPITAL IMPROVEMENT AND FINANCING PROGRAM

Capital Improvement Program

The Capital Improvement Program applicable to the System for the period 2001 through 2011 (the "CIP") includes the capital improvements to the System in the City's Ten Year Capital Strategy published in April 2001 for the period 2002 through 2011. The CIP included projected expenditures of \$11.6 billion for water and sewer facilities.

The CIP presented in the following table entitled "Capital Improvement Program" reflects a review of the present condition and long-term needs of the plant and equipment constituting the System. The CIP incorporates the requirements of legal mandates, the present replacement cycle for these facilities, extensions to the present service area, and programs to enhance and optimize the operation of the System. Allowances are included in the CIP for emergency repair and replacement. An annual allowance for escalation in cost due to inflation of 2.3% in 2002, 2.5% in 2003, 2.7% in 2004, 2.6% in 2005 and 2.5% in each of the years 2006 to 2011, has been included, using Fiscal Year 2001 as the base year.

The CIP presents the maximum authorized levels of work. The actual work done in any given year will differ from that outlined in the CIP. Projections contained in the CIP concerning routine replacement and extension work on the System and its components are likely to vary from actual performance. Generally, work occurs more slowly in aggregate than originally projected. Timing of this work is not critical to the welfare of the System. Work projected in the CIP substantially exceeds those levels required in order to maintain the currently top-rated condition of the System.

The Ten Year Capital Strategy was published on April 25, 2001 and will be updated by the current capital plan, which is revised more frequently than the Ten Year Capital Strategy.

The CIP was evaluated independently by Metcalf & Eddy, the Authority's Consulting Engineer. Metcalf & Eddy concluded that the CIP is comprehensive and responsive to the long-term needs of the operation of the System. See "APPENDIX A—LETTER OF METCALF & EDDY, CONSULTING ENGINEERS."

While Black & Veatch, the Authority's Rate Consultant, has not performed a detailed independent review of the capital program elements and has not made an engineering evaluation of the System, Black & Veatch has concluded that the gross level of anticipated commitments through 2011 as reflected in the CIP, appears to be reasonable compared to other large water and wastewater utilities.

Capital Improvement Program
(Thousands of Dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
WATER SUPPLY AND TRANSMISSION												
City Tunnel No. 3 Stage I	\$ 53,819	\$ 14,000	\$ 236,000	\$ 73,000	\$ 9,300	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 386,119
City Tunnel No. 3 Stage II	127,721	88,771	36,000	357,000	37,500	—	—	—	—	—	—	646,992
Miscellaneous Programs	10,000	10,000	—	—	—	—	—	—	—	—	—	20,000
Subtotal	191,540	112,771	272,000	430,000	46,800	—	—	—	—	—	—	1,053,111
WATER DISTRIBUTION												
Augmentation of Water Supply Systems ..	6	1,710	—	—	—	—	—	—	—	—	—	1,716
Croton Filtration Project	165,320	143,790	639,000	—	—	2,300	—	—	—	—	—	948,110
Corrosion Protection System	—	—	—	—	—	—	—	—	—	—	—	2,300
Dam Safety Program	15,066	35,957	69,276	66,600	11,000	—	—	11,000	—	—	—	219,899
Mapping and Telemetry	12,000	—	—	—	2,800	—	—	—	—	—	—	14,800
Trunk Distribution and Main Extension ..	19,877	30,840	44,248	57,945	37,772	16,000	3,500	14,100	—	—	—	224,282
Trunk Distribution and Main Replacement ..	100,943	76,326	98,753	57,816	48,567	54,199	65,500	60,000	60,000	60,000	60,000	742,104
Water Quality Preservation	375,213	113,891	151,885	56,800	10,000	27,265	10,000	5,000	—	5,000	—	755,054
Subtotal	688,425	402,514	1,003,162	239,161	107,339	102,564	79,000	90,100	60,000	76,000	60,000	2,908,265
WATER POLLUTION CONTROL												
Biological Nutrient Removal	11,470	18,240	26,000	25,000	25,000	25,000	25,000	—	—	—	—	155,710
Consent Decree Upgrading & Construction	826,617	337,377	489,384	115,801	—	217,000	—	—	—	—	—	1,986,179
Plant Upgrading & Construction	111,711	189,156	59,040	28,130	43,421	30,130	30,130	30,130	30,130	—	—	551,978
Sludge Disposal	4,722	26,876	—	26,500	—	—	—	—	—	—	—	58,098
Plant Component Stabilization	238,734	455,598	228,000	315,703	340,000	62,500	150,000	165,000	—	—	—	1,955,535
Water Quality Mandates	55,719	175,165	341,775	169,076	98,813	121,000	105,000	—	—	—	—	1,066,548
Subtotal	1,248,973	1,202,412	1,144,199	680,210	507,234	455,630	310,130	195,130	30,130	—	—	5,774,048
SEWERS												
Replacement or Augmentation of Existing Systems	7,725	13,567	13,891	8,200	—	11,000	—	—	—	—	—	54,383
Extensions to Accommodate New Development	36,379	99,270	115,676	59,272	52,295	27,800	37,800	37,800	37,800	42,800	42,800	589,692
Programmatic Response to Regulatory Mandates	—	—	9,000	—	—	—	—	—	—	—	—	9,000
Programmatic Replacement and Reconstruction	1,932	2,790	8,000	5,200	5,200	3,200	3,200	3,200	3,200	3,200	3,200	42,322
Replacement of Chronically Failing Components	133,078	131,426	54,058	35,531	41,317	35,000	45,000	45,000	45,000	45,000	45,000	655,410
Trunks	—	139	—	—	—	—	—	—	—	—	—	139
Subtotal	179,114	247,192	200,625	108,203	98,812	77,000	86,000	86,000	86,000	91,000	91,000	1,350,946
EQUIPMENT												
Conservation	32,093	25,606	26,223	22,223	4,223	4,223	4,223	4,223	4,223	4,223	4,223	135,706
Management Information Systems	18,444	18,134	1,464	1,500	1,500	—	—	—	—	—	—	41,042
Facility Purchases & Reconstruction ..	32,943	63,820	1,953	—	30,000	—	30,000	—	—	—	—	158,716
Utility Relocation for Sewer and Water Main Projects	28,607	10,796	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,250	10,506	130,159
Vehicles and Equipment	19,068	27,723	2,200	1,000	1,000	—	—	—	—	—	—	50,991
Subtotal	131,155	146,079	41,840	34,723	46,723	14,223	44,223	14,223	14,223	14,473	14,729	516,614
TOTAL FUNDS	\$2,439,207	\$2,110,968	\$2,661,826	\$1,492,297	\$806,908	\$649,417	\$519,353	\$385,453	\$190,353	\$181,473	\$165,729	\$11,602,984

Following is an explanation of items in the preceding table under the caption "CAPITAL IMPROVEMENT AND FINANCING PROGRAM."

Water Supply and Transmission

Tunnel 3. Stages I and II of Tunnel 3 include completion of the Brooklyn/Queens and Manhattan segments. Excavation of Stage I was completed in 1985. Stage I became operational in July 1998 and has improved the reliability of the transmission system. Stage I capital expenditures include costs of the Hillview Reservoir Cover. Completion of the Brooklyn/Queens segment of Stage II will improve services to Staten Island, Brooklyn and Queens. Construction of the Manhattan segment of Stage II will follow completion of the Brooklyn/Queens segment of Stage II. Stage II is scheduled to be completed in 2008. See "THE SYSTEM--The Water System--Water Collection and Distribution."

Water Distribution

Croton Filter Project. The City is a party to a federal court consent decree with the United States and the State which sets out a timetable for the design and construction of a full-scale water treatment facility to filter Croton System water. See "THE SYSTEM--The Water System--Governmental Regulation."

Wastewater Treatment

Consent Decree Upgrading and Construction. The Clean Water Act (as hereinafter defined) and the State Consent Decrees (as hereinafter defined) require construction of an intercepting sewer for one of the fourteen plants, and the upgrading of three plants. These projects are designed to improve the quality of the surrounding waters.

Water Quality Mandates. During periods of heavy rainfall, a combination of stormwater and sewage bypasses treatment and is released into the City's waterways. This program provides for the study, design and construction of the facilities necessary to control the polluting effects of such releases.

Plant Upgrading and Reconstruction. This program includes various projects undertaken to upgrade or reconstruct sewage pump stations, motor vessels, regulators and components of the plant treatment system.

Plant Component Stabilization. This program includes the replacement and reconstruction of failing components within the fourteen plants and their related facilities necessary to maintain process reliability.

Biological Nutrient Removal. This program will provide for the retrofit of five water pollution control plants to decrease the amount of nitrogen discharged into the surrounding water. Ongoing studies will determine the long-term plan for nitrogen removal.

Sewers

Replacement of Chronically Failing Components. This program provides for the replacement of sewers that have already collapsed or experience chronic malfunctions (for example, sagging, bends or improper alignment) that cannot be overcome through maintenance or experience chronic malfunction due to inadequate capacity.

Programmatic Replacement and Reconstruction. Systematic replacement of sewers constructed with what are now considered to be substandard methods and materials or with materials that have exceeded their useful life has been undertaken. This will avoid more costly future repairs and will improve the general reliability of the System.

Programmatic Response to Regulatory Mandates. A program to address the mandated construction of new sewers required by the Clean Water Act has been established. This program is designed to eliminate the occasional discharge of untreated sewage.

Replacement or Augmentation of Existing System. The combined sewers must be large enough to convey a certain amount of both stormwater and sewage flow based on population density, industrial discharges and stormwater runoff in the sewered area. Some existing sewers fail to handle this flow adequately due to events occurring subsequent to their original design.

The sewer projects contained within this category will increase the capacity of these sewers to adequate levels through reconstruction, repair, replacement or diversion of flow into supplemental sewer pipe. Also included in this category are sewer projects that are undertaken primarily because other infrastructure projects make such sewer work desirable. These projects include the construction of sewers in conjunction with other utilities' (such as water, gas and electric) road reconstruction and major land use changes.

Extensions to Accommodate New Development. The City must provide acceptable sewage disposal methods for residents within its jurisdiction and must therefore construct new sewers as required. The construction of sewers to replace septic tanks in populated areas avoids health problems associated with viruses, bacteria and other sewage-related pollutants and minimizes stormwater flooding.

Equipment

Utility Relocation for Sewers and Water Main Projects. Under the City's cost-sharing agreement with gas utilities, the City is required to pay 51% of utility work required as a result of water main and sewer construction projects.

Installation of Water Meters. This includes the installation of water meters and other fixtures in order to more accurately measure water usage for billing purposes and to encourage conservation.

Historical Capital Program

The following table presents capital commitments and capital expenditures of the System for Fiscal Years 1996 through 2000. Capital commitments are contractual obligations entered into during the Fiscal Year while capital expenditures represent cash payments made during the Fiscal Year.

**System Capital Commitments and Expenditures
(Millions of Dollars)**

	1996		1997		1998		1999		2000	
	System Funds(1)	All Funds(2)	System Funds(1)	All Funds(2)	System Funds(1)	All Funds(2)	System Funds(1)	All Funds(2)	System Funds(1)	All Funds(2)
Commitments										
Water Supply	\$ 32	\$ 32	\$ 17	\$ 17	\$ 58	\$ 58	\$ 4	\$ 4	\$ 71	\$ 71
Water Mains	315	343	460	462	152	152	200	203	271	271
Sewer	126	126	166	166	184	184	185	185	240	240
Water Pollution Control	254	312	352	355	320	321	198	199	420	420
Equipment	182	182	185	185	98	98	81	81	66	66
Total	<u>\$909</u>	<u>\$ 995</u>	<u>\$1,180</u>	<u>\$1,185</u>	<u>\$812</u>	<u>\$813</u>	<u>\$668</u>	<u>\$672</u>	<u>\$1,068</u>	<u>\$1,068</u>
Expenditures										
Water Supply	\$ 96	\$ 96	\$ 71	\$ 71	\$107	\$107	\$ 87	\$ 87	\$ 75	\$ 75
Water Mains	320	321	298	316	211	220	187	190	168	169
Sewer	126	126	163	163	162	162	174	174	218	218
Water Pollution Control	216	267	206	239	237	249	274	278	263	268
Equipment	196	196	189	189	62	62	59	59	68	68
Total	<u>\$954</u>	<u>\$1,006</u>	<u>\$ 927</u>	<u>\$ 978</u>	<u>\$779</u>	<u>\$800</u>	<u>\$781</u>	<u>\$788</u>	<u>\$ 792</u>	<u>\$ 798</u>

(1) System Funds include the proceeds of Authority bonds sold directly to the public and those privately placed with the EFC (as defined below) under the revolving fund program and System revenues.
(2) All Funds include federal and State capital grants.

Financing Program

Prior Financing. Since the first issuance of bonds by the Authority in 1985, capital improvements to the System have been financed primarily with (1) proceeds of bonds sold directly to the public and privately placed with the New York State Environmental Facilities Corporation (“EFC”) in connection with the revolving loan fund program described below, (2) federal and State capital grants, and (3) pay-as-you-go capital paid from System revenues. See “Debt Service Requirements” below.

Future Financing. The Authority estimates that approximately 99% of the system’s capital costs will be paid from proceeds of bonds and other forms of indebtedness sold to the public and privately placed with EFC and System revenues. For purposes of forecasting revenue requirements for the System, the principal amount of bonds estimated to be issued in each of the Fiscal Years 2002 through 2006 averages approximately \$1.8 billion per year and the amounts of pay-as-you-go capital to be paid from System revenues are approximately \$40 million in each of Fiscal Years 2001 and 2002 and approximately \$20 million in Fiscal Year 2003. See the table entitled “Sources and Uses of Capital Funds” under “CAPITAL IMPROVEMENT AND FINANCING PROGRAM.”

Historically, federal grant funds were provided pursuant to the federal Water Pollution Control Act, as amended by the Clean Water Act of 1977 and by the Water Quality Act of 1987 (the “Clean Water Act”), in a program administered by the states, for construction and reconstruction of wastewater treatment facilities. The City has used these grant funds for five sewage treatment plants: Oakwood Beach, Coney Island, Owls Head, Red Hook and North River. The Clean Water Act currently requires states to use federal funds in revolving loan programs in lieu of a federal grant program for wastewater treatment facilities. To this end, a revolving loan program has been established by the State and administered by EFC in order to utilize federal financial assistance together with State matching grants in a program to assist municipalities to construct eligible sewage facilities by providing subsidized loans. In addition, pursuant to the Safe Drinking Water Act Amendments of 1996, the State has also initiated a revolving loan program to provide loans for drinking water projects. The Authority has participated in loans under both of the revolving loan programs and anticipates further borrowing under the programs. See “THE SYSTEM—The Water System—Governmental Regulation” and “THE SYSTEM—The Sewer System—Governmental Regulation.” Implementation of the CIP is dependent upon the Authority’s ability to market its securities successfully in the public credit markets.

Sources and Uses of Capital Funds

The following table presents the projected flow of funds in the Construction Fund of the System. The total proceeds from future issues of Authority First Resolution Bonds and Authority Second Resolution Bonds are shown on Line 1 and the proceeds of Commercial Paper Notes are illustrated on Line 2. Lines 4 through 8 show the disposition of the proceeds. Lines 9 through 14 of the table indicate activity in the Construction Fund for each year of the reporting period.

Sources and Uses of Capital Funds (Thousands of Dollars)

Line No.	Description	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Period Total
Disposition of Bond Proceeds								
1	Proceeds from Sale of Bonds	\$ 986,626	\$1,751,137	\$ 1,820,666	\$ 1,995,386	\$ 1,892,346	\$ 1,603,386	\$10,049,548
2	Proceeds from Commercial Paper Notes	469,824	1,621,603	1,649,000	1,805,000	1,713,000	1,455,000	8,713,427
3	Total Proceeds	1,456,450	3,372,740	3,469,666	3,800,386	3,605,346	3,058,386	18,762,975
Transfers								
4	Refunding of Prior Bonds	426,825	—	—	—	—	—	426,825
5	Retirement of Commercial Paper Notes	461,989	1,622,496	1,649,000	1,805,000	1,713,000	1,455,000	8,706,485
6	Construction Fund	469,824	1,621,603	1,649,000	1,805,000	1,713,000	1,455,000	8,713,427
7	Other(1)	97,812	128,641	171,666	190,386	179,346	148,386	916,238
8	Total Transfers	1,456,450	3,372,740	3,469,666	3,800,386	3,605,346	3,058,386	18,762,975
Construction Fund								
9	Beginning Balance	539,573	122,397	250,000	250,000	250,000	250,000	539,573
10	Transfer from Commercial Paper Notes	469,824	1,621,603	1,649,000	1,805,000	1,713,000	1,455,000	8,713,427
11	Revenue Financed Capital Construction	40,000	40,000	20,000	—	—	—	100,000
12	Total Available	1,049,397	1,784,000	1,919,000	2,055,000	1,963,000	1,705,000	9,353,000
13	Less: Total Requirements(2)	(927,000)	(1,534,000)	(1,669,000)	(1,805,000)	(1,713,000)	(1,455,000)	(9,103,000)
14	Ending Balance	\$ 122,397	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000

(1) Includes issuance costs, Debt Service Reserve Fund requirements and capitalized interest.

(2) Cash requirements reflect commitments from current and prior years.

Totals may not add due to rounding.

Source: Black & Veatch

The following table shows projected debt service requirements including payments on outstanding bonds and on future bonds to be issued in financing the CIP. See "CAPITAL IMPROVEMENT AND FINANCING PROGRAM—Debt Service Requirements."

Future Debt Service Requirements
(Thousands of Dollars)

Line No.	Description	Bond Issue	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
First Resolution Debt Service								
1	Outstanding Bonds		\$ 490,975	\$ 500,372	\$503,430	\$503,795	\$ 509,359	\$ 493,550
Anticipated Future Bond Issues								
2	Fiscal Year 2002 Bonds(1)	995,137	—	24,563	73,922	68,799	68,799	68,799
3	Fiscal Year 2003 Bonds	1,520,666	—	—	33,192	118,444	110,334	110,334
4	Fiscal Year 2004 Bonds	1,695,386	—	—	—	38,780	138,709	128,960
5	Fiscal Year 2005 Bonds	1,592,346	—	—	—	—	37,969	132,663
6	Fiscal Year 2006 Bonds	1,303,386	—	—	—	—	—	30,943
7	Total First Resolution Debt Service		\$ 490,975	\$ 524,935	\$610,544	\$729,818	\$ 865,170	\$ 965,249
Subordinated Indebtedness								
8	Short-term Obligations		27,000	27,000	27,000	27,000	27,000	27,000
9	Outstanding Bonds		163,334	179,813	176,477	181,034	188,128	193,466
Anticipated Future Second Resolution Bonds								
10	Fiscal Year 2002 Bonds(2)	756,000	—	42,007	64,122	64,122	64,122	64,122
11	Fiscal Year 2003 Bonds	300,000	—	—	10,968	26,784	26,784	26,784
12	Fiscal Year 2004 Bonds	300,000	—	—	—	11,419	27,852	27,852
13	Fiscal Year 2005 Bonds	300,000	—	—	—	—	11,785	28,291
14	Fiscal Year 2006 Bonds	300,000	—	—	—	—	—	11,785
15	Less: Current Capitalized Interest(3)		(3,078)	(2,379)	(1,521)	(383)	—	—
16	Less: Future Capitalized Interest(4)		(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
17	Less: Current EFC Subsidy(5)		(28,882)	(27,655)	(26,554)	(25,436)	(24,261)	(23,024)
18	Less: Future EFC Subsidy(6)		—	(8,639)	(15,141)	(21,485)	(27,555)	(33,489)
19	Less: EFC Payments(7)		(11,192)	(11,265)	(10,619)	(9,925)	(8,805)	(7,655)
20	Actual Debt Service on Subordinated Indebtedness		\$ 147,182	\$ 197,382	\$223,232	\$251,630	\$ 283,550	\$ 313,732
21	Less: Interest Earnings on Subordinate Debt Service Fund		(1,575)	(1,683)	(1,990)	(2,279)	(2,018)	(2,194)
22	Less: Carryforward Revenues		(126,541)	(122,174)	(61,316)	(39,030)	(27,526)	(8,486)
23	Net Debt Service on Subordinated Indebtedness		\$ 19,066	\$ 73,525	\$159,926	\$210,321	\$ 254,006	\$ 303,052
24	Total Debt Service Payable from Current Revenues (Line 7 + Line 23)		\$ 510,041	\$ 598,460	\$770,469	\$940,138	\$1,119,176	\$1,268,701

- (1) Includes estimated debt service on the Fiscal 2002 A Bonds issued July 2, 2001.
- (2) Includes estimated debt service on the Fiscal 2002 Series 1 Bonds issued July 12, 2001.
- (3) Includes capitalized interest on outstanding Second Resolution Bonds.
- (4) Includes capitalized interest on anticipated future Second Resolution Bonds.
- (5) Includes the estimated EFC subsidy on outstanding Second Resolution Bonds.
- (6) Includes the estimated EFC subsidy on anticipated future Second Resolution Bonds.
- (7) Represents the anticipated transfer of surplus payments used to offset interest payments on Second Resolution Bonds.

Totals may not add due to rounding.
Source: Black & Veatch

Debt service payments on anticipated future Authority First Resolution Bond issues reflect a 30-year term with level annual payments. The interest rates used in computing the anticipated debt service payments for future fixed rate issues average 5.65% for Fiscal Year 2002, 6.15% in Fiscal Year 2003, 6.65% in Fiscal Year 2004 and 6.9% in each year thereafter. The interest rate used for currently outstanding and future variable rate issues is 4.5%. The amount of long-term variable rate debt currently outstanding is approximately 10% of the Authority's total debt outstanding and is expected to range between 10% and 15% in the future. Debt service payments on anticipated future Authority Second Resolution Bond issues assume that Authority Second Resolution Bonds continue to be issued to EFC and reflect a 20-year term with level annual payments. The actual debt service requirements of the Authority will likely differ from the debt service requirements projected in the foregoing table.

The interest rates used in computing the anticipated debt service payments for future EFC bonds secured by Authority Second Resolution Bonds average 5.6% for Fiscal Year 2002, 6.1% in Fiscal Year 2003, 6.6% in Fiscal Year 2004 and 6.85% in each year thereafter. The Capitalized Interest and EFC subsidy shown in the

table include interest capitalized for one year on bonds sold to EFC and subsidies expected to be provided by EFC for these issues, respectively. It is also anticipated that Authority bond issues sold to EFC will continue to be structured so that the interest on such bonds is calculated net of the anticipated EFC subsidy.

Debt Service Requirements

The following schedule sets forth the amount required to be paid during each Fiscal Year (ending June 30) shown below for the payment of the principal of and the interest (including the Accreted Value of all Capital Appreciation Bonds) on Bonds issued under the Authority General Resolution and the Authority Second General Resolution assuming that Variable Rate Bonds bear interest at a fixed rate to their maturity of 4.5% per annum. The schedule is calculated as of June 13, 2001 and does not include debt service on any outstanding Authority Commercial Paper Notes and does not give effect to any Bonds under the Authority's General Resolution or any subordinated indebtedness, including Second General Resolution Bonds, issued since such date. Giving effect to the issuance of such Bonds would not materially increase the aggregate outstanding debt service of the Authority as shown in the schedule.

Fiscal Year Ending June 30	Outstanding Total Bonds Debt Service(1)(2)	Outstanding Second Resolution Bonds Total Debt Service(2)	Total Outstanding Bonds and Second Resolution Bonds Debt Service(1)(2)(3)
2001	\$ 490,975,417	\$ 120,182,215	\$ 611,157,632
2002	511,153,016	138,513,793	649,666,809
2003	514,744,785	137,782,325	652,527,110
2004	515,111,155	145,289,282	660,400,437
2005	520,674,035	155,062,727	675,736,762
2006	504,865,638	162,787,165	667,652,803
2007	507,002,670	165,844,577	672,847,247
2008	524,765,359	172,582,954	697,348,313
2009	527,362,775	175,676,166	703,038,941
2010	514,813,178	205,555,575	720,368,753
2011	504,491,601	224,614,319	729,105,920
2012	505,031,331	236,614,905	741,646,236
2013	513,516,377	224,570,080	738,086,457
2014	525,023,534	107,864,561	632,888,095
2015	560,093,484	85,684,839	645,778,323
2016	560,056,426	76,749,519	636,805,945
2017	559,775,184	68,011,977	627,787,161
2018	570,344,575	53,129,632	623,474,207
2019	568,968,563	45,471,408	614,439,971
2020	568,962,344	31,269,752	600,232,096
2021	568,941,575	6,389,178	575,330,753
2022	569,272,275	5,750,407	575,022,682
2023	568,803,506	—	568,803,506
2024	569,003,056	—	569,003,056
2025	567,851,025	—	567,851,025
2026	568,747,919	—	568,747,919
2027	522,021,706	—	522,021,706
2028	461,856,688	—	461,856,688
2029	461,856,481	—	461,856,481
2030	461,860,763	—	461,860,763
2031	477,712,206	—	477,712,206
2032	477,708,075	—	477,708,075
2033	496,136,488	—	496,136,488
Total(3)	\$1,739,503,207	\$2,745,397,356	\$20,084,900,563

- (1) Assumes that on June 15, 2010 the Fiscal 2001 Series E Bonds will be issued to redeem a portion of the Fiscal 2000 Series B Bonds.
- (2) Net of anticipated capitalized interest, subsidy and surplus payments from EFC.
- (3) Totals may not add due to rounding.

FINANCIAL OPERATIONS

The following tables present certain historical data relating to the System which have been derived from the books and records of the City, the Authority and the Board.

Revenues

The following table presents, on a cash basis, the System revenues received during Fiscal Years 1996 through 2000 as derived from the supplemental schedules of cash receipts and disbursements (cash basis) which accompany the annual financial statements for Fiscal Years 1996 through 2000.

System Revenues (Thousands of Dollars)

<u>Revenue Category</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Flat Rate—Water and Sewer Charges(1)	\$ 492,710	\$ 495,275	\$ 483,601	\$ 466,837	\$ 454,887
Metered—Water and Sewer Charges(1)	596,582	641,249	785,086	842,436	907,350
Meter—Upstate Customers	8,295	8,597	11,902	14,252	18,994
Miscellaneous Revenues(2)	38,558	62,951	73,367	51,136	49,950
Interest Penalty—Late Charges	21,097	23,949	19,271	19,445	24,250
Interest Income	68,465	64,883	97,739	85,872	74,467
Tax Lien Sale(3)	25,358	13,595	—	25,912	7,449
Total	<u>\$1,251,065</u>	<u>\$1,310,499</u>	<u>\$1,470,966</u>	<u>\$1,505,890</u>	<u>\$1,537,347</u>

- (1) Includes both current payments and payments relating to accounts in arrears.
- (2) Miscellaneous Revenues are primarily comprised of water and sewer connection and disconnection fees, repair fees, meter installation fees, water usage permits, special meter reading fees and subsidy payments from EFC.
- (3) In connection with sales of liens on real property securing delinquent property taxes, the City Department of Finance also sold liens on such property securing delinquent water and sewer charges.

The table above records actual cash received by the System and does not reflect either accounts receivable or billing accruals. The System has consistently realized collections of cash revenues in amounts exceeding costs for debt service, current operations and required levels of coverage. This has been achieved while maintaining residential water and sewer service costs at a level which is below the average of comparable large cities.

The forecasted cash flows and anticipated future rate increases take into consideration the anticipated effects of new initiatives by the Board and DEP to enhance the efficiency of collection for water and sewer billings. These initiatives include, but are not limited to, the following: establishing a delinquent accounts unit for small to mid-size customers; outsourcing selected delinquency notification and collection functions to reputable collection or credit organizations; shutting off water and sewer service for non-payment of bills; and selling liens securing unpaid water and sewer charges. It is assumed that some of these initiatives or others will gradually result in a 4% increase in the overall rate of cash collections during the forecast period, in addition to increases from higher rates. In the event that DEP is not as successful as anticipated in implementing the enhancement to current collection strategies, the actual increases in user rates in future years may be higher than the increases that are currently forecasted. For a more detailed discussion of billing and collection, see "RATES AND BILLINGS."

Expenses

The following table presents System expenses for Fiscal Years 1996 through 2000 on an accrual basis which have been derived from the annual financial statements for Fiscal Years 1996 through 2000. These expenses represent operation, maintenance and general expenses excluding the lease rental payment to the City and certain other items.

System Expenses (Thousands of Dollars)

<u>Expense Category</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Water(1)					
Personal Service(2)	\$ 94,446	\$ 97,268	\$ 96,734	\$100,010	\$130,583
Other Than Personal Service(3)	<u>112,356</u>	<u>123,027</u>	<u>133,222</u>	<u>159,516</u>	<u>123,530</u>
Total	206,802	220,295	229,956	259,526	254,113
Wastewater(1)					
Personal Service(2)	152,541	157,815	163,436	162,310	182,867
Other Than Personal Service(3)	<u>170,801</u>	<u>186,002</u>	<u>189,791</u>	<u>193,433</u>	<u>172,989</u>
Total	<u>323,342</u>	<u>343,817</u>	<u>353,227</u>	<u>355,743</u>	<u>355,856</u>
Sub-Total	530,144	564,112	583,183	615,269	609,969
Administrative and General(4)	14,490	13,374	11,217	13,506	10,092
Indirect Expenses(5)	<u>39,784</u>	<u>38,682</u>	<u>63,126</u>	<u>37,676</u>	<u>40,811</u>
Total System	<u>\$584,418</u>	<u>\$616,168</u>	<u>\$657,526</u>	<u>\$666,451</u>	<u>\$660,872</u>

(1) Certain historical, administrative and overhead costs of DEP were allocated to the water and sewer functions based upon the proportion of applicable personnel within DEP.

(2) Personal Service costs include salaries, fringe benefits and pension costs.

(3) Other Than Personal Service costs include real estate taxes paid to upstate communities for watershed properties, land-based sludge disposal costs and for electricity, chemicals and supply costs.

(4) Administrative and General costs include Authority and Water Board expenses.

(5) Indirect Expenses include City agency support, customer accounting, and judgments and claims costs.

Projected Revenues

As indicated in the table below, user payments are projected to increase from approximately \$1.4 billion in Fiscal Year 2001 to approximately \$2.0 billion in Fiscal Year 2006. Fiscal Year 2001 revenues from user payments reflect an increase in water and sewer rates of 1.0% which became effective July 1, 2000 and an increase of 3% effective July 1, 2001. Anticipated future rate increases of 8.5% in each of Fiscal Years 2003 through 2006 provide the majority of the increase in user payments in such Fiscal Years. Upstate revenues, shown on Line 2 of the table, are projected to increase from approximately \$16 million in Fiscal Year 2001 to approximately \$20 million in Fiscal Year 2006. This revenue growth is due to expected increases in the cost of water supply services and an assumption that future revenue from these customers will more closely match the cost of providing service. Miscellaneous revenues, shown on Line 4 of the table, include fees from activities such as the review, inspection, and approval of System connections.

Nonoperating income consists of interest income on System funds, miscellaneous interest income, and other income. See "RATES AND BILLING—Accounts, Billing and Collection."

Projected Revenues (Thousands of Dollars)

Line No.	Description	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Operating Revenues							
1	User Payments	\$1,383,382	\$1,429,926	\$1,551,732	\$1,712,938	\$1,875,098	\$2,052,463
2	Upstate Revenues	15,656	16,438	17,260	18,123	19,029	19,981
3	Subtotal Service Revenue	1,399,038	1,446,364	1,568,992	1,731,061	1,894,128	2,072,444
4	Miscellaneous Revenues	4,961	5,209	5,470	5,743	6,030	6,332
5	Subtotal Operating Revenue	1,403,999	1,451,573	1,574,462	1,736,805	1,900,158	2,078,776
Nonoperating Revenues							
6	Interest Income on System Funds(1)	69,654	87,066	95,705	108,932	116,427	123,339
7	Miscellaneous Interest Income(2)	25,000	25,000	25,000	25,000	25,000	25,000
8	EFC Subsidy on Outstanding Bonds	4,718	4,472	4,208	3,917	3,604	3,259
9	Subtotal Nonoperating Revenues	99,372	116,538	124,913	137,849	145,031	151,598
10	Total Revenues	1,503,371	1,568,111	1,699,375	1,874,654	2,045,189	2,230,374
11	EFC Subsidy and Surplus Payments(3)	40,074	47,559	52,314	56,846	60,621	64,168
12	Additional Interest Earnings(4)	1,575	1,683	1,990	2,279	2,018	2,194
13	Total System Revenues	\$1,545,020	\$1,617,353	\$1,753,679	\$1,933,779	\$2,107,828	\$2,296,736

Notes:

- (1) Includes interest income on the Construction Fund, Debt Service Fund and the Debt Service Reserve Fund.
- (2) Includes interest income on overdue accounts.
- (3) Subsidy funds used as an offset to debt service on Subordinate Indebtedness.
- (4) Includes interest earnings on the debt service fund of Subordinate Indebtedness.

Figures are calculated on a cash basis.

Totals may not add due to rounding.

Source: Black & Veatch.

Projected Operating and Maintenance Expenses

The table set forth below shows, for Fiscal Years 2001 through 2006, the System's projected operation and maintenance expenses. The Fiscal Year 2001 budget for the System has been used as a base for the forecast of operation and maintenance expenses.

Projected Operation and Maintenance Expense (Thousands of Dollars)

Line No.	Description	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1	Authority/Board Operations	\$ 11,000	\$ 11,550	\$ 12,128	\$ 12,734	\$ 13,371	\$ 14,039
	Water Operations						
2	Personal Services	130,358	152,994	156,780	159,825	163,724	167,721
3	Other Than Personal Services	170,161	159,191	160,671	162,433	167,213	172,529
4	Total Water Operations	300,519	312,185	317,451	322,258	330,937	340,250
	Wastewater Operations						
5	Personal Services	197,214	221,672	227,657	232,090	237,766	243,584
6	Other Than Personal Services	191,477	174,571	171,708	176,824	182,279	187,897
7	Total Wastewater Operations	388,691	396,243	399,365	408,914	420,045	431,482
8	Indirect Expenses	11,916	11,916	11,916	11,916	11,916	11,916
9	Judgments and Claims	8,000	8,000	8,000	8,000	8,000	8,000
10	Total Operating Expenses	720,126	739,894	748,860	763,822	784,269	805,687
11	Less: Trust Account Withdrawals	0	0	0	0	(35,000)	(35,000)
12	Net Operating Expenses	720,126	739,894	748,860	763,822	749,269	770,687
13	Less: Credit for Prior Year Excess O&M Payment ...	(46,148)	0	0	0	0	0
14	Net Operating Expense Payments	\$673,978	\$739,894	\$748,860	\$763,822	\$749,269	\$770,687

Totals may not add due to rounding.

Figures are calculated on a cash basis.

Source: Black & Veatch

Operation and Maintenance Expenses include administrative costs associated with the Authority and the Board, direct operating costs for the System, indirect operating costs of DEP, and other expenses and adjustments to annual operating expenses. Each of these is explained more fully below.

The Authority/Board Operations. Administrative expenses of the Authority and the Board, shown on Line 1 of the table above, include annual fees required by EFC in connection with the Authority's involvement in the State Revolving Fund Program. These fees are projected to average approximately \$3.5 million per year through Fiscal Year 2006. Other expenses of the Authority include fees related to adjustable rate bonds and the management of investments.

Water Operations. The operating costs of the Water System include direct operation and maintenance costs applicable to one or more functional areas of the Water System and the distribution system as well as certain indirect operating costs of the DEP which are allocated between the Water System and the Sewer System. The operating costs of the Water System are divided into personal services costs and other than personal services costs. Personal services costs include direct salary costs plus fringe benefit and pension costs.

Other than personal services costs include property taxes paid to upstate communities for watershed properties as well as chemicals, electricity, and other expenses.

All but a small percentage of the Water System functions by gravity so that electricity costs necessary to maintain normal water distribution are relatively small. In drought conditions, additional pumping is necessary for optimal distribution of water available from the System, thereby causing increased electricity costs. The forecasted cash flows currently assume that water consumption levels will be constant, independent of any drought-related measures.

Personal services costs reflect the results of the recent labor agreement, which covers the period April 1, 2000 through June 30, 2002. Fiscal Year 2001 and Fiscal Year 2002 include a 4% per year increase and Fiscal Years 2003 through 2006 include an assumed 2.5% increase over Fiscal Year 2002. Other than personal services costs are assumed to increase at an estimated rate of 3% per year for the forecast period.

In accordance with the watershed protection agreement, DEP will implement additional programs which will enhance the ability of the City and the communities located in the watershed area to protect the quality of the water supply. Such programs will include certain capital investments which are contained within the CIP. The forecasted operation and maintenance expenses for the Water System reflect the expected increase in operation and maintenance costs due to the Watershed Agreement.

Wastewater Operations. The operating costs of the Sewer System include direct operation and maintenance costs applicable to one or more functional areas of the Sewer System as well as certain indirect operating costs of DEP allocated to the Water System and the Sewer System. The operating costs of the Sewer System are also divided into personal services and other than personal services costs. Personal services costs include direct salary costs plus fringe benefits and pension costs.

Other than personal services costs include electricity for the wastewater treatment plants, pump stations and service yards, chemicals, and other expenses. Electricity, which represents a significant expense in operating the treatment plants and pump stations, is supplied primarily by the Power Authority of the State of New York. The major component other than personal services cost is biosolids management. The annual costs of biosolids management are anticipated to remain relatively constant at approximately \$50 million per year for the next several years in accordance with the terms of current re-use contracts. Other than personal services costs are assumed to increase at an estimated rate of 3% per year, for the forecast period. Certain other cost adjustments are reflected in the forecasted cash flow as adjustments are made to specific operating programs based upon System needs.

Other Expenses. Other expenses of the System include indirect expenses and judgments and claims. Indirect expenses, shown on Line 8 of the table, reflect costs allocated to the System for support provided by various City agencies and departments. Services provided include budget preparation and review, cost and revenue accounting, billing and collection, and legal support. The method of allocating these costs to the System is based upon costs initially allocated to DEP and subsequently divided between those attributable to water and sewer and those costs associated with other activities of DEP. The costs allocated to DEP as a whole are derived from the total costs of City support agencies and departments and a formalized cost allocation plan which distributes the costs to affected departments and agencies. DEP's billing and collection expenses are included in the operation and maintenance costs of the Water System and the Wastewater System.

Credits Against Operation and Maintenance Expense. Pursuant to a consent decree (the "1989 Consent Decree") entered into in 1989 under the Marine Protection Research and Sanctuaries Act of 1972 ("MPRSA"), as amended by the Ocean Dumping Ban Act of 1988 (the "Ban Act"), DEP ceased the ocean disposal of sludge in June 1992. The Ban Act and the 1989 Consent Decree provide that 85% of the fees and penalties paid shall be deposited into a trust account and shall be available to reimburse the City for costs incurred for developing alternative biosolids management facilities. As of April 30, 2001, the value of the trust account was \$81 million. It is assumed that this value will increase with interest earnings at the rate of 4% per year until withdrawals are made. A portion of the balance of the fees and penalties was paid to United States Environmental Protection Agency ("USEPA") with the remainder divided equally between the New York State Water Pollution Control Revolving Fund and the New York State Clean Oceans Fund. It is anticipated that \$35 million in each of Fiscal Years 2005 and 2006 will be available as an offset to operation and maintenance expenses.

Projected Financial Operations

The following table shows a summary of the forecasted cash flows for the Authority for Fiscal Year 2001 through Fiscal Year 2006. See "CAPITAL IMPROVEMENT AND FINANCING PROGRAM—Debt Service Requirements." The net surplus at the end of Fiscal Year 2000 of \$127 million has been used to offset the Revenue requirements for the debt service on Subordinated Indebtedness in Fiscal Year 2001. The projected rate increases described herein under "RATES AND BILLING—Rates" have been assumed in order to meet cash expenditure requirements to comply with debt service requirements pursuant to the Resolution and the Second Resolution. See "FINANCIAL OPERATIONS—Projected Revenues." As shown on Line 31 of the table, positive net surpluses are maintained throughout the reporting period. Line 32 illustrates the coverage of First Resolution debt service by current revenues available for debt service. Line 33 illustrates the coverage of First and Second Resolution debt service by current revenues available for debt service. Information in the following table is calculated as of June 13, 2001.

Forecasted Cash Flows (Thousands of Dollars)

Line No.	Description	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
	Operating Revenues						
1	Water and Sewer User Payments	\$1,383,382	\$1,429,926	\$1,551,732	\$1,712,938	\$1,875,098	\$2,052,463
2	Upstate Revenue	15,656	16,438	17,260	18,123	19,029	19,981
3	Miscellaneous Revenue	4,961	5,209	5,470	5,743	6,030	6,332
	Other Revenues						
4	Miscellaneous Interest Income	25,000	25,000	25,000	25,000	25,000	25,000
5	Interest Income on Authority Funds	69,654	87,066	95,705	108,932	116,427	123,339
6	EFC Subsidy on Outstanding Bonds	4,718	4,472	4,208	3,917	3,604	3,259
7	Current Revenues Available for Debt Service	1,503,371	1,568,111	1,699,375	1,874,654	2,045,189	2,230,374
	First Resolution Debt Service						
8	Outstanding Bonds(1)	490,975	500,372	503,430	503,795	509,359	493,550
9	Anticipated Future Bonds	0	24,563	107,114	226,023	355,811	471,699
10	Total First Resolution Debt Service	490,975	524,935	610,544	729,818	865,170	965,249
	Subordinated Obligations						
11	Interest Payments on Commercial Paper Notes	27,000	27,000	27,000	27,000	27,000	27,000
12	Outstanding Second Resolution Bonds	163,334	179,813	176,477	181,034	188,128	193,466
13	Anticipated Future Second Resolution Bonds	0	42,007	75,090	102,325	130,543	158,934
14	Less: EFC Subsidy and Capitalized Interest on Subordinated Bonds	(43,152)	(51,438)	(55,335)	(58,729)	(62,121)	(65,668)
15	Actual Debt Service on Subordinated Indebtedness	147,182	197,382	223,232	251,630	283,550	313,732
16	Less: Carryforward Revenues and Other Revenues	(128,116)	(123,857)	(63,306)	(41,309)	(29,544)	(10,680)
17	Net Debt Service on Subordinated Indebtedness(2)	19,066	73,525	159,926	210,321	254,006	303,052
18	Total Debt Service Payable from Current Revenues (Line 10 + Line 17)	510,041	598,460	770,469	940,138	1,119,176	1,268,301
	Operating Expenses						
19	Authority/Board Operations	11,000	11,550	12,128	12,734	13,371	14,039
20	Water System	300,519	312,185	317,451	322,258	330,937	340,251
21	Wastewater System	388,691	396,243	399,365	408,914	420,045	431,482
22	Indirect Expense	11,916	11,916	11,916	11,916	11,916	11,916
23	Judgments and Claims	8,000	8,000	8,000	8,000	8,000	8,000
24	Total Operating Expenses	720,126	739,894	748,860	763,822	784,269	805,687
25	Less: Trust Account Withdrawals	0	0	0	0	(35,000)	(35,000)
26	Net Operating Expenses	720,126	739,894	748,860	763,822	749,269	770,687
27	Less: Credit for Prior Year Excess O&M Payment	(46,148)					
28	Rental Payment to the City of New York	157,178	128,441	121,016	143,167	168,258	187,797
29	Cash Financed Capital Construction	40,000	40,000	20,000	0	0	0
30	Total Expenses	871,156	908,335	889,876	906,989	917,527	958,485
31	Net Surplus (Line 7-Line 18-Line 30)	\$ 122,174	\$ 61,316	\$ 39,030	\$ 27,526	\$ 8,486	\$ 3,588
32	First Resolution Debt Service Coverage (Line 7/Line 10)	3.06	2.99	2.78	2.57	2.36	2.31
33	First and Second Resolution Debt Service Coverage (Line 7/Line 18)	2.95	2.62	2.21	1.99	1.83	1.76

Column subtotals and totals may reflect adjustments for rounding of amounts shown in individual line items.

(1) Does not include debt service on Fiscal 2002 Series A Bonds and Fiscal 2002 Series 1 Bonds.

(2) Includes estimated interest payments on Commercial Paper Notes.

Source: Black & Veatch

RATES AND BILLINGS

Rates

The Board is responsible for setting rates in compliance with the Rate Covenant. See "SECURITY FOR THE BONDS—Rate Covenant." The Board retains the firm of Black & Veatch for the purpose of conducting a detailed review of the structure of water and sewer rates. The Board considers the results of their rate studies in establishing its rates and charges for service. Sewer charges are computed as a percentage of water charges.

The System's rates and charges are largely exempt from federal and State regulation. The Board's water rates, fees and charges are not subject to further approval or regulation except for rates for upstate users. Participation in the Construction Grants Program, however, requires the maintenance of sewer charges sufficient to defray costs of operation, maintenance and replacement, and of surcharges for industrial discharges into the System's sewers levied in conformity with formulas set forth in the Clean Water Act and regulations thereunder. Rates, fees and charges for water supply are the responsibility of the Board. Data compiled from meter readings furnish input for billings and information useful in determining the effectiveness of City-mandated conservation measures.

The following table sets forth the changes in rates for water and sewer service since 1986:

History of Water and Sewer Rate Increases

Effective Date	Change in Flat-Rate Water	Change in Metered Water	Metered Water Rate (per ccf)(1)	Change in Sewer
July 1, 1986	Increased 9.9%	Increased 9.9%	72.5¢	Remained at 60% of watercharge.
July 1, 1987	Increased 12%	Increased 12%	81¢	Increased to 70% of watercharge.
July 1, 1988	Increased from \$14.06 to \$26.40 per year for each additional family above the single family assumed in an individual flat-rate account.	No change	81¢	Increased to 75% of watercharge.
July 1, 1989	Increased from \$26.40 to \$41.86 per year for each additional family above the single family assumed in an individual flat-rate account. Remaining flat-rate charges increased by 7.8%.	Increased 7.8%	87¢	Increased to 88% of watercharge.
Jan. 1, 1990	Increased 9%	Increased 9%	95¢	Increased to 112% of watercharge.
July 1, 1991	Increased 6.4%	Increased 6.4%	\$1.01	Increased to 136% of watercharge.
July 1, 1992	No change	No change	\$1.01	Increased to 159% of watercharge.
July 1, 1993	No change	No change	\$1.01	No change.
July 1, 1994	No change	No change	\$1.01	No change.
July 1, 1995	Increased 5%	Increased 5%	\$1.06	No change.
July 1, 1996	Increased 6.5%	Increased 6.5%	\$1.13	No change.
July 1, 1997	Increased 6.5%	Increased 6.5%	\$1.20	No change.
July 1, 1998	Increased 4%	Increased 4%	\$1.25	No change.
July 1, 1999	Increased 4%	Increased 4%	\$1.30	No change.
July 1, 2000	Increased 1%	Increased 1%	\$1.31	No change.
July 1, 2001	Increased 3%	Increased 3%	\$1.35	No change.

(1) ccf: 100 cubic feet.

Projected Rates. Although the Board sets rates for an annual period, it may increase rates during such period, as required. Currently forecasted debt service, operating and other costs for the System indicate that the anticipated future rate increases to be set by the Board for water and sewer services combined is 8.5% in each of Fiscal Years 2003 through 2006. Prior to setting rates for an annual period, the Board publishes a rate increase and conducts public hearings on that rate increase.

Basic Sewer Charge. For all properties connected to the Sewer System, or legally required to be connected after receiving proper notice, there is a charge imposed equal to a fixed percentage of the property's water charge. Since July 1, 1992, the sewer charge has remained at 159% of the water charge.

Sewer Allowances. Certain commercial customers use water in their products and thus return less waste to the Sewer System than their water consumption might indicate. Upon application and approval, these commercial users are entitled to an effective rate reduction which reflects the proportion of water which is retained in their products or evaporated and not returned as sewage.

Sewer-only Customer Charges. In the case of premises which receive water service from alternative sources, a sewer charge is determined by DEP. For the current Fiscal Year, the sewer charge to such premises is equal to 159% of the dollar amount that would be charged for water usage if it were supplied by the Water System.

Upstate Water Rates. Rates for water supply service provided to municipalities and water districts located north of the City are established in accordance with the provisions of the Water Supply Act of 1905. The 1905 Act provides that such rates shall be based on the System's actual cost of service. The sale of water and the rates and charges for these accounts are regulated by State law as well as by individual agreements between these communities and the City. Each contract provides for the metering of water sales to individual communities and the application of a specific charge per unit of metered volume. In most cases, per capita consumption in the upstate communities is less than that of customers within the City. In those instances where the community per capita consumption exceeds that of the City, the specified rate of charge for the excess is increased to match the rates and charges applied to retail service in the City. Water taken from either the Croton or Catskill/Delaware systems is currently charged at a rate of \$448.83 per million gallons for daily per capita amounts not in excess of daily per capita consumption within the City.

Comparative Charges. The following table presents comparative annual water and sewer charges in 24 large cities based upon a survey conducted by Black & Veatch. Using a ranking system where 1 represents the lowest rates, the City's ranking relative to these cities is: for Single-Family Residential—9, for Commercial—14, and for Industrial—15.

Comparative Annual Water and Sewer User Charges(1)

Single Family Residential		Commercial		Industrial	
City	Annual Charge	City	Annual Charge	City	Annual Charge
Chicago(2)	\$207	Detroit	\$2,775	Indianapolis	\$217,888
Detroit	335	Chicago	2,898	Detroit	224,076
St. Louis	370	Dallas	2,987	St. Louis	241,120
Newark	372	St. Louis	3,032	Milwaukee	247,238
Milwaukee	373	Indianapolis	3,069	Dallas	257,491
San Antonio	380	San Antonio	3,168	Newark	269,634
Baltimore	395	Milwaukee	3,177	San Antonio	285,157
Indianapolis	412	Baltimore	3,411	Philadelphia	289,126
New York	454	Newark	3,721	Chicago	289,803
Columbus	482	Philadelphia	3,924	Baltimore	300,700
Dallas	487	Columbus	4,117	New Orleans	339,867
New Orleans	494	New Orleans	4,138	Columbus	400,388
San Jose	548	Honolulu	4,492	San Jose	428,999
Cleveland	551	New York	4,536	Honolulu	447,044
Los Angeles	557	San Jose	4,947	New York	453,596
Honolulu	563	Los Angeles	5,125	Jacksonville	486,881
Washington, D.C.	573	Jacksonville	5,381	Los Angeles	487,511
Houston	590	San Diego	5,385	San Diego	500,709
Philadelphia	597	Washington D.C.	5,730	Washington, D.C.	572,995
Jacksonville	631	Cleveland	5,824	Cleveland	585,794
Atlanta	663	Houston	6,279	Atlanta	614,426
Boston	725	Atlanta	6,631	Houston	620,975
San Francisco	761	Boston	7,408	Boston	773,172
San Diego	762	San Francisco	9,042	San Francisco	885,573
Average	\$512	Average	\$4,633	Average	\$425,874

- (1) User Charges are based upon information provided by the identified cities and standardized assumptions regarding water consumption, wastewater discharge, and other factors. Actual charges in each city will vary in accordance with local usage patterns. Some cities bill for sewer use on the basis of winter water consumption which could affect sewer billings if a customer's use was not uniform throughout the year. Charges for all cities reflect rate schedules in effect in March 2001.
- (2) In addition to the water and sewer user charge, a single family residence with a market value of \$100,000 pays \$156 per year in property taxes to the Metropolitan Water Reclamation District of Greater Chicago (March 1999).

Accounts, Billing and Collection

The Bureau of Customer Services of DEP ("BCS") renders bills to customers of the System and collects payments of such bills. BCS installs and reads meters, verifies meter accuracy, and maintains current information for those customers on the flat-rate system of billing described below.

The System has approximately 828,000 water and sewer accounts, nearly all of which are for water and sewer service. Approximately 88% of the System's water and sewer customers are residential. The remainder are primarily commercial and industrial users, with industrial users accounting for only a small portion of water and sewer usage.

Approximately 112,000 accounts, 14% of accounts, are billed annually through the flat-rate system. These accounts are charged for water through a computation which incorporates, among other factors, the width of the front of the building ("frontage"), the number of stories, the number of dwelling units, and the number of water-using fixtures (such as bathtubs, showers and toilets) in the building. The flat rate is computed when the building is first constructed, and amended upon notice from the City Department of Buildings of building alterations or when a DEP inspector determines that the basis for charges is incorrect. Flat-rate annual bills are normally sent to customers prior to the start of each Fiscal Year and are due at the end of the first month of the Fiscal Year.

Approximately 716,000 accounts, 86% of accounts, are billed on a metered basis. Meters are read and billed on a quarterly basis except meters for some larger accounts which are read and billed more frequently. Most meter readings are captured electronically through the use of hand-held computers and a universal probe. Data from meter readings are relayed to computers in field offices and transmitted to a centralized computer billing system on a daily basis. Some older meters, however, must be read manually. Metered account bills are sent out regularly throughout the year. DEP is now testing the use of water meters that can report consumption via telephone lines transmitting data to the billing system. Unlike flat-rate charges which were commonly paid through mortgage escrow accounts, metered charges are billed directly to customers which, among other factors, has required DEP to handle a substantially higher volume of customer account inquiries. Commercial accounts are required by the Board and the City to have meters installed for all water services. Substantially all of these accounts are in compliance with this requirement.

Since 1988, the basis for service charges for residential properties has been in a continuous process of transition from a frontage or flat-rate basis of annual billing to a meter-based billing system which relies on the actual measurement of usage. The Universal Metering program is designed to improve water conservation, water supply system management, and rate equity. In order to achieve these goals, it is expected that substantially all flat-rate accounts will have meters installed by the end of Fiscal Year 2002. The City has issued contracts for the installation of meters for the remaining unmetered accounts and is testing and replacing meters where necessary. Approximately 90% of all water and sewer accounts have meters installed. Starting in July 2000, unmetered properties which had not taken steps to install a meter were required to pay a surcharge doubling their annual water and sewer charge. A surcharge will be levied on approximately 25,000 accounts in their July 2001 bills.

Revenues from newly metered accounts may increase or decrease somewhat depending on how closely the flat-rate billing factors previously used compare to actual metered consumption for these accounts. Based upon recent experience, a one-time decrease in collections will occur for each account as it is metered due to the transition from billing in advance under flat rates to billing after consumption occurs. The one-time effect is taken into account in the forecasted revenues of the System.

Billing based on actual usage has affected the level of charges to certain large multiple-family residential buildings, in particular, those buildings with above-average population density and those with improperly maintained plumbing fixtures. The result is often a significant increase in charges to such buildings. In response to the needs of this segment of the customer base, the Board has adopted a transitional program whereby owners of multiple-family buildings that have had meters installed under the Universal Metering Program will continue to be billed on a flat-rate basis during the transition period. The transitional program allows owners time to review their water usage, educate tenants regarding conservation, repair leaky plumbing, and/or install low-flow fixtures in order to reduce consumption and charges. There are approximately 32,000 accounts in the transitional program.

On May 11, 1993, the Board adopted a program that provides for a cap on the per-unit charge on multiple-family dwellings. The cap is set at approximately 150% of the average per-family unit charge. In order to be eligible for this program, building owners must submit to a water audit by DEP and take measures to eliminate leakage and waste.

In 1999, the Board adopted a regulation authorizing DEP to terminate water and sewer services to customers because of nonpayment of assessed charges. Subject to certain notice requirements, service may be terminated if at least one delinquent charge exists which has remained open and unpaid for at least two years, in the case of non-residential accounts and residential accounts with six or more units, or three years, in the case of residential accounts with one to five units.

On May 3, 2001, the Board adopted its Conservation Program for Multiple Family Residential Buildings which replaces the existing transitional program and meter billing cap program referred to above for residential buildings consisting of six or more dwelling units. It provides that owners of such buildings who replace or have replaced at least 70% of the toilet, sink and showerhead fixtures in such building with low-flow fixtures may

elect to be billed on the basis of metered consumption or a fixed charge per dwelling unit per year. The program will be effective July 1, 2001. To date, 90 applications for the program have been received and 46 applications have been approved. The program is designed to be revenue neutral.

Certain institutions are exempt under State law from the payment of all or a portion of their water and sewer charges depending upon usage. These institutions include religious, certain educational and other charitable institutions as well as homes for the aged, hospitals and other non-profit or charitable corporations. For Fiscal Year 2001, metered accounts of such institutions which would be charged less than \$12,731 per year for water service are fully exempt from water and sewer charges, with a 50% exemption for those accounts ranging from \$12,731 to \$25,463 in annual water charges. The comparable thresholds for flat-rate accounts of these institutions are \$11,484 and \$22,864. There are approximately 4,000 accounts which are entirely or partially exempt from water and sewer charges.

DEP manages its account and billing information through its Customer Information System ("CIS"), which incorporates both frontage and metered accounts. Analyses of the CIS and the meter-based bills which it generates have revealed significant flaws in the customer information data converted from the system formerly used to bill customers. The CIS and the meter-based bills also suffer from a high percentage of estimated bills. DEP is working to correct system inaccuracies. Such correction is dependent on both computer analyses and an account-by-account review. The correction process has brought to light weaknesses in the ability of the CIS as designed and implemented to identify and report account errors and corrections on a comparable basis over time. In addition, there has been significant difficulty in judging the accuracy of receivable balances carried in the CIS as a basis for eliminating invalid receivables. Progress has been made over several years in developing the personnel resources to create an adequate and credible baseline of account information. In addition, resources were added to ensure that all meters are read and billed on a quarterly basis.

THE SYSTEM

Overview

DEP supplies water and sewer service to the Boroughs of the Bronx, Brooklyn, Manhattan, Queens, Staten Island, an area of over 300 square miles, and serves over eight million people. The City is also required by State law to sell water in counties where its water supply facilities are located and where it currently provides water to an additional approximately one million people. The Water System provides an average of approximately 1,400 mgd of water. Water consumption has decreased since 1990 when an average of approximately 1,500 mgd was provided by the Water System. The amount of water that can be safely drawn from a watershed during the worst period in the drought of record is the "Dependable Yield." DEP has determined that the System could have furnished an average of 1,290 mgd during the drought of record in the mid-1960s. During periods of normal rainfall, watersheds supply more than the Dependable Yield. The Sewer System treats an average of approximately 1,200 mgd of sewage during dry weather. Sewer service is provided to virtually the entire City, except for significant parts of the Borough of Staten Island, the Borough of Queens communities of Breezy Point and Douglaston, and the Borough of Brooklyn community of Seagate. Sewer service is also provided to certain upstate communities in System watershed areas. According to Metcalf & Eddy, the System is in adequate condition (the highest rating category; See "APPENDIX A—LETTER OF METCALF & EDDY, CONSULTING ENGINEERS.")

The Water System

History

Early Manhattan settlers obtained water for domestic purposes from shallow privately owned wells. In 1677 the first public well was dug in front of the old fort at Bowling Green. In 1776, when the population reached approximately 22,000, a reservoir was constructed on the east side of Broadway between Pearl and White Streets. Water pumped from wells sunk near the Collect Pond, east of the reservoir, and from the pond itself, was distributed through hollow logs laid in the principal streets. In 1800 the Manhattan Company (now The Chase Manhattan Bank) sank a well at Reade and Centre Streets, pumped water into a reservoir on Chambers Street and distributed it through wooden mains to a portion of the community. In 1830 a tank for fire protection was constructed by the City at 13th Street and Broadway and was filled from a well. The water was distributed through two 12-inch cast iron pipes. As the population of the City increased, the well water became polluted and supply was insufficient. The supply was supplemented by cisterns and water drawn from a few springs in upper Manhattan.

After exploring alternatives for increasing supply, the City decided to impound water from the Croton River, in what is now Westchester County, and to build an aqueduct to carry water from the Old Croton Reservoir to the City. This aqueduct, known today as the Old Croton Aqueduct, had a capacity of about 90 million gallons per day (mgd) and was placed in service in 1842. The distribution reservoirs were located in Manhattan at 42nd Street (discontinued in 1890) and in Central Park south of 86th Street (discontinued in 1925). New reservoirs were constructed to increase supply: Boyds Corner in 1873 and Middle Branch in 1878. In 1883 a commission was formed to build a second aqueduct from the Croton watershed as well as additional storage reservoirs. This aqueduct, known as the New Croton Aqueduct, was under construction from 1885 to 1893 and was placed in service in 1890, while still under construction. The present Water System was consolidated from the various water systems in communities now consisting of the Boroughs of Manhattan, the Bronx, Brooklyn, Queens and Staten Island.

Since 1842, there have been no significant interruptions of service.

In 1905 the Board of Water Supply was created by the State Legislature. Pursuant to the 1905 Act, the City may develop areas of the Catskill Mountains, located in the Hudson River Basin, and portions of the Delaware River Basin located to the west of the Catskill Mountains for water supply purposes. In return for these development rights, the 1905 Act requires the City to furnish, upon request, supplies of fresh water to

municipalities and water districts in eight northern counties in which City water supply facilities and watersheds are located. The City's obligations under the 1905 Act in this respect have now passed to the Board. The 1905 Act also governs the rates that may be levied for such water. An eligible municipality or district may draw water based on a formula computed as the local population multiplied by the daily per capita consumption in the City. The City is currently engaged in a long-term project to update and modernize various water supply agreements governing the furnishing of water to such municipalities and water districts.

After careful study, the City decided to develop the Catskill region as an additional water source. The Board of Water Supply proceeded to plan and construct facilities to impound the waters of the Esopus Creek, one of the four watersheds in the Catskills, and to deliver the water throughout the City. This project, to develop what is known as the Catskill System, included the Ashokan Reservoir and the Catskill Aqueduct and was completed in 1915. It was subsequently turned over to the City's Department of Water Supply, Gas and Electricity for operation and maintenance. The remaining development of the Catskill System, involving the construction of the Schoharie Reservoir and Shandaken Tunnel, was completed in 1928.

In 1927 the Board of Water Supply submitted a plan to the Board of Estimate and Apportionment for the development of the upper portion of the Rondout watershed and tributaries of the Delaware River within the State of New York. This project was approved in 1928. Work was subsequently delayed by an action brought by the State of New Jersey in the Supreme Court of the United States to enjoin the City and State of New York from using the waters of any Delaware River tributary. In May 1931 the Supreme Court of the United States upheld the right of the City to augment its water supply from the headwaters of the Delaware River. Construction of the Delaware System was begun in March 1937. The Delaware System was placed in service in stages: The Delaware Aqueduct was completed in 1944, Neversink Reservoir in 1950, Rondout Reservoir in 1951, Pepacton Reservoir in 1954 and Cannonsville Reservoir in 1967.

Water for the System is derived from three upstate reservoir systems (the Croton, Catskill and Delaware Systems) and a system of wells in Queens that were acquired as part of the City's acquisition of the Jamaica Water Supply Company ("Jamaica Water"). The three upstate water collection systems include 18 reservoirs and three controlled lakes with a total storage capacity of approximately 550 billion gallons. They were designed and built with various interconnections to increase flexibility by permitting exchange of water from one system to another. This feature mitigates localized droughts and takes advantage of excess water in any of the three watersheds.

The Water System is currently furnishing water to users in portions of four of the eight eligible northern counties. The Water System provides approximately 85% of the water used in Westchester County and approximately 7.5% of the water used in Putnam, Orange and Ulster Counties.

Approximately 95% of the total water supply is delivered to buildings by gravity. Only about 5% of the water is regularly pumped by DEP to maintain the desired pressure. As a result, operating costs are relatively insensitive to fluctuations in the cost of power. When drought conditions exist, additional pumping is required.

Water Collection and Distribution

The three main reservoir systems are the Croton, Catskill and Delaware Systems. (See "**New York City Water Supply System**" map before the Appendices for the location of the reservoir systems.) In addition, less than 1% of the City's daily water supply is provided by wells in Queens.

The following tables set forth the capacities and original in-service dates of the System's collecting and balancing reservoirs and distribution facilities based on the City records.

Collecting Reservoirs

<u>Name</u>	<u>Available Capacity(1) (Billion Gallons)</u>	<u>Original In-Service Date</u>
Croton		
New Croton	19.0	1905
Croton Falls Main	14.2	1911
Cross River	10.3	1908
West Branch	10.1	1895
Titicus	7.2	1893
Amawalk	6.7	1897
East Branch	5.2	1891
Muscoot	4.9	1905
Bog Brook	4.4	1892
Middle Branch.....	4.0	1878
Boyds Corner	1.7	1873
Croton Falls Diverting	0.9	1911
Total	<u>88.6</u>	
Catskill		
Ashokan	122.9	1915
Schoharie	17.6	1926
Total	<u>140.5</u>	
Delaware		
Pepacton	140.2	1954
Cannonsville	95.7	1965
Rondout	49.6	1951
Neversink	34.9	1950
Total	<u>320.4</u>	
Total Available Capacity	<u><u>547.5</u></u>	

(1) Capacity above minimum operating level.

Balancing Reservoirs and Distribution Facilities

<u>Name</u>	<u>Storage Capacity (billion gallons)</u>	<u>Original In-Service Date</u>
Balancing Reservoirs		
Kensico	30.6	1915
Hillview	0.9	1915
Total	31.5	
Distribution Facilities		
Central Park	1.0	1862
Jerome Park	0.8	1905
Ridgewood (basin no. 3)	0.1	1875
Silver Lake (tanks)	0.1	1970
Total	2.0	
Total Storage Capacity	33.5	

The following table sets forth the Dependable Yield and storage capacity for each of the water supply systems.

Water System Dependable Yield and Capacity

<u>System</u>	<u>Dependable Yield (mgd)</u>	<u>Storage Capacity(1) (billion gallons)</u>
Croton	240	86.6
Catskill	470	140.5
Delaware	580	320.4
Queens wells	33	2.6
Total	1,323	550.1

(1) Capacity above minimum operating level.

The Croton System normally provides approximately 10% of the City's daily water supply and can provide substantially more of the daily water supply during drought conditions. The Croton System consists of 12 reservoirs and three controlled lakes on the Croton River, its three branches and three other tributaries. The water in the Croton System flows from upstream reservoirs through natural streams to downstream reservoirs, terminating at the New Croton Reservoir. The Croton System is divided into three subsystems: the West Branch, Croton Falls, and Muscoot. The watershed which supplies the Croton System has an area of 375 square miles. It lies almost entirely within the State, approximately 45 miles north of lower Manhattan, with a small portion in the State of Connecticut.

The Catskill System watersheds occupy sparsely populated areas in the central and eastern portions of the Catskill Mountains and normally provide approximately 40% of the City's daily water supply. Water in the Catskill System comes from the Esopus and Schoharie Creek watersheds, located approximately 100 miles north of lower Manhattan and 35 miles west of the Hudson River. The Catskill System is comprised of the Schoharie Reservoir (formed by the Gilboa Dam across Schoharie Creek) and Ashokan Reservoir (formed by the Ashokan Dam across Esopus Creek) and the Catskill Aqueduct.

The Delaware System, located approximately 125 miles north of lower Manhattan, normally provides approximately 50% of the City's daily water supply. Three Delaware System reservoirs collect water from a sparsely populated region on the branches of the Delaware River: Cannonsville Reservoir (formed by the

Cannonsville dam on the West Branch of the Delaware River); Pepacton Reservoir (formed by the Downsview Dam across the East Branch of the Delaware River); and Neversink Reservoir (formed by the Neversink Dam across the Neversink River, a tributary to the Delaware River).

Water may be pumped into the Delaware Aqueduct from the Chelsea Pump Station which draws from the Hudson River. The Chelsea Pump Station has a capacity of 100 mgd. The Chelsea Pump Station was reconstructed in 1965-66 under drought emergency circumstances and has operated under drought conditions at several times since then.

Wells in Queens provide less than 1% of the City's daily water supply. The wells could potentially provide more of the daily supply during drought conditions. Unlike the rest of the City's water supply, which is a surface and gravity-supplied system originating in a network of upstate reservoirs, well water is pumped from extensive underground aquifers. The acquisition of wells in Queens from Jamaica Water in 1996 represented the first new water supply source for the City since the 1960s when the Delaware surface water system initially came on line.

The System's water supply is transported through an extensive system of tunnels and aqueducts. (See "**New York City Water Tunnels**" map before the Appendices for the location of the major water transmission facilities.) Croton System water is delivered from the New Croton Reservoir by the New Croton Aqueduct to the Jerome Park Reservoir in The Bronx. From Jerome Park Reservoir and from direct connections to the New Croton Aqueduct, trunk mains carry water to the service area. The Catskill and Delaware Aqueducts convey water from Ashokan Reservoir and Rondout Reservoir to Kensico Reservoir and then to Hillview Reservoir in Yonkers. Both Kensico and Hillview Reservoirs serve as balancing reservoirs. Water from the Catskill and Delaware Systems is mixed in the Kensico Reservoir, and is conveyed to Hillview Reservoir where water enters Tunnels 1, 2 and 3. Trunk mains carry water from tunnel shafts and from the distribution facilities (Jerome Park and Hillview Reservoir and Silver Lake Tanks) to the service area.

DEP is currently conducting a program of reviewing and assessing the condition of the Rondout-West Branch Tunnel, which comprises a portion of the Delaware Aqueduct. The Rondout-West Branch Tunnel carries water 45 miles from the Delaware System under the Hudson River and into West Branch Reservoir. It has a capacity of 900 mgd and normally contributes 50% of the City's water supply. A portion of the tunnel crosses a fractured rock formation, is potentially subject to greater stress than the deep rock tunnels located in the City and attains the highest pressures in the Water System. Since the early 1990s, DEP has monitored the condition of the Roundout-West Branch Tunnel. As a result of DEP's flow tests, visual observations and other analyses conducted over the last five years, it has been determined that between approximately 15 mgd and approximately 34 mgd of water is being lost from the tunnel and is surfacing in the form of springs or seeps in the area. This amounts to a loss of approximately 3% of the daily volume of water provided by the tunnel. DEP has initiated the engineering work to determine the nature and extent of repairs which may be necessary to remedy the water loss. DEP has also determined that the situation in the tunnel and amount of water loss is stable and that, in the opinion of the professional engineering firm retained by DEP in conjunction with that investigation, there is no immediate risk of failure of the tunnel. DEP intends to make the necessary repairs. The costs to perform such repairs could be substantial depending on the nature of the required repair. To perform the repair work, the tunnel may have to be shut down and de-watered. During any such period, it will be necessary for the City to increase reliance on its other water supplies, and to implement more stringent measures to encourage conservation and decrease demand. If it is necessary to shut down and de-water the tunnel, DEP believes that water service at normal volume could be provided for a period of at least three months and approximately one billion gallons per day could be provided by the other parts of the Water System for an indefinite period to satisfy the water supply needs of the City. In general, the Delaware System continues to demonstrate a high degree of reliability after 55 years of continuous service. Nevertheless, DEP considers it prudent to conduct regular tunnel and aqueduct inspections and surveys to detect any problems that might arise so that corrective actions can be taken if needed.

Tunnel 1. From Hillview Reservoir, water from the Catskill and Delaware Systems is delivered into the City by a circular, cement-lined, pressurized, bedrock tunnel that narrows in diameter from 15 to 11 feet. Tunnel

1 is 18 miles in length and extends south from Hillview Reservoir through the West Bronx to Manhattan and Brooklyn. From two terminal shafts in Brooklyn, steel and standby cast iron pipelines extend into Queens and Staten Island, respectively. Tunnel 1 is 200 to 750 feet underground and thus avoids interference with streets, buildings, subways, sewers, pipes and other underground infrastructure. These depths are necessary to ensure substantial rock covering necessary to withstand the bursting pressure of the water inside and to ensure watertightness. Tunnel 1 has a capacity of approximately 1,000 mgd. Shafts placed along the tunnel connect with surface mains which deliver water to the distribution system.

Tunnel 2. The second tunnel also delivers Catskill and Delaware System water from Hillview Reservoir. It is a circular, cement-lined, pressurized, bedrock tunnel 200 to 800 feet below the street surface and 15 to 17 feet in diameter. Tunnel 2 extends south from Hillview Reservoir, east of Tunnel 1, through the Bronx, under the East River at Rikers Island, through Queens and Brooklyn, and connects with Tunnel 1 at Fort Greene Park as well as at State and Nevins Streets in Brooklyn. Tunnel 2 has a capacity of approximately 1,000 mgd and is 20 miles in length. Shafts placed along the tunnel connect with surface mains which deliver water to the distribution system.

Richmond Tunnel. Connecting to Tunnel 2 in Brooklyn is the ten-foot diameter, five-mile long Richmond Tunnel, which was completed in 1970 and carries water 900 feet beneath Upper New York Bay to Staten Island. The Richmond Tunnel, the Richmond Distribution Chamber, the Richmond Aqueduct and the underground Silver Lake Tanks were designed to improve the water supply facilities of Staten Island. The underground storage tanks (among the world's largest) have a combined capacity of 100 million gallons and replace the Silver Lake Reservoir (now Silver Lake).

Tunnel 3. A new water tunnel, Tunnel 3, connecting the reservoir system to the City is presently under construction to increase capacity to meet a growing demand in the eastern and southern areas of the City, permit inspection and rehabilitation of Tunnels 1 and 2, and provide water delivery alternatives to the City in the event of disruption in Tunnel 1 or 2. Tunnel 3 is being built in four stages. Stage I commenced operation in July 1998. It follows a 13-mile route which extends south from Hillview Reservoir in Yonkers under Central Park Reservoir in Manhattan, and east under the East River and Roosevelt Island to Long Island City in Queens. Stage II is currently under construction and is expected to be completed in 2008. It will extend from the end of Stage I to supply Queens, Brooklyn and the Richmond Tunnel and from the valve chamber at Central Park into lower Manhattan. Upon completion, Stage II will enable the system to maintain full service even if Tunnel 1 or 2 was shut down. Stage III will extend from the Kensico Reservoir to the interconnecting chamber of Stage I, south of Hillview Reservoir. Stage IV is intended to deliver additional water to the eastern parts of the Bronx and Queens. It would extend southeast from the northern terminus of Stage I in the Bronx to Queens and then southwest to interconnect with the Queens portion of Stage II.

The water distribution system consists of a grid network of over 6,100 miles of pipe, as well as valves, fire hydrants, distribution facilities, gatehouses, pump stations, and maintenance and repair yards. Some pipe was installed before 1870 and approximately 7% is over 100 years old. Approximately 2,200 miles of pipe are unlined cast iron laid before 1930. Pipe laid between 1930 and 1969 is cement-lined cast iron and comprises about 2,400 miles of the distribution system. Pipe laid after 1970 is cement-lined ductile iron and comprises about 1,600 miles of the distribution system. The CIP provides for the programmatic replacement of water mains in accordance with certain established criteria. These criteria were reviewed and confirmed by the U.S. Army Corps of Engineers in its independent study of the City's distribution system completed in November 1988.

Various facilities provide storage to meet the hourly fluctuations in demand for water throughout the City, as well as any sudden increase in draft that might arise from fire or other emergencies. With the exception of some communities in the outlying areas of the City which may experience low pressure service during peak hours in summer months, the water distribution system provides generally excellent service.

From time to time the Water System experiences drought conditions caused by significantly below-normal precipitation in the watershed areas. Since the Water System relies upon a surface water supply, it is sensitive to

major fluctuations in precipitation. Throughout even the worst droughts, the Water System has continued to supply sufficient amounts of water to the City. In the event of a drought, DEP may impose restrictions, enhance public awareness programs, expand its inspection force and perform additional leak and waste surveys in public and private buildings. DEP may also require communities outside of the City that are served by the System to adopt similar conservation measures. The Chelsea Pump Station may also be brought into service in order to draw Hudson River water into the System.

DEP has implemented conservation programs including metering, toilet replacement, hydrant locking, leak detection, and public information. Current demand/flow projections show that if conservation programs remain effective there will be no immediate need for the City to find additional long-term water supply sources.

The System has six laboratories that monitor water quality, employing approximately 250 microbiologists, engineers, chemists, hydrologists and limnologists. Over 65,000 samples per year are collected and 800,000 analyses are performed annually. Routine checks are made for more than 60 different substances, including heavy metals and trace organics. The monitoring program meets or exceeds federal and State requirements and has the capability to meet potentially more stringent requirements.

Governmental Regulation

The System is subject to federal, State, interstate and municipal regulation. At the federal level regulatory jurisdiction is vested in USEPA; at the State level in the NYSDEC and the NYSDOH; at the interstate level in the Delaware River Basin Commission (the "DRBC") and the Interstate Sanitation Commission (the "ISC"); and at the municipal level in DEP, NYCDOH, DOB, the Department of Business Services (the "DBS") and, to a limited degree, in municipalities and districts located in eight counties north of the City. Water quality standards are enforced within the watershed areas north of the City through a network of overlapping governmental jurisdictions. Participating in that network, among others, are NYSDEC and NYSDOH, county, municipal and district police, engineers and inspectors; and City personnel from DEP. The various jurisdictions maintain physical security, take water samples, monitor the use of herbicides, insecticides and fertilizers, and generally oversee the physical condition of, activity on and the operation of water supply lands and facilities. Portions of the overall legislative and regulatory framework governing the watersheds may be found in the City's Administrative Code, Health Code and Water Supply Regulations. Regulatory enforcement within City limits is almost exclusively accomplished through City personnel. Provisions incorporating and augmenting the substance of the SDWA, related regulations and the Sanitary Code, are contained in the Health Code, Water Supply Regulations and the City's Building and Building Construction Codes. These provisions are enforced by personnel from DEP, NYCDOH and DOB.

Croton Filtration. Because of the quality of the System's water and the long periods of retention in the reservoirs, it has not been necessary to filter water from the System to reduce the bacterial content and the turbidity. The only treatment procedures routinely employed by DEP are screening, detention, addition of caustic soda and phosphoric acid for corrosion control, disinfection, and fluoridation. Additions of copper sulfate for algae control and alum for turbidity control are made only when needed. This level of treatment proved to be more than sufficient to maintain water quality standards throughout the entire Water System. However, new water treatment standards led to a 1992 stipulation with NYSDOH which provided for the construction of a full scale water treatment facility to filter Croton System water. The stipulation has been superseded by a 1998 federal court consent decree (the "Croton Filter Consent Decree") which requires the City to design and construct such a facility and have it operational by March 1, 2007. If the City fails to meet certain milestones set out in the Croton Filter Consent Decree it may be required to pay penalties to the State and federal governments.

In December 1998, after an extensive study of several alternative sites, DEP identified the Mosholu Golf Course in the Bronx as the City's preferred site for the full-scale water treatment facility to filter Croton System water. The selected Mosholu Golf Course site lies within the boundaries of Van Cortlandt Park, a mapped public park. The City believed that the construction and operation of the Croton water treatment facility at this site would not constitute alienation of parkland. In September 1999 and November 1999, respectively, two actions

were brought against the City by community organizations opposed to the siting of the Croton water treatment facility at the Mosholu Golf Course site. The actions were predicated, in part, on an assertion by the petitioners that the siting of the facility at Mosholu Golf Course would constitute alienation of parkland, requiring State legislative approval.

On February 8, 2001, the New York Court of Appeals ruled against the City and determined that construction of the proposed Croton water treatment plant, at the Mosholu Golf Course site, amounted to alienation of parkland and required approval of the State legislature. In light of this decision, the City submitted a bill to the State legislature which, if passed and signed into law, would authorize alienation of portions of Van Cortlandt Park for the construction and operation of the Croton water treatment plant and certain related facilities. In addition, the City is investigating other options to ensure compliance with the requirement to filter the Croton System water. These options include, among others, siting the Croton water treatment plant at other locations in the Bronx or Westchester County, and reducing or changing the usage of the Croton water supply system by the City. This could result in construction of the plant being substantially delayed beyond the 2007 Croton Filter Consent Decree deadline.

On April 4, 2001, USEPA filed a motion with the U.S. District Court for the Eastern District of New York, requesting that the Court issue an order directing the City to (i) pay \$4.74 million in penalties under the Croton Filter Consent Decree, on account of the City's alleged failure to comply with two milestones relating to seeking and obtaining State legislation for the siting of the Croton water treatment plant, and (ii) submit a schedule of milestones demonstrating how the City intends to recoup time lost on the project as a result of the New York Court of Appeals decision. The City disagrees with the position taken by USEPA and the State, and contends that it has consistently acted in good faith and in compliance with the Croton Filter Consent Decree. The penalties accrue on a daily basis until the applicable milestones are met or a modification of the Croton Filter Consent Decree is agreed upon.

On April 23, 2001, the State joined USEPA's motion for payment of penalties and a schedule of milestones. In May 2001, USEPA and the State each made a further demand for stipulated penalties for the City's alleged failure to comply with two milestones in the Croton Filter Consent Decree, relating to the City's obligation to secure final approvals and permits for the Croton Water Treatment Plant by May 1, 2001, and the City's obligation to advertise site preparation bids by May 1, 2001. On May 10, 2001, the District Court held the payment of penalties in abeyance and referred the matter to a U.S. magistrate judge.

Watershed Protection/Catskill, Delaware Filtration. Pursuant to the federal Safe Drinking Water Act ("SDWA"), USEPA has promulgated nationwide drinking water regulations which specify the maximum level of harmful contaminants allowed in drinking water and which govern the construction, operation, and maintenance of the System. USEPA has also promulgated filtration treatment regulations, known as the federal Surface Water Treatment Rule ("SWTR"), that prescribe guidelines concerning studies to be performed, programs to be implemented, timetables to be met and any other actions necessary to insure compliance with the regulations' terms. Enforcement of SDWA and its related regulations, except for the SWTR, was delegated by USEPA to the State. USEPA has delegated primary enforcement responsibility for the SWTR to NYSDOH for all systems in the State other than the Catskill and Delaware Systems. With respect to the Catskill and Delaware systems, the City believes that under the SWTR promulgated by the USEPA it will continue to be able to meet the criteria for non-filtered supplies.

On January 21, 1997, the City and the State executed a Memorandum of Agreement with the communities in the Catskill, Delaware and Croton watersheds, USEPA and several environmental groups (the "Watershed Memorandum of Agreement"). The Watershed Memorandum of Agreement supplemented the City's existing watershed protection program with approximately \$400 million in additional funding. This funding, at least \$290 million of which is expected to be provided through the issuance of Authority bonds, consists of \$350 million for economic-environmental partnership programs with upstate communities which include a water quality investment program, a regional economic development fund and a regional advisory forum for water quality initiatives and watershed concerns. As provided under the Watershed Memorandum of Agreement, the State has

issued a land acquisition permit to the City and has approved the City's revised rules and regulations governing certain aspects of land use in the watershed. The State also promulgated the same regulations under state law procedures in July 1998.

On May 6, 1997, USEPA extended a 1996 interim determination pursuant to which the City is not required to filter water from the Catskill and Delaware Systems to April 15, 2002 or until a further determination is made, whichever is earlier (the "May 1997 Determination"). Preliminary estimates of the costs of such filtration are from \$3 billion to \$4 billion. The May 1997 Determination contains a number of conditions which the City is required to satisfy to ensure that the City would continue to be relieved of requirements for filtration. One of those conditions is that the City solicit property from owners of 355,050 acres of land in the watershed and actually acquire (with certain limited exceptions) any land used to satisfy the solicitation goal where the owner accepts the City's purchase price. To be eligible for acquisition, land must satisfy specified natural features and minimum acreage criteria. The City expects to spend \$250 million for the acquisition program, which may be increased by \$50 million after five years upon a review of the City's progress with the program. NYSDEC has issued a renewable ten-year land acquisition permit to the City. The City has closed on the acquisition of approximately 16,000 acres of land in the watershed with an aggregate value of approximately \$51 million, and is a party to contracts or option agreements for the purchase of approximately 16,000 acres of additional land in the watershed with an aggregate value of approximately \$35 million. The City has included in the CIP \$128 million for the purchase of land in the Catskill and Delaware watersheds and an additional \$6 million for land in the Croton watershed.

Implementation of the May 1997 Determination is the subject of ongoing discussions with USEPA. In accordance with the Watershed Memorandum of Agreement, USEPA has conducted a formal review and evaluation of the City's compliance with the terms and conditions of the May 1997 Determination. In its report, dated May 31, 2000, USEPA found that the City has made significant progress in protecting the Catskill/Delaware watershed, but that it must step up its efforts in certain areas in order to avoid being required to filter its water in the long-term. USEPA indicated that the City must accelerate the pace of its program to upgrade non-City-owned sewage treatment plants in the watershed. USEPA also indicated that the City must aggressively pursue additional land acquisition in the Kensico Reservoir basin in order to protect the quality of water flowing through the Kensico Reservoir. Although there is only a limited amount of eligible land that may be acquired in that basin, the City intends to renew its efforts to secure purchases from willing sellers, including the acquisition of conservation easements where appropriate. In addition, the City is pursuing other approaches to protect Kensico water quality including investigating whether local governments in the basin can provide assistance in acquiring and preserving open space for watershed protection and whether, in cooperation with USEPA and local property owners, a non-regulatory program can be developed to encourage additional actions to protect water quality beyond the requirements of the City's watershed regulations. The City has already devoted substantial efforts aimed at protecting the Kensico Reservoir, including the installation of stormwater best management practices on numerous parcels of land adjacent to the reservoir.

The City has adopted land use regulations which are a major component of the City's efforts to protect its water supply. These regulations, which were adopted pursuant to the New York State Public Health Law and which have NYSDOH approval, are designed to prevent future contamination of the System's water supply. The City believes that its increased regulatory efforts to protect its water supply will preserve the high quality of the water in the Catskill and Delaware watersheds and, together with the other elements of the City's watershed protection program, will avoid the need for filtration of these water systems.

The May 1997 Determination required, among other things, that the City proceed with the design of a filtration facility for the Catskill and Delaware Systems, should it be required. In December 2000, the City, as permitted in the May 1997 Determination, petitioned for relief from proceeding to final design work for the filtration facility. As part of its petition, the City proposed using ultraviolet ("UV") treatment for Catskill/Delaware water. On July 23, 2001, USEPA granted the City's request for relief from proceeding with final design work for a filtration facility subject to certain conditions including the City's conducting a feasibility

evaluation of UV and, if such treatment is found to be feasible, with the design and construction of a UV facility. The cost of designing such a facility is estimated to be approximately \$150 million, which is not currently included in the CIP.

In a letter dated June 9, 2000, and again in a letter dated August 9, 2000, Hudson Riverkeeper, Inc. gave the City notice that the Hudson Riverkeeper, Inc. and other organizations intend to sue pursuant to the SDWA (which permits certain lawsuits by citizens to enforce the SDWA) concerning alleged violations of the May 1997 Determination and the filtration avoidance provisions of the National Primary Drinking Water Regulations relating to the City's Catskill and Delaware water supply systems. No such litigation has been commenced as of the date hereof. The City intends to defend vigorously any such action which is actually initiated.

USEPA Investigation/Regulations. The USEPA and the United States Attorney's Office in the Southern District of New York are conducting a criminal investigation concerning the presence of mercury, PCBs and lead at several DEP facilities in the watershed and DEP's response to a spill of heating oil from a non-City-owned facility which caused temporary shutdowns of the Croton Aqueduct in 1996, 1998 and 1999. In connection with this investigation, both DEP and individual DEP employees have received subpoenas. In addition, on June 15, 1999, and again on June 30, 1999, search warrants were executed at several DEP offices and facilities. DEP and the City are cooperating fully with the investigation. The federal government, NYSDOH and DEP have all indicated that the water supply remains safe with respect to mercury, PCBs and lead. DEP is engaged in a program to remediate mercury, PCBs and lead from the facilities of concern.

DEP has historically monitored key locations in its distribution system for over 40 individual water quality parameters, including lead. Through 1998 DEP data indicated that lead was absent from both the water supply and distribution systems. Beginning in January 1999 tap water samples revealed that, although some lead was present, the City was in compliance with State lead standards. Recent USEPA regulations require water suppliers to monitor for lead and copper that may have leached into the water from interior building plumbing. To minimize this occurrence the City began the addition of corrosion control chemicals to the Water System. This addition promotes the formation of a protective coating inside pipes and plumbing thereby reducing the leaching of metals.

Chelsea Pump Station. The City has submitted an application for a five-year permit to NYSDEC to operate the Chelsea Pump Station on an emergency basis at the maximum rate of 100 mgd. Operation of the Chelsea Pump Station also requires a State Pollutant Discharge Elimination Systems ("SPDES") permit. However, the City may operate the Chelsea Pump Station in the event of drought emergency without the issuance of the SPDES permit, providing the City continues to pursue its application for such permit and satisfies interim conditions set by NYSDEC. The City has updated its environmental assessment of the Chelsea Pump Station.

Consumer Confidence Report. The SDWA requires that utilities prepare and distribute to their consumers a brief annual water quality report, referred to as the Consumer Confidence Report (the "CCR"). The City's 2000 CCR covering the calendar year 2000, the most recent such report, noted that the Catskill-Delaware System experienced four violations of the color standard established under the Sanitary Code, and water from the wells in Queens experienced five violations of such standard. Although the Croton System did not experience any color violations in 2000, it has experienced periodic violations in previous years. The Croton filter project is intended, among other things, to address the issue of color violations in Croton System water. While the CCR further noted that the City's source water contains virtually no lead, tap water may contain lead due to releases of lead from internal household plumbing and fixtures.

Dams. Engineering reports sponsored by the Corps in the early 1980s indicated that the dams and reservoirs in the Croton System are safe but in need of some rehabilitation and reconstruction work. An ongoing reconstruction program has been established and funded in the CIP. The majority of the rehabilitation includes replacement and refurbishment of the outlet works and mechanical equipment within the gatehouses, improvements to the dam structures, maintenance of grounds and enlargement of the spillway capacities. Upon completion of the proposed reconstruction in 2002, all facilities in the Croton System will comply with the current national dam safety guidelines established in 1976.

Delaware System. The conditions under which the System's Pepacton, Neversink and Cannonsville Reservoirs may be operated are set forth under the terms of a 1954 decree of the Supreme Court of the United States (the "1954 Decree"). It allows the System to divert 800 mgd of water from the Delaware River Basin for use by the Water System. At the same time, the System is required to release, from the three reservoirs into the tributaries of the Delaware River, quantities of water sufficient to maintain flows of 1,750 cubic feet per second in the main branch of the Delaware River at Montague, New Jersey. In addition, the System must meet the State-mandated conservation releases and flow requirements in various tributaries contained in numerous deeds and condemnation decrees. Enforcement of the 1954 Decree is under the jurisdiction of a River Master appointed by the Supreme Court of the United States. The City and State, and the governments of New Jersey, Pennsylvania and Delaware are named parties to the 1954 Decree.

The Delaware River Basin Commission ("DRBC") was created in 1961 as a result of the Delaware River Basin Compact among the federal government, the State, and the states of New Jersey, Pennsylvania and Delaware. It has jurisdiction over water resources and is responsible for development, planning and coordination and protection of the interstate areas served by the Delaware River and its tributaries. Although not a participant in the Delaware River Basin Compact, the City functions as an advisor to the State in DRBC proceedings and assumes a major role both as a party to the 1954 Decree and as the owner and operator of the three largest reservoirs subject to DRBC jurisdiction.

In 1982, as a result of conditions during the drought of record in the mid-1960s, the drought of 1981, and the inability of the System's Pepacton, Neversink and Cannonsville Reservoirs to satisfy all of the requirements of the 1954 Decree during those drought periods, a set of Interstate Water Management Recommendations (the "Good Faith Agreement") was submitted to DRBC. Executed by all of the parties to the 1954 Decree, the Good Faith Agreement sets forth a series of recommendations, including various levels of diversions and releases necessary during normal hydrological conditions and during periods of drought. The Good Faith Agreement was followed during the 1985 and 1989 droughts.

For more information regarding litigation relating to the Water System, see "LITIGATION."

The Sewer System

The Sewer System is comprised of the sewage collection system and the sewage treatment facilities. (See "New York City Drainage Areas and Sewage Treatment Plants" map before the Appendices for the location of the sewage treatment facilities.)

History

Systematic collection of sewage and building of sewers began in the City as early as 1696. Major portions of the Sewer System in lower and central Manhattan were begun in the early 1830s and completed by 1870. The oldest sewer now in service was built in 1851. The oldest components of the Sewer System, located in Manhattan and Brooklyn, are constructed mostly of brick, clay and cement. The other Boroughs have newer sewers made primarily of vitreous clay and concrete. Historically, waste collection and disposal was a matter of local jurisdiction. Upon consolidation of the City in 1898, Presidents of the five Boroughs were given responsibility for sewage collection and disposal in their respective Boroughs. A Commissioner of Borough Works was established in each Borough for planning, constructing and administering its sewer system. This local responsibility for sewage collection existed until the mid-1960s.

Although water pollution control did not become a major issue until recent years, it has been a concern of local conservationists and public officials for over a century. The first sewage treatment facility in the City was opened in 1886, when a small plant was constructed on Coney Island to protect the bathing beaches. In 1904, a Sanitary Commission was established and charged with developing a master plan for sewage treatment in the City. Although the Sanitary Commission completed its task in 1910, sewage treatment plant construction did not receive serious attention until 1929, when the City established a department to construct sewage treatment

facilities under the jurisdiction of the Department of Sanitation. In the 1930's this function was transferred to the Department of Public Works. In 1931, a plant construction program was begun to construct a system of sewage treatment plants and associated facilities to control and treat all sewage produced within the City. The first of these plants, Coney Island, opened in 1935. Three more large plants, Wards Island, Tallmans Island and Bowers Bay, were placed in operation before the end of the 1930's. During the 1940's two additional plants, Jamaica and 26th Ward, were opened. The post-war years witnessed an intensified construction effort and, by 1967, 12 major treatment plants were in operation treating about 1,000 mgd at an average removal efficiency of about 65%. At that time most other urban areas were providing only about 35% removal efficiency.

The City Charter of 1963 consolidated the Borough sewer organizations into a City-wide department under the Department of Public Works. In 1968, various municipal services were consolidated into a single agency known as the Environmental Protection Administration, which included responsibility for sanitation and water and air quality resources. Within the Environmental Protection Administration, the Department of Water Resources had jurisdiction over the Bureaus of Water Supply and Water Pollution Control. These Bureaus were responsible for water supply and sewage collection and treatment. In 1977, water supply, sewage collection and treatment, and air quality monitoring responsibilities were combined into DEP.

Sewage Collection and Treatment

The Sewer System's plants treat approximately 1,200 mgd of dry-weather sewage, virtually all of the dry-weather sewage generated in the City. The Sewer System is divided into 14 drainage areas corresponding to the 14 waste water treatment plants and includes over 6,400 miles of sewer pipes of varying size which are classified as one of three types: sanitary, storm or combined. Sanitary sewers accommodate household and industrial waste. Storm sewers carry rainwater and surface water runoff. Combined sewers carry both types of waste. Approximately 70% of the City's sewers are of the combined type. In addition to the sewage pipes, the Sewer System includes catch basins and seepage basins to prevent flooding and sewer backups.

The Sewer System is comprised of a number of sewer facilities built to varying standards. Different materials and methods of construction were used resulting in different life cycles. Approximately 4,000 miles or two-thirds of the City's sewer pipe is made of vitreous clay. Significant mileage of sewer pipe is composed of other building materials including cement, reinforced concrete, iron and brick. Some pipe in the collection system was installed before 1870, and about 16.7% of all sewer pipe in the collection system is over 100 years old.

The facilities related to the treatment of sewage include sewage treatment plants, a combined sewer overflow treatment plant, wastewater pump stations, laboratories, sludge dewatering facilities and inner-harbor vessels which transport sludge between facilities. Sludge is a by-product of the sewage treatment process.

Issues of both water supply volume and consequent sewage treatment volume are raised from time to time in connection with the System. Measures to increase the supply of water available to the System and to increase the sewage treatment capacity of the various sewage treatment plants in the System are either being constructed under the CIP or are under continuing review for feasibility and cost effectiveness. However, the immediate approach to both the issues of supply and treatment capacity is conservation, through voluntary changes in user behavior, through education and the effect of actual use charges based on metered water usage, leak detection and repair and increased use of newly designed low-flow water use fixtures such as toilets.

The following table describes sewage treatment plants currently in service.

Water Pollution Control Facilities

<u>Plants in Service</u>	<u>Design Capacity (mgd)</u>	<u>Year of Completion</u>	<u>Completion of Upgrading to Full Secondary Treatment or Reconstruction</u>
Newtown Creek	310	1967	2010
Wards Island	250	1937	1979
Hunts Point	200	1952	1978
Bowery Bay	150	1939	1978
Owls Head	120	1952	1995
Coney Island	100	1935	1994
Jamaica	100	1943	1978
26th Ward(1)	85	1944	1979
Tallmans Island	80	1939	1978
Port Richmond	60	1953	1979
Rockaway	45	1952	1978
Oakwood Beach	40	1956	1979
North River	170	1986	1991
Red Hook	60	1987	1987
Total System-wide Capacity	<u>1,770</u>		

(1) There is a storm-overflow retention facility at Spring Creek, which is connected to the 26th Ward Plant.

The Sewer System's wastewater pump stations convey wastewater to the treatment plants. When gravity flow becomes uneconomical or not feasible for engineering reasons, pump stations lift the flow so that it can again flow by gravity. In some locations, pump stations utilize pressure piping called force mains to direct the flow of wastewater to the plants. The CIP includes an ongoing program to reconstruct and refurbish pump stations.

Sewer regulators and tide gates control flow in the System. Recent inspections of the regulator system have found it to be structurally adequate, but many portions are in need of mechanical reconstruction. A detailed evaluation of the regulator and tide gate system has been completed and funds have been provided in the CIP for mechanical refurbishment of these facilities.

During periods of heavy rainfall a combination of stormwater and sewage bypasses treatment and is released into the City's waterways via combined sewer overflows. The combined sewer overflow abatement program provides for studies, design and construction of facilities to address this issue.

DEP has awarded contracts for the beneficial use of 100% of its biosolids which commenced in July 1998. These current contracts include: thermally drying the biosolids into fertilizer pellets at a facility located in the Bronx; direct land application in Texas, Colorado and Virginia; composting in West Virginia and Pennsylvania; and lime stabilization in New Jersey. The City's financial plan includes \$50 million in Fiscal Year 2001 for contracts with private vendors to manage biosolids.

Governmental Regulation

Under the Clean Water Act, USEPA oversees compliance with federal environmental laws, regulations and guidelines concerning sewage. Included in that regulatory framework is the National Pollutant Discharge Elimination System ("NPDES") Permit Program and the issuance of sewage treatment plant operating permits. As authorized by the Clean Water Act, administration of the permit program has been delegated to the State.

Pursuant to the Water Quality Act of 1987, as a condition for receipt of federal funds the State must establish a revolving fund to provide a source for loans to local entities for the construction of publicly-owned wastewater treatment facilities. Initial funding for a revolving fund program is provided from federal capitalization grants and state matching funds. The State has designated EFC to be the administrator of such funds.

Full Secondary Treatment Requirements. In 1972, the City began a program of upgrading its existing plants to operate in conformance with the full secondary treatment requirements of the Clean Water Act. Thirteen of the System's 14 sewage treatment plants have been upgraded. The remaining plant, Newtown Creek, is in the process of being upgraded to meet federal requirements.

As part of its municipal compliance program, the State took action against the City for those sewage treatment plants that were unable to attain the full secondary treatment requirements of the Clean Water Act by July 1, 1988. This court action resulted in the City signing consent decrees (the "Secondary Treatment Consent Decrees") for the Owls Head, Coney Island, Newtown Creek and Oakwood Beach plants, all of which include compliance schedules, which, with the exception of Newtown Creek, have been met. A State referee is assigned to monitor the City's compliance with the Newtown Creek Plant. A modification to the Secondary Treatment Consent Decree requiring the upgrading of the Newtown Creek plant was negotiated with the State with a new completion date of 2010. The City is in compliance with the schedule. The method, known as Track I, for upgrading the Newtown Creek plant specified in the Secondary Treatment Consent Decrees has an estimated cost of \$2.9 billion, of which approximately \$1.9 billion is included in the CIP. In July 1998, DEP submitted a proposed alternative method, known as Track III, to the State for achieving full secondary treatment at the Newtown Creek water pollution control plant. The proposed alternative is based on a modified step-feed process, and could, if approved, reduce the cost of upgrading the Newtown Creek plant by approximately \$600 million and reduce the time needed to satisfy secondary treatment requirements at the plant. In July 1999, the State rejected DEP's submission because, in the opinion of the State, it does not provide the water quality improvements required by the operative judicial order. DEP and the State have resumed negotiation of this matter and the State has expressed a willingness to accept the alternative method with some modifications. The State has agreed that the success of these negotiations is tied to the State's favorable resolution of its action against the City concerning nitrogen discharges from certain of the City's sewage treatment plants. For a description of such litigation, see "LITIGATION."

Non-City-Owned Plants. The City is also required, under the May 1997 Determination, to undertake a program of upgrading all 114 non City-owned sewage treatment plants in the watershed, to enable those facilities to comply with the City's new watershed protection regulations. This program, also known as the regulatory upgrade program, was specifically provided for in the Watershed Memorandum of Agreement and is currently funded at a level of approximately \$275 million. The regulations governing the program require the upgrades to be completed by May 1, 2002. Although the City is providing funding for the upgrades, the actual design and construction work is being undertaken by the individual owners of each facility, under contracts with EFC, acting as program administrator for the City.

As a result of delays in securing acceptable engineering proposals and plans from facility owners, it is anticipated that not all upgrades will be completed by the May 1, 2002 milestone date. In April 2000, the New York State Watershed Inspector General, an official within the Office of the State Attorney General, issued a report criticizing the City's progress in implementing the regulatory upgrade program. The City has responded to the report, which it believes is inaccurate and based on faulty understandings of the program and its objectives. The City has also taken steps, on its own accord, to accelerate the program without sacrificing proper oversight, cost-effectiveness, or adherence to sound engineering practices. These steps include, among others, the development of guidance documents to aid facility owners and their consultants that satisfy the upgrade design requirements and arrangements with EFC in the preparation of acceptable engineering proposals, and the retention, through arrangements with EFC, of additional engineering staff to review plans and specifications for individual upgrade projects. It is expected that the facilities that account for approximately 90% of the wastewater discharged from these plants will be upgraded by the second quarter of 2002.

SPDES. Over the past several years, NYSDEC has notified the City of alleged violations of the SPDES permits for the City's wastewater treatment plants as a result of corrective and preventive maintenance at a level below that which NYSDEC believes is required by the permits. These alleged violations have been settled through a series of administrative consent orders. In addition, DEP has hired a consultant was hired to gather relevant data to enable DEP to determine the appropriate level of corrective and preventive maintenance for its wastewater treatment plants. This study included a review of the practices of other utilities in connection with corrective and preventive maintenance. Based on this study, DEP is implementing pilot studies at various water pollution control plants in an attempt to change its practices and priorities relating to plant maintenance.

The System includes eight City-owned upstate sewage treatment plants to prevent untreated sewage from being released into the watersheds. To enhance watershed protection, DEP completed upgrades to seven of these facilities. The CIP includes approximately \$17 million for the upgrading of the eighth facility. DEP, through the City's Law Department, takes legal action pursuant to the Federal Clean Water Act to compel certain owners and operators of non-City owned sewage treatment plants in the watersheds to comply with SPDES permits. In addition, DEP, together with the City Law Department, takes legal action to ensure that new developments are appropriately designed to be environmentally protective, in accordance with the Clean Water Act.

Over the past several years, NYSDEC and DEP have resolved various alleged permit violations at the City's 14 sewage treatment plants by entering into "omnibus" consent orders. These administrative orders typically detail the alleged violations for a specified period of time and set forth remedial actions related to such violations. Consistent with this practice, DEP and NYSDEC have recently finalized a new consent order (the "Omnibus V Consent Order") to cover alleged violations from 1998 through 1999, including alleged effluent, operating and bypass violations at a number of plants. The Omnibus V Consent Order provides for, among other things, the payment of a \$250,000 penalty, the funding of a \$550,000 environmental benefit program, and the commitment by DEP to implement schedules for inspection and maintenance at the Hunt's Point plant and the Ward's Island-Marble Hill Pump Station.

Combined Sewer Overflows. The System is also required to develop programs to reduce pollution from combined sewer overflows and to eliminate excess infiltration and inflow into the Sewer System from ground and storm water. In June 1992, DEP entered into a consent order with the State (the "CSO Consent Order") establishing various deadlines through 2006 for the construction of nine combined sewer overflow projects, which may include storage tanks. Failure to meet milestones in the consent order could result in the imposition of monetary penalties against the City. The CIP includes approximately \$1.1 billion for such combined sewer overflow projects. Certain of the CSO Consent Order interim deadlines have not been met. Failure to meet certain milestones in the CSO Consent Order could result in the imposition of monetary penalties. Consistent with USEPA guidelines, the City is exploring alternative approaches to combined sewer overflow problems that focus on cost-effective means of protecting water quality. The City is in the process of proposing to NYSDEC technical changes to the approaches to control combined sewer overflow which could lead to the renegotiation of the CSO Consent Order.

Ward's Island Plant. On February 2, 1989, the City signed an administrative consent order, modified on July 27, 1993, which mandates various water conservation measures to reduce flow to the Wards Island plant. Contracts totalling \$105 million were initiated in Fiscal Year 1995, for the purpose of expansion of the Wards Island plant in compliance with the consent order. An additional \$22.7 million was allocated for the design phase beginning in Fiscal Year 1998 and \$95.7 million has been allocated for construction beginning in Fiscal Year 2002. Additional phases are expected to commence in Fiscal Years 2004 and 2005. It is anticipated that the Wards Island plant will be re-rated to 275 mgd.

Coney Island Plant. Construction to improve the Coney Island plant, which has been operating below but near its 100 mgd permitted capacity, to achieve a proposed permitted capacity of 110 mgd is complete. It is anticipated that the plant will be re-rated by NYSDEC in 2001.

Harbor and Waterway Protection. According to the most recent Harbor Survey issued by DEP, water quality in the harbor and surrounding rivers continues to improve. The Harbor Survey is an ongoing monitoring effort of the City's waterways that has been in existence since 1909. The Survey monitors 17 water quality parameters at the surface and bottom waters of 53 sampling stations in New York Harbor. Coliform bacterial counts, which are indicators of sewage pollution, have continued to decline. Since 1993, compliance with New York State total and fecal coliform standards continues to be estimated at the highest levels recorded by this program. Another key indicator of the quality of the City's surrounding waters is the measure of dissolved oxygen ("DO") in the water. DO is one of the most universal indicators of overall water quality in aquatic systems. An assessment of the adequacy of the amount of DO present is performed by comparing actual concentrations to New York State standards. These standards vary between 3 and 5 milligrams per liter (mg/l), depending on the designated best use of the waterway. DO concentrations in most areas of the Harbor have been notably higher in the 1990s than in the late 1980s. Since 1992, DO levels at many sites continue to be the highest ever recorded by this program, which has monitored some stations since 1909. These improvements are primarily in response to: continued water pollution control plant construction and upgrades throughout the harbor; the abatement of illegal discharges; improved surveillance and sewer maintenance; and increased capture of wet weather flows. The New York City Department of Health's "wet weather advisory" (no swimming within forty-eight hours of a heavy rain) was lifted at seven of ten City public beaches in June 1993. At the remaining three City beaches, the advisory was reduced from a 48-hour ban on swimming after heavy rains to a 12-hour advisory, and water quality at the City's beaches continues to improve.

As part of a cooperative effort to further improve water quality in the City's waterways, USEPA, along with the States of New York and New Jersey, recently released a Comprehensive Conservation Management Plan for the New York-New Jersey Harbor and the waters of the New York Bight. This Plan, developed under the aegis of the federal Harbor Estuary Program, builds on many of the City's ongoing programs such as sewage treatment plant upgrades, controlling and capturing wet weather flows and reducing floatable debris. Under the Plan, the City will continue to promote improved water quality through, among other things, its efforts to eliminate combined sewer overflows, encourage water conservation, enhance surveillance of industrial discharges, and install sewers in areas of the City where they are not yet available. All of the capital commitments to be undertaken by the City pursuant to the Plan are already included in the CIP.

The Long Island Sound Study ("LISS") is a joint federal-state-local (the states being New York and Connecticut) program to identify the Long Island Sound's major environmental problems and develop a plan to manage those problems. USEPA is the lead federal agency involved in LISS. Hypoxia, or low levels of dissolved oxygen, has emerged as the issue of greatest concern in Long Island Sound. Hypoxia is the result of a chemical chain reaction that begins with high levels of nutrients, largely nitrogen. In addition to natural sources, other nutrient sources include effluent from sewage treatment plants, stormwater run-off carrying lawn and agricultural fertilizer, organic materials, and air-deposited nitrate substances. As a result of the first and second phases of the LISS, the City agreed to limits for nitrogen discharges from its four Upper East River wastewater treatment plants. The construction required to meet these limits is complete and the City is meeting its current nitrogen discharge limits. The CIP includes approximately \$262 million for a biological nutrient removal program to control nitrogen levels. On March 9, 1998, the State and a separate group of plaintiffs each filed suit against DEP and the City. Future, more stringent nitrogen discharge limits will likely be imposed as a result of a Total Maximum Daily Load ("TMDL") analysis for Long Island Sound. The TMDL was jointly prepared by the States of New York and Connecticut and approved by the USEPA in April 2001. The TMDL proposes the achievement of the dissolved oxygen standard in the Long Island Sound through the increased control of nitrogen from point sources, including certain of DEP's water pollution control plants, as well as through the control of other sources.

For more information on litigation relating to the Sewer System, see "LITIGATION."

ECONOMIC AND DEMOGRAPHIC STATISTICS

This section presents information regarding certain of the major economic and demographic factors in the City. All information is presented on a calendar year basis unless otherwise indicated. The data set forth are the latest available. Sources of information are indicated in the text or immediately following the charts and tables. Although the Authority considers the sources to be reliable, the Authority has made no independent verification of the information presented herein and does not warrant its accuracy.

New York City Economy

The City has a highly diversified economic base, with a substantial volume of business activity in the service, wholesale and retail trade and manufacturing industries, and is the location of many major securities, banking, law, accounting and advertising firms.

The City is a major seaport and focal point for international business. Many of the major corporations headquartered in the City are multinational in scope and have extensive foreign operations. Numerous foreign-owned companies in the United States are also headquartered in the City. These firms, which have increased substantially in number over the past decade, are found in all sectors of the City's economy, but are concentrated in trade, manufacturing, sales offices, tourism and finance. The City is the location of the headquarters of the United Nations, and several affiliated organizations maintain their principal offices in the City. A large diplomatic community exists in the City to staff the 186 missions to the United Nations and the 96 foreign consulates.

Economic activity in the City has experienced periods of growth and recession and can be expected to experience periods of growth and recession in the future. From 1969 to 1977, the City experienced declines in employment, but from 1978 to 1987 the City experienced strong growth in jobs, especially in the City's finance, insurance and real estate ("FIRE") sector due in large part to lower inflation, lower interest rates and a strong securities market. Beginning in 1988, employment growth in the City slowed, and in 1990 the City experienced job losses, although the U.S. economy expanded during that period. In 1991 and 1992, employment levels in the City continued to decline. In recent years, the City has experienced increases in employment. Real per capita personal income (i.e., per capita personal income adjusted for the effects of inflation and the differential in living costs) has generally experienced fewer fluctuations than employment in the City. Although the City experienced periodic declines in real per capita personal income between 1969 and 1981, real per capita personal income in the City has generally increased from the mid-1980s until the present. Overall, the City's economic improvement accelerated significantly between 1997 and 2000. Much of the increase can be traced to the performance of the securities industry, but the City's economy also produced gains in the retail trade sector, the hotel and tourism industry, and business services, with private sector employment growing rapidly.

Population

The City has been the most populous city in the United States since 1810. The City's population is almost as large as the combined population of Los Angeles, Chicago and Houston, the three next most populous cities in the nation.

The City's population reached approximately 7.9 million in 1970 before declining by 10.4% between 1970 and 1980. From 1980 to 1990, the population of the City steadily increased before dropping slightly between 1990 and 1992. Since 1992, the City's population has increased slowly although the rate of growth has accelerated in recent years, reaching over 8.0 million in 2000. The following table provides information concerning the City's population.

Population of New York City

<u>Year</u>	<u>Population Total</u>
1970	7,895,563
1980	7,071,639
1990	7,322,155
2000	8,008,278

Note: Figures do not include an undetermined number of undocumented aliens.

Source: U.S. Department of Commerce, Bureau of the Census.

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retail fields. From 1993 through 2000, the City has experienced significant private sector job growth with the addition of more than 449,000 (an average growth rate of approximately 2.2%) new private sector jobs. Over the last seven years, the City has experienced its longest period of consecutive annual employment growth since the 1950s. This contrasts with the approximately 9% loss in the City's employment base during 1989-1992. As of June 2001, total employment in the City was approximately 3,784,100, compared to approximately 3,739,700 in June 2000.

The table below shows the distribution of employment from 1991 to 2000.

New York City Employment Distribution

	<u>Average Annual Employment (in thousands)</u>										
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Private Sector:											
Non-Manufacturing:											
Services	1,149	1,097	1,093	1,116	1,148	1,184	1,227	1,275	1,325	1,384	1,456
Wholesale and Retail Trade	608	565	546	538	544	555	565	578	590	610	631
Finance, Insurance and Real											
Estate	520	494	473	472	480	473	469	473	483	486	490
Transportation and Public											
Utilities	229	218	205	203	201	203	205	206	206	208	211
Construction.....	115	100	87	86	89	90	91	94	102	114	122
Total Non-Manufacturing ..	2,621	2,474	2,404	2,415	2,463	2,505	2,557	2,625	2,707	2,802	2,910
Manufacturing:											
Durable.....	88	77	72	71	69	68	66	64	64	63	61
Non-Durable	250	231	220	218	211	206	201	201	195	188	182
Total Manufacturing.....	338	308	293	289	280	274	266	265	259	251	242
Total Private Sector.....	2,959	2,782	2,697	2,704	2,744	2,779	2,823	2,890	2,967	3,053	3,153
Government	608	593	585	588	578	560	546	552	561	567	568
Total	3,566	3,375	3,282	3,291	3,322	3,339	3,369	3,442	3,528	3,621	3,721

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Note: Totals may not add due to rounding.

Sectoral Distribution of Employment and Earnings

In 2000, the City's services employment sector hit an all-time annual peak, providing more than 1.4 million jobs and accounting for 39% of total employment. Figures on the sectoral distribution of employment in the City reflect a significant shift to non-manufacturing employment, particularly to the areas of services and FIRE, and a shrinking manufacturing base in the City relative to the nation.

The structural shift from manufacturing to the services and FIRE sectors affects the level of earnings per employee because employee compensation in finance and related business and professional services is considerably higher than in manufacturing. Moreover, per employee earnings in the FIRE sector are significantly higher in the City than in the nation. From 1979 to 1999 the employment share for FIRE remained approximately 13% in the City while the FIRE sector earnings share for the same period rose from approximately 17% to approximately 32% in the City. This shift in employment and earnings distribution toward the FIRE sector was more pronounced in the City than in the nation overall, as indicated in the table below. Due to this shift in earnings distribution, sudden or large shocks in the financial markets may have a disproportionately adverse effect on the City relative to the nation.

A comparison of the City's and the nation's employment and earnings by industry is set forth in the following table.

Sectoral Distribution of Employment and Earnings(1)

Sector	Employment				Earnings(2)			
	1979		1999		1979		1999	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
Private Sector:								
Non-Manufacturing:								
Services	26.2%	19.1%	38.2%	30.3%	25.2%	17.9%	32.8%	29.1%
Wholesale and Retail Trade	18.9	22.5	16.8	23.1	15.3	16.8	9.6	15.3
Finance, Insurance and Real Estate	13.1	5.5	13.4	5.9	16.6	5.8	31.6	9.2
Transportation and Public Utilities	7.9	5.7	5.7	5.3	10.3	7.5	5.4	6.8
Contract Construction	2.2	5.0	3.2	5.0	2.5	6.7	2.6	5.9
Mining	0.0	1.1	0.0	0.4	0.7	1.8	0.4	0.9
Total Non-Manufacturing	68.3	58.8	77.4	69.9	70.7	56.5	82.3	67.1
Manufacturing:								
Durable	4.7	14.2	1.7	8.6	3.9	16.2	1.3	10.2
Non-Durable	11.1	9.3	5.2	5.8	9.9	9.0	5.3	6.1
Total Manufacturing	15.8	23.4	6.9	14.4	13.8	25.2	6.6	16.2
Total Private Sector	84.1	82.2	84.3	84.3	84.4	82.1	88.9	84.0
Government(3)	15.9	17.8	15.7	15.7	15.6	17.9	11.1	16.0

Sources: The two primary sources of employment and earnings information are U.S. Department of Labor, Bureau of Labor Statistics, and U.S. Department of Commerce, Bureau of Economic Analysis.

Note: Totals may not add due to rounding.

- (1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.
- (2) Includes the sum of wage and salary disbursements, other labor income, and proprietors' income. The latest information available for the City is 1999 data.
- (3) Excludes military establishments.

Personal Income

Per capita personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, has steadily increased from 1989 to 1999 (the most recent year for which City personal income data are available) and is higher than the average for the United States. From 1989 to 1999, per capita personal income in the City averaged 5.3% growth compared to 4.6% for the nation. The following table sets forth recent information regarding personal income in the City.

Personal Income in New York City(1)

<u>Year</u>	<u>Total NYC Personal Income (\$ billions)</u>	<u>Per Capita Personal Income NYC</u>	<u>Per Capita Personal Income U.S.</u>	<u>Per Capita NYC as a Percent of U.S.</u>
1989.....	\$168.2	\$22,909	\$18,571	123.4%
1990.....	182.3	24,895	19,588	127.1
1991.....	186.8	25,577	20,099	127.3
1992.....	199.7	27,331	21,077	129.7
1993.....	202.9	27,677	21,709	127.5
1994.....	208.6	28,416	22,565	125.9
1995.....	221.9	30,192	23,543	128.2
1996.....	236.6	32,147	24,630	130.5
1997.....	245.3	33,228	25,851	128.5
1998.....	261.1	35,266	27,292	129.2
1999.....	278.1	37,435	28,508	131.3

(1) In current dollars. Personal Income is based on the place of residence and is measured from income which includes wages and salaries, other labor income, proprietors' income, personal dividend income, personal interest income, rental income of persons and transfer payments.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census.

Housing

In 1999, the housing stock in the City consisted of approximately 3,039,000 housing units, excluding certain special types of units primarily in institutions such as hospitals and universities. The 1999 housing inventory represented an increase of approximately 44,000 units, or 1.5%, since 1996 and an increase of approximately 62,000 units, or 2.1% since 1993. Rental housing units predominate in the City. Of all occupied housing units in 1999, approximately 34% were conventional home-ownership units, cooperatives or condominiums and approximately 66% were rental units. The following table presents trends in the housing inventory in the City.

Housing Inventory In New York City (Housing Units in Thousands)

<u>Ownership/Occupancy Status</u>	<u>1981</u>	<u>1984</u>	<u>1987</u>	<u>1991</u>	<u>1993</u>	<u>1996</u>	<u>1999</u>
Total Housing Units	2,792	2,803	2,840	2,981	2,977	2,995	3,039
Owner Units	755	807	837	858	825	858	932
Owner-Occupied	746	795	817	829	805	834	915
Vacant for Sale	9	12	19	20	20	24	17
Rental Units	1,976	1,940	1,932	2,028	2,040	2,027	2,018
Renter-Occupied	1,934	1,901	1,884	1,952	1,970	1,946	1,954
Vacant for Rent.....	42	40	47	77	70	81	64
Vacant Not Available for Sale or Rent(1)	62	56	72	94	111	110	89

Sources: U.S. Bureau of the Census, 1981, 1984, 1987, 1991, 1993, 1996 and draft 1999 New York City Housing and Vacancy Surveys.

(1) Vacant units that are dilapidated, intended for seasonal use, held for occasional use, held for maintenance purposes or other reasons.

Note: Details may not add up to totals due to rounding.

LITIGATION

There is no action, suit, proceeding or investigation, at law or in equity, before or by any court, public board or body pending or, to the best knowledge of the Authority, threatened against or affecting the Authority to restrain or enjoin the issuance, sale or delivery of the Refunding Bonds or in any way contesting or affecting the validity of the Refunding Bonds or any proceedings of the Authority, the Board or the City taken with respect to the issuance or sale of the Refunding Bonds or with respect to the Crossover Resolutions or the pledge or application of any money or security provided for the payment of the Refunding Bonds or the existence or powers of the Authority or the Board.

Pursuant to the Lease and the Agreement, the City has agreed, subject to certain conditions, to indemnify the Authority and the Board against any and all liability in connection with any act done or omitted in the exercise of their powers which is taken or omitted in good faith in pursuance of their purposes under the Act. The City, however, is entitled to reimbursement by the Board for the amount of any judgment or settlement paid by the City (and not otherwise reimbursed from any other source) arising out of a tort or contract claim to the extent that the City's liability therefor is related to the operation, maintenance and improvement of the System provided, however, that the Board is not required to reimburse the City in any one year for tort claims in excess of 5% of the Revenues of the Board for such Fiscal Year.

There are numerous claims seeking damages and injunctive and other relief against the City related to the System. Except as noted below, these claims represent routine litigation incidental to the performance of the City's governmental functions in connection with the operation, maintenance and improvement of the System. The City has paid an average of approximately \$2.7 million per year from Fiscal Years 1993 through 2000 in satisfaction of tort claims relating to the operation of the System. The majority of these claims allege property damage caused by water main breaks and sewer overflows. Contract claims on water supply, sewer and water pollution control projects arise in varying amounts based on alleged change orders and related matters. Numerous lawsuits relating to construction contract claims are currently pending. While most seek under \$10 million in damages, one action seeks damages of approximately \$15 million. While the probable outcome of these actions cannot be determined at this time, contract claims are expected to be funded through the CIP, which may be revised from time to time to accommodate such claims as well as other changes therein.

The following paragraphs describe certain legal proceedings and claims involving the System, other than routine litigation incidental to construction, the collection of rates, fees and charges and certain other litigation arising out of alleged constitutional violations, torts, breaches of contract and other violations of law and condemnation proceedings. The ultimate outcome of the proceedings and claims described below is not currently predictable, and unfavorable determinations in certain of them could result in substantial judgments.

1. Four actions are currently pending against the City seeking damages for personal injuries and property damage in connection with an explosion of a Con Edison steam pipe which occurred in Gramercy Park on August 19, 1989. One of the actions against the City was brought by and on behalf of several Con Edison workers who sustained injuries in the explosion, one of them fatal. On March 25, 1999, the Appellate Division, First Department, issued a unanimous decision in favor of the City, granting summary judgment and dismissing the plaintiffs' complaint. The City believes that this decision should support dismissal of the other actions insofar as they assert similar claims of negligence on the part of the City.

2. On March 9, 1998, the State filed suit against the City and DEP in the Supreme Court of the State of New York pursuant to the State Environmental Conservation Law ("ECL"). The complaint alleges that the City violated the ECL because it discharged levels of nitrogen and other pollutants from eight of its plants in excess of the applicable SPDES permit limitations, thereby causing and contributing to pollution in the East River, Jamaica Bay and nearby coastal waters including the Long Island Sound. The complaint also alleges that the City has violated the ECL at these eight plants by violating sampling, recording, reporting and operational requirements in the applicable SPDES permits. The complaint requests that a schedule of actions necessary to bring the nitrogen and other discharges from the eight plants into compliance with the applicable SPDES permits

be imposed on the City and that the City be ordered to pay statutory penalties under the ECL for each day on which each violation alleged in the complaint occurred. In early October 1998, the State moved for partial summary judgment on its complaint. The trial court granted the State's motion and found that the City violated its SPDES permits and the ECL. The City has appealed. Meanwhile, the parties began discovery on the issue of appropriate penalties and relief.

In addition, on March 9, 1998, a similar lawsuit was commenced in the United States District Court for the Eastern District of New York by a group of plaintiffs who had previously served the City with a notice of intent to sue in December 1997. The complaint alleges that the City and DEP violated the Clean Water Act based on the same allegations set forth in the action commenced by the State. The plaintiffs are seeking injunctive relief similar to that requested by the State and civil penalties of \$25,000 per day for each violation of the Clean Water Act. The State of Connecticut has intervened in the federal court action. The parties are discussing a possible settlement.

3. Approximately 30 property damage suits and one personal injury suit are currently pending against the City seeking damages of approximately \$18 million in connection with a water main break on Fifth Avenue between 19th and 20th Streets on January 2, 1998. Pursuant to a Preliminary Conference Order dated August 2, 2000 the suits have been ordered consolidated for the purpose of joint discovery and for a joint trial on causation and the alleged negligence of the City regarding the water main break. The cases are currently in discovery.

INVESTMENTS

The Authority invests moneys available in the Debt Service Reserve Fund, Debt Service Fund, Construction Fund and the Revenue Fund. Investments are made pursuant to restrictions contained in the Resolutions and the Authority's Investment Guidelines as adopted and modified from time to time by the Authority's Board of Directors. In conjunction with the annual audit of the financial statements of the System, the independent auditors are required to provide to the Authority's Board of Directors an Investment Compliance letter confirming compliance with both the Authority's Investment Guidelines and with Investment Guidelines of Public Authorities of the State Comptroller of New York. Twice annual valuation of the Debt Service Reserve Fund and annual valuation of all other funds is at the lower of amortized cost or market value. For other investment restrictions, see "APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS." The Authority's primary objective in investment of its available funds is preservation of principal. The Authority is not legally authorized to enter into reverse repurchase agreements. The Authority does not make leveraged investments.

FINANCIAL STATEMENTS

The financial statements of the New York City Water and Sewer System as of and for the years ended June 30, 1999 and June 30, 2000 (the "Audited System Financial Statements") included in Appendix D to this Official Statement have been audited by KPMG LLP, independent certified public accountants, to the extent and for the periods indicated in their report thereon.

ENGINEERING FEASIBILITY REPORT AND FORECASTED CASH FLOWS

Certain information contained in this Official Statement under the captions "CAPITAL IMPROVEMENT AND FINANCING PROGRAM—Capital Improvement Program," "THE SYSTEM—The Water System," "THE SYSTEM—The Sewer System" has been reviewed and independently evaluated by Metcalf & Eddy which provided an opinion letter confirming such information issued in connection with the Fiscal 2002 A Bonds. Metcalf & Eddy has consented to the inclusion of such letter in Appendix A hereto. Metcalf & Eddy also serves as a consulting engineer to DEP on capital projects relating to the System. As a result of occasional, routine litigation initiated by third parties arising from such projects, Metcalf & Eddy and the City have from time to time been either co-parties or adverse parties in such litigation.

Certain financial forecasts contained in this Official Statement in the tables titled “Sources and Uses of Capital Funds” under the caption “CAPITAL IMPROVEMENT AND FINANCING PROGRAM” and “Expenses,” “Projected Revenues,” “Projected System Expense” and “Forecasted Cash Flows” under the caption “FINANCIAL OPERATIONS” have been examined by Black & Veatch, to the extent and for the periods indicated in those tables. The conclusions of Black & Veatch with respect to the reasonableness of the forecasts were set forth in an opinion letter issued in connection with the Authority’s Fiscal 2002 A Bonds. Black & Veatch has consented to the inclusion of such letter in Appendix B hereto. Black & Veatch has provided consulting services including feasibility studies, rate studies and organizational analyses to numerous clients in the water and wastewater industry, including over 100 medium and large jurisdictions.

CERTAIN LEGAL OPINIONS

At the request of the Authority, Bond Counsel reviewed issues related to the effects on the Board and the Authority of a case under Title 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in which the City is a debtor. Specifically, Bond Counsel considered whether a court, exercising reasonable judgment after full consideration of all relevant factors, would (i) hold that the Revenues derived from operation of the System would be property of the bankruptcy estate of the City, (ii) hold that the rights of the Board to the Revenues and the interest of the Authority in the Revenues would be subject to a stay, by operation of Section 922(a) of the Bankruptcy Code or (iii) order the substantive consolidation of the assets of either or both the Board and the Authority with those of the City. Based upon its review of the Act, the Lease, the Agreement, the Resolution and such other matters of law and fact as it considered relevant, and recognizing that there is no definitive judicial authority confirming the correctness of its analysis, Bond Counsel has rendered to the Authority its opinion that a court, in the circumstances described above, (i) would not hold that the Revenues would be property of the City or that the Board’s right to and the Authority’s interest in the Revenues would be subject to a stay by operation of Section 922(a) of the Bankruptcy Code, and (ii) would not order the substantive consolidation of the assets and liabilities of either the Board or the Authority with those of the City.

Bond Counsel is also of the opinion that, under current law, in a case under the Bankruptcy Code in which the City is a debtor (i) should the City elect to assume the Lease, the Lease would continue pursuant to its terms and (ii) should the City elect to reject the Lease, the Board may elect to retain its rights under the Lease and remain in possession and enjoy the use of the System and the right to the Revenues derived therefrom for the unexpired balance of the term of the Lease.

The Bankruptcy Code provides that in order for a municipality to be a Chapter 9 debtor it must be specifically authorized by State law to be a debtor under Chapter 9 of the Bankruptcy Code. Bond Counsel is of the opinion that under current law, the Authority and the Board do not qualify to be debtors under the Bankruptcy Code.

Bond Counsel has not rendered an opinion, however, as to any preliminary or temporary stay, injunction or order which a bankruptcy court might issue pursuant to its powers under 11 U.S.C. §§ 105 or 362 to preserve the status quo pending consideration of the substantive legal issues discussed above. Moreover, the opinions expressed above have inherent limitations because of the pervasive equity powers of bankruptcy courts as they relate to the business and creditor relationships leading up to the bankruptcy as well as generally the overriding goal of reorganization to which other legal rights and policies may be subordinated, the potential relevance to the exercise of judicial discretion of future-arising facts and circumstances, and the nature of the bankruptcy process; and are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date of this Official Statement. Bond Counsel has not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and has no obligation to update this section in light of such actions or events.

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**LETTER OF
METCALF & EDDY OF NEW YORK, INC.,
CONSULTING ENGINEERS**

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June 13, 2001

Mr. Mark Page
Executive Director
New York City Municipal Water Finance Authority
75 Park Place, 6th Floor
New York, New York 10007

Subject: New York City Municipal Water Finance Authority
Water and Sewer System Revenue Bonds,
Fiscal 2002 Series A

Dear Mr. Page:

We hereby submit the opinion of Metcalf & Eddy of New York, Inc. ("Metcalf & Eddy") on the Engineering Feasibility of the Water and Sewer System serving The City of New York (the "City"). Capitalized terms used herein and not otherwise defined have the meanings ascribed to such terms in the Official Statement.

Based on the information set forth in the Official Statement, our experience and our analyses during the preparation of the 1983 feasibility study, the methodology described below and subject to the reliances and assumptions made throughout this letter, Metcalf & Eddy concludes that overall the water and sewer system (the "System") serving the City continues to be operated in a professional and prudent manner. Further, Metcalf & Eddy is of the opinion that:

- The condition of the System continues to receive the highest rating of our three rating categories (adequate).
- The expense allocations for Fiscal Year 2002 are adequate for the continued reliable operation of the System.
- The Capital Improvement Program (the "CIP") is responsive to the long-term operating requirements of the service area.
- Staffing levels of the System are adequate for proper operation and maintenance.

Metcalf & Eddy hereby consents to the inclusion of those opinions and conclusions attributed to it in the Official Statement.

Purpose and Scope

This letter has been prepared to document the results of analyses carried out during the period of August 1983 to the present by personnel of Metcalf & Eddy in connection with the issuance of the Water and Sewer System Revenue Bonds, Fiscal 2002 Series A by the New York City Municipal Water Finance Authority (the "Authority"). Certain studies and analyses were performed in anticipation of the creation of the Authority and were used in developing the information in the Official Statement under the captions: "CAPITAL IMPROVEMENT AND FINANCING PROGRAM—Capital Improvement Program," "THE SYSTEM—The Water System" and "The System—The Sewer System." The following sets forth a brief outline of the major tasks addressed:

- An overview of the System's service area and major facilities, including a general assessment of the capacity and condition of existing water, wastewater and drainage facilities and a review of recently completed improvements.
- An analysis of the CIP for the period 2001-2011 and the funding needed to carry out the CIP and ongoing capital contracts commenced prior to the CIP.
- An analysis of the management of the System and its current and anticipated operating programs.

Since 1983 Metcalf & Eddy has provided engineering services related to the City's Water and Wastewater Operations Evaluation Study. During this period Metcalf & Eddy has performed an evaluation of the condition

of the System, independently reviewed the capital plans for water and wastewater programs, and jointly with the rate consultant reviewed the operating programs of the New York City Department of Environmental Protection (“DEP”). Ten topics were addressed in this effort as listed below.

- Present Condition of Physical Facilities
- Remaining Useful Life of Facilities
- Reliability of Utility Systems
- Operation and Maintenance Programs
- Current Utility Use
- Maximum Existing Capacity
- Needs for Routine Maintenance, Upgrading and Expansion
- Evaluation of the Impact of Legal Mandates
- Overview of Present Capital Improvement Program
- Safety Practices and Potential for Catastrophe

Methodology

Interviews with staff members of the Authority and the City were conducted, and current engineering and financial reports, System operating data and other documents were reviewed and major facilities were inspected. Audited financial statements of the City and data supplied by the Authority were also reviewed to identify historical costs and revenues. The evaluation of current needs and future conditions was made by analyzing historical data, assessing the effectiveness of current City maintenance programs, reviewing the plans of key outside agencies, and taking into account current trends and the anticipated impact of the CIP.

The physical condition of the facilities was rated by Metcalf & Eddy. A uniform rating system, standard among engineering firms providing similar services, was established consisting of three rating categories—adequate, marginal, and inadequate as described below:

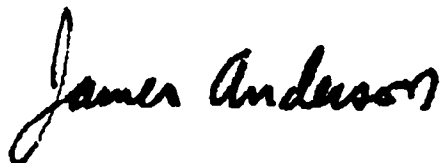
- Adequate: Shows no signs of deterioration, meets design intent, and requires only routine maintenance to meet or exceed expected useful life.
- Marginal: Facility is functional but does not meet design intent, and requires non-routine maintenance or capital replacement to restore to adequate condition.
- Inadequate: Facility does not provide functional operation, and requires major reconstruction to restore to adequate condition.

The Consulting Engineer

Metcalf & Eddy has served the City as consulting engineers for over 90 years in capacities dealing with water supply, water distribution, sewage collection, and wastewater treatment. Metcalf & Eddy is one of the largest consulting engineering firms and is recognized in the United States and internationally as a leader in services to the water and wastewater industry.

We have no responsibility to update this letter or the information provided in the Official Statement for the captioned sections described above for events and circumstances occurring after the date of this letter.

Very truly yours,



JAMES ANDERSON
President
Metcalf & Eddy of New York, Inc.

**LETTER OF BLACK & VEATCH NEW YORK LLP
RATE CONSULTANTS**

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BLACK & VEATCH NEW YORK LLP

317 Madison Avenue Suite 1915, New York, New York 10017, (212) 973-1339

June 13, 2001

Mr. Mark Page, Executive Director
New York City Municipal Water Finance Authority
75 Park Place, 6th Floor
New York, New York 10007

Re: New York City Municipal Water Finance Authority
Water and Sewer System Revenue Bonds, Fiscal 2002 Series A

Dear Mr. Page:

The purpose of this letter is to summarize the conclusions of our independent analysis of the financial forecast of the Authority (the "Forecasted Cash Flows") for fiscal years 2001 through 2006 (the "Reporting Period") in connection with the issuance of \$216,305,000 Water and Sewer System Revenue Bonds, Fiscal 2002 Series A (the "Series A Bonds") by the New York City Municipal Water Finance Authority (the "Authority"). Proceeds from the Series A Bonds are to be used: (i) to reimburse moneys to be drawn under irrevocable letters of credit to provide for the payment of principal of and interest on certain of the Authority's outstanding commercial paper notes, (ii) to pay certain costs of issuance and (iii) to fund certain reserve funds. In conducting our analysis we have prepared the following tables which are included in the Official Statement under the headings "Capital Improvement and Financing Program" and "Financial Operations":

- Sources and Uses of Capital Funds
- Future Debt Service Requirements
- Projected Revenues
- Projected System Expense
- Forecasted Cash Flows

The forecast includes provisions for the financing of improvements to The City of New York (the "City") Water and Sewer System (the "System") as reflected in the Capital Improvement Program (the "CIP") for the Reporting Period. The Forecasted Cash Flows set forth the ability of the System to meet the operating costs, working capital needs and other financial requirements of the System, including the debt service requirements associated with the Outstanding Bonds issued under the Authority's General Revenue Bond Resolution (the "Resolution") and obligations issued under the Authority's Second General Resolution (the "Second Resolution"), and additional Bonds and Second Resolution Bonds whose issuance by the Authority during the six years ending June 30, 2006 is anticipated.

Revenues pledged to secure the Authority's Bonds are to be derived from the following sources: (i) all Revenues, (ii) all moneys or securities in any of the Funds and Accounts, and (iii) all other monies and securities to be received, held or set aside by the Authority or by any Fiduciary pursuant to the Resolution. The term "Revenues", as defined by the Resolution, includes, but is not limited to, all rents, fees, charges and other income and receipts derived by the New York City Water Board (the "Board") from users of the System, and certain investment proceeds received by the Board.

Moneys pledged to secure bonds issued under the Second Resolution are to be derived from: (i) all available amounts on deposit in the Subordinated Indebtedness Fund established under the Resolution, (ii) all moneys or securities in any of the funds and accounts established under the Second General Resolution, except the Arbitrage Rebate Fund and the Debt Service Reserve Fund, and (iii) Other Moneys.

The Forecasted Cash Flows summarize the anticipated financial operations of the Authority for the Reporting Period. We have reviewed, to the extent practicable, the Authority's books, records, financial reports, and statistical data, and have conducted such other investigations and analyses as deemed necessary to assemble and analyze the forecast of revenues, revenue requirements, and debt service coverage for the Reporting Period. We have performed various financial tests and analyses necessary to support our findings and conclusions. The Authority uses a fiscal year ending June 30, and all references in the Official Statement to a fiscal year ("Fiscal Year") relate to the 12 month period ending June 30 of the year shown.

Proposed improvements and additions to the System under the CIP for the Reporting Period were independently evaluated and confirmed by Metcalf & Eddy of New York, Inc. ("Metcalf & Eddy"). The Forecasted Cash Flows rely upon the conclusions of Metcalf & Eddy regarding the level of planned capital improvement expenditures required during the Reporting Period to maintain the System in good working order.

Based upon our studies, we offer the following opinions and conclusions:

1. It is our opinion that Revenues (including projected revenue increases resulting from anticipated future rate increases to be implemented by the Board), as set forth in the Forecasted Cash Flows, are currently and will be sufficient to meet the following requirements during the Reporting Period:

a. One hundred and fifteen percent (115%) of the principal of and interest on all Bonds issued under the Resolution, as the same shall become due and payable, for which such Revenues are pledged;

b. One hundred percent (100%) of the principal of and interest on bonds issued under the Second Resolution and other subordinate obligations payable from Revenues;

c. One hundred percent (100%) of all expenses of operation, maintenance, and repair of the water and wastewater system; and

d. One hundred percent (100%) of other Required Deposits as required by the Resolution.

In addition, revenues are adequate to make all payments to the City.

2. In the analysis of the forecast of future operations summarized in the Official Statement, Black & Veatch has reviewed certain assumptions with respect to conditions, events and circumstances which may occur in the future. We believe that these assumptions are reasonable and attainable, although actual results may differ from those forecast as influenced by the conditions, events and circumstances which actually occur.

3. In our opinion, the water and wastewater rates, fees, and charges of the Board, including projected increases, compare favorably to the rates and charges of other major cities and are reasonable.

We appreciate the opportunity to be of service to the Authority in this important matter.

Very truly yours,



BLACK & VEATCH NEW YORK LLP

GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS

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GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS

GLOSSARY

Set forth below are definitions of certain terms contained in the Agreement, the Lease and the Resolution and not otherwise defined in this Official Statement.

Adjusted Aggregate Debt Service: For any Fiscal Year and as of any date of calculation is the sum of the Adjusted Debt Service for all Series of Bonds Outstanding during such Fiscal Year.

Adjusted Debt Service: For any Fiscal Year, as of any date of calculation and with respect to any Series of Bonds, is the Debt Service for such Fiscal Year for such Series except that, if any Refundable Principal Installment of such Series of Bonds is included in Debt Service for such Fiscal Year, Adjusted Debt Service shall mean Debt Service determined as if each such Refundable Principal Installment had been payable over a period extending from the due date of such Refundable Principal Installment through the last date on which such Series of Bonds could have been stated to mature under the Act as in effect on the date of issuance of such Series, in installments which would have required equal annual payments of Principal Installments and interest over such period. Interest deemed payable in any Fiscal Year after the actual due date of any Refundable Principal Installment of any Series of Bonds shall be calculated at the actual interest cost payable on the Bonds of such Series (using the actuarial method of calculation).

Aggregate Debt Service: For any Fiscal Year, as of any date of calculation, the sum of the Debt Service for all Bonds Outstanding during such Fiscal Year.

Authority Expenses: All reasonable or necessary current expenses of the Authority, including all salaries, administrative, general, commercial, engineering, advertising, public notice, auditing and legal expenses, insurance and surety bond premiums, fees paid to banks, insurance companies or other financial institutions for the issuance of Credit Facilities, consultants' fees and charges, payment to pension, retirement, health and hospitalization funds, costs of public hearings, ordinary and current rentals of equipment and other property, lease payments for real property or interests therein, expenses, liabilities and compensation of any Fiduciary and all other expenses necessary, incidental or convenient for the efficient operation of the Authority.

Authorized Newspaper: The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

Authorized Representative: In the case of both the Authority and the Board, their respective Chairman or Executive Director, or such other person or persons so designated by resolution of the Authority or the Board, as the case may be, and in the case of the City, the Mayor, unless a different City official is designated to perform the act or sign the document in question.

Bond or Bonds: For purposes of the Agreement and the Resolution, the bonds, notes or other evidences of indebtedness issued by the Authority under and pursuant to the Act and the Resolution, including Parity Bond Anticipation Notes and Parity Reimbursement Obligations; but shall not mean Subordinated Indebtedness or other Bond Anticipation Notes or Reimbursement Obligations; and for purposes of the Lease, means any bonds, notes or other evidences of indebtedness for borrowed money issued by the Authority.

Bond Counsel's Opinion: An opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to revenue bonds of municipalities and public agencies, selected by the Authority and satisfactory to the Trustee.

Bond Payment Date: June 15 and December 15 of each year; provided, however, that if any such day is not a Business Day, then the Bond Payment Date shall be the next succeeding Business Day.

Business Day: Any day which is not a Saturday, Sunday or a day on which the New York Stock Exchange, banking institutions chartered by the State or the United States of America or the Note Trustee are legally authorized to close in the City.

Cash Flow Requirement: For each Fiscal Year and as of any date of certification, the amount, certified by the Authority to the Trustee and the Board equal to the difference between (A) the sum of (i) the estimated Aggregate Debt Service for such Fiscal Year, (ii) the Projected Debt Service for such Fiscal Year, (iii) the estimated Authority Expenses for such Fiscal Year, and (iv) the other Required Deposits estimated for such Fiscal Year and (B) (i) if the certification is made prior to the commencement of the Fiscal Year, the amount anticipated by the Authority as of such date of certification to be held by the Trustee, as of the first day of such Fiscal Year, in the Revenue Fund and (ii) if the certification is made after the commencement of such Fiscal Year, the amount which had been anticipated pursuant to (B) (i) above.

Consulting Engineer: Metcalf & Eddy of New York, Inc. or such other independent engineer or engineering firm of recognized standing selected by the Authority and satisfactory to the Board.

Corporation: The New York State Environmental Facilities Corporation and any successor entity which may succeed to its rights and duties respecting the State Revolving Fund.

Cost or Costs of a Water Project: The cost of construction, as such term is defined in the Act, including, without limiting the generality of the foregoing, the erection, alteration, improvement, increase, enlargement or rehabilitation of the System or a Water Project, the inspection and supervision thereof, the engineering, architectural, legal, fiscal, economic and environmental investigations and studies, designs, surveys, plans, specifications, procedures and other actions incidental thereto; the cost of the acquisition of all Property; the cost of demolishing, removing or relocating any buildings or structures on lands so acquired (including the cost of acquiring any lands to which such buildings or structures may be moved or relocated); the cost of all systems, facilities, machinery, appurtenances, equipment, financing charges and interest prior to, during and after construction (if not paid or provided for from revenues or other sources); the cost of engineering and architectural surveys, plans and specifications; the cost of consultants' and legal services; the cost of lease guarantee or bond insurance; other expenses necessary, reasonably related or incidental to the construction of such Water Project and the financing of the construction thereof, including the cost of Credit Facilities, the amounts authorized in the Resolution to be paid into any reserve or other special fund from the proceeds of Bonds and the financing or the placing of any Water Project in operation, including reimbursement to any governmental entity or any other person for expenditures that would be Costs of such Water Project and all claims arising from any of the foregoing.

Counterparty shall mean an entity whose senior long term debt obligations, or whose obligations under an Interest Rate Exchange Agreement are guaranteed by a financial institution whose senior long term debt obligations, have a rating (at the time the subject Interest Rate Exchange Agreement is entered into) of Aa or better by Moody's Investors Service and AA or better by Standard & Poor's Ratings Group.

Credit Facility: A letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution which provides for payment of all or a portion of the Principal Installments or interest due on any Series of Bonds or provides funds for the purchase of such Bonds or portions thereof.

Debt Service: For any Fiscal Year or part thereof, as of any date of calculation and with respect to any Series, means an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on Bonds of such Series, except to the extent that such interest is to be paid from amounts representing Capitalized Interest and (b) the Principal Installments of the Bonds of such Series payable during such Fiscal Year or part thereof. Such interest and Principal Installments for such Series shall be calculated on the assumption that (x) no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment thereof upon stated maturity or upon mandatory redemption by application of Sinking Fund Installments

and (y) Variable Rate Bonds will bear interest at the greater of (A) the rate or rates which were assumed by the Authority in the Authority Budget for such Fiscal Year to be borne by Variable Rate Bonds during such Fiscal Year or (B) the actual rate or rates borne during such Fiscal Year on Variable Rate Bonds Outstanding during the 12 calendar months preceding the date of calculation.

Debt Service Reserve Requirement shall mean, as of any date of calculation, and for any Fiscal Year, the amount equal to the maximum Adjusted Aggregate Debt Service in the current or any future Fiscal Year on all Bonds Outstanding; provided, however, that, if (i) the payment of the Principal Installments of or interest on any Series of Bonds or portion thereof is secured by a Special Credit Facility, (ii) the payment of the Tender Option Price of any Option Bond of a Series is secured by a Special Credit Facility or (iii) the Authority has determined in a Supplemental Resolution authorizing the issuance of a Series of Bonds that such Series of Bonds will not be secured by the Common Account in the Debt Service Reserve Fund, the Supplemental Resolution authorizing such Series may specify the Debt Service Reserve Requirement, if any, for the Bonds of such Series.

DEC: The New York State Department of Environmental Conservation and any successor entity which may succeed to its rights and duties respecting the State Revolving Fund.

Defeasance Obligations shall mean (A) any non-callable bonds or other obligations which as to principal and interest constitute direct obligations of, or are guaranteed by the United States of America, including obligations of any agency thereof or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America or (B) any other non-callable receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in subclause (A); provided, however, that, when used in connection with any Bond authorized to be issued by a Supplemental Resolution adopted on or after June 1, 2001, such term also means: (C) a non-callable obligation of the United States of America which has been stripped by the United States Department of the Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS" unless the Authority obtains Rating Confirmation with respect to the Bonds to be defeased); (D) the interest component of REFCORP bonds for which separate payment of principal and interest is made by request of the Federal Reserve Bank of New York in book-entry form; (E) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision (i) the interest on which is excludable from gross income under Section 103 of the Code, (ii) that, at the time an investment therein is made or such obligation is deposited in any fund or account established pursuant to the Resolution, is rated in the highest rating category of the Rating Agencies, (iii) that is not subject to redemption prior to maturity other than at the option of the holder thereof or either (1) has irrevocably been called for redemption or (2) as to which irrevocable instructions have been given to call such obligation on a stated future date and (iv) the timely payment of the principal or redemption price thereof and interest thereon is fully secured by a fund consisting only of cash or obligations described in clauses (A), (B), (C), (D), (E) and (F), which fund may be applied only to the payment of principal, interest and redemption premium, if any, on the obligation secured thereby; and (F) a non-callable note, bond, debenture, mortgage or other evidence of indebtedness that, at the time acquired, is (i) issued or guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Student Loan Marketing Association, the Federal Farm Credit System or any other instrumentality of the United States of America and (ii) rated in the highest rating category of the Rating Agencies; provided, further, that the term "Defeasance Obligations" shall not mean any interest in a unit investment trust or a mutual fund.

Financial Guaranties shall mean one or more of the following: (i) irrevocable, unconditional and unexpired letters of credit issued by banking institutions the senior long-term debt obligations of which (or the holding company of any such banking institution) have (at the time of issue of such letter of credit) a rating of Aa2 or better by Moody's Investors Service and AA or better by Standard & Poor's Ratings Group; or (ii) an irrevocable and unconditional policy or policies of insurance in full force and effect issued by municipal bond insurers the obligations insured by which are eligible for a rating of Aa or better by Moody's Investors Service and AA or

better by Standard & Poor's Ratings Group; in each case providing for the payment of sums for the payment of Principal Installments of an interest on Bonds in the manner provided in the Resolution; and providing further that any Financial Guaranty of the type described in (i) above must be drawn upon, on a date which is at least thirty (30) days prior to the expiration date of such Financial Guaranty, in an amount equal to the deficiency which would exist if the Financial Guaranty expired, unless a substitute Financial Guaranty is acquired prior to such expiration date as provided in a related Supplemental Resolution.

Fiscal Year: The twelve-month period commencing on July 1 of each year; provided, however, that the Authority, the Board and the City may agree on a different twelve-month period as the Fiscal Year and in such event the dates set forth in the Agreement, the Lease and the Resolution shall be adjusted accordingly.

Government Obligation: A direct obligation of the United States of America, an obligation the principal of, and interest on which are guaranteed as to full and timely payment by the United States of America, an obligation (other than an obligation subject to variation in principal repayment) to which the full faith and credit of the United States of America are pledged, an obligation of a federal agency guaranteed as to full and timely payment by the United States of America and approved by the Authority, and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of, the principal of or interest on, direct obligations of the United States of America.

Interest Rate Exchange Agreement shall mean any financial arrangement (i) that is entered into by the Authority with an entity that is a Counterparty at the time the arrangement is entered into; (ii) which provides that the Authority shall pay to such entity an amount based on the principal amount of a Series of Bonds, and that such entity shall pay to the Authority an amount based on the principal amount of such Series of Bonds, in each case computed in accordance with a formula set forth in such agreement, or that one shall pay to the other any net amount due under such arrangement; (iii) which has been designated in writing to the Trustee by an Authorized Representative of the Authority as an Interest Rate Exchange Agreement with respect to a Series of Bonds and (iv) which, in the opinion of Bond Counsel, will not adversely affect the exclusion of interest on Bonds from gross income for the purposes of federal income taxation.

Investment Securities shall mean and include any of the following securities, if and to the extent the same are at the time legal investments by the Authority of the funds to be invested therein and conform to the policies set forth in any investment guidelines adopted by the Authority and in effect at the time of the making of such investment:

(i) direct obligations of, or obligations guaranteed as to principal and interest by, the State or direct obligations of any agency or public authority thereof, provided such obligations are rated, at the time of purchase, in one of the two highest rating categories by each Rating Agency then maintaining a rating on Outstanding Bonds;

(ii) (A) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are guaranteed by the United States of America, including obligations of any agency thereof or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America or (B) any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in subclause (A) of this clause (ii);

(iii) obligations of any agency, subdivision, department, division or instrumentality of the United States of America; or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division or instrumentality of the United States of America;

(iv) banker's acceptances or certificates of deposit issued by a commercial bank (A) whose long-term debt obligations are rated by each Rating Agency then maintaining a rating on the Outstanding Bonds at least equal to the rating on Outstanding Bonds that are not insured or otherwise secured by a Credit Facility or a Special Credit Facility, (B) that has its principal place of business within the State and (C) that has capital and surplus of more than \$100,000,000;

(v) corporate securities, including commercial paper and fixed income obligations, which are, at the time of purchase, rated by each Rating Agency then maintaining a rating on Outstanding Bonds in its highest rating category for comparable types of obligations;

(vi) repurchase agreements collateralized by securities described in clauses (ii) or (iii) above with any registered broker/dealer or with any domestic commercial bank whose long-term debt obligations are rated "investment grade" by each Rating Agency then maintaining a rating on Outstanding Bonds, provided that (1) a specific written repurchase agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) the repurchase agreement has a term of thirty days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, (4) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102% and (5) the repurchase agreement meets the guidelines then applicable to such investments of each Rating Agency then maintaining a rating on Outstanding Bonds;

(vii) investment agreements or guaranteed investment contracts with any financial institution whose senior long term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract, are guaranteed by a financial institution whose senior long term debt obligations, have a rating (at the time such agreement or contract is entered into) in one of the two highest rating categories for comparable types of obligations by each Rating Agency then maintaining a rating on the Bonds;

(viii) money market funds rated in the highest rating category for comparable types of obligations by each Rating Agency then maintaining a rating on the Bonds; and

(ix) municipal obligations, the payment of principal and redemption price, if any, and interest on which is irrevocably secured by obligations of the type referred to in clauses (i), (ii) or (iii) above and which obligations have been deposited in an escrow arrangement which is irrevocably pledged to the payment of such municipal obligations and which municipal obligations are rated in the highest rating category for comparable types of obligations by each Rating Agency then maintaining a rating on the Bonds.

Leased Property: The real and personal property and other rights therein leased by the City to the Board pursuant to Article II of the Lease.

Local Water Fund: The special trust fund by that name established by the Act in the custody of the Board into which all Revenues are required to be deposited promptly upon receipt thereof by the Board.

Minimum Monthly Balance: For each Series of Bonds Outstanding, the monthly amount calculated in accordance with Section 4.3(a) of the Agreement. See "Summary of Certain Documents—Summary of the Agreement—Minimum Monthly Balance" in this Appendix C.

O&M Reserve Fund Requirement: For each Fiscal Year, the amount equal to one-sixth ($\frac{1}{6}$) of the Operating Expenses as set forth in the Annual Budget.

Operating Expenses: All reasonable or necessary current expenses of maintaining, repairing, operating and managing the System net of governmental operating aid, including: all salaries; administrative, general, commercial, architectural, engineering, advertising, public notice, auditing, billing, collection, enforcement and legal expenses; insurance and surety bond premiums; consultants' fees; payments to pension, retirement, health and hospitalization funds; taxes; payments in lieu of taxes; costs of public hearings; ordinary and current rentals of equipment or other property; hydrant rentals; lease payments for real property or interests therein (excluding certain amounts paid by the Board to the City pursuant to the Lease); depository expenses; reasonable reserves

for maintenance and repair and all other expenses necessary, incidental or convenient for the efficient operation of the System; but only to the extent properly attributable to the Board or the System and payable by the Board to the City pursuant to the Lease and, except for certain administrative expenses of the Board, payable by the Board to the City pursuant to the Lease.

Option Bonds: Bonds which by their terms may be tendered by and at the option of the owner thereof for payment by the Authority prior to the stated maturity thereof, or the maturates of which may be extended by and at the option of the owner thereof.

Outstanding: As of any date, all Bonds therefore or thereupon being authenticated and delivered under the Resolution except:

- (a) any Bonds canceled by the Trustee at or prior to such date;
- (b) any Bond (or portion thereof) for the payment or redemption of which there shall be set aside and held in trust under the Resolution either:
 - (i) moneys in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest,
 - (ii) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as are necessary to provide moneys (whether as principal or interest) in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest, or
 - (iii) any combination of (i) and (ii) above,and, if such Bond or portion thereof is to be redeemed, for which notice of redemption has been given as provided in Article VI of the Resolution or provision satisfactory to the Trustee has been made for the giving of such notice;
- (c) any Bond in lieu of or in substitution for which other Bonds have been authenticated and delivered; and
- (d) any Bond deemed to have been paid as provided in Section 1201(b) of the Resolution.

Parity Bond Anticipation Notes: Bond Anticipation Notes the interest on which is payable from and secured by a pledge of, and a lien on, a parity with all other Bonds.

Permitted Encumbrances: When used with reference to the System, (i) any and all liens, encumbrances, security interests or other defects in or clouds on title existing on the Effective Date, (ii) the Lease, (iii) easements, rights of way and exceptions which do not materially impair the operation or maintenance of the Leased Property or the Revenues therefrom, (iv) mechanics', materialmen's, warehousemen's and other similar liens, as permitted by law and liens for taxes at the time not delinquent or being contested and (v) agreements for the sale and leaseback of elements of the System.

Principal Installment: As of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds (including (x) any amount designated in, or determined pursuant to, the applicable Supplemental Resolution, as the "principal amount" with respect to any Bonds which do not pay full current interest for all or any part of their term) (y) the Tender Option Price of any Option Bonds which may be tendered for purchase or payment prior to the stated maturity thereof in accordance with the terms of the Supplemental Resolution authorizing such Option Bonds, unless such amount is secured by a Credit Facility which is not in default and (z) the principal amount of any Parity Reimbursement Obligations of such Series due (or so tendered for payment) on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date. "Principal Installment" does not include the principal of Parity Bond Anticipation Notes.

Project Financing Agreement: Any Project Financing Agreement to be entered into among the Authority, the City, DEC and the Corporation pursuant to the State Revolving Fund Act.

Projected Debt Service: For any Fiscal Year or part thereof means, as of any date of calculation and with respect to any Projected Series of Bonds, an amount, certified by the Authority to the Trustee and the Board, as provided in the Agreement, equal to the Debt Service estimated by the Authority to be payable during such Fiscal Year on such Projected Series.

Projected Series of Bonds: Any Series of Bonds described in an Authority Budget as anticipated to be issued in the Fiscal Year to which such Authority Budget relates.

Rate Consultant: The independent accountant or firm of independent accountants, or a management consultant or firm of management consultants, or independent engineer or firm of independent engineers, having, in any case, a recognized standing in the field of water and sewer system consulting selected by the Authority and satisfactory to the Board. The Rate Consultant may be the same firm as the Consulting Engineer.

Rating Agencies: Moody's Investors Service and Standard & Poor's Ratings Group and their respective successors and assigns.

Rating Confirmation: A written confirmation of each Rating Agency to the effect that the rating assigned to each of the Bonds rated by such Rating Agency will remain unchanged and will not be withdrawn, suspended or reduced as a consequence of some act or occurrence.

Redemption Price: When used with respect to a Bond or portion thereof, the principal amount thereof plus the applicable premium, if any, payable upon either optional or mandatory redemption thereof pursuant to the Resolution.

Refundable Principal Installment: Any Principal Installment for any Series of Bonds which the Authority intends to pay with moneys which are not Revenues, provided that such intent shall have been expressed in the Supplemental Resolution authorizing such Series of Bonds and provided further that such Principal Installment shall be a Refundable Principal Installment only through the date of the Authority Budget adopted during the Fiscal Year immediately preceding the Fiscal Year in which such Principal Installment comes due unless the Authority has delivered to the Trustee a certificate of an Authorized Representative that it has made provision for the payment of such Principal Installment from a source other than Revenues.

Refunding Bond: Any Bond authenticated and delivered on original issuance pursuant to Section 206 or Section 207 of the Resolution for the purpose of refunding any Outstanding Bonds or thereafter authenticated and delivered in lieu of or substitution for such Bond pursuant to the Resolution.

Reimbursement Obligation: The obligation of the Authority described in the Resolution to directly reimburse the issuer of a Credit Facility for amounts paid by such issuer thereunder, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument.

Required Deposits: For any Fiscal Year, amounts, if any, payable into the Authority Expense Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund but only to the extent such payments are required to be made from Revenues pursuant to the Resolution.

Revenues shall mean (a) all the rents, fees, charges, payments and other income and receipts derived by the Board from users of the System, together with all operating aid therefor from any governmental entity, Federal, State or local, to the Board, (b) investment proceeds and proceeds of insurance received by the Board (other than the proceeds of insurance with respect to the damage or destruction of all or any portion of the System), (c) Subsidy Payments derived by the Authority, (d) amounts derived by the Authority from a Counterparty pursuant to an Interest Rate Exchange Agreement, and (e) investment proceeds derived from amounts on deposit in the Funds and Accounts established hereunder that are deposited or retained in the Revenue Fund or the Local Water

Fund, and but shall not include (w) amounts required to be refunded because of billing or payment errors, (x) any amount attributable to any of the foregoing sources described in clause (a) which (i) is expressly excluded by the Agreement or the Lease, or (ii) is derived from a use of the System not directly related to the supply, treatment and distribution of water to the consumers thereof or the collection, disposal or treatment of sewage, (y) any amount from any governmental entity, Federal, State or local, in aid of or for or with respect to the Costs of Water Projects, other than Subsidy Payments, or (z)(i) fines (excluding interest on late payments which shall constitute Revenues), (ii) amounts from the use of water to generate electricity, (iii) amounts from the State as a result of mandatory water discharges from reservoirs or (iv) amounts from the granting of easements, licenses, rights-of-way or other interests in the real property constituting a part of the System.

Special Credit Facility: With respect to any Series of Bonds or portion thereof, a Credit Facility (a) which provides funds for (i) the direct payment of the Principal Installments of and interest on such Bonds when due or (ii) the payment of the Principal Installments of and interest on such Bonds in the event amounts otherwise pledged to the payment thereof are not available when due or (iii) the payment of the Tender Option Price of any Option Bond which may be tendered to the Authority for purchase or payment in accordance with the Supplemental Resolution authorizing such Option Bond (in any case, regardless of whether such Credit Facility provides funds for any other purpose) and (b) which (i) requires the Authority to directly reimburse the issuer of such Credit Facility for amounts paid thereunder and (ii) provides that such obligation is a Parity Reimbursement Obligation.

State: The State of New York.

State Revolving Fund: The New York State Water Pollution Control Revolving Fund established pursuant to the State Revolving Fund Act.

State Revolving Fund Act: Chapter 565 of the laws of New York of 1989, as amended.

Subordinated Indebtedness: Any bond, note or other evidence issued by the Authority in furtherance of its corporate purposes under the Act and payable from the Subordinated Indebtedness Fund.

Subsidy Payments shall mean amounts payable to the Authority from any governmental entity, Federal, State or local, in connection with Bonds of the Authority.

Supplemental Resolution: A resolution of the Authority authorizing the issuance of a Series of Bonds or otherwise amending or supplementing the Resolution.

System: The Water System and the Sewerage System, collectively, as such terms are defined in the Act.

Tender Option Price: With respect to any Option Bond tendered for purchase or payment, an amount equal to the principal amount thereof plus interest accrued and unpaid thereon from the immediately preceding Bond Payment Date to the date of such tender.

Trustee: The trustee appointed by the Authority pursuant to the General Resolution, and any successors thereto.

Variable Rate Bond: As of any date of determination, any Bond on which the interest rate borne thereby may vary during any part of its remaining term.

Water Project: Any sewerage facility, water facility or water and sewerage facility, as the case may be, including the planning, development, financing or construction thereof.

SUMMARY OF CERTAIN DOCUMENTS

The following are brief summaries of certain provisions of the Agreement, the Lease and the General Resolution. These summaries do not purport to be complete and are subject in all respects to the provisions of, and are qualified in their entirety by, reference to the respective documents to which they relate.

Summary of the Agreement

Financing of Water Projects. The Authority agrees to use its best efforts to finance all or a part of the Cost of all Water Projects described in Appendix A to the Agreement. In consideration for the Authority's issuance of the Bonds, the Board gives, grants, conveys and transfers to the Authority all of its right, title and interest in the Revenues, including without limitation, all of its rights to collect and receive said Revenues subject only to provisions of the Act, the Agreement and the Resolution permitting the application of said Revenues to the purposes therein set forth. The Board itself incurs no indebtedness under the terms of the Agreement, Lease, Resolution or any other document executed in connection therewith. (*Sections 2.1, 2.2 and 2.4*)

Transfer of Funds. The Authority shall deposit the proceeds of each Series of Bonds with the Trustee in accordance with the provisions of the Resolution and the Supplemental Resolution authorizing such Series; provided, however, that the portion of the proceeds designated to pay the Costs of any Water Project shall be held only in the Construction Fund established pursuant to the Resolution.

The Authority shall authorize payment of such Costs in the manner set forth in the Resolution once evidence thereof is provided in a Certificate signed by an Authorized Representative of the Board or City, as the case may be. Neither the Authority nor the Trustee shall be required to provide funds to pay the Costs of Water Projects from any source other than the Construction Fund, and neither the Authority nor the Trustee shall pay to the City from such Fund any amount in excess of that set aside for the purposes thereof, or for the Projects listed in Appendix A to the Agreement. (*Sections 3.1 and 3.2*)

Local Water Fund. The Board shall deposit all Revenues, as promptly as practicable after receipt, into the Local Water Fund. There shall also be deposited in the Local Water Fund all amounts received by the Board from the Trustee pursuant to the Resolution. (*Section 4.1*)

Establishment of Certain Funds and Application of Revenues in Local Water Fund. The Board shall establish two special funds (in addition to the Local Water Fund) to be held by the Board at a Depository: the Board Expense Fund and the Operation and Maintenance Reserve Fund, with the General Account therein. The Board shall hold such funds as trust funds and the amounts on deposit shall only be applied for the purposes provided in the Agreement.

Beginning on the first day of each month in each Fiscal Year, the Board is required to apply the Revenues in the Local Water Fund, *first*, to the Trustee for deposit in the Revenue Fund until the amount on deposit in the Revenue Fund equals the Minimum Monthly Balance for such month and the Trustee shall have received the amounts, if any, required to be deposited in the Authority Expense Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund for such month. Thereafter, in such month from the balance remaining in the Local Water Fund, the Board is required, after making provision for Board Expenses, to pay to the City $\frac{1}{12}$ th of the operating expenses for such Fiscal Year. After making such payments, any amounts remaining in the Local Water Fund in each month are applied daily (i) to satisfy the Cash Flow Requirement (if the required payments to the City for Operating Expenses have been made), (ii) to satisfy required payments to the City for Operating Expenses (if the Cash Flow Requirement has been satisfied) or (iii) proportionately, to the Trustee for deposit in the Revenue Fund and to the City for the payment of Operating Expenses, until the total of all amounts deposited in the Revenue Fund during such Fiscal Year equals the Cash Flow Requirement and all Operating Expenses required to be paid shall have been paid. Thereafter, as long as the amount on deposit in the Revenue Fund in each month is equal to the Minimum Monthly Balance and the Cash Flow Requirement continues to be met, all such amounts in the Local Water Fund shall be paid as follows: *first*, to the Authority until the total of the amounts so paid equals the principal of and interest on any bonds, notes or other obligations of the Authority (other than Bonds, Bond Anticipation Notes, and Subordinated Indebtedness) payable within the then current Fiscal Year, together with all other amounts necessary to make the required deposits to the reserve and other funds and amounts established for such bonds, notes or other obligations; *second*, to the City until the amounts so paid are equal to the rental payment for such Fiscal Year and the unsatisfied balance, if any, of the rental payment for any prior Fiscal Year; and, *third*, to the Operation and Maintenance Reserve Fund, until the amount

therein on deposit is equal to the O&M Reserve Requirement for such Fiscal Year. Any amounts remaining in the Local Water Fund on the last day of each Fiscal Year shall be paid to the General Account in the Operation and Maintenance Reserve Fund. (*Section 4.2*)

Minimum Monthly Balance. The Minimum Monthly Balance shall be calculated as of the first day of the month and shall be equal to the sum of:

(i) For each Series of Bonds which is Outstanding during the current Fiscal Year, an amount equal to the product obtained by multiplying (a) the difference between (1) the amount of interest due or projected to be due on the next succeeding Bond Payment Date for such and (2) the amount, if any, held in the applicable subaccount for such Series in the Capitalized Interest Account in the Debt Service Fund by (b) a fraction, the numerator of which is the number of full months since the end of the month preceding the last Bond Payment Date for such Series (or, with respect to the first Bond Payment Date for such Series, the number of full months since the last day of the month preceding the date of issuance of such Series) and the denominator of which is the number of months between Bond Payment Dates minus one (or, with respect to the first Bond Payment Date for a Series, the number of months between the last day of the month preceding the date of issuance of such Series and the first Bond Payment Date minus one); provided, however, that if this formula would produce (A) a fraction greater than one, then the fraction shall be equal to one, or (B) a denominator less than one, then the fraction shall be equal to one; plus

(ii) For each Series of Bonds which is Outstanding during the current Fiscal Year, an amount equal to the Principal Installment due or projected to be due on the next succeeding Bond Payment Date for such Series which falls within twelve months or less on which a Principal Installment is due, multiplied by a fraction, the numerator of which is the number of full months since the last day of the month preceding the last Bond Payment Date on which a Principal Installment was due (or, with respect to the first such Bond Payment Date, twelve minus the number of full months to the first Bond Payment Date on which a Principal Installment is due), and the denominator of which is eleven; provided, however, that if this formula would produce a fraction greater than one, then the fraction shall be equal to one. (*Section 4.3*)

Deposits to Operation and Maintenance Reserve Fund. There shall be deposited to the Operation and Maintenance Reserve Fund in each Fiscal Year from the sources described below the amount required, if any, so that the amounts on deposit therein satisfy the O&M Reserve Fund Requirement for the ensuing Fiscal Year.

Deposits to the Operation and Maintenance Reserve Fund may be made from the proceeds of the sale of Bonds of the Authority, from the Local Water Fund, or from any other moneys lawfully available therefor, subject to the following limitations:

(i) The maximum deposit to the Operation and Maintenance Reserve Fund from the proceeds of Bonds of the Authority, as of any time of calculation, may not exceed the O&M Reserve Fund Requirement then in effect, reduced by the cumulative sum of prior deposits thereto from proceeds of Bonds of the Authority.

(ii) Deposits to the Operation and Maintenance Reserve Fund from the Local Water Fund shall be subject to the priorities established in Section 4.2 of the Agreement.

(iii) If there shall be a deficit in the Operation and Maintenance Reserve Fund on May 1 of any Fiscal Year, and if as of such May 1 the Board does not project that available Revenues will at least equal the O&M Reserve Requirement for such Fiscal Year by June 30 of such Fiscal Year, then the Board shall include in its Annual Budget for the ensuing Fiscal Year an amount sufficient, together with other amounts available therefor, to at least equal the O&M Reserve Fund Requirement for the ensuing Fiscal Year.

If on July 1 of any Fiscal Year the amount on deposit in the Operation and Maintenance Reserve Fund is less than the O&M Reserve Fund Requirement, such deficit shall (subject to paragraph (i) above) be made up from the proceeds of the sale of Bonds issued during such Fiscal Year; provided, however, if, prior to May 1 of such Fiscal Year such deficit has not been made up from Bond proceeds, the Board shall include the amount of such deficit in its Annual Budget for the ensuing Fiscal Year and the amounts necessary to restore such deficit shall be deposited in the Operation and Maintenance Reserve Fund.

Amounts required to be deposited in the General Account shall be held separate and apart from other amounts held in the Operation and Maintenance Reserve Fund and applied as described below. (*Section 4.4*)

Application of Moneys in the Operation and Maintenance Reserve Fund. If on the first day of any month the Board has not paid to the City an amount equal to the product of (i) the amount required to be paid for Operating Expenses pursuant to Section 8.1 of the Lease, multiplied by (ii) a fraction the numerator of which is the number of months which have commenced during such Fiscal Year, and the denominator of which is 12, the Board shall withdraw from the Operation and Maintenance Reserve Fund and pay to the City, on demand, an amount equal to $\frac{1}{12}$ of the amount so required to be paid pursuant to Section 8.1 of the Lease, or the entire balance in such Fund if less than sufficient. Amounts on deposit in the General Account may be applied (i) to purposes provided for in Section 4.2, (ii) to the payment of Bonds in accordance with Article XII of the Resolution or (iii) to the Costs of Water Projects, but shall be retained therein to the extent required by the Annual Budget. (*Section 4.5*)

Application of Moneys in Board Expense Fund. Amounts on deposit in the Board Expense Fund shall be applied by the Board solely for the purposes of paying expenses of the Board, in accordance with the Annual Budget. (*Section 4.6*)

Application of Revenues After Default. The Board has covenanted that if an "event of default" (as defined in the Resolution) shall occur, the Board shall pay or cause to be paid to the Trustee, upon its request, all moneys and securities then held by the Board in the Local Water Fund and thereafter the Revenues as promptly as practicable after receipt. (*Section 4.7*)

Amounts Remaining. Any amounts received or held by the Authority or the Trustee pursuant to the Resolution, any similar document or the Agreement after all Bonds and other evidences of indebtedness have been paid in full or are no longer Outstanding and after payment of all other obligations and expenses of the Authority, or provision for payment thereof has been made, shall be paid to the City.

Any payments by the City to the Water Board pursuant to Section 1045-h(3) of the Act shall be confined to consideration for the sale of goods or the rendering of services by the Water Board to the City pursuant to the Lease or the Agreement as contemplated by the Act. (*Section 4.8*)

Rate Covenant. The Board has covenanted and agreed to establish, fix and revise fees, rates or other charges for the use of or services furnished by the System which, together with any other available funds, are adequate to provide for (i) the timely payment of the Principal Installments of and interest on all Bonds and the principal of and interest on any other indebtedness of the Authority payable from Revenues, (ii) the proper operation and maintenance of the System, (iii) all other payments required for the System not otherwise provided for and (iv) all other payments required pursuant to the Agreement and the Lease, without intending to limit the generality of the foregoing, the Board has also covenanted to establish and collect rates, fees and charges sufficient in each Fiscal Year so that Revenues collected in such Fiscal Year will be at least equal to the sum of (i) 115% of estimated Aggregate Debt Service and Projected Debt Service payable in such Fiscal Year (excluding any Refundable Principal Installment if payable from funds held in trust therefor and assuming with respect to Variable Rate Bonds that the effective rate of interest is that which the Authority determines so long as such rate is not less than the rate such Bonds bear at the time Aggregate Debt Service is determined), (ii) 100% of the Operating Expenses and Authority Expenses payable in such Fiscal Year and (iii) 100% of the amount necessary to pay the other Required Deposits for such Fiscal Year. However, a failure to generate such Revenues does not constitute an "event of default" if the Board takes timely action to correct any such deficit. The Board shall review, at least annually, such rates, fees and charges to determine whether such rates, fees and charges are, or will be, sufficient to meet the requirements thereof and shall promptly take action to cure or avoid any deficiency. Except to the extent required by Section 1045-j of the Act, as in effect on July 24, 1984, with regard to the requirement that tax exempt organizations be charged for service provided by the System or by existing agreements (including any successor agreements with Jamaica), the Board will not furnish or supply any product, use or service of the System free of charge or at a nominal charge. (*Section 6.1*)

Consulting Engineer and Rate Consultant. The Authority shall employ a Consulting Engineer and a Rate Consultant whose duties, respectively, shall be to make any certificates and perform any other acts required or permitted of the Consulting Engineer and the Rate Consultant under the Agreement and the Resolution. If so determined by the Authority, the same person or firm may perform the duties and functions of the Consulting Engineer and Rate Consultant.

In each Fiscal Year, the Consulting Engineer and the Rate Consultant shall make an examination of, and shall report to the Authority, the Board, the City and the Trustee, on the properties and operations of the System. The report of the Rate Consultant shall set forth among other findings, the Rate Consultant's recommendation as to any necessary or advisable revisions of rates, fees and charges for the ensuing Fiscal Year and such other advice and recommendation as it may deem desirable. The Consulting Engineer's report shall set forth its findings as to whether the System has been maintained in good repair and sound operating condition, and its estimate of the amount, if any, required to be expended to place such properties in such condition and the details of such expenditures and the approximate time required therefor. The City covenants that if any such report of the Consulting Engineer shall set forth that the properties of the System have not been maintained in good repair and sound operating condition, it will promptly restore the properties to good repair and sound operating condition with all expedition practicable. (*Section 6.2*)

Covenant to Operate and Maintain System. The City has covenanted that it shall, at all times:

(a) in accordance with the advice and recommendations of the Consulting Engineer, operate the System properly and in a sound and economical manner and maintain, preserve, and keep the same preserved and kept with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the System may be properly and advantageously conducted, regardless of any failure on the part of the Board to make the payments to the City required by Section 8.1 of the Lease; provided, however, that nothing contained in the Agreement shall require the City to operate, maintain, preserve, repair, replace, renew or reconstruct any part of the System if there shall be filed with the Board, the Authority and the Trustee (i) a certificate of the Commissioner acting as the Authorized Representative of the City stating that in the opinion of the City abandonment of operation of such part of the System will not adversely affect the operation of the System or the amount of Revenues derived therefrom and is not prejudicial to the interests of the Board, the Authority or the Bondholders and (ii) a Certificate of the Consulting Engineer concurring with such statement;

(b) enforce the rules and regulations governing the operation, use and services of the System established from time to time by the Board or the City;

(c) observe and perform all of the terms and conditions contained in the Act, and comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body having competent jurisdiction of the City or the System; provided, however, that the failure of the City to comply with the covenant contained in this subsection (c) for any period shall not constitute a default on its part so long as the City (i) is taking reasonable and timely steps to permit compliance and (ii) the City shall have delivered to the Board and to the Authority a Certificate of the Consulting Engineer which (1) sets forth in reasonable detail the facts and circumstances attendant to such non-compliance, (2) sets forth the steps being taken by the City to permit compliance, (3) sets forth the estimated date on which the City will be in compliance and (4) states that in the opinion of the Consulting Engineer such non-compliance during the period described will not adversely affect the operation of the System or the amount of Revenues to be derived therefrom; and

(d) not create or suffer to be created any lien or charge upon the System or any part thereof except for Permitted Encumbrances. (*Section 6.3*)

Annual Budget. On May 1 of each year (or on such later date as the Authority, the Board and the City may agree) the Authority shall deliver to the Board a certified copy of the Authority Budget for the ensuing Fiscal Year showing the Cash Flow Requirement for such Fiscal Year. Based upon the information contained in

(a) the Authority Budget, (b) the City's certification pursuant to Section 8.3 of the Lease and (c) the Certificate of the Consulting Engineer delivered to the Board pursuant to Section 8.3 of the Lease (collectively, the "Budget Documents"), the Board shall prepare the Annual Budget for the ensuing Fiscal Year. In addition to the information contained in the Budget Documents the Board shall also make provision in the Annual Budget for Board Expenses for the ensuing Fiscal Year, for the amount, if any, required to be deposited in the Operation and Maintenance Reserve Fund in accordance with Section 4.4 of the Agreement, and for the application of the amounts in the General Account therein. Thereafter, but in no event later than 15 days after the date of publication of the Executive Budget of the City, the Board shall adopt such Annual Budget. Promptly after adoption of the Annual Budget, and in no event later than June 10 (or such other date as the Authority, the Board and the City may agree) of each year, the Board shall establish the rates, fees and charges for the use of the System for the ensuing Fiscal Year. The Board may from time to time, either before or after commencement of the Fiscal Year to which it relates, amend the Annual Budget, but (except for its own expenses) only in accordance with and after receipt of amended Budget Documents. If as of the first day of any Fiscal Year an Annual Budget has not been adopted, the Annual Budget for the immediately preceding Fiscal Year shall be the Annual Budget for such Fiscal Year until a new Annual Budget is adopted. (*Section 6.4*)

Tax Exemption. The City, the Authority and the Board have covenanted that so long as any Bonds shall be Outstanding, no one will take any action, nor fail to take any action, which, if taken or not taken, as the case may be, would adversely affect the tax-exempt status of the interest payable on the Bonds then Outstanding the interest on which is excluded from gross income under the Internal Revenue Code of 1986, as amended. (*Section 6.5(b)*)

Discontinuance of Service. The Board has covenanted to enforce or cause the City to enforce the rules and regulations providing for discontinuance of, or disconnection from, the supply of water or the provision of sewer service, or both, as the case may be, for non-payment of fees, rents, rates or other charges imposed by the Board, provided that such discontinuance or disconnection shall not be carried out except in the manner and upon the notice as is required of a waterworks corporation pursuant to Sections 89(b)(3)(a)-(c) and 116 of the Public Service Law of the State. (*Section 6.7*)

Covenant of City as to Rates and Charges. The City has covenanted that, upon the issuance of the Bonds by the Authority, the City will not thereafter levy user fees, rents and other charges with respect to the System until all Bonds are paid or are no longer Outstanding pursuant to the terms of the Resolution; provided, however, that the City may levy *ad valorem* taxes to pay the costs and expenses of the System or to pay the principal of and interest on general obligation bonds of the City heretofore or hereafter issued to finance the System or any part thereof. (*Section 6.9*)

Books and Records. Each of the Authority and the Board shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made of all transactions relating to their corporate purposes under the Act. In accordance with Section 1045-y of the Act, the Authority and the Board shall annually submit to the Mayor, the Comptroller and the Director of Management and Budget of the City a detailed report concerning their activities for the Fiscal Year. In addition, the Authority and the Board shall submit to the Mayor, the Comptroller and the Director of Management and Budget of the City audited annual financial statements of the Authority and the Board together with a report thereon of an accountant satisfactory to the Board. (*Section 6.11*)

Liens. Until the Bonds or other evidences of indebtedness issued by the Authority for its purposes under the Act have been paid in full or provision has been made therefor in accordance with the Resolution or similar document, the Agreement provides that the Board shall not create, and, to the extent it has the power to do so, shall not permit to be created, any lien upon or pledge of the Revenues except the lien and pledge thereon created by the Act. (*Section 6.12*)

Security Interests. Except to the extent provided in the Act, neither the Board nor the Authority may grant any Bondholder any security interest in any of the assets or Properties of the Board. (*Section 6.13*)

Financing through State Revolving Fund. In connection with the financing of Water Projects by the Authority with funds provided from the State Revolving Fund, the City may enter into a Project Financing Agreement or Agreements among DEC, the Corporation and the Authority and make in any such agreement certain representations, warranties, covenants and agreements. *(Section 6.16)*

Agreement of the State. Under the provisions of the Agreement, the parties pledge and agree, for and on behalf of the State as provided in the Act, that the State will not alter or limit the rights vested by the Act in the Authority or the Board to fulfill the terms of any agreement made with or for the benefit of the Bondholders, or in any way impair the rights and remedies of Bondholders, until the Bonds, together with the interest thereon, interest on any unpaid installment of interest, and all costs and expenses incurred in any action or proceeding by or on behalf of such holders, are fully met and discharged. *(Section 7.1)*

Events of Default and Remedies. An "event of default" or a "default" means any one of the following events: (i) failure by the Board to pay the Authority those amounts required under the Agreement; (ii) failure of the City or the Board to observe any covenant, term or condition of the Agreement (other than the payments the Board shall make to the Authority) and such failure shall have continued for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, is given to the City or the Board, or both, by the Authority unless the Authority shall agree in writing to extend such time prior to its expiration, provided such extension shall not be unreasonably withheld if the City or the Board has instituted and is diligently pursuing corrective action which cannot be completed within the applicable period; (iii) the Authority shall file a petition, or otherwise seek relief, under any federal or State bankruptcy or similar law; and (iv) the terms, conditions and security provided under the Agreement and the Resolution or the respective provisions of the Act pursuant to which the Resolution has been adopted or the Bonds have been issued or entered into (including, without limitation, the provisions under which the lien upon the Revenues has been created pursuant to the Agreement and the Resolution and the provisions establishing the powers and obligations of the Board and the relationship of the Authority to the Board and the City) shall be materially and adversely limited, altered or impaired by any legislative action or any final judgment. *(Section 8.1)*

Whenever an event of default shall have occurred and be continuing, the Authority and the Trustee may take whatever legal action may appear necessary or desirable to: (i) collect the payments then due and as they thereafter become due and (ii) so long as any Bonds are Outstanding, enforce performance and observance of any obligation or covenant of the City or the Board under the Agreement. In addition, if the Board defaults in making the payments to the Authority required under the Agreement as a result of its failure to impose sufficient fees, rates, rents or other charges, the Authority may petition for the appointment of a receiver to administer the affairs of the Board in order to achieve Revenues sufficient to make such payments by establishing fees, rates, rents or other charges at least sufficient therefor. The remedies conferred upon or reserved to the Authority in respect of any event of default are not exclusive of other available remedies, but shall be in addition to every other remedy given under the Agreement or existing at law or in equity or by statute. *(Sections 8.2 and 8.3)*

Termination. The Agreement shall terminate and the covenants and other obligations contained therein shall be discharged and satisfied, when (i) payment of all indebtedness of the Authority has been made or provided for in accordance with the Resolution or similar document securing such indebtedness and (ii) either all payments required thereunder have been made in full, or provision for such payments satisfactory to the Authority has been made, or the City pays or assumes all liabilities, obligations, duties, rights and powers of the Authority under the Agreement. *(Section 9.1)*

Amendments. The parties to the Agreement may enter into any amendment, change or modification of the Agreement (if in writing, signed by each of the parties and consented to in writing by the Trustee if required by the Resolution) including, without limitation, amendments to Appendix A to the Agreement; provided that the parties shall enter into no such change or modification which materially adversely affects the rights of the holders of any Bonds by modifying or revoking certain enumerated provisions of the Agreement without first complying with the applicable provisions of the Resolution. *(Section 10.1)*

Conflicts. The Agreement provides that its provisions shall not change or in any manner alter the terms of the Resolution, or the security, rights or remedies of the Trustee or the Bondholders. In the event any provision of the Agreement conflicts at any time, or in any manner, with the provisions of the Resolution or any Bond, the provisions of the Resolution or Bond shall be controlling and conflicting provisions of the Agreement shall be disregarded. *(Section 12.1)*

Summary of the Lease

Term of Lease and Demise of Leased Property. The City has leased the Leased Property to the Board for the term of the Lease (the "Lease Term"). The Lease Term commenced on the Effective Date (July 1, 1985) and continues until the later of the 40th anniversary of the Effective Date or the date on which all bonds, notes or other obligations of the Authority are paid in full or provision for such payment is made pursuant to the resolution, trust indenture or other instrument under which such bonds, notes or other obligations are issued. During the Lease Term the Board may use the Leased Property only for its corporate purposes and upon the terms and conditions contained in the Lease.

The Leased Property includes (whether now in use or hereafter acquired, and whether or not located within the boundaries of the City) all of the City's right, title and interest in: (i) the City's sewerage system, including but not limited to all plants, structures, equipment and other real and personal property or rights therein acquired, rehabilitated or constructed (including all work in progress as soon as commenced) and used for the purpose of collecting, treating, pumping, neutralizing, storing and disposing of sewage, including, but not limited to, main, collecting, outlet or other sewers, pumping stations, groundwater recharge basins, backflow prevention devices, sludge dewatering facilities, vessels, barges, clarifiers, filters and phosphorous removal equipment, vehicles and other property used in connection with the sewer system; (ii) the City's water system, including but not limited to all plants, structures and other real and personal property or rights therein, acquired, rehabilitated or constructed (including all work in progress as soon as commenced) and used or to be used for the purpose of supplying, distributing, accumulating or treating water, including, but not limited to, reservoirs, basins, dams, canals, aqueducts, pipelines, mains, pumping stations, water distribution systems, intake systems, water-works, sources of water supply, purification or filtration plants, water meters and rights of flowage or diversion, vehicles and other property used in connection with the water system; and (iii) any other materials, supplies, plans and property contained in the above-mentioned plants and structures incidental to, or necessary or useful and convenient for, the operation of such facilities; provided, however, that the Leased Property shall not include the City's right, title and interest in the following: (i) any property or rights of the City the conveyance of which pursuant to the Lease would cause a reversion to or in favor of, or permit a reentry by or in favor of, any third party; (ii) all mines and minerals whatsoever (but not including surface or subsurface waters) now or hereafter found and discovered, crops and timber, on or under the lands to be conveyed pursuant to the Lease; with power and authority for the City to perform certain mineral extraction and agricultural/timber activities; provided, however, that the City shall not undertake any such activities which interfere with the operation, maintenance or collection of Revenues of the System. *(Section 2.1)*

Right of City to Enter Leased Property. The City retains the right to enter upon any portion of the Leased Property, to use any property not constituting a part thereof which is located in, across or upon the Leased Property or for any purpose unless, in the reasonable judgment of the Board, such entry or use would adversely affect the collection of Revenues. *(Section 2.2)*

Substitution of Board for City. Where necessary or desirable and to the extent permitted by law, the City and the Board agree to use their best efforts to substitute the Board for the City with respect to any application or proceedings filed or commenced in relation to the Leased Property with the various State and Federal regulatory bodies having jurisdiction. *(Section 2.5)*

Indemnification. The City agrees, to the extent permitted by law and subject to certain conditions, to hold the Board harmless from any and all liability, loss or damage from or in connection with any act the Board does or omits in the exercise of its powers if taken or omitted in good faith and in pursuance of its corporate purposes. *(Sections 3.1, 3.2 and 7.2)*

Operation and Maintenance of the Leased Property. The City shall administer and operate the Leased Property, maintain the Leased Property in good and safe order and condition and make all repairs therein. The City's duty to "maintain" and "repair" shall include all necessary repairs, replacements, renewals, alterations and additions, whether structural, non-structural, ordinary or extraordinary and its duty to "administer" shall include, without limitation, the enforcement of regulations of the Board and the City relating to the use of the System. However, the Lease shall not impose any obligation or liability upon the City for the administration, operation, maintenance and repair of the System not previously imposed upon it in connection with its prior operation and maintenance of the System. Both the Board and the City shall use all reasonable care to prevent the occurrence of waste, damage or injury to the Leased Property. The System shall be used and operated and maintained in accordance with all applicable laws, rules and regulations. (*Sections 4.1, 4.2 and 4.3*)

Construction and Acquisition. The Board authorizes the City to perform the construction and effectuation of any Water Project specified in the Agreement and the City may incur Costs in connection therewith. The City may acquire all real and personal property, or any interest therein, necessary or useful for the construction or effectuation of a Water Project; provided that all such property or interest acquired by the City through the exercise of the power of eminent domain shall be taken in the name of the City. (*Sections 5.1, 5.2 and 5.3*)

Billing and the Levy of Water and Sewer Charges. The City has agreed to provide billing services to the Board. Such services include but are not limited to: (i) notification to users of the System of the water and sewer charges levied by the Board, (ii) collection of such charges (including the City's use of its power of enforcement and collection of unpaid taxes under the laws of the State to enforce and collect any delinquent water and sewer charges from the persons and property liable therefor) and (iii) maintenance of the books, records and accounts of the billing systems. (*Sections 6.1 and 6.2*)

Late Payments. All late payments of water and sewer charges are the property of the Board and shall be collected by the City on behalf of the Board. Notwithstanding the foregoing, the Board has assigned to the City all of its rights and interest in and to all outstanding charges levied and uncollected on all properties at the time title thereto is vested in the City pursuant to *in rem* proceedings in consideration for the City's payment to the Board, in each Fiscal Year after the Effective Date, of an amount equal to 2% of such outstanding charges (unless, during the Lease Term, the City and the Board mutually agree on a different procedure for allocating such outstanding charges). (*Section 6.3*)

Discontinuance of Billing Services. If either the City or the Board no longer desires that the City provide the Board with billing services, the party desiring termination shall give written notice of such fact to the other party at least two years prior to the termination. Notwithstanding such termination of billing services, Section 6.2 of the Lease shall remain in full force and effect. (*Section 6.4*)

Legal Services. The Board has hired the City's Law Department to provide it with legal services. However, the Board may hire a different attorney or firm of attorneys to provide it with legal services. If the Board retains counsel to defend a claim against it without the prior approval of the Corporation Counsel of the City (which approval shall not be unreasonably withheld), the Board shall not be entitled to the indemnification from the City provided in Article III of the Lease with respect to such claim, unless the City elects in writing to provide such indemnification. (*Sections 7.1 and 7.2*)

Payments of Costs by the Board. The Board has agreed to pay to the City amounts sufficient to: (i) pay the cost of administration, maintenance, repair and operation of the Leased Property, including overhead costs incurred by the City attributable to the Leased Property (but less the amount of any governmental operating aid received or receivable within the current Fiscal Year with respect to the System), the cost of materials and supplies, and the amount of any judgment or settlement paid by the City arising out of a tort claim (but only if the costs of such claim are not otherwise reimbursed, the City's liability for such claim is related to Construction of a Water Project or operation or maintenance of the System and the costs of such claims do not exceed for any Fiscal Year 5% of the aggregate revenues shown on the Board's last year-end audited financial statements);

(ii) reimburse the City for capital Costs incurred by the City in the Construction of Water Projects (if requested by the City and not otherwise reimbursed) including, without limitation, the payment of any judgment or settlement arising out of a contract claim related to the Construction of any Water Project; (iii) pay the cost of billing and collection services provided by the City; (iv) pay the cost of legal services provided by the City; and (v) reimburse the City for the compensation, or the costs of the services, of any City officers and employees provided on a full-time or part-time basis to the Board. (*Section 8.1*)

Base Rental Payments. In addition, the Board shall pay the City a rental payment for the System, but only to the extent requested by the City, and not to exceed the greater of (i) the principal and interest payable on general obligation bonds issued by the City for water and sewer purposes and certified by the City to be paid within such Fiscal Year, or (ii) 15% of the amount of principal and interest payable on the Bonds of the Authority and certified by the Authority to be paid within such Fiscal Year. (*Section 8.2*)

Method of Payment. The City shall certify within five business days after publication of the City's Executive Budget for the ensuing Fiscal Year the (i) amount which the City reasonably anticipates it will expend in connection with the costs described in Section 8.1 of the Lease and (ii) the amount of the payments described in Section 8.2 of the Lease; provided that, prior to the Board's payment to the City the Board shall have received, in addition to such certification by the City, a certificate of the Consulting Engineer to the effect that such amounts certified by the City for such payments and costs are reasonable and appropriate. Upon the Board's payment of all such amounts so certified or requested and any other payments required under the Act, or, after provisions for their payment have been made, the Board shall pay to the City, as Additional Rent in each Fiscal Year, any surplus of funds received. (*Section 8.3*)

Disposition of Property. The Board agrees that it will not sell, lease, sublease, assign, transfer, encumber (other than Permitted Encumbrances) or otherwise dispose of any part of the Leased Property, or any other real property or personal property which may be acquired by the Board, or its interest in the Lease, without the prior written approval of the City.

The City will not sell, transfer or otherwise dispose of real property or personal property included in the Leased Property without the Board's written consent. In the case of personal property, the value of which is less than \$1 million per unit (or of greater value if the Board designates), the Board will adopt rules and procedures for the expedited disposition thereof. Upon the City's request to dispose of any real property or personal property valued in excess of \$1 million, the Board will give such consent only upon receipt of a certificate signed by the Consulting Engineer to the effect that such real or personal property may be disposed of without materially adversely affecting the Revenues of the System or impairing the ability of the Board to make any payments required by the Lease or the Agreement or any other agreement to which it may be a party or be bound. The City may also, with the prior written consent of the Board, grant interests in the Leased Property which, in the reasonable judgment of the Board, do not interfere with the operation and maintenance of the System and the collection of the Revenues from the System. (*Section 11.1*)

Encumbrances. The Board may not encumber the Leased Property without the prior written approval of the City. The City may grant temporary licenses for use of the Leased Property which do not interfere with the operation and maintenance of the System or the collection of Revenues therefrom. (*Section 11.3*)

Summary of the Resolution

Terms used in this Summary of the Resolution shall have the meanings ascribed thereto in "APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Glossary".

Pledge of Revenues and Funds. The Authority pledges for the payment of the Principal Installments or Redemption Price of and any interest on the Bonds, in accordance with their terms and the provisions of the Resolution: (i) all Revenues, (ii) all moneys or securities in any of the Funds and Accounts created under the Resolution, except that moneys or securities on deposit in a Special Account are pledged only to the Series of

Bonds to which such Account relates and moneys or securities on deposit in the Common Account are pledged only to the Bonds for which a Special Account has not been established pursuant to the General Resolution, and (iii) all other moneys and securities to be received, held or set aside by the Authority or by any Fiduciary pursuant to the Resolution; subject only to the provisions of the Resolution and the Agreement permitting the application of such amounts for or to the purposes and on the terms and conditions therein set forth. It is the intention of the Authority that, to the fullest extent permitted by law, such pledge shall be valid and binding from the time when it is made; that the Revenues, moneys, securities and other funds so pledged, and then or thereafter received by the Authority, shall immediately be subject to the lien of such pledge; and that the obligation to perform the contractual provisions therein contained shall have priority over any or all other obligations and liabilities of the Authority and shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

As further security for the payment of the Bonds, the Authority, under the Resolution, assigns, transfers and pledges to the Trustee all of its rights and interests under and pursuant to the Agreement (excluding rights to notice and other procedural rights, its right to indemnification and rights and interests not material to Bondholders), including, without limiting the generality of the foregoing, the present and continuing right: (i) to claim, collect or receive from the Board, all Revenues thereunder, (ii) to bring actions and proceedings thereunder for enforcement of such right of collection, and (iii) to do any and all things which the Authority is or may become entitled to do under the Agreement; provided that such assignment shall not impair or diminish any obligation of the Authority under the Agreement.

The Bonds are special obligations of the Authority payable solely from the Revenues and other amounts described in the Resolution and do not and will not constitute an indebtedness of the State, the City or the Board and neither the State, the City nor the Board shall be in any way liable thereon. (*Sections 203 and 501*)

Establishment of Funds and Accounts. The Resolution establishes the following Funds:

- (1) Construction Fund;
- (2) Revenue Fund;
- (3) Debt Service Fund;
- (4) Authority Expense Fund;
- (5) Debt Service Reserve Fund;
- (6) Subordinated Indebtedness Fund;
- (7) Surplus Fund; and
- (8) Arbitrage Rebate Fund.

The Resolution establishes in the Debt Service Reserve Fund a separate account known as the "Common Account", and provides that any Supplemental Resolution which authorizes a Special Credit Facility may establish one or more "Special Accounts" in the Debt Service Reserve Fund. The Resolution also establishes in the Debt Service Reserve Fund a separate account to be known as the "Capitalized Interest Account".

The Trustee shall hold all of the Funds and Accounts, except the Authority Expense Fund, which shall be held by the Authority.

The Trustee is directed to make withdrawals and transfers from the Funds and Accounts established by the Resolution in order to comply with any agreement entered into upon or after the date of issuance of the Authority's Fiscal 1987 Series C Bonds providing for the rebate of certain arbitrage earnings to the United States. (*Section 502*)

Construction Fund. The Authority shall deposit from time to time in the Construction Fund the net proceeds from the sale of each Series of Bonds and make the deposits in the Funds and Accounts required by the applicable Supplemental Resolutions. The Authority shall also deposit from time to time in the Construction Fund any other amounts required to be deposited therein pursuant to the Resolution or the Agreement, including amounts received by the Authority for or in connection with the System and determined by the Authority to be deposited therein. Any proceeds of insurance maintained by the Board or the City against physical loss of or damage to the System, or of contractors' performance bonds pertaining to the construction of the System, shall also be paid into the Construction Fund.

Except as otherwise provided, amounts in the Construction Fund may only be expended to pay Costs of Water Projects (including Costs of Issuance). The Trustee shall make payments from the Construction Fund, except as otherwise provided, only upon receipt of a Disbursement Request signed by an Authorized Representative of the Authority.

To the extent that other moneys are not available therefor in any other Fund or Account, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due. (*Section 503*)

Allocation of Revenues—Revenue Fund. The Authority shall cause all Revenues received from the Board pursuant to the Agreement or otherwise to be paid to the Trustee and deposited promptly upon receipt in the Revenue Fund. There shall also be deposited in the Revenue Fund all other amounts required by the Resolution or the Agreement to be so deposited. (*Section 504*)

Payments Into Certain Funds. From the Revenues in the Revenue Fund, the Trustee shall make, as soon as practicable in each month, the following deposits in the following order:

(i) to the Debt Service Fund all such amounts until the amount therein on deposit in such month equals the Minimum Monthly Balance for such month for all Series of Bonds Outstanding;

(ii) from the balance, if any, remaining in such month after making the deposits required in (i) above, to the Authority Expense Fund the entire balance until the total on deposit therein in such month is equal to the product obtained by multiplying (A) the sum of the Authority Expenses for the then current Fiscal Year plus (if included in the Authority Budget for the then current Fiscal Year) an amount (the "Reserve for Expenses") equal to one-sixth (th) of such Authority Expenses by (B) a fraction, the numerator of which is 12 minus the number of full months, excluding the month of calculation, remaining in the Fiscal Year, and the denominator of which is 12;

(iii) from the balance, if any, remaining after making the deposits required in (i) and (ii) above, *first*, to the Common Account in the Debt Service Reserve Fund, the amount, if any, necessary to make the total on deposit in the Common Account equal to the Debt Service Reserve Requirement for the Bonds to which such Common Account relates or, if less than sufficient, the entire balance and, *second*, to each Special Account until the amount therein on deposit equals the Debt Service Reserve Requirement for the Bonds to which each Special Account relates; provided, however, if the balance remaining is less than sufficient to credit in full each Special Account, credit shall be made pro rata among all Special Accounts in the same ratio as the Debt Service Reserve Requirement related to such Special Account bears to the sum of the Debt Service Reserve Requirements for all of the Bonds related to the Special Accounts; and

(iv) from the balance, if any, remaining after making the deposits required in (i), (ii) and (iii) above, to the Subordinated Indebtedness Fund the amount required to be deposited in accordance with the Authority Budget, or the entire balance, if less than sufficient.

Beginning with the first day of each Fiscal Year, the Trustee shall calculate the amounts deposited in the Revenue Fund on a daily basis until the total of all amounts deposited therein during such Fiscal Year is at least equal to the Cash Flow Requirement. On such date, if any, the Trustee is directed to give the notice to the Authority and the Board provided in Section 4.3(b) of the Agreement. Thereafter, during each Fiscal Year, no further Revenues shall be paid to the Trustee pursuant to paragraph Fourth of Section 4.2(c) of the Agreement so long as the Cash Flow Requirement, as the same may be revised from time to time, continues to be met. (*Section 505*)

Debt Service Fund. The Trustee shall, for each Series of Bonds Outstanding, pay from the Debt Service Fund the amounts due on each Bond Payment Date for the payment of the Principal Installments, if any, and from the moneys in the Debt Service Fund, including moneys in the Capitalized Interest Account in such Fund, interest on the Outstanding Bonds and on the redemption date or date of purchase, the amounts required for the payment of accrued interest on Bonds to be redeemed or purchased on such date unless the payment of such accrued interest shall be otherwise provided.

The Trustee may, and if so directed by an Authorized Representative of the Authority shall, prior to the forty-fifth day preceding the due date of each Sinking Fund Installment, apply the amounts accumulated in the Debt Service Fund for such Sinking Fund Installment, together with any interest on the Bonds for which such Sinking Fund Installment was established: (i) to the purchase of Bonds of like Series and maturity at prices (including any brokerage and other charges) not exceeding the Redemption Price payable for such Bonds when such Bonds are redeemable with such Sinking Fund Installment plus unpaid interest accrued or (ii) to the redemption of such Bonds, if redeemable by their terms, at or below said Redemption Price. Upon such purchase or redemption of any Bond, the Trustee shall then credit an amount equal to the principal of the Bond so purchased or redeemed toward the next Sinking Fund Installments thereafter to become due and the amount of any excess over the amount of such Sinking Fund Installment shall be credited against future Sinking Fund Installments in direct chronological order.

In any event, the Trustee shall, as soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Installment, call for redemption a sufficient amount of Bonds of like Series and maturity to complete the retirement of the principal amount specified for such Sinking Fund Installment of such Bonds whether or not it then has moneys in the Debt Service Fund to pay the applicable Redemption Price thereof on the redemption date. The Trustee shall apply to the redemption of the Bonds on each such redemption date the amount required for the redemption of such Bonds. (*Sections 506 and 514*)

Authority Expense Fund. The Authority shall apply amounts credited to the Authority Expense Fund to the payment of Authority Expenses. Any moneys in the Authority Expense Fund which the Authority determines are in excess of that needed to meet the sum of the unpaid Authority Expenses for such Fiscal Year plus (if such amount was included in the Authority Budget for such Fiscal Year) the Reserve for Expenses, shall be applied toward any deficiencies in the following Funds and Accounts in the order stated: the Debt Service Fund, Debt Service Reserve Fund and Subordinated Indebtedness Fund. Any remaining amounts shall be credited to the Revenue Fund. (*Section 507*)

Debt Service Reserve Fund. The Resolution establishes a Debt Service Reserve Fund and a Common Account therein. In addition, the Resolution provides that any Supplemental Resolution which provides for a Special Credit Facility to secure the principal, interest or Tender Option Price of any Bonds may establish one or more "Special Accounts" in the Debt Service Reserve Fund. From the proceeds of each Series of Bonds there shall be deposited in the Debt Service Reserve Fund the amount, if any, necessary to make the amount on deposit therein equal to the Debt Service Reserve Requirement, after giving effect to the issuance of such Bonds; and all such amounts will be credited to the Common Account, unless a Supplemental Resolution requires a deposit in a Special Account. Amounts on deposit in the Common Account will be applied, to the extent necessary, to pay the Principal Installments of and interest on the Bonds; provided, however, that the amounts in the Common Account may not be applied to pay the Principal Installments or Tender Option Price of or interest on Bonds for which such payments are secured by a Special Credit Facility, if the Supplemental Resolution authorizing such Bonds has established a Special Account. Likewise, amounts in any Special Account may not be applied to pay the Principal Installments of or interest on any Bond for which such payments may be made from the Common Account. Amounts on deposit in each of the Accounts in the Debt Service Reserve Fund shall be applied, to the extent other funds are not available in the Surplus Fund, the Subordinated Indebtedness Fund and the Authority Expense Fund, to pay the Principal Installments of, and interest on the Bonds to which such Account relates when due. Amounts so applied shall be derived first from cash or Investment Securities on deposit, and second from draws and demands on Financial Guaranties.

If, as of June 30 of each year, the amount in any Account in the Debt Service Reserve Fund exceeds the applicable Debt Service Reserve Requirement after giving effect to any Financial Guaranty deposited in such Fund, the Trustee shall, on the first business day of the following Fiscal Year, withdraw from such Account the amount of any excess therein over the applicable Debt Service Reserve Requirement as of the date of such withdrawal for deposit into (i) the Arbitrage Rebate Fund, the amount estimated by the Authority to be required by the Code to be rebated to the Department of the Treasury, (ii) the Surplus Fund, the amount required to be deposited therein in accordance with the Authority Budget, and (iii) the Revenue Fund, the amount of any excess then remaining in the Debt Service Reserve Fund over the applicable Debt Service Reserve Requirement.

Whenever the amount (exclusive of Financial Guaranties) in all of the Accounts in the Debt Service Reserve Fund, together with the amount in the Debt Service Fund, is sufficient to pay all Outstanding Bonds in accordance with their respective terms, the funds on deposit in the Debt Service Reserve Fund shall be transferred to the Debt Service Fund and applied to the redemption or payment at maturity of all Bonds Outstanding.

In lieu of the required deposits and transfers to the Debt Service Reserve Fund, the Authority may cause to be deposited into the Debt Service Reserve Fund Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement and the sums, if any, then on deposit in the Debt Service Reserve Fund or being deposited in the Debt Service Reserve Fund concurrently with such Financial Guaranties. The Financial Guaranties shall be payable (upon the giving of notice as required thereunder) on any date on which moneys will be required to be withdrawn from the Debt Service Reserve Account and applied to the payment of a Principal Installment of or interest on any Bonds and such withdrawal cannot be met by amounts on deposit in the Debt Service Reserve Fund. If a disbursement is made pursuant to Financial Guaranties, the Authority shall be obligated either (i) to reinstate the maximum limits of such Financial Guaranties or (ii) to deposit into the Debt Service Reserve Fund, funds in the amount of the disbursement made under such Financial Guaranties, or a combination of such alternatives, as shall provide that the amount in the Debt Service Reserve Fund equals the Debt Service Reserve Requirement.

In the event of the refunding of any Bonds, the Trustee shall, upon the written direction of the Authority, withdraw from the Debt Service Reserve Fund all or any portion of amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts as provided in such written direction; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to Section 1201 of the Resolution, and (b) the amount remaining in the Debt Service Reserve Fund after such withdrawal shall not be less than the Debt Service Reserve Requirement. (*Section 508*)

Subordinated Indebtedness Fund. The Trustee shall apply amounts on deposit in the Subordinated Indebtedness Fund solely to the maintenance of reserves for, or the payment of, Subordinated Indebtedness (or as otherwise provided by the resolution of the Authority authorizing each issue of Subordinated Indebtedness). The Trustee shall withdraw from the Subordinated Indebtedness Fund any amount necessary to render the balances in the Debt Service Fund or Debt Service Reserve Fund sufficient to meet the requirements of such Funds. (*Section 509*)

Surplus Fund. The Trustee shall, on each Bond Payment Date, apply moneys credited to the Surplus Fund in the following amounts: (i) to the Debt Service Fund the amount, if any, necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in such Fund and (ii) to the Debt Service Reserve Fund the amount, if any, necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in any Account in such Fund. Such transfer shall be made notwithstanding any other provisions of this Resolution requiring deposits in such Funds. Amounts on deposit in the Surplus Fund on the last day of a Fiscal Year shall be withdrawn from such Fund and transferred to the Board for deposit in the Local Water Fund. (*Section 510*)

Arbitrage Rebate Fund. Amounts on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee to make payments to the Department of the Treasury of the United States of America. Notwithstanding the foregoing, the Trustee shall apply moneys credited to the Arbitrage Rebate Fund in the following amounts: (i) to the Debt Service Fund the amount, if any, necessary (or all the moneys in the Arbitrage Rebate Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in the Debt Service Fund and (ii) to the Debt Service Reserve Fund the amount, if any, necessary (or all the moneys in the Arbitrage Rebate Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in any Account in the Debt Service Reserve Fund.

Amounts on deposit in the Arbitrage Rebate Fund in excess of the amount required to be maintained therein for the purposes of such Fund may be transferred and paid by the Trustee to the Surplus Fund. (Section 510-a)

Subordinated Indebtedness. The Authority may issue Subordinated Indebtedness payable out of and secured by a pledge of and lien on amounts in the Subordinated Indebtedness Fund available for such payment. Such Subordinated Indebtedness, however, shall be issued only for the purposes set forth in the Resolution and shall be secured by a pledge subordinate in all respects to the pledge created by the Resolution as security for the Bonds. (Section 511)

Depositaries. All moneys or securities held by the Trustee shall constitute trust funds and the Trustee may and shall, if directed by the Authority, deposit such moneys or securities with one or more Depositaries. All moneys or securities held by the Authority in the Authority Expense Fund shall be deposited with one or more Depositaries. All moneys or securities deposited under the provisions of the Resolution with the Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds established by the Resolution shall be a trust fund for the purposes thereof.

Each Depository holding moneys or securities in trust for the Trustee shall be a bank or trust company organized under the laws of the State or a national banking association (having its principal office within the State), having capital stock, surplus and undivided earnings aggregating at least \$100,000,000 and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Resolution. (Section 512)

Investment of Certain Funds. Moneys held in the Debt Service Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund (subject to the terms of any resolutions or other instruments securing any issue of Subordinated Indebtedness) shall be invested and reinvested to the fullest practicable extent in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed to make payments required from such Funds; provided that in the case of the Debt Service Reserve Fund maturation may not occur later than fifteen years from the date of such investment, and in the case of the Debt Service Fund, investments shall be of the type described in clauses (ii), (iii) and (vi), and in the case of the Debt Service Reserve Fund, clauses (ii) and (iii), of the definition of "Investment Securities" (in either case, to the fullest extent practicable). Moneys in the Authority Expense Fund, the Revenue Fund, the Construction Fund, the Arbitrage Rebate Fund and the Surplus Fund may be invested in Investment Securities which mature no later than such times as shall be necessary to provide moneys when needed to make payments from such Funds. The Trustee shall make all investments in accordance with written instructions from any Authorized Representative of the Authority. Moneys in any Fund or Account may be combined with moneys in any other Fund or Account for the purpose of making such investments in Investment Securities.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in such Funds and Accounts, other than the Construction Fund, the Arbitrage Rebate Fund and the Debt Service Reserve Fund, shall be paid into the Revenue Fund as and when received. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in (i) the Debt Service Reserve Fund shall be paid into the Arbitrage Rebate Fund or the Surplus Fund, (ii) the Construction Fund shall be paid to the Board for deposit in the Local Water Fund quarterly, on the 15th day of each July, October, January and April of each

Fiscal Year upon receipt of a written request and a certificate of the Authority relating to the satisfaction of the Cash Flow Requirement and (iii) the Arbitrage Rebate Fund shall remain in such fund.

All Investment Securities acquired with moneys in any Fund or Account, including any Fund or Account held by the Authority, shall be held by the Trustee in pledge or by a Depository as agent in pledge in favor of the Trustee. (*Section 514*)

Additional Bonds. The Authority may issue Bonds from time to time without limitation as to amount except as provided in the Resolution or as specified by law to generate funds sufficient to meet the Costs of Water Projects, to make deposits in the Funds and Accounts or to refund Outstanding Bonds, Bond Anticipation Notes, Subordinated Indebtedness or outstanding bonds of the City issued to pay the capital costs of the System. All Bonds shall be issued subject to the terms, conditions and limitations established in the Resolution and in one or more Series as therein provided.

Bonds shall be authenticated and delivered only upon the Trustee's receipt of, among other items:

(a) a certified copy of the Supplemental Resolution authorizing such Series;

(b) (i) in the case of the initial Series of Bonds, an executed copy of the Agreement and the Lease; and (ii) in the case of any subsequent Series of Bonds, an executed copy of any amendment or supplement to the Agreement or the Lease not theretofore delivered to the Trustee;

(c) except in the case of Series of Bonds issued prior to July 1, 1986 and any Series of Refunding Bonds issued pursuant to Section 207 of the Resolution, a certificate of an Authorized Representative of the Authority setting forth (i) the Revenues for either of the last two full Fiscal Years immediately preceding the Fiscal Year in which such Bonds are to be issued and (ii) the Aggregate Debt Service during such Fiscal Year for which Revenues are set forth pursuant to clause (i) above (excluding from Aggregate Debt Service any Principal Installment or portion thereof which was paid from sources other than Revenues) and (iii) the sum of the Operating Expenses and the Required Deposits for such period, and showing that the amount set forth in (i) is at least equal to the sum of (x) an amount equal to 115% of the amount set forth in (ii) and (y) an amount equal to 100% of the amount set forth in (iii);

(d) except in the case of the initial Series of Bonds under the Resolution and any Series of Refunding Bonds issued pursuant to Section 207 of the Resolution, a certificate of the Consulting Engineer setting forth the projected Operating Expenses for each of the five Fiscal Years following the Issuance of such Series of Bonds (plus the Fiscal Year in which such Bonds are issued);

(e) except in the case of the initial Series of Bonds under the Resolution and any Series of Refunding Bonds issued pursuant to Section 207, a certificate, signed by an Authorized Representative of the Authority setting forth the estimated Required Deposits for each of the five Fiscal Years following the issuance of such Series of Bonds (plus the Fiscal Year in which such Bonds are issued); and

(f) except in the case of the initial Series of Bonds under the Resolution and any Series of Refunding Bonds issued pursuant to Section 207, a certificate of the Rate Consultant (i) setting forth the estimated Revenues for each of the five Fiscal Years following the issuance of such Series of Bonds (plus the Fiscal Year in which such Bonds are issued) after giving effect to any increases or decreases in rates, fees and charges projected for such Fiscal Years and (ii) showing for each such Fiscal Year that the estimated Revenues for such Fiscal Year will be at least equal to the sum of (A) 115% of the maximum estimated Adjusted Aggregate Debt Service on all Bonds then Outstanding including the Bonds to be issued, and (B) 100% of the sum of the projected Operating Expenses and Required Deposits, as shown on the Certificate of the Consulting Engineer delivered pursuant to paragraph (e) above and the Certificate of the Authority delivered pursuant to paragraph (f) above, respectively. (*Sections 204 and 206*)

Refunding Bonds. One or more Series of Refunding Bonds may be issued pursuant to Section 207 of the Resolution at any time to refund any Outstanding Bonds provided that (i) estimated average annual Debt Service on such Series of Refunding Bonds shall not exceed the average annual Debt Service on the Bonds to be refunded and (ii) the maximum Debt Service in any Fiscal Year on such Series of Refunding Bonds shall not exceed the

maximum Debt Service in any Fiscal Year on the Bonds to be refunded, all as shown in a Certificate signed by an Authorized Representative of the Authority and delivered to the Trustee prior to the authentication and delivery of such Series of Refunding Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds and Accounts required by the provisions of the Supplemental Resolution authorizing such Bonds. (Section 207)

Bond Anticipation Notes. Whenever the Authority shall authorize the issuance of a Series of Bonds, the Authority may, by resolution, authorize the issuance of notes (and renewals thereof) in anticipation of such Series of Bonds. The principal of and interest on such notes and renewals thereof shall be payable from the proceeds of such notes or from the proceeds of the sale of the Series of Bonds in anticipation of which such notes are issued. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such notes and any such pledge shall have a priority over any other pledge of such proceeds created by the Resolution. The Authority may also pledge the Revenues to the payment of the interest on, and subject to Section 707 of the Resolution, the principal of such notes. A copy of the Resolution of the Authority authorizing such notes, certified by an Authorized Representative of the Authority, shall be delivered to the Trustee following its adoption, together with such other information concerning such notes as the Trustee may reasonably request. (Section 208)

Credit Facilities. In connection with the issuance of any Series of Bonds, the Authority may obtain or cause to be obtained one or more Credit Facilities providing for payment of all or a portion of the Principal Installments, or Redemption Price or interest due or to become due on such Bonds, providing for the purchase of such Bonds by the issuer of such Credit Facility or providing funds for the purchase of such Bonds by the Authority.

The Authority may secure such Credit Facility by an agreement providing for the purchase of the Series of Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity or redemption provisions as specified by the Authority in the applicable Supplemental Resolution. The Authority may also in an agreement with the issuer of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility, together with interest thereon (the "Reimbursement Obligation"); provided, however, that no Reimbursement Obligation shall be created until amounts are paid under such Credit Facility. Any such Reimbursement Obligation (a "Parity Reimbursement Obligation") may be secured by a pledge of, and a lien on Revenues on a parity with the lien created by Section 501 of the Resolution. Upon the payment of amounts under the Credit Facility which payment results in the Parity Reimbursement Obligation becoming due and payable, such Parity Reimbursement Obligation shall be deemed to be part of the Series of Bonds to which the Credit Facility which gave rise to such Parity Reimbursement Obligation relates.

Any such Credit Facility shall be for the benefit of and secure such Series of Bonds or portion thereof, as specified in the applicable Supplemental Resolution. (Section 209)

Indebtedness and Liens. The Resolution provides that the Authority shall not issue any bonds, or other evidences of indebtedness, other than the Bonds, Bond Anticipation Notes, Subordinated Indebtedness and Parity Reimbursement Obligations, secured by a pledge of or other lien on the Revenues and shall not create or cause to be created any lien on such Revenues or on any amounts held by any Fiduciary, under the Resolution; however, the Authority may: (i) issue notes payable from the proceeds of Bonds or other obligations for the corporate purposes of the Authority payable or secured by Revenues derived on and after such date as the pledge of the Revenues provided in the Resolution is discharged and satisfied and (ii) issue bonds or other obligations for the corporate purposes of the Authority payable out of or secured by the pledge of amounts in the Local Water Fund after satisfaction of the Cash Flow Requirement for the then current Fiscal Year, and which recite on their face that such pledge of said amounts is and shall be in all respects subordinate to the provisions of the lien and pledge created by the Resolution. (Section 707)

Agreement of the State. In accordance with Section 1045-t of the Act, the Authority agrees, for and on behalf of the State, that the State will not alter or limit the rights vested by the Act in the Authority or the Board to fulfill the terms of any agreement made with or for the benefit of the Bondholders, or in any way impair the rights and remedies of Bondholders, until the Bonds, together with the interest thereon, with interest on any unpaid installment of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged. (*Section 711*)

Authority Budget. The Authority shall, on or before May 1, in each Fiscal Year, adopt and file with the Trustee, the Board and the City, a certified copy of the Authority Budget showing the estimated Cash Flow Requirement and the components thereof (on a monthly basis) for the ensuing Fiscal Year, together with any other information required to be set forth therein by the Resolution or the Agreement. Such Authority Budget may set forth such additional information as the Authority may determine or as the Board or the City may request. If for any reason the Authority shall not have adopted the Authority Budget before such May 1, the Authority Budget for the then current Fiscal Year shall be deemed to be the Authority Budget for the ensuing Fiscal Year until a new Authority Budget is adopted. The Authority may at any time adopt an amended Authority Budget for the then current or ensuing Fiscal Year, but no such amended Authority Budget shall supersede any prior Budget until the Authority shall have filed with the Trustee, the Board and the City a copy of such amended Authority Budget. Each month the Authority shall recalculate the Cash Flow Requirement. (*Sections 712 and 713*)

Enforcement and Amendment of Agreement and Lease. The Authority shall enforce or cause to be enforced the provisions of the Agreement and the Lease and duly perform its covenants and agreements under the Agreement. The Authority will not consent or agree to or permit any rescission of or amendment to or otherwise take any action under or in connection with the Agreement or the Lease except in accordance with Article X of the Agreement of the Resolution. (*Section 714*)

Supplemental Resolutions. The Resolution permits the modification or amendment of the rights and obligations of the Authority and of the holders of the Bonds thereunder by a Supplemental Resolution, with the written consent of the holders of two-thirds of the principal amount of: (i) the Bonds then Outstanding and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Bonds of the Series so affected and then Outstanding; however, if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of modification; provided no such modification or amendment shall change the terms of redemption, maturity of principal, installment of interest, or reduce the principal amount, Redemption Price, or rate of interest without the consent of the holder of the affected Bond, or reduce the percentages of consents required to effect any future modification or amendment.

The Authority may adopt (without the consent of any holders of the Bonds) supplemental resolutions to authorize additional Bonds; to add to the restrictions contained in the Resolution upon the issuance of additional indebtedness; to add to the covenants of the Authority contained in, or surrender any rights reserved to or conferred upon it by, the Resolution; to confirm any pledge under the Resolution of Revenues or other moneys; to preserve the Federal tax exemption of interest on the Bonds; or otherwise to modify any of the provisions of the Resolution (but no such other modification may be effective while any of the Bonds of any Series theretofore issued are Outstanding); or to cure any ambiguity, supply any omission or to correct any defect in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, and are not contrary to or inconsistent with the Resolution as theretofore in effect or to provide for additional duties of the Trustee (provided that the Trustee shall consent thereto). (*Arts. VIII and IX*)

Defaults and Remedies. The Resolution provides that if one or more of the following Events of Default shall occur, namely: (i) a default in the payment of the principal or Redemption Price of any Bond; (ii) a default in payment of any installment of interest on any Bond; (iii) a default by the Authority in the performance or observance of any other of its covenants, agreements or conditions in the Resolution for a period of 45 days

after written notice thereof; (iv) a default under the Agreement or the Lease by the Board or the City for a period of 45 days after written notice thereof; or (v) a filing of a petition for relief under any Federal or State bankruptcy or similar law by the Authority; then, upon the happening and continuance of any Event of Default, the Trustee may, and upon the written request of the holders of not less than a majority in principal amount of the Bonds Outstanding the Trustee shall, declare the principal and accrued interest on all the Bonds then Outstanding, due and payable immediately subject, however, to rescission of such declaration and annulment of the default upon the remedying thereof.

The Authority covenants that upon the occurrence of an Event of Default, the books of record and account of the Authority shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys and that, upon demand of the Trustee, the Authority will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand.

Upon default, the Trustee may proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant therein contained, or in aid of the execution of any power therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution. During the continuance of an Event of Default, Revenues shall be applied first, to the reasonable and proper charges and expenses of the Trustee; then (unless the principal of all of the Bonds shall have been declared payable) to the payment of all unpaid interest ratably, and then to unpaid principal or Redemption Price, ratably; and if all of the principal of the Bonds shall be due and payable, to the payment of unpaid principal and interest, without preference or priority of interest over principal, principal over interest or of any Bond or installment over any other Bond or installment, without any discrimination or preference. No Bondholder has any right to institute suit to enforce any provision of the Resolution or the execution of any trust thereunder or for any remedy thereunder, unless the Trustee has been requested by the holders of at least a majority in principal amount of the Bonds to take such action and has been offered adequate security and indemnity and has failed to commence such suit in the manner provided in the Resolution. The right to appoint a statutory trustee under Section 1045-p of the Act is expressly abrogated. *(Art. X)*

Defeasance of Bonds Other than Variable Rate or Option Bonds. Any Outstanding Bond shall prior to the maturity or redemption date thereof be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Resolution if (i) in the case of any Bonds to be redeemed prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to publish on such date the notice of redemption therefor (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption), (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Obligations the principal of and/or the interest on which, when due, without reinvestment, will, as verified by the report of a firm of nationally recognized independent certified public accountants, provide moneys which, together with the moneys deposited shall be sufficient, to pay when due the principal or Redemption Price (if applicable) and interest due and to become due on said Bonds and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Bonds that the deposit required above has been made with the Trustee and that said Bonds are deemed paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, on such Bonds (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption); provided that any notice published for Bonds constituting less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, to the extent necessary, apply moneys to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments thereto.

The Trustee shall, if so directed by the Authority prior to the maturity date of Bonds deemed to have been paid which are not to be redeemed prior to their maturity date or prior to the publication of the above notice of redemption for Bonds deemed paid and to be redeemed, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and purchase such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; provided, however, that the moneys and Defeasance Obligations remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Bonds.

Defeasance of Variable Rate Bonds. The Resolution provides that for the purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, by the deposit of moneys, or Defeasance Obligations and moneys (if any), the interest due on such Bonds shall be calculated at the maximum rate permitted; provided, however, that if, as a result of such Bonds having borne interest at less than the maximum rate for any period, the total amount of moneys and Investment Securities on deposit with the Trustee for the payment of interest on such Bonds exceeds the total amount required to be deposited with the Trustee, the Trustee shall, if requested by the Authority, pay the amount in excess to the Authority free and clear of any lien or pledge securing the Bonds or otherwise existing under the Resolution.

Defeasance of Option Bonds. Under the Resolution, Option Bonds shall be deemed paid in accordance with the Resolution only if, in addition to satisfying several of the requirements applicable to other than Variable Rate or Option Bonds, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay the maximum amount of principal of and premium due, if any, and interest on such Bonds which could become payable to the holders of such Bonds upon the exercise of any options provided to the holders of such Bonds; provided, however, that if the options originally exercisable by the holder of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond. (*Section 1201*)

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APPENDIX D

FINANCIAL STATEMENTS

**FISCAL YEAR 1999 AND 2000 AUDITED FINANCIAL STATEMENTS OF
THE NEW YORK CITY WATER AND SEWER SYSTEM**

INDEX

	Page
Report of Independent Auditors	E-D-1
Combined Balance Sheets for the Years Ended June 30, 2000 and 1999	E-D-2
Combined Statements of Revenues, Expenses and Changes in Retained Earnings for the Years Ended June 30, 2000 and 1999	E-D-3
Combined Statements of Cash Flows for the Years Ended June 30, 2000 and 1999	E-D-4
Notes to Combined Financial Statements—June 30, 2000 and 1999	E-D-5
Combined Schedule of Cash Receipts and Disbursements for the Years Ended June 30, 2000 and 1999	E-D-21
Combining Balance Sheets for the Year Ended June 30, 2000	E-D-22
Combining Balance Sheets for the Year Ended June 30, 1999	E-D-23
Combining Schedule of Revenues, Expenses and Changes in Retained Earnings for the Year Ended June 30, 2000	E-D-24
Combining of Revenues, Expenses and Changes in Retained Earnings for the Year Ended June 30, 1999	E-D-25
Combining Statement of Cash Flows for the Year Ended June 30, 2000	E-D-26
Combining Statement of Cash Flows for the Year Ended June 30, 1999	E-D-27
Combining Schedule of Cash Receipts and Disbursements for the Year Ended June 30, 2000	E-D-28
Combining Schedule of Cash Receipts and Disbursements for the Year Ended June 30, 1999	E-D-29



345 Park Avenue
New York, NY 10154

Report of Independent Auditors'

Members of the Boards
New York City Municipal Water Finance Authority
and
New York City Water Board

We have audited the accompanying combined balance sheets of the New York City Water and Sewer System (the "System") as of June 30, 2000 and 1999, and the related combined statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These combined financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the New York City Water and Sewer System as of June 30, 2000 and 1999, and the results of its operations and changes in retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplementary information included in schedules I through IX is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

October 20, 2000



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

NEW YORK CITY WATER AND SEWER SYSTEM

Combined Balance Sheets

June 30, 2000 and 1999

(in thousands)

Assets	2000	1999
Utility plant in service, less accumulated depreciation of \$ 4,302,707 in 2000 and \$ 3,986,940 in 1999 (notes 2, 5 and 7)	\$ 9,627,344	9,550,064
Construction work-in-progress	3,196,302	2,855,474
	<u>12,823,646</u>	<u>12,405,538</u>
Current assets:		
Unrestricted cash and cash equivalents (note 6)	8,734	35,854
Investments (note 6)	-	3,425
Accounts receivable:		
Billed, less allowance for uncollectible water and sewer receivables of \$293,888 in 1999 and \$287,085 in 1999	316,800	286,055
Unbilled	105,000	105,000
Receivable from the City (note 8)	47,140	69,673
Other	5,751	12
Total current assets	<u>483,425</u>	<u>500,019</u>
Restricted assets (notes 6 and 10):		
Cash and cash equivalents	874,851	509,507
Investments	98,333	499,594
Accrued interest receivable	1,476	1,775
Total restricted assets	<u>974,660</u>	<u>1,010,876</u>
Deferred bond and financing expenses	102,917	103,963
Total assets	<u>\$ 14,384,648</u>	<u>14,020,396</u>
Liabilities and Equity		
Long-term liabilities:		
Bonds and notes payable, less current portion (note 9)	\$ 9,417,797	8,623,232
Net discount on bonds and notes payable	(331,840)	(336,988)
Deferred bond refunding costs (note 2)	(210,388)	(237,149)
Total long-term liabilities	<u>8,875,569</u>	<u>8,049,095</u>
Current liabilities:		
Accounts payable and accrued expenses	27,718	22,718
Revenues received in advance	67,798	80,262
Current portion of bonds and notes payable (note 9)	358,575	748,478
Payable to the City (note 8)	252,911	235,143
Refunds payable to customers	15,375	14,500
Total current liabilities	<u>722,377</u>	<u>1,101,101</u>
Total liabilities	<u>9,597,946</u>	<u>9,150,196</u>
Equity:		
Contributed capital, net of allocated depreciation (note 2)	4,571,775	4,696,778
Retained earnings	214,927	173,422
Total equity	<u>4,786,702</u>	<u>4,870,200</u>
Total liabilities and equity	<u>\$ 14,384,648</u>	<u>14,020,396</u>

See accompanying notes to combined financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

Combined Statements of Revenues, Expenses and Changes in Retained Earnings

Years ended June 30, 2000 and 1999
(in thousands)

	<u>2000</u>	<u>1999</u>
Operating revenues:		
Water supply and distribution	\$ 610,949	583,394
Sewer collection and treatment	876,455	857,204
Other operating revenues	93,194	85,903
Total operating revenues	<u>1,580,598</u>	<u>1,526,501</u>
Operating expenses:		
Operation and maintenance (notes 3 and 7)	801,255	777,652
Provision for bad debts	89,062	103,960
Administration and general	10,092	10,879
Total operating expenses	<u>900,409</u>	<u>892,491</u>
Excess of operating revenues over operating expenses before depreciation and amortization	680,189	634,010
Depreciation and amortization	<u>347,055</u>	<u>380,023</u>
Operating income	333,134	253,987
Nonoperating revenues (expenses):		
Interest expense	(492,747)	(476,675)
Investment income	70,478	81,465
Net Loss	(89,135)	(141,223)
Depreciation allocated to contributed capital (note 2)	130,640	128,279
Retained earnings at beginning of year	<u>173,422</u>	<u>186,366</u>
Retained earnings at end of year	<u>\$ 214,927</u>	<u>173,422</u>

See accompanying notes to combined financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

Combined Statements of Cash Flows

Years ended June 30, 2000 and 1999

(in thousands)

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Operating income	\$ 333,134	253,987
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	347,055	380,023
Provision for bad debts	89,062	103,960
Changes in assets and liabilities:		
(Increase) in receivables	(119,807)	(113,987)
Decrease (increase) in receivable from the City	22,533	(34,300)
Decrease (increase) in other assets	(5,739)	965
Increase in payable to the City	17,768	36,296
Increase (decrease) in accounts payable and accrued expenses	5,000	(95)
(Decrease) in revenues received in advance	(12,464)	(7,316)
Increase (decrease) in refunds payable to customers	875	(2,000)
Total adjustments	<u>344,283</u>	<u>363,546</u>
Net cash provided by operating activities	<u>677,417</u>	<u>617,533</u>
Cash flows from capital and related financing activities:		
Proceeds from issuing bonds, notes and other borrowings, net of issue costs	1,515,293	1,234,953
Repayments of bonds, notes and other borrowings	(1,112,623)	(831,343)
Interest paid on bonds, notes and other borrowings	(481,945)	(464,319)
Acquisition and construction of capital assets	<u>(739,072)</u>	<u>(822,471)</u>
Net cash used in capital and related financing activities	<u>(818,347)</u>	<u>(833,180)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	503,019	1,007,812
Purchases of investments	(98,333)	(1,107,651)
Interest on investments	<u>74,468</u>	<u>83,604</u>
Net cash provided by (used in) investing activities	<u>479,154</u>	<u>(16,235)</u>
Net increase (decrease) in cash and cash equivalents	338,224	(231,882)
Cash and cash equivalents, beginning of year	<u>545,361</u>	<u>777,243</u>
Cash and cash equivalents, end of year	\$ <u>883,585</u>	<u>545,361</u>

Reconciliation of Cash and Cash Equivalents Per Statement of Cash Flows to the Balance Sheet

	<u>Assets</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and cash equivalents - beginning	\$ 35,854	509,507	545,361
Net increase (decrease)	(27,120)	365,344	338,224
Cash and cash equivalents - ending	\$ <u>8,734</u>	<u>874,851</u>	<u>883,585</u>

The following are the noncash capital and related financing activities:

- Interest expense includes the accretion of capital appreciation bonds discount in the amount of \$7,429 in 2000 and \$10,547 in 1999
- Capital expenditures in the amount of \$252,911 and \$235,143 had been incurred but not paid at June 30, 2000 and 1999
- The System received capital assets of \$5,637 in 2000 and \$7,389 in 1999 which represent capital contributed by the City.

See accompanying notes to combined financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

June 30, 2000 and 1999

(1) Organization

The New York City Water and Sewer System (the "System") provides water supply and distribution, and sewage collection, treatment, and disposal for The City of New York (the "City"). The System, as presented in the accompanying combined financial statements, began operations on July 1, 1985 and is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board"). The Authority is a public benefit corporation created in accordance with the New York City Municipal Water Finance Act (the "Act"), duly enacted into law as Chapter 513 of the laws of 1984 of the State of New York, as amended by Chapter 514 of the laws of 1984 of the State of New York. The Board was created by Chapter 515 of the laws of 1984 of the State of New York. The Act empowers the Authority to issue bonds or notes to finance the cost of capital improvements to the System, and to refund any and all outstanding bonds and general obligation bonds of the City issued for water and sewer purposes. The Act empowers the Board to lease the System from the City and to fix and collect rates, fees, rents and other charges for the use of, or for services furnished, rendered, or made available by the System, to produce cash sufficient to pay debt service on the Authority's bonds and to place the System on a self-sustaining basis.

The physical operation and capital improvements of the System are performed by the City's Department of Environmental Protection subject to contractual agreements with the Authority and Board.

In accordance with Statement 14 of the Governmental Accounting Standards Board (GASB), the Board and the Authority are combined for general purpose external reporting purposes since the Board and the Authority are fiscally interdependent. The System, in turn, is included for reporting purposes as a discretely presented component unit in the City's financial statements.

(2) Summary of Significant Accounting Policies

The accompanying combined financial statements of the System have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses recognized when incurred. GASB Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Funds," provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The System has elected to follow GASB pronouncements exclusively after that date. Other significant accounting policies are:

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(2) Continued

(a) Investments and Cash Equivalents

Investments and cash equivalents consist principally of securities of the United States and its agencies, certificates of deposit, and repurchase agreements with maturity periods of one year or less, and are carried at amortized cost, which approximates fair value. For purposes of the combined statements of cash flows, the System generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(b) Restricted Assets

Proceeds from the issuance of debt and monies set aside for the operation and maintenance of the System are classified as restricted by applicable bond indentures.

(c) Bond Discount and Bond Issuance Costs

Bond discount and bond issuance costs are amortized over the life of the related bond issue, using the effective yield method of amortization for bond discount and the straight-line method for bond issuance costs.

(d) Utility Plant in Service

Utility plant in service acquired through purchase or internal construction is recorded at cost net of retirements. Contributed utility plant in service is recorded at its estimated historical cost based on appraisals or other methods when historical cost information is not available, net of depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives as follows:

	<u>Years</u>
Buildings	40-50
Water supply and waste water treatment systems	15-50
Water distribution and sewage collection systems	15-75
Equipment	5-35

Depreciation on contributed utility plant in service is allocated to contributed capital after the determination of net income.

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(2) Continued

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are recorded as utility plant in service.

(e) Operating Revenues

Revenues are based on billing rates imposed by the Board based upon customers' water and sewer usage. The System records estimated unbilled revenue at its year end.

(f) Deferred Revenues

Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned.

(g) Deferred Bond Refunding Costs

Deferred bond refunding costs represent the accounting loss incurred in advance refundings of outstanding bonds. In accordance with the provisions of GASB Statement 23, "Accounting and Financial Reporting of Debt Reported by Proprietary Activities", gains or losses arising from debt refundings are deferred and amortized over the lesser of the remaining life of the old debt or the life of the new debt.

(h) Contributed Capital

In accordance with the lease of the System from the City to the Board, the City transferred its water and sewer-related physical assets at historical cost, net of depreciation, and all work-in-progress, at cost, to the Board at July 1, 1985. Capital improvements financed by sources other than the proceeds of Authority revenue bonds (e.g., capital grants) are recorded as additions to contributed capital.

Changes in contributed capital for the fiscal years ended June 30, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
	(in thousands)	
Contributed capital, beginning of year	\$ 4,696,778	4,817,668
Plant and equipment contributed	5,637	7,389
Depreciation allocated to contributed capital	<u>(130,640)</u>	<u>(128,279)</u>
Contributed capital, end of year	\$ <u>4,571,775</u>	<u>4,696,778</u>

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(2) Continued

(i) *Reclassifications*

Certain reclassifications to the 1999 figures have been made in order to conform to the 2000 combined financial statement presentation.

(j) *Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

(3) Financing Agreement

The Financing Agreement (the "Agreement") provides that the Authority will issue bonds to finance the cost of capital investment in the water and sewer system serving the City. It also sets forth the funding priority for the debt service costs of the Authority, operating costs of the water and sewer system, and the rental payment to the City.

(4) Cumulative Retained Earnings

At June 30, 2000 and 1999, the Authority had a cumulative deficit of approximately \$3,369 million and \$2,959 million, respectively, which amount is less than the approximate \$3,584 million and \$3,133 million cumulative retained earnings of the Board at June 30, 2000 and 1999, respectively.

(5) Utility Plant in Service

Utility plant in service at June 30, 2000 and 1999 is comprised as follows:

	<u>2000</u>	<u>1999</u>
	(in thousands)	
Buildings	\$ 5,677	5,677
Water supply and waste water treatment systems	6,840,021	6,643,497
Water distribution and sewage collection systems	6,955,100	6,758,577
Equipment	<u>129,253</u>	<u>129,253</u>
	13,930,051	13,537,004
Less accumulated depreciation	<u>4,302,707</u>	<u>3,986,940</u>
	\$ <u>9,627,344</u>	<u>9,550,064</u>

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(6) Investments, Cash Equivalents and Cash Deposits

The Water and Sewer General Revenue Bond Resolution (the "Resolution") authorizes the investment of bond proceeds. The guidelines issued by the Office of the New York State Comptroller and the Resolution establish the criteria for permissible investments of the System. In addition, the Water Board and the Water Authority have investment guidelines approved by their respective Boards of Directors. The System may invest in Federal government obligations or any subdivision or instrumentality thereof, obligations of the State of New York or any subdivision or instrumentality thereof provided that they are in the two highest rating categories of a rating agency, bankers' acceptances or certificates of deposit (CDs) issued by a New York State commercial bank with capital or surplus in excess of \$100 million, corporate securities or commercial paper rated highest by a rating agency when compared to similar-type securities, or repurchase agreements that are collateralized by obligations of the Federal government.

Investments and deposits held by the System at June 30, 2000 and 1999 comprised:

	<u>2000</u>	<u>1999</u>
	(in thousands)	
Unrestricted cash, cash equivalents and investments (plus accrued interest)	\$ 8,734	39,279
Restricted cash, cash equivalents and investments (plus accrued interest)	<u>974,660</u>	<u>1,010,876</u>
	<u>\$ 983,394</u>	<u>1,050,155</u>
This amount is comprised of:		
Carrying amount of deposits (includes CDs)	\$ 4,803	243,207
Investments (plus accrued interest)	<u>978,591</u>	<u>806,948</u>
	<u>\$ 983,394</u>	<u>1,050,155</u>

Cash Deposits

The System follows the New York City Banking Commission designations for the System's bank depositories. The Commission consists of the Comptroller, the Mayor, and the Finance Commissioner and uses independent bank rating agencies in part to assess the financial soundness of each bank, and the banking relationships are under constant operational and credit reviews. Each bank in which the System's cash is deposited is required to have its principal office in New York State and have capital stock, surplus, and undivided earnings aggregating at least \$100 million. The System had \$35.6 thousand and \$200 thousand on deposit at June 30, 2000 and 1999, respectively, which were covered by Federal depository insurance.

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(6) Continued

Investments

The System's investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1, the lowest risk, includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3, the highest risk, includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the System's name.

Investments (inclusive of certain investments reported as cash equivalents) held by the System at June 30, 2000 and 1999 were classified as Category 1 investments and non-categorized investments, and are comprised of:

Categorized:	2000*		1999*	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
	(in thousands)			
U.S. Treasury securities	-	-	49,397	49,398
Federal agency issues	\$813,710	814,965	647,923	649,514
Commercial paper	-	-	55,888	55,888
Repurchase agreements	<u>122,602</u>	<u>122,822</u>	<u> </u>	<u> </u>
	<u>936,313</u>	<u>937,787</u>	<u>753,208</u>	<u>754,800</u>
Non-categorized:				
Mutual funds	-	-	11,162	11,162
Guaranteed Investment Contract	<u>40,803</u>	<u>40,803</u>	<u>40,803</u>	<u>40,803</u>
	<u>40,803</u>	<u>40,803</u>	<u>51,965</u>	<u>51,965</u>
	<u>\$977,115</u>	<u>978,590</u>	<u>805,173</u>	<u>806,765</u>

*Includes \$878,783 at cost and \$879,345 at market (2000) and, \$302,154 at cost and \$302,154 at market (1999) of investments reported as cash equivalents.

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(7) Lease Agreement

The Board is party to a long-term lease (the "Lease") with the City, which transfers all the water and sewer related real and personal property to the Board for the term of the lease. The lease term commenced on July 1, 1985 and continues until the later of the fortieth anniversary of the commencement of the lease or the date on which all bonds, notes or other obligations of the Authority are paid in full or provisions for such payment have been made pursuant to the applicable debt instrument. The lease provides for payments to the City to cover the following:

- (a) an amount sufficient to pay the cost of administration, maintenance, repair and operation of the leased property, which includes overhead costs incurred by the City attributable to the leased property, net of the amount of any Federal, State, or other operating grants received by the City;
- (b) an amount sufficient to reimburse the City for capital costs incurred by the City for the construction of capital improvements to the leased property which are not paid or reimbursed from any other source, to the extent requested by the City;
- (c) an amount sufficient to pay the cost of other services provided by the City;
- (d) an amount sufficient to pay the cost of legal services provided by the City;
- (e) an amount sufficient to reimburse the City for the costs of the services of any city officer and employee provided on a full-time or part-time basis to the Board; and
- (f) the amount of any reconciliation payments, as defined.

In addition to the payments described above, the Board pays rent to the City to the extent requested by the City in each fiscal year in an amount not to exceed the greater of (a) the principal and interest payable on general obligation bonds issued by the City for water and sewer purposes certified by the City to be paid within such fiscal year or (b) 15% of principal and interest payable on the bonds of the Authority to be paid within such fiscal year. After all amounts certified by the City have been paid and all other required payments have been made, any surplus funds received by the Board in the current fiscal year are to be placed into the Board's general account in the operating and maintenance reserve fund.

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

A summary of operation and maintenance expenses at June 30, 2000 and 1999 is as follows:

	2000	1999
	(in thousands)	
Water transmission and distribution	\$ 227,066	233,221
Sewer collection systems	317,980	300,406
City agency support cost	32,967	31,879
Fringe benefits	64,923	58,950
Judgments and claims	7,844	5,330
	650,780	629,786
Rental payments to the City	150,475	147,866
	<u>\$ 801,255</u>	<u>777,652</u>

(8) Payable to and Receivable from the City

As of June 30, 2000 and 1999, all construction work-in-progress recorded by the System, which has not been reimbursed to the City, has been recorded as a payable to the City, net of the amount of any State or Federal capital grants received by the City.

As of June 30, 2000 and 1999, the System had a receivable from the City for overpayment of operations and maintenance expenses.

(9) Bonds and Notes Payable

The Authority issues revenue bonds to finance a portion of the costs of the capital renovation and improvements program to the System, to fund certain reserves, to pay costs of issuance and to advance refund certain outstanding principal amounts of bonds.

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2000:

	Balance at June 30, 1999	Issued	Retired	Balance at June 30, 2000
(in thousands)				
1987 Fiscal Series A - 5.00% to 7.00% Serial and Term Bonds maturing in varying installments through 2017	\$ 69,690	-	-	69,690
1987 Fiscal Series B - 5.00% to 7.90% Serial, and Capital Appreciation Bonds maturing in varying install- ments through 2017	13,255	-	-	13,255
1989 Fiscal Series B - 5.75% to 7.50% Serial, Term, and Capital Appreciation Bonds maturing in varying install- ments through 2013	6,506	-	4,551	1,995

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(9) Continued

	<u>Balance at</u> <u>June 30 1999</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at</u> <u>June 30, 2000</u>
1990 Fiscal Series A - 6.00% to 7.375% Serial, Term, and Capital Appreciation Bonds maturing in varying install- ments through 2019	9,628	-	9,628	-
1990 Fiscal Series B - 6.70% to 7.60% Serial and Term Bonds maturing in varying installments through 2020	132,070	-	6,390	125,680
1991 Fiscal Series B - 6.00% to 7.25% Serial and Term Bonds maturing in varying installments through 2012	51,165	-	12,215	38,950
1992 Fiscal Series A - 5.30% to 7.10% Serial and Term Bonds maturing in varying installments through 2021	182,945	-	2,705	180,240
1992 Fiscal Series B - 5.20% to 6.875% Serial and Term Bonds maturing in varying installments through 2014	56,338	-	12,915	43,423
1993 Fiscal Series A - 3.10% to 6.15% Serial, Term, and Capital Apprecia- tion Bonds maturing in varying installments through 2020	1,053,165	-	15,065	1,038,100
1993 Fiscal Series C - Adjustable rate Term Bonds maturing 2022	100,000	-	-	100,000
1994 Fiscal Series 1 - 3.00% to 6.00% Serial and Term Bonds maturing in varying installments through 2015	542,474	-	43,750	498,724
1994 Fiscal Series B - 4.625% to 5.40% Fixed Rate Bonds maturing in varying installments through 2008	655,280	-	50,630	604,650
1994 Fiscal Series C - Adjustable Rate term bonds maturing in 2023	200,000	-	-	200,000
1994 Fiscal Series D - Auction Rate Bonds maturing in varying installments through 2013	83,500	-	-	83,500
1994 Fiscal Series E - Inverse Rate Bonds, maturing in varying installments through 2013	83,500	-	-	83,500

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(9) Continued

	<u>Balance at</u> <u>June 30, 1999</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at</u> <u>June 30, 2000</u>
1994 Fiscal Series F - 4.75% to 6.00% Serial Bonds maturing in varying installments through 2021	212,950	-	675	212,275
1994 Fiscal Series G - 5.50% to 5.678% Adjustable, Auction and Leveraged Reverse Rate Bonds maturing in varying installments through 2024	205,000	-	-	205,000
1995 Fiscal Series A - Adjustable Rate Term Bonds maturing in varying installments through 2025	216,700	-	-	216,700
1995 Fiscal Series 1 - 5.25% to 6.875% Serial and Term Bonds maturing in varying installments through 2016	56,056	-	5,132	50,924
1996 Fiscal Series 1 - 4.3% to 6.00% Serial Bonds maturing in varying installments through 2017	101,790	-	4,115	97,675
1996 Fiscal Series 2 - 2.95% to 5.20% Serial Bonds maturing in varying installments through 2017	25,875	-	1,125	24,750
1996 Fiscal Series 3 - 3.60% to 5.85% Serial Bonds maturing in varying installments through 2015	40,205	-	1,465	38,740
1996 Fiscal Series A - 4.1% to 6.00% Serial Bonds maturing in varying installments through 2009	238,740	-	9,410	229,330
1996 Fiscal Series B - 5.75% to 6.25% Serial Bonds maturing in varying installments through 2026	520,100	-		520,100
1996 Fiscal Series C - 4.2% to 5.75% Serial Bonds maturing in varying installments through 2012	77,900	-	295	77,605
1997 Fiscal Series A - 4.85% to 6.00% Serial Bonds maturing in varying installments through 2026	365,125	-	-	365,125
1997 Fiscal Series B - 5.50% to 5.75% Serial Bonds maturing in varying Installments through 2029	700,000	-	-	700,000

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(9) Continued

	<u>Balance at</u> <u>June 30, 1999</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at</u> <u>June 30, 2000</u>
1998 Fiscal Series 1 - 4.00% to 5.35% Serial Bonds maturing in varying installments through 2017	42,465	-	1,480	40,985
1998 Fiscal Series 2 - 4.00% to 6.00% Serial Bonds maturing in varying installments through 2019	108,420	-	3,389	105,031
1998 Fiscal Series 3 - 4.30% to 6.00% Serial Bonds maturing in varying installments through 2016	450,035	-	-	450,035
1998 Fiscal Series 4 - 3.60% to 5.20% Serial Bonds maturing in varying installments through 2018	15,179	-	644	14,535
1998 Fiscal Series 5 - 4.61% to 5.10% Serial Bonds maturing in varying installments through 2019	286,790	-	2,985	283,805
1998 Fiscal Series 6 - 4.70% to 5.10% Serial Bonds maturing in varying installments through 2019	18,669	-	647	18,022
1998 Fiscal Series A - 4.25% to 5.125% Serial Bonds maturing in varying installments through 2022	283,850	-	-	283,850
1998 Fiscal Series B - 5.125% to 5.25% Serial Bonds maturing in varying installments through 2030	449,525	-	-	449,525
1998 Fiscal Series C - 4.00% to 5.125% Serial Bonds maturing in varying installments through 2021	88,075	-	240	87,835
1998 Fiscal Series D - 4.25% to 5.00% Serial Bonds maturing in varying installments through 2025	397,120	-	2,985	394,135
1999 Fiscal Series 1 - 4.00% to 5.25% Serial Bonds maturing in varying installments through 2020	118,583	-	3,462	115,121
1999 Fiscal Series 2 - 4.00% to 5.25% Serial Bonds maturing in varying installments through 2020	158,203	-	372	157,831

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(9) Continued

	<u>Balance at</u> <u>June 30, 1999</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at</u> <u>June 30, 2000</u>
1999 Fiscal Series A – 4.75% to 5.00% Serial Bonds maturing in varying installments through 2031	301,470	-	-	301,470
1999 Fiscal Series B - 3.80% to 5.25% Serial and Capital Appreciation Bonds maturing in varying installments through 2020	245,865	-	-	245,865
1999 Fiscal Series C – 5.00% to 5.75% Serial Bonds maturing in varying installments through 2001	8,770	-	4,145	4,625
2000 Fiscal Series A – 5.50% to 5.75% Serial Bonds maturing in varying installments through 2032	-	275,735	-	275,735
2000 Fiscal Series B – 6.00% to 6.50% Serial Bonds maturing in varying installments through 2033	-	323,730	-	323,730
2000 Fiscal Series C – Adjustable Rate Term Bonds maturing in 2033	-	107,500	-	107,500
2000 Fiscal Series 1 – 2.56% Direct Loan maturing in 2022	-	286,801	945	285,886
2000 Fiscal Series 2 – 3.80% to 5.96% Serial Bonds maturing in varying installments through 2020	-	12,689	400	12,289
Commercial Paper Series 1 - Variable Rate, Short-term Rolling Maturity Backed by L.O.C.	200,000	-	200,000	-
Commercial Paper Series 3 - Variable Rate, Short-term Rolling Maturity Backed by L.O.C.	75,000	-	-	75,000
Commercial Paper Series 4 - Variable Rate, Short-term Rolling Maturity Backed by L.O.C.	125,000	-	-	125,000
Commercial Paper Series 5 - Variable Rate, Short-term Rolling Maturity Backed by L.O.C.	<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>-</u>
Total debt payable	\$ 9,371,710	1,006,455	601,793	9,776,372
Current portion of bonds and notes payable	<u>748,478</u>	<u>5,415</u>	<u>(395,318)</u>	<u>358,575</u>
Bonds and notes payable, less current portion	<u>\$ 8,623,232</u>	<u>1,001,040</u>	<u>206,475</u>	<u>9,417,797</u>

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(9) Continued

With respect to all series, the Board has agreed to maintain rates and charges to provide revenues at levels sufficient to pay principal and interest requirements as well as to meet certain debt service coverage and operating cost funding requirements. All series are specific obligations of the Authority payable solely from and secured by a pledge of and lien on the gross revenue of the System, as defined.

Certain bonds issued by the Authority involve the concurrent issuance of long-term variable rate securities that are matched with long-term floating rate securities. These obligations, taken together as a whole, yield a fixed rate of interest at all times. These securities have been issued to achieve a lower prevailing fixed rate of interest in relation to traditional fixed rate bonds.

During 2000 the Authority defeased \$41.8 million of outstanding bonds with \$40 million of current revenue. During 1999, the Authority issued \$259.2 million of bonds to advance refund \$213 million of outstanding bonds. The advance refundings resulted in an accounting gain of \$729 thousand and a loss of \$17.1 million for the years ended June 30, 2000 and June 30, 1999, respectively, the Authority in effect reduced its aggregate debt service by approximately \$56.6 million and \$143.9 million respectively, and obtained an economic gain of \$1.8 million and \$100.8 million respectively.

The Authority has defeased cumulatively \$4.129 billion and \$4.087 billion of outstanding bonds as of June 30, 2000 and 1999, respectively, by placing proceeds of refunding bonds issued in an irrevocable escrow account to provide for all future debt service payments. Proceeds were used to purchase U.S. Government Securities that were placed in the irrevocable escrow account. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matured. Accordingly, the escrow account assets and liability for the defeased bonds are not included in the Authority's financial statements.

As of June 30, 2000 and 1999, \$2.702 billion and \$2.435 billion of the defeased bonds respectively had been retired from the assets of the escrow accounts.

Debt service requirements to maturity at June 30, 2000 are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(in thousands)		
2001	\$ 358,575	502,993	861,568
2002	170,492	494,438	664,930
2003	181,986	485,498	667,484
2004	191,875	475,924	667,799
2005	208,869	465,656	674,525
Thereafter until 2033	<u>8,664,575</u>	<u>6,879,880</u>	<u>15,544,455</u>
Total	\$ <u>9,776,372</u>	<u>9,304,389</u>	<u>19,080,761</u>

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(10) Segment Information

The System is comprised of two entities, the Water Authority which issues bonds to finance the cost of capital improvements, and the Water Board which leases the System from the City and fixes and collects rates, fees and other charges for the use of the System.

Segment information for these entities as of June 30, 2000 is as follows:

	<u>New York City Water Board</u>	<u>New York City Municipal Water Finance Authority</u>
	(in thousands)	
Total Operating Revenues	\$1,534,862	45,736
Depreciation and Amortization	326,601	20,454
Income from Operations	316,366	16,768
Net Income (Loss)	320,305	(409,440)
Utility Plant In Service Additions	403,882	-
Utility Plant in Service Deletions	10,835	-
Long Term Liabilities	5,180,710	8,875,569
Total Equity	8,155,401	(3,368,699)
Net Working Capital	394,259	(274,636)
Total Assets	13,419,522	6,145,836

(11) Restricted Assets

Certain cash and investments, plus accrued interest, of the System are restricted as follows:

	<u>2000</u>	<u>1999</u>
	(in thousands)	
<u>The Board</u>		
Operation and maintenance reserve account	\$ 118,196	116,243
Operation and maintenance reserve general account	<u>10</u>	<u>10</u>
	<u>118,206</u>	<u>116,253</u>
<u>The Authority</u>		
Revenue fund	124,712	32,803
Debt service reserve fund	580,775	540,511
Construction fund	144,466	321,309
Arbitrage rebate fund	<u>6,501</u>	<u>-</u>
	<u>856,454</u>	<u>894,623</u>
	\$ <u>974,660</u>	<u>1,010,876</u>

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

The operation and maintenance reserve account is established as a depository to hold the operations and maintenance reserve fund as required by the General Bond Resolution. It is required to hold one-sixth of the operating expenses as set forth in the annual budget. It is funded through the cash receipts of the Board. The operation and maintenance reserve general account is established as a depository to hold all excess funds of the Board after all legally mandated transfers have been made. It is available to meet any deficiencies in the flow of funds including debt service and alternatively can be used as a financing source for capital expenditures.

The revenue fund is established as a depository to fund the debt service, Authority expense, debt service reserve and arbitrage funds. It is funded through cash transfers from the Water Board. The debt service reserve fund is established as a depository to hold the maximum annual debt service requirement for the next current or any future fiscal year. It is funded through revenue bond proceeds and the revenue fund. The debt service fund is established as a depository to pay all principal and interest payments on the Authority's debt for the current fiscal year. It is funded through the revenue fund. The construction fund is established as a depository to pay all capital construction costs incurred by the City and reimbursed by the Authority. It is funded through the proceeds of bond and note sales. The arbitrage rebate fund is established to provide for arbitrage rebate payments to the U.S. Department of Treasury. It is funded through the revenue fund.

(12) Commitments and Contingencies

Construction

The System has contractual commitments of approximately \$2.389 and \$2.319 at June 30, 2000 and June 30, 1999, respectively, for water and sewer projects.

Contingencies

Claims and Litigation

In accordance with the lease, the Board is required to reimburse the City for any judgment or settlement paid by the City arising out of a tort claim to the extent that the City's liability is related to capital improvements and the operation or maintenance of the System. However, in no event shall the payment made to the City, in any fiscal year, exceed an amount equal to 5% of the aggregate revenues shown on the last year-end audited financial statements of the System. In addition, the System is required to reimburse the City, to the extent requested by the City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements. In addition, the City has agreed, subject to certain conditions, to indemnify the Authority, the Board and their staffs against any and all liability in connection with any act done or omitted in the exercise of their powers which is taken or omitted in good faith in pursuance of their purposes under the Act. Currently, the

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

City is a defendant in a significant number of lawsuits pertaining to the System. The litigation includes, but is not limited to, actions commenced and claims asserted against the City arising out of alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of law. As of June 30, 2000, the potential future liability attributable to the System for claims outstanding against the City was estimated to be \$ 8.2 million. This amount is included in the City's General Long-Term Obligations Account Group. The potential future liability is the City's best estimate based on available information. The estimate may be revised as further information is obtained and as pending cases are litigated.

Arbitrage Rebate

To maintain the exemption from Federal income tax of interest on bonds issued subsequent to January 1, 1986, the System will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended ("the Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all non-purpose obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Issues with respect to which all gross proceeds are expended for the governmental purpose of the issue within six months after the date of issue and debt service funds with annual gross earnings of less than \$100,000 are exempt from this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, and within 60 days after retirement of the bonds. At June 30, 2000 and 1999, the System has accrued \$3.7 million and \$0 for such liability.

NEW YORK CITY WATER AND SEWER SYSTEM

Combined Schedule of Cash Receipts and Disbursements

Years ended June 30, 2000 and 1999
(in thousands)

	<u>2000</u>	<u>1999</u>
Cash receipts:		
Water supply and distribution and sewer collection and treatment	\$ 1,326,802	1,279,729
Other operating revenues	47,458	40,075
Revenues received in advance	42,882	54,386
Investment income	74,468	83,604
Subsidy income	45,736	45,828
Total cash receipts	<u>1,537,346</u>	<u>1,503,622</u>
Cash disbursements:		
Operation and maintenance	777,025	814,316
Administration and general	10,018	10,836
Interest payments	481,945	464,319
Amounts refunded to customers	15,375	14,454
Total cash disbursements	<u>1,284,363</u>	<u>1,303,925</u>
Excess of cash receipts over cash disbursements before financing uses	<u>252,983</u>	<u>199,697</u>
Financing sources (uses):		
Proceeds from bond and note sales, net of issuance costs	1,515,293	1,284,953
Investments	38,531	162,150
Construction payments	(721,305)	(786,175)
Repayment of bonds and notes	(1,112,622)	(831,343)
Total financing uses	<u>(280,103)</u>	<u>(170,415)</u>
Excess (deficiency) of cash receipts over cash disbursements	(27,120)	29,282
Unrestricted cash and cash equivalents at beginning of year	<u>35,854</u>	<u>6,572</u>
Unrestricted cash and cash equivalents at end of year	<u>\$ 8,734</u>	<u>35,854</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Balance Sheet

June 30, 2000
(in thousands)

	New York City Water Board	New York City Municipal Water Finance Authority	Eliminations	Total
Assets:				
Utility plant in service, less accumulated depreciation of \$ 4,302,707	\$ 9,627,344	-	-	9,627,344
Construction work-in-progress	3,196,302	-	-	3,196,302
	<u>12,823,646</u>	<u>-</u>	<u>-</u>	<u>12,823,646</u>
Current assets:				
Unrestricted cash and cash equivalents	8,730	4	-	8,734
Accounts receivable:				
Billed, less allowance for uncollectible water and sewer receivables of \$293,888	316,800	-	-	316,300
Unbilled	105,000	-	-	105,000
Receivable from the City	47,140	-	-	47,140
Other	-	5,751	-	5,751
Total current assets	<u>477,670</u>	<u>5,755</u>	<u>-</u>	<u>483,425</u>
Restricted assets:				
Cash and cash equivalents	117,985	756,866	-	874,851
Investments	-	98,333	-	98,333
Accrued interest receivable	221	1,255	-	1,476
Total restricted assets	<u>118,206</u>	<u>856,454</u>	<u>-</u>	<u>974,660</u>
Revenue requirement to be billed by and received from the Board	-	5,180,710	(5,180,710)	-
Deferred bond and financing expenses	-	102,917	-	102,917
Total assets	<u>\$ 13,419,522</u>	<u>6,145,836</u>	<u>(5,180,710)</u>	<u>14,281,731</u>
Liabilities and Equity:				
Long-term liabilities:				
Bonds and notes payable, less current portion	\$ -	9,417,797	-	9,417,797
Net discount on bonds and notes payable	-	(331,840)	-	(331,840)
Deferred bond refunding costs	-	(210,388)	-	(210,388)
Revenue requirements payable to the Authority	5,180,710	-	(5,180,710)	-
Total long-term liabilities	<u>5,180,710</u>	<u>8,875,569</u>	<u>(5,180,710)</u>	<u>8,875,569</u>
Current liabilities:				
Accounts payable and accrued expenses	238	27,480	-	27,718
Revenues received in advance	67,798	-	-	67,798
Current portion of bonds and notes payable	-	358,575	-	358,575
Payable to the City	-	252,911	-	252,911
Refunds payable to customers	15,375	-	-	15,375
Total current liabilities	<u>83,411</u>	<u>638,966</u>	<u>-</u>	<u>722,377</u>
Total liabilities	<u>5,264,121</u>	<u>9,514,535</u>	<u>(5,180,710)</u>	<u>9,597,946</u>
Equity:				
Contributed capital, net of allocated depreciation	4,571,775	-	-	4,571,775
Retained earnings (deficit)	3,583,626	(3,368,699)	-	214,927
Total equity	<u>8,155,401</u>	<u>(3,368,699)</u>	<u>-</u>	<u>4,786,702</u>
Total liabilities and equity	<u>\$ 13,419,522</u>	<u>6,145,836</u>	<u>(5,180,710)</u>	<u>14,384,648</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Balance Sheet

June 30, 1999
(in thousands)

	New York City Water Board	New York City Municipal Water Finance Authority	Eliminations	Total
Assets:				
Utility plant in service, less accumulated depreciation of \$ 3,986,940	\$ 9,550,064	-	-	9,550,064
Construction work-in-progress	2,855,474	-	-	2,855,474
	<u>12,405,538</u>	<u>-</u>	<u>-</u>	<u>12,405,538</u>
Current assets:				
Unrestricted cash and cash equivalents	35,851	3	-	35,854
Investments	3,425	-	-	3,425
Accounts receivable:	-	-	-	-
Billed, less allowance for uncollectible water and sewer receivables of \$ 287,805	286,055	-	-	286,055
Unbilled	105,000	-	-	105,000
Receivable from the City	69,673	-	-	69,673
Other	-	12	-	12
Total current assets	<u>500,004</u>	<u>15</u>	<u>-</u>	<u>500,019</u>
Restricted assets:				
Cash and cash equivalents	116,111	393,396	-	509,507
Investments	-	499,594	-	499,594
Accrued interest receivable	142	1,633	-	1,775
Total restricted assets	<u>116,253</u>	<u>894,623</u>	<u>-</u>	<u>1,010,876</u>
Revenue requirement to be billed by and received from the Board	-	5,097,277	(5,097,277)	-
Deferred bond and financing expenses	-	103,963	-	103,963
Total assets	<u>\$ 13,021,795</u>	<u>6,095,878</u>	<u>(5,097,277)</u>	<u>14,020,396</u>
Liabilities and Equity:				
Long-term liabilities:				
Bonds and notes payable, less current portion	\$ -	8,623,232	-	8,623,232
Net discount on bonds and notes payable	-	(336,988)	-	(336,988)
Deferred bond refunding costs	-	(237,149)	-	(237,149)
Revenue requirements payable to the Authority	5,097,277	-	(5,097,277)	-
Total long-term liabilities	<u>5,097,277</u>	<u>8,049,095</u>	<u>(5,097,277)</u>	<u>8,049,095</u>
Current liabilities:				
Accounts payable and accrued expenses	297	22,421	-	22,718
Revenues received in advance	80,262	-	-	80,262
Current portion of bonds and notes payable	-	748,478	-	748,478
Payable to the City	-	235,143	-	235,143
Refunds payable to customers	14,500	-	-	14,500
Total current liabilities	<u>95,059</u>	<u>1,006,042</u>	<u>-</u>	<u>1,101,101</u>
Total liabilities	<u>5,192,336</u>	<u>9,055,137</u>	<u>(5,097,277)</u>	<u>9,150,196</u>
Equity:				
Contributed capital, net of allocated depreciation	4,696,778	-	-	4,696,778
Retained earnings (deficit)	3,132,681	(2,959,259)	-	173,422
Total equity	<u>7,829,459</u>	<u>(2,959,259)</u>	<u>-</u>	<u>4,870,200</u>
Total liabilities and equity	<u>\$ 13,021,795</u>	<u>6,095,878</u>	<u>(5,097,277)</u>	<u>14,020,396</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Statement of Revenues, Expenses
and Changes in Retained EarningsYear ended June 30, 2000
(in thousands)

	New York City Water Board	New York City Municipal Water Finance Authority	Eliminations	Total
Operating revenues:				
Water supply and distribution	\$ 610,949	-	-	610,949
Sewer collection and treatment	876,455	-	-	876,455
Other operating revenues	47,458	45,736	-	93,194
Total operating revenues	<u>1,534,862</u>	<u>45,736</u>	-	<u>1,580,598</u>
Operating expenses:				
Operation and maintenance	801,255	-	-	801,255
Provision for bad debts	89,062	-	-	89,062
Administration and general	1,578	8,514	-	10,092
Total operating expenses	<u>891,895</u>	<u>8,514</u>	-	<u>900,409</u>
Excess of operating revenues over operating expenses before depreciation and amortization	642,967	37,222	-	680,189
Depreciation and amortization	<u>326,601</u>	<u>20,454</u>	-	<u>347,055</u>
Operating income	316,366	16,768	-	333,134
Nonoperating revenue (expense):				
Interest expense	-	(492,747)	-	(492,747)
Investment income	3,939	66,539	-	70,478
Net income (loss)	320,305	(409,440)	-	(89,135)
Depreciation allocated to contributed capital	130,640	-	-	130,640
Retained earnings (deficit) at beginning of year	<u>3,132,681</u>	<u>(2,959,259)</u>	-	<u>173,422</u>
Retained earnings (deficit) at end of year	<u>\$ 3,583,626</u>	<u>(3,368,699)</u>	-	<u>214,927</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Statement of Revenues, Expenses
and Changes in Retained Earnings

Year ended June 30, 1999

(in thousands)

	New York City Water Board	New York City Municipal Water Finance Authority	Eliminations	Total
Operating revenues:				
Water supply and distribution	\$ 583,394	-	-	583,394
Sewer collection and treatment	857,204	-	-	857,204
Other operating revenues	40,075	45,828	-	85,903
Total operating revenues	<u>1,480,673</u>	<u>45,828</u>	<u>-</u>	<u>1,526,501</u>
Operating expenses:				
Operation and maintenance	777,652	-	-	777,652
Provision for bad debts	103,960	-	-	103,960
Administration and general	1,891	8,988	-	10,879
Total operating expenses	<u>883,503</u>	<u>8,988</u>	<u>-</u>	<u>892,491</u>
Excess of operating revenues over operating expenses before depreciation and amortization	597,170	36,840	-	634,010
Depreciation and amortization	<u>354,353</u>	<u>25,670</u>	<u>-</u>	<u>380,023</u>
Operating income	242,817	11,170	-	253,987
Nonoperating revenue (expenses):				
Interest expense	-	(476,675)	-	(476,675)
Investment income	3,174	78,291	-	81,465
Net income (loss)	3,174	(387,214)	-	(141,223)
Depreciation allocated to contributed capital	128,279	-	-	128,279
Retained earnings (deficit) at beginning of year	<u>2,758,411</u>	<u>(2,572,045)</u>	<u>-</u>	<u>186,366</u>
Retained earnings (deficit) at end of year	<u>\$ 2,889,864</u>	<u>(2,959,259)</u>	<u>-</u>	<u>173,422</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Statement of Cash Flows

Year ended June 30, 2000
(in thousands)

	New York City Water Board	New York City Municipal Water Finance Authority	Total
Cash flows from operating activities:			
Operating income	\$ 316,366	16,768	333,134
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation and amortization	326,601	20,454	347,055
Provision for uncollectible accounts	89,062	-	89,062
Changes in assets and liabilities:			
(Increase) in receivables	(119,807)	-	(119,807)
Decrease in receivable from the City	22,533	-	22,533
(Increase) in other	-	(5,739)	(5,739)
Increase in payable to the City	-	17,768	17,768
(Decrease) increase in accounts payable and accrued expenses	(59)	5,059	5,000
(Decrease) in revenues received in advance	(12,464)	-	(12,464)
Increase in refunds payable to customers	875	-	875
Increase (decrease) in payable to the Authority (receivable from the Board)	83,433	(83,433)	-
Total adjustments	390,174	(45,891)	344,283
Net cash provided by (used in) operating activities	706,540	(29,123)	677,417
Cash flows from capital and related financing activities:			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	-	1,515,293	1,515,293
Repayments of bonds, notes and other borrowings	-	(1,112,623)	(1,112,623)
Interest paid on bonds, notes and other borrowings	-	(481,945)	(481,945)
Acquisition and construction of capital assets	(739,072)	-	(739,072)
Net cash (used in) capital and related financing activities	(739,072)	(79,275)	(818,347)
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	3,425	499,594	503,019
Purchases of investments	-	(98,333)	(98,333)
Interest on investments	3,860	70,608	74,468
Net cash provided by investing activities	7,285	471,869	479,154
Net (decrease) increase in cash and cash equivalents	(25,247)	363,471	338,224
Cash and cash equivalents, beginning of year	151,962	393,399	545,361
Cash and cash equivalents, end of year	\$ 126,715	756,870	883,585

Reconciliation of Cash and Cash Equivalents Per Statement of Cash Flows to the Balance Sheet

	Assets		
	Unrestricted	Restricted	Total
Cash and cash equivalents - beginning	\$ 35,854	509,507	545,361
Net (decrease) increase	(27,120)	365,344	338,224
Cash and cash equivalents - ending	\$ 8,734	874,851	883,585

The following are the noncash capital and related financing activities:

- Interest expense includes the accretion of capital appreciation bonds discount in the amount of \$7,429
- Capital expenditures in the amount of \$252,911 had been incurred but not paid at June 30, 2000
- The Water Board received capital assets of \$5,637 in 2000 which represent capital contributed by the City.

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Statement of Cash Flows

Year ended June 30, 1999
(in thousands)

	New York City Water Board	New York City Municipal Water Finance Authority	Total
Cash flows from operating activities:			
Operating income	\$ 242,817	11,170	253,987
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation and amortization	354,353	25,870	380,023
Provision for bad debts	103,960	-	103,960
Changes in assets and liabilities:			
(Increase) in receivables	(113,987)	-	(113,987)
(Increase) in receivable from the City	(34,300)	-	(34,300)
Decrease in other	-	965	965
Increase in payable to the City	-	36,296	36,296
Increase (Decrease) in accounts payable and accrued expenses	164	(259)	(95)
(Decrease) in revenues received in advance	(7,316)	-	(7,316)
(Decrease) in refunds payable to customers	(2,000)	-	(2,000)
Increase in payable to the Authority (receivable from the Board)	313,412	(313,412)	-
Total adjustments	614,286	(250,740)	363,546
Net cash provided by (used in) operating activities	857,103	(239,570)	617,533
Cash flows from capital and related financing activities:			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	-	1,284,953	1,284,953
Repayments of bonds, notes and other borrowings	-	(831,343)	(831,343)
Interest paid on bonds, notes and other borrowings	-	(464,319)	(464,319)
Acquisition and construction of capital assets	(822,471)	-	(822,471)
Net cash used in capital and related financing activities	(822,471)	(10,709)	(833,180)
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	-	1,007,812	1,007,812
Purchases of investments	(3,425)	(1,104,226)	(1,107,651)
Interest on investments	3,218	80,386	83,604
Net cash provided by (used in) investing activities	(207)	(16,028)	(16,235)
Net (decrease) increase in cash and cash equivalents	34,425	(266,307)	(231,882)
Cash and cash equivalents, beginning of year	117,537	659,706	777,243
Cash and cash equivalents, end of year	\$ 151,962	393,399	545,361

Reconciliation of Cash and Cash Equivalents Per Statement of Cash Flows to the Balance Sheet

	Assets		
	Unrestricted	Restricted	Total
Cash and cash equivalents - beginning	\$ 6,572	770,671	777,243
Net (decrease) increase	29,282	(261,164)	(231,882)
Cash and cash equivalents - ending	\$ 35,854	509,507	545,361

The following are the noncash capital and related financing activities:

- Interest expense includes the accretion of capital appreciation bonds discount in the amount of \$10,547
- Capital expenditures in the amount of \$ 235,143 had been incurred but not paid at June 30, 1999.
- The Water Board received capital assets of \$ 7,389 in 1999 which represent capital contributed by the City.

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Schedule of Cash Receipts and Disbursements

Year ended June 30, 2000

(in thousands)

	<u>New York City Water Board</u>	<u>New York City Municipal Water Finance Authority</u>	<u>Eliminations</u>	<u>Total</u>
Cash receipts:				
Water supply and distribution and sewer collection and treatment	\$ 1,326,802	-	-	1,326,802
Other operating revenues	47,458	-	-	47,458
Revenues received in advance	42,882	-	-	42,882
Investment income	3,860	70,608	-	74,468
Subsidy income	-	45,736	-	45,736
Total cash receipts	<u>1,421,002</u>	<u>116,344</u>	<u>-</u>	<u>1,537,346</u>
Cash disbursements:				
Operation and maintenance	777,025	-	-	777,025
Administration and general	1,636	8,382	-	10,018
Interest payments	-	481,945	-	481,945
Amounts refunded to customers	15,375	-	-	15,375
Total cash disbursements	<u>794,036</u>	<u>490,327</u>	<u>-</u>	<u>1,284,363</u>
Excess (deficit) of cash receipts over cash disbursements before financing sources (uses)	<u>626,966</u>	<u>(373,983)</u>	<u>-</u>	<u>252,983</u>
Financing sources (uses):				
Proceeds from bond and note sales, net of issuance costs	-	1,515,293	-	1,515,293
Transfers from the Board, net	-	655,639	(655,639)	-
Investments	1,552	36,979	-	38,531
Construction payments	-	(721,305)	-	(721,305)
Repayment of bonds and notes	-	(1,112,622)	-	(1,112,622)
Transfers to the Authority, net	(655,639)	-	655,639	-
Total financing sources (uses)	<u>(654,087)</u>	<u>373,984</u>	<u>-</u>	<u>(280,103)</u>
(Deficit) of cash receipts over cash disbursements	(27,121)	1	-	(27,120)
Unrestricted cash and cash equivalents at beginning of year	<u>35,851</u>	<u>3</u>	<u>-</u>	<u>35,854</u>
Unrestricted cash and cash equivalents at end of year	<u>\$ 8,730</u>	<u>4</u>	<u>-</u>	<u>8,734</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Schedule of Cash Receipts and Disbursements

Year ended June 30, 1999

(in thousands)

	New York City Water Board	New York City Municipal Water Finance Authority	Eliminations	Total
Cash receipts:				
Water supply and distribution and sewer collection and treatment	\$ 1,279,729	-	-	1,279,729
Other operating revenues	40,075	-	-	40,075
Revenues received in advance	54,386	-	-	54,386
Investment income	3,218	80,386	-	83,604
Subsidy Income	-	45,828	-	45,828
Total cash receipts	<u>1,377,408</u>	<u>126,214</u>	<u>-</u>	<u>1,503,622</u>
Cash disbursements:				
Operation and maintenance	814,316	-	-	814,316
Administration and general	1,727	9,109	-	10,836
Interest payments	-	464,319	-	464,319
Amounts refunded to customers	14,454	-	-	14,454
Total cash disbursements	<u>830,497</u>	<u>473,428</u>	<u>-</u>	<u>1,303,925</u>
Excess (deficit) of cash receipts over cash disbursements before financing sources (uses)	<u>546,911</u>	<u>(347,214)</u>	<u>-</u>	<u>199,697</u>
Financing sources (uses):				
Proceeds from bond and note sales, net of issuance costs	-	1,284,953	-	1,284,953
Transfers from the Board, net	-	509,060	(509,060)	-
Investments	(8,570)	170,720	-	162,150
Construction payments	-	(786,175)	-	(786,175)
Repayment of bonds and notes	-	(831,343)	-	(831,343)
Transfers to the Authority, net	(509,060)	-	509,060	-
Total financing sources (uses)	<u>(517,630)</u>	<u>347,215</u>	<u>-</u>	<u>(170,415)</u>
Excess of cash receipts over cash disbursements	29,281	1	-	29,282
Unrestricted cash and cash equivalents at beginning of year	<u>6,570</u>	<u>2</u>	<u>-</u>	<u>6,572</u>
Unrestricted cash and cash equivalents at end of year	<u>\$ 35,851</u>	<u>3</u>	<u>-</u>	<u>35,854</u>

See accompanying independent auditors' report.

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