

\$535,000,000
NEW YORK CITY
MUNICIPAL WATER FINANCE AUTHORITY
WATER AND SEWER SYSTEM REVENUE BONDS,
Adjustable Rate Fiscal 2008 Series B
Consisting of

\$200,000,000 Fiscal 2008 Subseries B-1, CUSIP: 64972F SE7
 \$100,000,000 Fiscal 2008 Subseries B-2, CUSIP: 64972F SF4
 \$135,000,000 Fiscal 2008 Subseries B-3, CUSIP: 64972F SG2
 \$100,000,000 Fiscal 2008 Subseries B-4, CUSIP: 64972F SJ6

SUPPLEMENT DATED MARCH 17, 2008 TO
OFFICIAL STATEMENT DATED MARCH 6, 2008

The information provided below supplements the Official Statement referred to above (the "Official Statement") offering the New York City Municipal Water Finance Authority First General Resolution Bonds, Adjustable Rate Fiscal 2008 Series B of the subseries identified above.

1. The information contained in the Official Statement in the first paragraph and the table in the Official Statement on page 8 under the headings and subheadings "**THE FISCAL 2008 B BONDS — Redemption—Fiscal 2008 B Bonds — Sinking Fund Redemption**" is revised and restated as follows:

Fiscal 2008 B Bonds — Sinking Fund Redemption. The Fiscal 2008 B Bonds 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:

Year	Fiscal 2008B-1 Bonds Amount	Fiscal 2008B-2 Bonds Amount	Fiscal 2008B-3 Bonds Amount
2022			\$85,000,000
2023	\$ 75,000,000	\$25,000,000	
2024	125,000,000 [†]	75,000,000 [†]	
2025			50,000,000 [†]

[†] Final Maturity.

2. The table in the Official Statement on page 33 under the heading and subheading “**CAPITAL IMPROVEMENT AND FINANCING PROGRAM — Debt Service Requirements**” is revised and restated as follow:

Debt Service Requirements

Fiscal Year Ending June 30	Debt Service on Outstanding First Resolution Bonds(1)(2)(3)	Debt Service on Outstanding Second Resolution Bonds(2)	Debt Service on Fiscal 2008 B Bonds		Debt Service on Fiscal 2008 C Bonds (4)	Debt Service on First Resolution Bonds including Bonds and Fiscal 2008 C Bonds (1)(2)(3)(4)	Total Debt Service (1)(2)(3)(4)
			Principal	Interest			
2008	\$ 524,899,609	\$ 403,010,228	\$ —	\$ 5,431,736	\$ 8,333,057	\$ 538,664,402	\$ 941,674,630
2009	526,884,190	421,040,183	—	22,737,500	15,875,025	565,496,715	986,536,898
2010	517,292,495	445,596,796	—	22,737,500	15,512,725	555,542,720	1,001,139,516
2011	581,133,230	457,919,805	—	22,737,500	15,206,125	619,076,855	1,076,996,660
2012	559,284,682	457,505,966	—	22,737,500	14,879,875	596,902,057	1,054,408,024
2013	551,650,222	443,134,341	—	22,737,500	14,430,263	588,817,985	1,031,952,326
2014	651,552,799	428,485,390	—	22,737,500	14,239,663	688,529,961	1,117,015,352
2015	668,209,885	423,641,911	—	22,737,500	14,715,950	705,663,335	1,129,305,246
2016	639,385,863	442,898,452	—	22,737,500	14,304,800	676,428,163	1,119,326,615
2017	642,910,306	460,738,499	—	22,737,500	13,865,250	679,513,056	1,140,251,556
2018	686,683,556	421,581,108	—	22,737,500	13,337,813	722,758,869	1,144,339,977
2019	620,219,566	486,871,775	—	22,737,500	12,912,700	655,869,766	1,142,741,541
2020	611,527,643	490,756,494	—	22,737,500	12,680,500	646,945,643	1,137,702,138
2021	593,925,065	490,492,714	—	22,737,500	12,164,250	628,826,815	1,119,319,529
2022	567,165,290	416,664,171	85,000,000	22,737,500	—	674,902,790	1,091,566,961
2023	540,152,934	343,128,399	200,000,000	19,125,000	—	759,277,934	1,102,406,333
2024	523,864,615	304,767,885	200,000,000	10,625,000	—	734,489,615	1,039,257,500
2025	708,181,753	298,894,648	50,000,000	2,125,000	—	760,306,753	1,059,201,400
2026	768,172,875	336,531,839	—	—	—	768,172,875	1,104,704,714
2027	773,421,638	333,154,894	—	—	—	773,421,638	1,106,576,532
2028	752,796,625	348,895,634	—	—	—	752,796,625	1,101,692,259
2029	730,520,219	334,677,946	—	—	—	730,520,219	1,065,198,165
2030	709,300,463	315,009,821	—	—	—	709,300,463	1,024,310,283
2031	752,723,900	307,098,135	—	—	—	752,723,900	1,059,822,035
2032	763,773,206	276,973,840	—	—	—	763,773,206	1,040,747,046
2033	743,182,075	374,085,591	—	—	—	743,182,075	1,117,267,666
2034	720,246,675	282,381,551	—	—	—	720,246,675	1,002,628,226
2035	720,245,475	283,564,750	—	—	—	720,245,475	1,003,810,225
2036	772,904,888	288,729,406	—	—	—	772,904,888	1,061,634,294
2037	766,811,188	326,393,950	—	—	—	766,811,188	1,093,205,138
2038	760,700,188	283,146,250	—	—	—	760,700,188	1,043,846,438
2039	687,369,188	246,200,000	—	—	—	687,369,188	933,569,188
Total	\$21,137,092,304	\$11,973,972,374	\$535,000,000	\$355,631,736	\$192,457,994	22,220,182,034	34,194,154,408

Totals may not add due to rounding. Debt service is not included for bonds for which money has been set aside for payment at maturity or that have been previously refunded and are no longer Outstanding.

- (1) Assumes that on the respective tender dates, the Crossover Bonds will be exchanged for Bonds and the proceeds of the respective series of Crossover Bonds will be applied to redeem certain Outstanding Bonds.
- (2) Net of projected subsidy, surplus, and capitalized interest payments from EFC.
- (3) Does not include debt service on the First Resolution Bonds to be refunded with the proceeds of the Fiscal 2008 B Bonds and Fiscal 2008 C Bonds.
- (4) Includes the debt service on the \$144,945,000 Fiscal 2008 C Bonds, which are fixed rate bonds expected to be issued simultaneously with the Fiscal 2008 B Bonds.

**NEW YORK CITY MUNICIPAL WATER
FINANCE AUTHORITY**

NEW ISSUE

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Fiscal 2008 B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Fiscal 2008 B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Fiscal 2008 B Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Fiscal 2008 B Bonds. See "TAX MATTERS."

\$535,000,000
New York City
Municipal Water Finance Authority
Water and Sewer System Revenue Bonds, Adjustable Rate Fiscal 2008 Series B
consisting of
\$200,000,000 Fiscal 2008 Subseries B-1 Adjustable Rate Bonds
\$100,000,000 Fiscal 2008 Subseries B-2 Adjustable Rate Bonds
\$135,000,000 Fiscal 2008 Subseries B-3 Adjustable Rate Bonds
\$100,000,000 Fiscal 2008 Subseries B-4 Adjustable Rate Bonds

Dated: Date of Delivery

Due: June 15, as shown on the inside cover

The Fiscal 2008 B Bonds will be issued in four Subseries in the respective aggregate principal amounts, bearing interest in the respective Rate Modes and maturing on the respective dates as set forth on the inside cover. Interest is payable on the Fiscal 2008 B Bonds bearing interest at a Daily Rate or a Weekly Rate on the 15th day of each month, commencing April 15, 2008. The Fiscal 2008 B Bonds bearing interest at a Daily Rate or a Weekly Rate may be tendered to the Tender Agent for purchase at the option of the Bondholder thereof under the circumstances described herein. The Fiscal 2008 B Bonds are also subject to mandatory tender and to redemption prior to maturity, as described herein. Liquidity support for the payment of the Purchase Price of tendered but unremarketed Fiscal 2008 B-1 Bonds is provided by JPMorgan Chase Bank, National Association. Liquidity support for the payment of the Purchase Price of tendered but unremarketed Fiscal 2008 B-2 Bonds is provided by Lloyds TSB Bank plc, acting through its New York Branch. Liquidity support for the payment of the Purchase Price of tendered but unremarketed Fiscal 2008 B-3 Bonds is provided by Bank of America, N.A. Liquidity support for the payment of the Purchase Price of tendered but unremarketed Fiscal 2008 B-4 Bonds is provided by BNP Paribas, acting through its San Francisco Branch. The obligations of such Liquidity Providers are subject to immediate termination or suspension without notice upon the occurrence of certain events described herein.

The Fiscal 2008 B Bonds are 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 Fiscal 2008 B Bonds are not a debt of the State of New York, The City of New York or the New York City Water Board and none of the State of New York, The City of New York or the New York City Water Board is liable on the Fiscal 2008 B Bonds.

The Fiscal 2008 B Bonds are offered when, as and if issued by the Authority and received by the Underwriters and subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, New York, New York. It is anticipated that the Fiscal 2008 B Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about March 19, 2008.

Goldman, Sachs & Co.
(Underwriter and Remarketing Agent
for the Fiscal 2008 B-1 Bonds)

JPMorgan
(Underwriter and Remarketing Agent
for the Fiscal 2008 B-2 Bonds)

Banc of America Securities LLC
(Underwriter and Remarketing Agent
for the Fiscal 2008 B-3 Bonds)

Citi
(Underwriter and Remarketing Agent
for the Fiscal 2008 B-4 Bonds)

March 6, 2008

New York City Municipal Water Finance Authority

\$535,000,000

Water and Sewer System Revenue Bonds, Adjustable Rate Fiscal 2008 Series B Price: 100%

\$200,000,000 Fiscal 2008 B-1 Bonds

Maturity Date: June 15, 2024
Rate Mode: Weekly
First Interest Payment Date:
April 15, 2008
Remarketing Agent: Goldman,
Sachs & Co.
Facility Provider: JP Morgan
Chase Bank, National Association
CUSIP⁽¹⁾: 64972F SE7

\$100,000,000 Fiscal 2008 B-2 Bonds

Maturity Date: June 15, 2024
Rate Mode: Daily
First Interest Payment Date:
April 15, 2008
Remarketing Agent: JP Morgan
Securities Inc.
Facility Provider: Lloyds TSB Bank
plc acting through its New York
Branch
CUSIP⁽¹⁾: 64972F SF4

\$135,000,000 Fiscal 2008 B-3 Bonds

Maturity Date: June 15, 2025
Rate Mode: Daily
First Interest Payment Date:
April 15, 2008
Remarketing Agent: Banc of America
Securities LLC
Facility Provider:
Bank of America, N.A.
CUSIP⁽¹⁾: 64972F SG2

\$100,000,000 Fiscal 2008 B-4 Bonds

Maturity Date: June 15, 2023
Rate Mode: Weekly
First Interest Payment Date:
April 15, 2008
Remarketing Agent: Citigroup
Global Markets Inc.
Facility Provider: BNP Paribas, acting
through its San Francisco Branch
CUSIP⁽¹⁾: 64972F SJ6

⁽¹⁾ Copyright 2007, American Bankers Association. CUSIP data herein are provided by Standard & Poor's. CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Fiscal 2008 B Bonds and the Authority and the Underwriters do not make any representation with respect to such numbers of undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Fiscal 2008 B Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Fiscal 2008 B Bonds.

New York City Municipal Water Finance Authority
75 Park Place, 6th Floor
New York, New York 10007
212-788-5889

Mark Page, <i>ex officio</i>	<i>Member</i>
Alexander B. Grannis, <i>ex officio</i>	<i>Member</i>
Martha E. Stark, <i>ex officio</i>	<i>Member</i>
Emily Lloyd, <i>ex officio</i>	<i>Member</i>
Arthur B. Hill	<i>Member</i>
Peter J. Kenny	<i>Member</i>

Alan L. Anders	<i>Chief Executive Officer</i>
Patrick J. McCoy	<i>Executive Director</i>
Marjorie E. Henning	<i>Secretary</i>
Michele Mark Levine	<i>Comptroller</i>
Eileen T. Moran	<i>Deputy Comptroller</i>
Olga Chernat	<i>Deputy Treasurer</i>
Prescott D. Ulrey	<i>Assistant Secretary</i>
Jeffrey M. Werner	<i>Assistant Secretary</i>
Raymond Orlando	<i>Manager of Investor Relations</i>

New York City Water Board
59-17 Junction Boulevard, 8th Floor
Flushing, New York 11373-5108
718-595-3586

James T.B. Tripp	<i>Chair</i>
Donald Capoccia	<i>Member</i>
Dawn S. Davis	<i>Member</i>
Marilyn Gelber	<i>Member</i>
Amaziah Howell	<i>Member</i>
Alan Moss	<i>Member</i>
Maria Santos Valentin	<i>Member</i>

Steven Lawitts	<i>Executive Director</i>
William Kusterbeck	<i>Treasurer</i>
Carmelo Emilio	<i>Deputy Treasurer</i>
Albert F. Moncure, Jr.	<i>Secretary</i>

Authority Consultants

Bond Counsel	<i>Orrick, Herrington & Sutcliffe LLP</i>
Consulting Engineer	<i>Metcalf & Eddy of New York, Inc.</i>
Financial Advisors	<i>Lamont Financial Services Corporation/Ramirez & Co., Inc.</i>
Rate Consultant	<i>Amawalk Consulting Group LLC</i>

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This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the Fiscal 2008 B 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 Fiscal 2008 B Bonds and if given or made, such information or representation must not be relied upon. Information contained on the Authority's web page, on the City's web site, or on any other web page is not a part of this Official Statement. Neither the delivery of this Official Statement nor the sale of any of the Fiscal 2008 B 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 FISCAL 2008 B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY STATEMENT

The following is a brief summary of the information contained in this Official Statement and is subject in all respects to the additional information contained herein, including the appendices attached hereto. Defined terms have the same meaning herein as elsewhere in this Official Statement.

Use of Proceeds:	The proceeds of the Fiscal 2008 B Bonds are expected to be applied, together with a portion of the proceeds of the Fiscal 2008 C Bonds described below, (i) to pay the principal of and interest on certain of the Authority's Outstanding Water and Sewer System Revenue Bonds and (ii) to pay certain costs of issuance.
Description of the Bonds:	The Fiscal 2008 B Bonds are being issued by the Authority in the principal amount of \$535,000,000 pursuant to its Water and Sewer System General Revenue Bond Resolution adopted on November 14, 1985, as amended, and its Seventy-Ninth Supplemental Resolution expected to be adopted on March 7, 2008. The Fiscal 2008 B Bonds are issued in book-entry only form and in authorized minimum denominations of \$100,000 and integral multiples of \$5,000 in excess thereof.
Redemption Provisions:	The Fiscal 2008 B Bonds are subject to optional redemption as described herein.
Additional Bonds:	Simultaneously with issuance of the Fiscal 2008 B Bonds the Authority intends to issue approximately \$150,000,000 of its Water and Sewer System Revenue Bonds, Fiscal 2008 Series C (the "Fiscal 2008 C Bonds"). The Fiscal 2008 C Bonds will bear interest at fixed rates.
The System:	The Water System provides approximately 1,185 million gallons per day (mgd) of water to approximately 830,000 accounts. It supplies water to approximately 9,000,000 people, of which approximately 8,000,000 are in the City and the balance are in Westchester, Putnam, Orange and Ulster Counties. The Sewer System is comprised of an extensive network of sewage collection and treatment facilities that treat over 1,300 mgd of wastewater. Under the Act, the Lease and the Agreement, the Board is obligated to pay the operating expenses of the System. The City is obligated to operate and maintain the System regardless of payment by the Board.

Summary Financial Information:

	Historical			Projected (1)	
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
	(Millions of Dollars)				
Revenues Available for Debt Service (2) . .	\$1,829.8	\$1,931.9	\$1,994.9	\$2,301.0	\$2,527.1
Net Operating Expenses (2)	834.2	864.5	963.0	1,057.8	1,070.4
Other Expenses (including Rental Payments to New York City) (2).	<u>325.5</u>	<u>253.8</u>	<u>173.8</u>	<u>245.3</u>	<u>268.3</u>
Total Expenses (2)	1,159.7	1,118.3	1,136.8	1,303.1	1,338.7
Total First Resolution Bond Debt Service .	467.9	513.8	521.4	551.4	641.3
Net Debt Service on Subordinated Indebtedness (3)	<u>43.2</u>	<u>123.7</u>	<u>163.0</u>	<u>362.0</u>	<u>456.8</u>
Net Surplus	159.0	176.2	173.6	84.5	90.4
First Resolution Debt Service Coverage . .	3.91x	3.76x	3.83x	4.17x	3.94x
First and Second Resolution Debt Service Coverage (3)	3.58x	3.03x	2.91x	2.52x	2.30x
Rate Increase	5.5%	3.0%	9.4%	11.5%(4)	11.5%

Totals may not add due to rounding.

(1) Projections are as of April 30, 2007.

(2) Historical figures, which are derived from the accounting records used to prepare the statements of cash flows contained in the annual financial statements, are shown on a cash basis.

(3) Includes Debt Service on Second Resolution Bonds and interest on Commercial Paper Notes and reflects offset of carryforward revenues.

(4) Actual rate increase.

Total Authority Debt Outstanding:

As of the date of this Official Statement, the Authority has approximately \$10.8 billion of Bonds (defined below) and \$7.5 billion of Second Resolution Bonds (defined below) Outstanding. See “CAPITAL IMPROVEMENT AND FINANCING PROGRAM—Debt Service Requirements.” In addition, the Authority currently has an \$800 million commercial paper program.

Expected Long Term Ratings:

	Rating
Fitch:	AA
Moody's:	Aa2
Standard & Poor's:	AA+

Expected Short Term Ratings:

The short term ratings on each Subseries of the Fiscal 2008 B Bonds are based on the short term rating of the respective Facility Providers. The following table shows the expected short term ratings for each Subseries of the Fiscal 2008 B Bonds

Fiscal 2008 B-1	Fitch:	F1+
	Moody's:	VMIG1
	Standard & Poor's:	A-1+
Fiscal 2008 B-2	Fitch:	F1+
	Moody's:	VMIG1
	Standard & Poor's:	A-1+

Fiscal 2008 B-3	Fitch: F1+ Moody's: VMIG1 Standard & Poor's: A-1+												
Fiscal 2008 B-4	Fitch: F1+ Moody's: VMIG1 Standard & Poor's: A-1+												
Capital Program:	The City's Ten Year Capital Strategy, which is updated every two years, was released in April 2007 (the "Ten Year Capital Strategy"). The Ten Year Capital Strategy includes the projected capital improvements to the System for Fiscal Years 2008 through 2017. The City's Current Capital Plan (the "Current Capital Plan"), which covers Fiscal Years 2008 through 2012, was published in January 2008, is updated three times each Fiscal Year and supersedes the Ten Year Capital Strategy for Fiscal Years 2008 through 2012. The Ten Year Capital Strategy as modified by the Current Capital Plan comprises the Capital Improvement Program (the "CIP"). The CIP is designed to maintain a satisfactory level of service, to improve operation of the System and to address future System requirements.												
Bond Financing Program:	<p>The following table shows, as of April 30, 2007, total Authority indebtedness expected to be issued for capital purposes, excluding refunding bonds, from Fiscal Year 2009 to Fiscal Year 2011. During Fiscal Year 2008, the Authority has issued approximately \$2.3 billion of bonds, including the Fiscal 2008 B Bonds and the Fiscal 2008 C Bonds, (of which \$1.0 billion was for refunding purposes) and expects to issue an additional \$1.0 billion of bonds for capital purposes.</p> <table><tr><td><u>FY 2009</u></td><td><u>FY 2010</u></td><td><u>FY 2011</u></td><td><u>Period Total</u></td></tr><tr><td colspan="4">(Millions of Dollars)</td></tr><tr><td>\$2,428.5</td><td>\$2,385.1</td><td>\$2,393.8</td><td>\$7,207.4</td></tr></table>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Period Total</u>	(Millions of Dollars)				\$2,428.5	\$2,385.1	\$2,393.8	\$7,207.4
<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Period Total</u>										
(Millions of Dollars)													
\$2,428.5	\$2,385.1	\$2,393.8	\$7,207.4										
Security for the Bonds:													
Revenue Pledge:	The Bonds are special obligations of the Authority, payable solely from and secured by a pledge of the gross revenues of the System prior to the payment of operation and maintenance costs or any other expenses.												
Debt Service Reserve Fund:	Upon the delivery of the Fiscal 2008 B Bonds, the Debt Service Reserve Fund will be funded in an amount at least equal to the maximum annual Adjusted Aggregate Debt Service on the Outstanding Bonds.												
Rate Covenant:	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 on all Bonds Outstanding and on any Projected Series of Bonds (excluding Refundable Principal Installments for the payment of which funds are held in trust) payable in such Fiscal Year, and 100% of the												

Additional Bonds Test:	<p>Operating Expenses and Required Deposits (which includes debt service on the Second Resolution Bonds and other subordinate debt) to the extent required to be paid from Revenues for such Fiscal Year.</p> <p>Additional Bonds may be issued only if the estimated Revenues for the Fiscal Year in which such Bonds are issued and each of the following five Fiscal Years will be at least equal to the sum of 115% of the maximum estimated Adjusted Aggregate Debt Service on all Bonds, including the Bonds to be issued, and 100% of the sum of the projected Operating Expenses and Required Deposits (including Debt Service Reserve Fund replenishment and subordinate debt service) for such Fiscal Years and only if the Revenues for either of the last two Fiscal Years preceding the Fiscal Year in which the Bonds are to be issued were at least equal to the sum of (i) 115% of the Aggregate Debt Service for such Fiscal Year (excluding any Principal Installments, or portion thereof, paid from sources other than the Revenues) and (ii) 100% of the sum of Operating Expenses and Required Deposits for such Fiscal Year. Refunding Bonds may be issued under the Resolution either upon satisfaction of such conditions or other conditions.</p>
Summary of Certain Legal Opinions:	<p>Bond Counsel has rendered opinions to the effect that, in the event of a bankruptcy of the City, (i) a court, exercising reasonable judgment after full consideration of all relevant factors, would not hold that the Revenues are property of the City and would not order the substantive consolidation of the assets and liabilities of either the Board or the Authority with those of the City and (ii) the Board, in the event the City should reject the Lease, would be entitled to remain in possession of the System for the balance of the Lease term. Bond Counsel has also opined that under current law neither the Board nor the Authority qualifies as a debtor under the United States Bankruptcy Code.</p>
Rates:	<p>Rates, fees and charges are imposed by the Board and are not subject to regulatory approval except for those rates charged to a limited class of upstate users representing approximately 1% of Revenues.</p>
The Authority:	<p>The Authority, a separate legal entity established in 1984, has the power to (i) issue bonds, bond anticipation notes and other obligations for the purpose of financing the renovation and improvement of the System, (ii) refund its bonds and notes and general obligation bonds of the City issued for water or sewer purposes, (iii) require the Board to fix rates sufficient to pay the costs of operating and financing improvements to the System and (iv) require the City to maintain the System adequately. The Authority has no taxing power.</p>

The Board:

The Board, a separate legal entity established in 1984, has leased the System from the City. It is authorized to fix and collect rates, fees and charges adequate to pay the cost of operating and financing the System.

The Agreement:

Pursuant to the Agreement, the Authority has agreed to finance capital projects for the System, both current work and work commenced in prior years, through the issuance of bonds, notes or other indebtedness secured by revenues of the System.

The Lease:

Pursuant to the Lease, the Board has acquired the System from the City for a term continuing until provision has been made for the repayment of all Outstanding Bonds or other indebtedness of the Authority.

Financial Statements and Independent Auditors:

The financial statements of the System as of and for the years ended June 30, 2007 and June 30, 2006 included in Appendix D to this Official Statement have been audited by Grant Thornton LLP, independent certified public accountants, as stated in their report appearing therein.

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OFFICIAL STATEMENT

\$535,000,000

NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY WATER AND SEWER SYSTEM REVENUE BONDS, ADJUSTABLE RATE FISCAL 2008 SERIES B

INTRODUCTORY STATEMENT

General

The purpose of this Official Statement 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”); and the Authority’s \$535,000,000 Water and Sewer System Revenue Bonds, Adjustable Rate Fiscal 2008 Series B (the “Fiscal 2008 B Bonds”) consisting of \$200,000,000 Fiscal 2008 Subseries B-1 Adjustable Rate Bonds (the “Fiscal 2008 B-1 Bonds”), \$100,000,000 Fiscal 2008 Subseries B-2 Adjustable Rate Bonds (the “Fiscal 2008 B-2 Bonds”), \$135,000,000 Fiscal 2008 Subseries B-3 Adjustable Rate Bonds (the “Fiscal 2008 B-3 Bonds”) and \$100,000,000 Fiscal 2008 Subseries B-4 Adjustable Rate Bonds (the “Fiscal 2008 B-4 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.”

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 under the Authority’s Water and Sewer System General Revenue Bond Resolution adopted on November 14, 1985, as amended (the “Resolution” or the “First Resolution” and, when issued thereunder the “Bonds”), or subordinate obligations of the Authority under its Second Resolution (defined below). Pursuant to the Lease and the Agreement, the Board has agreed to levy and collect rates, fees and charges. Pursuant to the Lease, the City may, 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.

The Fiscal 2008 B Bonds will be issued by the Authority pursuant to the Resolution and its Seventy-Ninth Supplemental Resolution expected to be adopted on March 7, 2008 (the “Seventy-Ninth Supplemental Resolution”). The Resolution and the Seventy-Ninth Supplemental Resolution are collectively referred to herein as the “Resolutions.” The Bank of New York serves as trustee under the Resolutions (in such capacity, the “Trustee”) and will continue to serve as Trustee unless a successor is appointed in accordance with the Resolutions.

The Bonds are 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 relating to the use and application thereof. 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 (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 Board is obligated to take necessary action to cure or avoid any deficiency. See “SECURITY FOR THE BONDS—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 “SECURITY FOR THE BONDS.”

Rates, fees and charges are imposed by the Board and are not subject to regulatory approval under current law except for the rates charged to a limited class of upstate users, representing approximately 1% of Revenues. See “RATES AND BILLINGS.”

The Authority has relied upon Metcalf & Eddy of New York, Inc. (“Metcalf & Eddy”), its Consulting Engineer, for certain engineering feasibility information and upon Amawalk Consulting Group LLC (“Amawalk Consulting”), its Rate Consultant, for certain financial estimates and projections. See “ENGINEERING FEASIBILITY REPORT AND FORECASTED CASH FLOWS.”

Financial Projection Assumptions

The estimates and projections contained in 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 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 financial projections contained in this Official Statement, including bond financings, operating and maintenance expenses, debt service, revenues, sources and uses of funds, and forecasted cash flows and rate increases, were prepared as of April 30, 2007, and are expected to be updated annually. Actual financial results will differ from these projections.

For Fiscal Year 2007 and to date in Fiscal Year 2008, water and sewer payments collected have been lower than amounts projected to be received. A variety of steps have been taken, which DEP believes will address this shortfall, including implementing a payment incentive program, authorizing changes to regulations regarding the ability to terminate service for delinquent accounts, and receiving authorization for the City to sell, on behalf of the Board, liens securing unpaid water and sewer charges independent of the existence of any property tax liens. See “FINANCIAL OPERATIONS—Projected Revenues—Recent Developments.”

PLAN OF REFUNDING

A portion of the proceeds of the Fiscal 2008 B Bonds and the Fiscal 2008 C Bonds, is expected to be applied to redeem the Authority’s Water and Sewer System Revenue Bonds of the Series and maturing on the dates and in the aggregate principal amounts set forth in “APPENDIX G—TABLE OF REFUNDED BONDS” (the “Refunded Bonds”). Pursuant to an Escrow Agreement between the Authority and The Bank of New York (the “Escrow Trustee”) the Authority will deposit Defeasance Securities in trust with the Escrow Trustee. The Defeasance Securities will bear interest at such rates and will mature at such times and in such amounts so that, together with any uninvested cash held by the Escrow Trustee, sufficient moneys will be available to make full and timely payment on the principal of, and interest on, the Refunded Bonds to the redemption dates set forth in “APPENDIX G—TABLE OF REFUNDED BONDS” (the “Redemption Dates”). Upon such irrevocable deposit, the Refunded Bonds will be deemed to be no longer Outstanding and will no longer be entitled to the benefit of the pledge and lien established by the First Resolution, or to payment from Revenues of the System. The Authority will direct the Trustee to pay the principal of, and interest and redemption premium on the Refunded Bonds on their Redemption Dates. See “APPENDIX G—TABLE OF REFUNDED BONDS.”

USE OF PROCEEDS

The estimated proceeds of the Fiscal 2008 B Bonds and Fiscal 2008 C Bonds are anticipated to be applied in the following manner:

Deposit to Escrow Account for Refunded Bonds.....	\$685,395,300
Underwriters' Discount.....	813,171
Costs of Issuance	<u>971,789</u>
Total Uses of Proceeds	<u><u>\$687,180,260</u></u>

THE FISCAL 2008 B BONDS

General

The Fiscal 2008 B Bonds will be issued in four Subseries, in the respective aggregate principal amounts and will mature on the dates as set forth on the inside cover. Interest is payable on the Fiscal 2008 B Bonds bearing interest at a Daily Rate or a Weekly Rate on the 15th day of each month, commencing April 15, 2008. The Fiscal 2008 B Bonds are subject to optional and mandatory redemption prior to maturity as described under "Redemption of Fiscal 2008 B Bonds" and to optional and mandatory tender for purchase as described under "Optional Tender for Purchase" and "Mandatory Tender for Purchase." The Fiscal 2008 B Bonds will continue in a Rate Period until converted to another Rate Period and will bear interest at a rate determined in accordance with the procedures for determining the interest rate during such Rate Period. See "Conversion to an Alternate Rate Period" and "Interest Rates and Reset Dates" below.

Principal and Purchase Price of, and redemption premium, if any, and interest on, the Fiscal 2008 B Bonds will be payable in lawful money of the United States of America. The Fiscal 2008 B will be issued only as fully registered bonds without coupons in minimum denominations of \$100,000 and integral multiples of \$5,000 in excess thereof when the Rate Period is the Daily Rate Period, or a Weekly Rate Period. During the Daily Rate or a Weekly Rate Period, interest will be computed on the basis of a 365-day or 366-day year for the actual number of days elapsed.

The Bank of New York has been appointed as Tender Agent for the Fiscal 2008 B Bonds. Goldman, Sachs & Co. has been appointed as the Remarketing Agent for the Fiscal 2008 B-1 Bonds (the "2008 B-1 Remarketing Agent"). J.P. Morgan Securities Inc. has been appointed as the Remarketing Agent for the Fiscal 2008 B-2 Bonds (the "2008 B-2 Remarketing Agent"). Banc of America Securities LLC has been appointed as the Remarketing Agent for the Fiscal 2008 B-3 Bonds (the "2008 B-3 Remarketing Agent") and Citigroup Global Markets Inc. has been appointed as the Remarketing Agent for the Fiscal 2008 B-4 Bonds (the "2008 B-4 Remarketing Agent" and, together with the 2008 B-1 Remarketing Agent, the 2008 B-2 Remarketing Agent and the 2008 B-3 Remarketing Agent, the "Remarketing Agents").

Record Dates and Interest Payment Dates

Record Dates. Interest on the Fiscal 2008 B Bonds will be payable to the registered owner thereof as shown on the registration books kept by the Trustee at the close of business on the Record Date which will be the immediately preceding Business Day prior to a Bond Payment Date for Fiscal 2008 B Bonds in a Daily Rate Period or a Weekly Rate Period.

Bond Payment Dates. Interest on the Fiscal 2008 B Bonds will be payable on the 15th day of each calendar month when such Fiscal 2008 B Bonds bear interest at a Daily Rate Mode or a Weekly Rate Mode. Interest payable on each Bond Payment Date for Fiscal 2008 B Bonds bearing interest in the Daily Rate Mode or the Weekly Rate Mode shall be the interest accruing and unpaid through and including the day preceding such Bond Payment Date.

Conversion to an Alternate Rate Period

At the election of the Authority, a Subseries of the Fiscal 2008 B Bonds may be converted to a different Rate Period by delivering a notice (the "Conversion Notice") to the applicable Remarketing

Agent for such Subseries, the Facility Provider for such Subseries, DTC and the Tender Agent specifying, among other things, the new Rate Mode or Modes to which such Fiscal 2008 B Bonds are then subject and the conversion date (which shall be a Reset Date or a Bond Payment Date) (a “Conversion Date”). The Authority must deliver such Conversion Notice at least fifteen days prior to the Conversion Date (or if the Fiscal 2008 B Bonds to be converted are Book-Entry Bonds, such shorter period as DTC will permit). The Tender Agent is to give written notice to the registered owner of each Fiscal 2008 B Bond of the Authority’s election to convert to another Rate Period and the Conversion Date. Such notice is to be given, by first class mail, not later than three calendar days after receipt by the Tender Agent of the Conversion Notice. See “Mandatory Tender for Purchase—*Mandatory Tender on Conversion Dates.*”

No Fiscal 2008 B Bonds may be converted from a Rate Period to a new Rate Period of another duration unless the Trustee and Tender Agent have received an Opinion of Bond Counsel by 10:00 a.m., New York City time, on the Conversion Date.

If the election to convert was withdrawn by the Authority, or if the Remarketing Agent for such Subseries has notified the Tender Agent that it has been unable to remarket the Fiscal 2008 B Bonds on the Conversion Date, the Subseries of Fiscal 2008 B Bonds will bear interest in a Daily Rate Period or, at the option of the Authority and in compliance with the provisions of the Resolutions regarding conversion of Rate Modes, any other Rate Period, which Rate Period will be in effect from and after the date on which the Rate Period was to be converted. However, if an Opinion of Bond Counsel is not delivered on or prior to the Conversion Date, the Rate Mode for the Subseries of Fiscal 2008 B Bonds not converted will be the existing Rate Mode.

Upon conversion to the Commercial Paper Rate Mode, the interest coverage provided by the applicable Standby Bond Purchase Agreement would be required to be increased if the Rate Period were longer than 30 days.

Interest Rates and Reset Dates

General. The rate at which a Subseries of the Fiscal 2008 B Bonds will bear interest during any Rate Period will be the rate of interest that, if borne by such Fiscal 2008 B Bonds for such Rate Period, in the judgment of the Remarketing Agent for such Subseries, having due regard for the prevailing financial market conditions for revenue bonds or other securities the interest on which is excludable from gross income for federal income tax purposes of the same general nature as Fiscal 2008 B Bonds and which are comparable as to credit and maturity or tender dates with the credit and maturity or tender dates of the Fiscal 2008 B Bonds, would be the lowest interest rate that would enable such Fiscal 2008 B Bonds to be sold at a price equal to the principal amount thereof, plus accrued interest thereon, if any.

Daily Rate Period. The Daily Rate for each Subseries for any Business Day is to be determined by the applicable Remarketing Agent for such Subseries and announced by 10:00 a.m., New York City time, on such Business Day. For any day which is not a Business Day, the Daily Rate will be the Daily Rate for the immediately preceding Business Day.

If with respect to a Subseries (i) a Daily Rate for a Business Day has not been determined by the Remarketing Agent for such Subseries, (ii) no Remarketing Agent for such Subseries shall be serving under the Second Resolutions, (iii) the Daily Rate determined by the applicable Remarketing Agent cannot for any reason be in effect for such Business Day or (iv) pursuant to the Remarketing Agreement relating to a Subseries the Remarketing Agent is not then required to establish a Daily Rate, the Daily Rate for such Business Day will be the SIFMA Municipal Index on the date such Daily Rate was to have been determined by the Remarketing Agent for such Subseries. “SIFMA Municipal Index” means the SIFMA Municipal Swap Index (formerly the BMA Municipal Swap Index) disseminated by Municipal Market Data, a Thomson Financial Services Company or its successor; or, if at the time a Weekly Rate is to be determined Municipal Market Data has not provided the relevant information on the SIFMA Municipal Index for the most recent Thursday, then the rate determined by Municipal Market Data on the Wednesday next preceding the beginning of the Weekly Rate Period for which such Weekly Rate is to be determined.

Weekly Rate Period. Except as described below, the Weekly Rate is to be determined by the Remarketing Agent for the related Subseries and announced by 10 a.m., New York City time, on

Thursday of each week. Each Weekly Rate will be in effect for a seven-day period commencing on Thursday and continuing through the next succeeding Wednesday. However, if the Conversion Date upon which a Rate Period has been converted to a Weekly Rate Period is not a Thursday, the initial Weekly Rate will commence on the Conversion Date and will continue through the next succeeding Wednesday which may be less than seven days. The Weekly Rate for such Weekly Rate Period will be determined by the Remarketing Agent for the related Subseries and announced by 4:00 p.m., New York City time, on the Business Day before the Conversion Date. In addition, the interest rate for Fiscal 2008 B Bonds which begin in the Weekly Mode will be established by the applicable Remarketing Agent on March 18, 2008 and will remain in effect through March 26, 2008.

If with respect to a Subseries (i) a Weekly Rate has not been determined by the applicable Remarketing Agent for such Subseries, (ii) no Remarketing Agent for such Subseries is then serving under the Resolutions, (iii) the Weekly Rate determined by the applicable Remarketing Agent cannot for any reason be in effect or (iv) pursuant to the Remarketing Agreement relating to a Subseries the Remarketing Agent is not then required to establish a Weekly Rate, the Weekly Rate will be the SIFMA Municipal Index on the date such Weekly Rate was to have been determined by the Remarketing Agent.

Purchased Bonds. Purchased Bonds will bear interest at the Purchased Bonds Rate, which may not exceed twenty five percent (25%) per annum (the “Purchased Bonds Maximum Rate”). If the Purchased Bonds Rate exceeds the Purchased Bonds Maximum Rate, then the Purchased Bonds will bear interest at the Purchased Bonds Maximum Rate. However, if, thereafter, the Purchased Bonds Rate is less than the Purchased Bonds Maximum Rate, then the Purchased Bonds will continue to bear interest at the Purchased Bonds Maximum Rate until the total interest paid and accrued with respect to such Purchased Bonds is equal to the total interest that the Holder thereof would have received if the Purchased Bonds had borne interest at the Purchased Bonds Rate without the foregoing limitation.

Certain Considerations Affecting Variable Rate Bonds

The Remarketing Agents are Paid by the Authority. The Remarketing Agents’ responsibilities include determining the interest rate from time to time and remarketing Fiscal 2008 B Bonds that are optionally or mandatorily tendered to it or the Tender Agent by the Beneficial Owners thereof (subject, in each case, to the terms of the respective Remarketing Agreements). The Remarketing Agents are appointed by the Authority and are paid by the Authority for their services. As a result, the interests of the Remarketing Agent may differ from those of Beneficial Owners and potential purchasers of Fiscal 2008 B Bonds.

Determination of Interest Rates by the Remarketing Agents. On each rate reset date, the Remarketing Agents are required to determine the interest rate that will be effective with respect to the applicable Fiscal 2008 B Bonds on the effective date. That rate is required by the Resolutions to be the lowest rate necessary in the judgment of the Remarketing Agent to remarket the applicable Fiscal 2008 B Bonds at par, plus accrued interest on the effective date. For example, while the Fiscal 2008 B Bonds bear interest at a Weekly Interest Rate, by 10 a.m. on Thursday, the applicable Remarketing Agent will determine the interest rate that will be effective on such date.

The Remarketing Agents Routinely Purchase Fiscal 2008 B Bonds for Their Own Account. The Remarketing Agents act as remarketing agents for a variety of variable rate demand obligations issued by many issuers and, in their sole discretion, routinely purchase such obligations for their own account. Each Remarketing Agent is permitted, but not obligated, to purchase tendered Fiscal 2008 B Bonds for its own account and, in its sole discretion, routinely acquires such tendered Fiscal 2008 B Bonds in order to achieve a successful remarketing of the Fiscal 2008 B Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the Fiscal 2008 B Bonds) or for other reasons. However, the Remarketing Agents are not obligated to purchase Fiscal 2008 B Bonds, and may cease doing so at any time without notice. If a Remarketing Agent ceases to purchase Fiscal 2008 B Bonds, it may be necessary for the Trustee to draw on the applicable Standby Purchase Agreement to pay tendering Bondholders.

The Remarketing Agents may also make a secondary market in the Fiscal 2008 B Bonds by routinely purchasing and selling Fiscal 2008 B Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at, above, or below

par. However, the Remarketing Agents are not required to make a secondary market in the Fiscal 2008 B Bonds. Thus, investors who purchase Fiscal 2008 B Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Fiscal 2008 B Bonds other than by tendering the Fiscal 2008 B Bonds in accordance with the tender process.

Each Remarketing Agent may also sell any Fiscal 2008 B Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Fiscal 2008 B Bonds. The purchase of Fiscal 2008 B Bonds by a Remarketing Agent may create the appearance that there is greater third party demand for the Fiscal 2008 B Bonds in the market than is actually the case. The practices described above also may result in fewer Fiscal 2008 B Bonds being tendered.

Fiscal 2008 B Bonds May be Offered at Prices Other Than Par. Pursuant to each Remarketing Agreement, on each rate determination date, the applicable Remarketing Agent is required to determine the interest rate that will be effective with respect to the Fiscal 2008 B Bonds on the effective date. That rate is required by the Resolutions to be the lowest rate necessary in the judgment of the applicable Remarketing Agent to remarket the Fiscal 2008 B Bonds at par, plus accrued interest, if any, on the effective date. At the time the new rate becomes effective, the applicable Remarketing Agent is required to use its best efforts to remarket the Fiscal 2008 B Bonds at par. The interest rate will reflect, among other factors, the level of market demand for the Fiscal 2008 B Bonds (including whether the applicable Remarketing Agent is willing to purchase Fiscal 2008 B Bonds for its own account). There may or may not be Fiscal 2008 B Bonds tendered and remarketed on an effective date, and the applicable Remarketing Agent may or may not be able to remarket any Fiscal 2008 B Bonds tendered for purchase on such date at par. No Remarketing Agent is obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the Fiscal 2008 B Bonds at the remarketing price.

Under Certain Circumstances, a Remarketing Agent May Be Removed, Resign or Cease Remarketing the Fiscal 2008 B Bonds, Without a Successor Being Named. Under certain circumstances a Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreements. In this case, tendering Bondholders will be paid from moneys advanced under the applicable Standby Bond Purchase Agreement.

The information in this caption ("*Certain Considerations Affecting Variable Rate Bonds*") was provided by the Remarketing Agents and is not the responsibility of the Authority.

Optional Tender for Purchase

General. A Fiscal 2008 B Bond or any portion thereof equal to an Authorized Denomination may be tendered for purchase, at the Purchase Price, at the option of its registered owner on any Business Day during a Daily Rate Period or a Weekly Rate Period upon giving notice of the registered owner's election to tender in the manner and at the times described below. Notice of an election to tender a Fiscal 2008 B Bond registered in the name of Cede & Co., as nominee of DTC, is to be given by the DTC Participant on behalf of the Beneficial Owner of the Fiscal 2008 B Bond and will not be given by DTC.

Notice of the election to tender for purchase a Fiscal 2008 B Bond registered in any other name is to be given by the registered owner of such Fiscal 2008 B Bond or its attorney-in-fact.

The notice must state the name of the registered owner or the Beneficial Owner and the principal amount of the Fiscal 2008 B Bond, the principal amount of the Fiscal 2008 B Bond to be tendered for purchase and the Business Day on which the Fiscal 2008 B Bond or portion thereof to be tendered for purchase is to be purchased.

A DTC Participant or the registered owner of a Fiscal 2008 B Bond must give written notice of its irrevocable election to tender such Fiscal 2008 B Bond or a portion thereof for purchase at its option to the Tender Agent, at its Delivery Office, and to the applicable Remarketing Agent, in the case of Fiscal 2008 B Bonds bearing interest in a Daily Rate Mode, by no later than 11:00 a.m. on the Optional Tender Date and in the case of Fiscal 2008 B Bonds bearing interest in a Weekly Rate Mode by no later than 5:00 p.m., New York City time, on any Business Day which is at least seven (7) days prior to the Business Day on which such Fiscal 2008 B Bond or portion thereof is to be purchased.

Mandatory Tender for Purchase

The Fiscal 2008 B Bonds are subject to mandatory tender and purchase at the Purchase Price on the following dates (each a “Mandatory Tender Date”):

- (a) on each Conversion Date for Fiscal 2008 B Bonds being converted to a different Rate Mode;
- (b) on the last Business Day of the Daily Rate Period or the Weekly Rate Period, as the case may be, next preceding the effective date of any expiration or earlier termination of the applicable Standby Bond Purchase Agreement then in effect, if at least fifteen days prior to such termination date such Standby Bond Purchase Agreement has not been extended or a substitute liquidity facility has not been obtained;
- (c) on the substitution of a liquidity facility for the existing Standby Bond Purchase Agreement if solely as a result of such substitution any Rating Agency would reduce or withdraw any rating assigned to such Fiscal 2008 B Bonds;
- (d) on the Business Day immediately preceding the date of termination specified in the Notice of Default delivered by the applicable Facility Provider in accordance with the provisions of the applicable Standby Bond Purchase Agreement; and
- (e) on each reset date for so long as Fiscal 2008 B Bonds bear interest in the Commercial Paper Rate Mode or Flexible Rate Mode.

Fiscal 2008 B Bonds Deemed Purchased

The Fiscal 2008 B Bonds or portions thereof required to be purchased upon a tender at the option of the registered owner thereof or upon a mandatory tender will be deemed to have been tendered and purchased for all purposes of the Seventy-Ninth Supplemental Resolution, irrespective of whether such Fiscal 2008 B Bonds have been presented and surrendered to the Tender Agent, if on the Tender Date moneys sufficient to pay the Purchase Price thereof are held by the Tender Agent. The former registered owner of a Tendered Bond or a Fiscal 2008 B Bond deemed to have been tendered and purchased will have no claim thereunder or under the Resolutions or otherwise for payment of any amount other than the Purchase Price, and such Fiscal 2008 B Bond or portion thereof will no longer be Outstanding for purposes of the Resolutions.

Purchase Price and Payment

The Purchase Price of a Fiscal 2008 B Bond will be the principal amount of the Fiscal 2008 B Bond to be tendered, plus accrued and unpaid interest from the immediately preceding Bond Payment Date.

The Purchase Price of a Fiscal 2008 B Bond held in a book-entry only system will be paid, in same-day funds, to DTC in accordance with DTC’s standard procedures for effecting same-day payments, as described in “APPENDIX F—BOOK-ENTRY ONLY FORM.” Payment will be made without presentation and surrender of the Fiscal 2008 B Bonds to the Tender Agent and DTC will be responsible for effecting payment of the Purchase Price to the DTC Participants.

The Purchase Price of any other Fiscal 2008 B Bonds will be paid, in same-day funds, only after presentation and surrender of the Fiscal 2008 B Bond to the Tender Agent at its Delivery Office. Payment will be made by 3:00 p.m., New York City time, on the later of the Tender Date or the Business Day on which a Fiscal 2008 B Bond is presented and surrendered to the Tender Agent.

The Purchase Price is payable solely from, and in the following order of priority, (i) the proceeds of the remarketing of Fiscal 2008 B Bonds tendered for purchase, (ii) moneys made available by the applicable Facility Provider under the applicable Standby Bond Purchase Agreement, if any, (iii) other moneys which have been on deposit with the Trustee or the Tender Agent, as applicable, for at least one hundred twenty-four (124) days prior to and during which no petition by or against the Authority, under the United States Bankruptcy Code of 1978, as amended, 11 U.S.C. Sec. 101 et seq. (the “Bankruptcy Code”) has been filed or any bankruptcy or similar proceeding has been commenced, unless such petition or proceeding has been dismissed and such dismissal is final and not subject to appeal, and (iv) any other

moneys the application of which to the payment of the Purchase Price of the 2008 Series B Bonds would not, in the opinion of Bond Counsel, constitute a voidable preference in the case of a filing for protection of the Authority under the Bankruptcy Code (collectively, “Available Moneys”).

Remarketing of Fiscal 2008 B Bonds Upon Tender

Pursuant to the Remarketing Agreements, the Remarketing Agents are required to use their best efforts to remarket Fiscal 2008 B Bonds tendered or deemed tendered for purchase. Each Remarketing Agreement sets forth, among other things, certain conditions to the Remarketing Agent’s obligations to remarket Fiscal 2008 B Bonds. If any of the conditions are not satisfied, or if the Remarketing Agent is otherwise unable to remarket any Fiscal 2008 B Bonds, the Purchase Price of such Fiscal 2008 B Bonds will be paid from amounts obtained from the Facility Provider under the applicable Standby Bond Purchase Agreement, if any, as described below, or from any other Available Moneys furnished by or on behalf of the Authority.

On each Tender Date, the Remarketing Agents are to give notice to the Tender Agent specifying the principal amount of Fiscal 2008 B Bonds which have been tendered for purchase and remarketed. The Tender Agent is, on such Tender Date, to obtain funds under the applicable Standby Bond Purchase Agreement in accordance with its terms in an amount equal to the difference between the Purchase Price of the Fiscal 2008 B Bonds subject to purchase and the remarketing proceeds available to the Tender Agent.

Redemption

Optional Redemption. The Fiscal 2008 B Bonds, while they bear interest at a Daily Rate or a Weekly Rate, are subject to redemption prior to maturity at the election or direction of the Authority, on any Bond Payment Date, in whole or in part, at the redemption price of 100% of the principal amount of the Fiscal 2008 B Bonds to be redeemed, plus accrued interest, if any, to the redemption date.

Fiscal 2008 B Bonds—Sinking Fund Redemption. The Fiscal 2008 B Bonds 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:

<u>Year</u>	<u>Fiscal 2008 B-1 Bonds Amount</u>	<u>Fiscal 2008 B-2 Bonds Amount</u>	<u>Fiscal 2008 B-3 Bonds Amount</u>
2008	\$ —	\$ —	\$ —
2009	—	—	—
2010	—	—	—
2011	—	—	—
2012	—	—	—
2013	—	—	—
2014	—	—	—
2015	—	—	—
2016	—	—	—
2017	—	—	—
2018	—	—	—
2019	—	—	—
2020	—	—	—
2021	—	—	—
2022	—	—	85,000,000
2023	100,000,000	25,000,000	—
2024	100,000,000†	75,000,000†	—
2025	—	—	50,000,000†

† Final Maturity

There will be credited against and in satisfaction of the Sinking Fund Installment payable on any date the principal amount of Fiscal 2008 B Bonds entitled to such Sinking Fund Installment (i) purchased with moneys in the Debt Service Fund, (ii) redeemed at the option of the Authority, (iii) purchased by the Authority and delivered to the Trustee for cancellation and (iv) deemed to have been paid in accordance with the Resolution. Fiscal 2008 B Bonds purchased with moneys in the Debt Service Fund will be credited toward the next Sinking Fund Installment thereafter to become due. Fiscal 2008 B Bonds redeemed at the option of the Authority, purchased by the Authority (with moneys other than those on deposit in the Debt Service Fund) or deemed to have been paid in accordance with the Resolution may be applied in the sole discretion of the Authority in satisfaction, in whole or in part, of one or more Sinking Fund Installments.

Selection of Bonds to be Redeemed

In the event less than all of the Outstanding Fiscal 2008 B Bonds of like maturity are to be redeemed prior to maturity, the Trustee is to select for redemption, using such method of selection as it deems proper in its discretion, the Purchased Bonds of such maturity before selecting any other Fiscal 2008 B Bonds of such maturity for redemption. Fiscal 2008 B Bonds of such maturity which are not Purchased Bonds shall be selected by the Trustee in accordance with the provisions of the Resolution.

Notice of Redemption

Notice of redemption is to be given by first class mail, postage prepaid, at least 15 days prior to the date fixed for redemption, to the registered owners of Fiscal 2008 B 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 Fiscal 2008 B 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 Fiscal 2008 B 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 Fiscal 2008 B Bonds to be redeemed will cease to accrue from and after the redemption date and such Fiscal 2008 B Bonds will no longer be considered to be Outstanding under the Resolution.

The notice of redemption may provide that the Fiscal 2008 B Bonds will be due and payable on the redemption date only if moneys sufficient to accomplish such redemption are held by the Trustee on the scheduled redemption date.

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 (including both periodic and termination payments under Interest Rate Exchange Agreements (see “APPENDIX D—FINANCIAL STATEMENTS—Note 10”)), 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.”

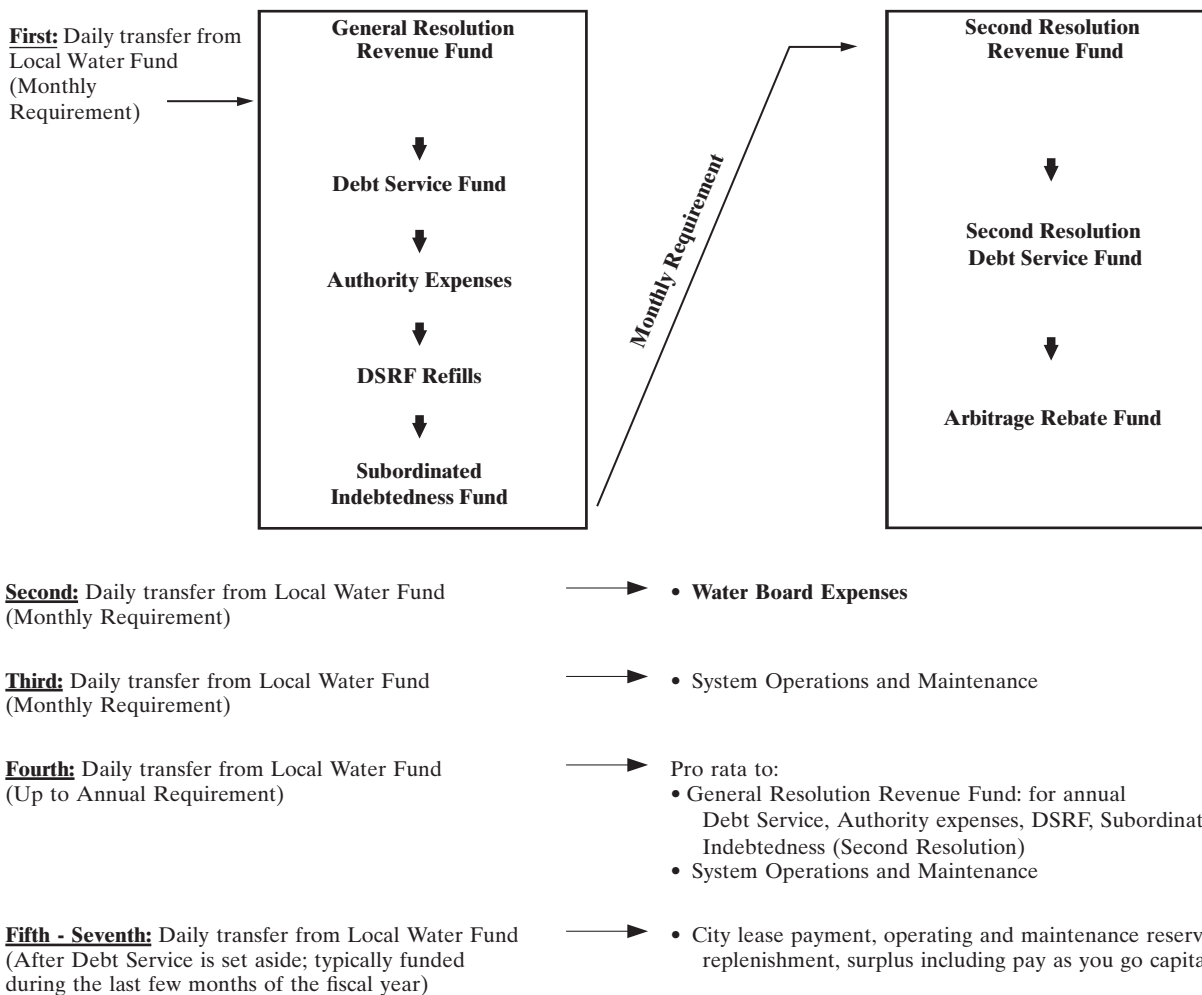
In each month, after making required payments to the Revenue Fund, the Board is required, after paying monthly Board Expenses, to pay the City $\frac{1}{12}$ of the Operating Expenses for the current Fiscal Year from the balance remaining in the Local Water Fund. After making such payments, any amounts 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 2008 B 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 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. 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



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. Adjusted Aggregate Debt Service includes an assumed amortization of Refundable Principal Installments under certain circumstances. 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. 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 February 1, 2008 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 \$779.5 million as of such date. Upon the delivery of the Fiscal 2008 B Bonds, the Debt Service Reserve Fund will be funded in an amount at least equal to the maximum annual Adjusted Aggregate Debt Service on the Bonds.

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”).

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. Adjusted Aggregate Debt Service includes an assumed amortization of Refundable Principal Installments under certain circumstances.

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 \$10.8 billion aggregate principal amount of Outstanding Bonds (Capital Appreciation Bonds are included at their accreted value as of March 5, 2008). In addition, at the date of this Official Statement, the Authority has approximately \$7.5 billion aggregate principal amount of outstanding Second Resolution Bonds. Of such Bonds and Second Resolution Bonds, approximately \$1.8 billion are variable rate demand bonds, none of which is insured, and approximately \$1 billion are auction rate bonds. The Authority expects to refund \$683.7 million of such auction rate bonds, which are insured by Financial Guaranty Insurance Corporation, with the proceeds of the Fiscal 2008 B Bonds and Fiscal 2008 C Bonds. See, “APPENDIX G—TABLE OF REFUNDED BONDS.” The Authority is authorized to have outstanding up to \$800 million of commercial paper notes (the “Commercial Paper Notes”).

For purposes of the Board’s rate covenant, Refundable Principal Installments may be excluded from Debt Service to the extent they are payable from funds held in trust therefor. See “—Rate Covenant.”

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. The Commercial Paper Notes, Series One, Series Five and Series Six are each secured by standby line of credit agreements which provide liquidity for such Commercial Paper Notes. In March 2003, the Authority authorized its Extendable Municipal Commercial Paper Notes, Series Seven (the “Series Seven Notes”). Principal of and interest on the Series Seven Notes are not secured by any liquidity or credit facility and are payable from remarketing proceeds and the proceeds of additional Series Seven Notes, Bonds or Second Resolution Bonds. 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 respective commercial paper resolutions authorizing their issuance. However, 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 Authority’s obligations to the banks providing standby lines of credit, including the Authority’s obligation to pay interest on 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.

Other Authority Indebtedness

The Authority has outstanding \$132,685,000 of its Crossover Refunding Bonds that it had previously issued (the “Crossover Bonds”). Each series of Crossover Bonds was issued pursuant to a separate Crossover Refunding Bond Resolution of the Authority. Each series of Crossover Bonds is secured by the proceeds of such series of Crossover Bonds and any investment income thereon, until such Crossover Bonds’ respective tender dates. Guaranteed investment contracts are expected to provide sufficient amounts to pay debt service on the Crossover Bonds until their respective tender dates. The Crossover Bonds have a subordinate lien on the Subordinated Indebtedness Fund under the Second Resolution but have no lien on Revenues. If certain conditions are met on the relevant tender date, the Crossover Bonds of the respective series will be exchanged for Bonds to be issued pursuant to the Resolution and the proceeds of the respective series of Crossover Bonds will be applied to redeem other Outstanding Bonds of specified series. The final exchange of its Crossover Bonds for Bonds is to occur on June 15, 2010.

Derivatives

In an effort to reduce its borrowing costs over the life of its bonds, the Authority has entered into interest rate exchange agreements. For more information on the Authority’s interest rate exchange agreements, see “APPENDIX D—FINANCIAL STATEMENTS—Note 8.”

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.

STANDBY BOND PURCHASE AGREEMENT FOR THE FISCAL 2008 B BONDS

Standby Purchase Agreements

The Authority is required to provide a Credit Facility for the benefit of the Owners of the Fiscal 2008 B Bonds for so long as such Fiscal 2008 B Bonds bear interest at a Daily Rate, Weekly Rate or Commercial Paper Rate. The Authority is also required to provide a Credit Facility during any Flexible Rate Period if solely as a result of the failure to provide such a Credit Facility, the long-term ratings on the Fiscal 2008 B Bonds would be reduced by any Rating Agency.

The Authority has entered into a Standby Bond Purchase Agreement with respect to the Fiscal 2008 B-1 Bonds (the “B-1 Standby Purchase Agreement”) with JPMorgan Chase Bank, National Association (the “B-1 Facility Provider”). The Authority has entered into a Standby Bond Purchase Agreement with respect to the Fiscal 2008 B-2 Bonds (the “B-2 Standby Purchase Agreement”) with Lloyds TSB Bank plc acting through its New York Branch (the “B-2 Facility Provider”). The Authority has entered into a Standby Purchase Agreement with respect to the Fiscal 2008 B-3 Bonds (the “B-3 Standby Purchase Agreement”) with Bank of America, N.A. (the “B-3 Facility Provider”). The Authority has entered into a Standby Bond Purchase Agreement with respect to the Fiscal 2008 B-4 Bonds (the “B-4 Standby Purchase Agreement” and together with the B-1 Standby Purchase Agreement, the B-2 Standby Purchase Agreement and the B-3 Standby Purchase Agreement, the “Standby Purchase Agreements”) with BNP Paribas, acting through its San Francisco Branch (the “B-4 Facility Provider” and together with the B-1 Facility Provider, the B-2 Facility Provider and the B-3 Facility Provider, the “Facility Providers”). Each of the Standby Purchase Agreements is a Credit Facility as defined in the Resolutions. Each registered owner of a Fiscal 2008 B Bond will be entitled to the benefits of the Standby Purchase Agreement applicable thereto under which the applicable Facility Provider has agreed to make available to the

Tender Agent, upon receipt of an appropriate demand for payment, the Purchase Price for Fiscal 2008 B Bonds tendered for purchase and not remarketed. The commitments of the Facility Providers under the Standby Purchase Agreements are sufficient to pay a Purchase Price equal to the Outstanding principal of and up to 35 days' interest on the Fiscal 2008 B Bonds at an assumed interest rate of nine percent (9%) per annum based on a 365 day year. The scheduled Termination Date of the Credit Facilities is March 17, 2009, in the case of the B-1 Standby Purchase Agreement, March 18, 2011, in the case of the B-2, March 18, 2013 in the case of the B-3 Standby Purchase, and March 18, 2011 in the case of the B-4 Standby Purchase Agreement.

Fiscal 2008 B Bonds, the Purchase Price of which was paid from moneys made available under a Standby Purchase Agreement and not otherwise remarketed, will be registered in the name of the applicable Facility Provider or its nominee ("Purchased Bonds") and all interest accruing thereon from the last date to which interest was paid will accrue for the benefit of, and be payable to, such Facility Provider. The obligation of the Authority to repay amounts advanced by a Facility Provider under a Standby Purchase Agreement to purchase Fiscal 2008 B Bonds will be evidenced by the Fiscal 2008 B Bonds purchased by such Facility Provider.

Each Standby Purchase Agreement terminates immediately and without notice upon the occurrence of certain events of default (each a "Termination Event"). Termination Events include (i) failure of the Authority to pay when due any principal of or premium, if any, or interest on the Fiscal 2008 B Bonds (regardless of any waiver thereof by the holders of the Fiscal 2008 B Bonds) or a default by the Authority in the payment of principal of or premium or interest on any other bond, note or other evidence of indebtedness issued, assumed or guaranteed by the Authority that is senior to or on a parity with the Fiscal 2008 B Bonds (provided, however, that no such failure to pay will constitute a Termination Event if (A) such failure to pay was caused solely by an error or omission of an administrative or operational nature, (B) funds were available to enable the Authority to make such payment when due and (C) such payment is made within two business days after the Authority's receipt of written notice of such failure to pay); (ii) the occurrence and continuance of an "Event of Default" under the Resolution described under clause (v) of "Summary of the Resolution—Defaults and Remedies" in Appendix C hereto, consisting of the Authority's filing of a petition or otherwise seeking of relief under any federal or State bankruptcy or similar law; (iii) each of Moody's Investors Service ("Moody's"), Standard & Poor's Rating Service ("S&P") and Fitch Inc. ("Fitch") (x) assign a rating to any debt of the Authority which is secured on a parity with the Fiscal 2008 B Bonds below "Baa3" in the case of Moody's and below "BBB-" in the case of S&P and Fitch or (y) withdraw or suspend any such rating for a credit-related reason; (iv) (x) the State or any other governmental authority having jurisdiction over the Authority imposes a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on repayment when due and payable of the principal of or interest on any debt obligation of the Authority secured by a lien on Revenues or (y) the Authority (A) applies for or consents to the appointment of, or there has occurred the taking or possession by, a receiver, custodian, trustee, liquidator or sequestrator (or other similar official) of itself or of all or of a substantial part of its property or assets, (B) admits in writing its inability, or is generally unable, to pay its debts as they become due, (C) makes a general assignment for the benefit of creditors, (D) files a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, winding-up or composition or adjustment of debts, or (E) takes any action for the purpose of effecting any of the acts set forth in clauses (A) through (D) above; (v) a final, non-appealable judgment has been issued by a court of competent jurisdiction that the Fiscal 2008 B Bonds or any other material provision of the Standby Purchase Agreement or the Resolution ceases for any reason to be valid and binding, or the Authority initiates legal proceedings or assert in legal proceedings that the Fiscal 2008 B Bonds or any material provision of the Standby Purchase Agreement or of the Resolution relating to the payment of principal and interest on the Fiscal 2008 B Bonds is invalid or that the Authority has no liability thereon or (vi) a final, nonappealable money judgment has been entered by a court or other regulatory body of competent jurisdiction against the Authority in an amount in excess of \$10,000,000 or more and the Authority has failed to satisfy said money judgment within 90 days from the first date when said judgment becomes enforceable and subject to collection in accordance with its terms.

Additionally, each Standby Purchase Agreement provides that the Facility Providers' respective obligations to purchase Fiscal 2008 B Bonds will be suspended immediately and without notice upon the occurrence of certain events (each a "Suspension Event"). Suspension Events include (x) the issuance of a judgment that is appealable or non-final but is otherwise described in the Termination Event set forth in clause (v) above (such judgment a "Nonfinal Invalidity Judgment") and (y) the occurrence of an event described as a Termination Event set forth in clause (i) above, but without regard to the proviso thereof.

Following any Suspension Event described in clause (i), the Facility Providers' respective obligations to purchase Fiscal 2008 B Bonds each immediately will terminate and the Facility Providers will be under no further obligation to purchase Fiscal 2008 B Bonds under the applicable Standby Purchase Agreement (i) from the date on which a court of competent jurisdiction shall enter a final, nonappealable judgment that the Fiscal 2008 B Bonds or any material provision of such Standby Purchase Agreement or of the Resolution ceases for any reason to be valid and binding and (ii) from the date that is three years after the date of issuance of the relevant Nonfinal Invalidity Judgment, if on such date the relevant litigation is still pending and a final and nonappealable judgment related thereto has not been obtained.

Following the occurrence of any Suspension Event, the obligation of the Facility Providers under the applicable Standby Purchase Agreement immediately will be reinstated and the terms of the applicable Standby Purchase Agreement will continue in full force and effect (unless it has otherwise terminated by its terms) as if there had been no such suspension on the date on which (i) in the case of a Suspension Event described in clause (x) above, on the date on which a court of competent jurisdiction issues a judgment that the Fiscal 2008 B Bonds or any material provision of the applicable Standby Purchase Agreement or Resolution, as applicable, is valid and binding, and (ii) in the case of a Suspension Event described in clause (y) above, the relevant payment is made (so long as such payment is made within two business days after the Authority's receipt of a written notice of such failure to pay).

Additionally, each Standby Purchase Agreement provides that the Fiscal 2008 B Bonds are subject to mandatory tender at the option of the applicable Facility Provider upon the occurrence of certain other events of default (each a "Tender Event"). Tender Events include (i) failure of the Authority to pay the fees of the Facility Provider which continues for seven days, (ii) failure by the Authority to observe certain covenants contained in the Standby Purchase Agreements relating to maintenance of the existence of the Authority, (iii) amendment of the Agreement, the Remarketing Agreements, the Resolutions, the Fiscal 2008 B Bonds or the Lease without the Facility Providers' consent, (iv) failure by the Authority to comply with conversion requirements described in the succeeding paragraph, (v) any representation, warranty, certification or statement made by the Authority (or incorporated by reference) in the Standby Purchase Agreements, the Resolutions, the Agreement, the Fiscal 2008 B Bonds or the Lease is proved to have been incorrect in any material respect when made or (vi) the occurrence of certain events of default under the Resolution.

Each Standby Purchase Agreement requires the Authority to convert the Fiscal 2008 B Bonds to a rate other than the Daily Rate, Weekly Rate, Flexible Rate or Commercial Paper Rate on a date not more than six months from the date of receipt by the Authority of a notice from the applicable Facility Provider directing such conversion following the occurrence of certain events (each a "Conversion Event"). Conversion Events include (i) the ratings assigned by Moody's, S&P or Fitch to the Fiscal 2008 B Bonds are withdrawn or reduced below "A-", "A3" or "A-", respectively, (ii) during any consecutive 12-month period, the product of (A) the principal amount of Purchased Bonds owned by a Facility Provider and (B) the number of calendar days during such 12-month period that such Fiscal 2008 B Bonds are owned by a Facility Provider exceeds the product of 90 and the average daily amount of the Available Allocated Principal Commitment for such Purchased Bonds during such 12-month period, determined in accordance with such Standby Purchase Agreement, (iii) Purchased Bonds remain outstanding for at least 90 days following the end of the Purchase Period, (iv) the occurrence of a Tender Event or (v) the Fiscal 2008 B Bonds cease for any reason to be valid, binding and enforceable special obligations of the Authority or the Authority initiates legal proceedings or assert in legal proceedings that the Fiscal 2008 B Bonds are invalid or unenforceable or that the Authority has no liability thereon.

The preceding is a summary of certain provisions expected to be included in the Standby Purchase Agreements and the proceedings under which the Fiscal 2008 B Bonds are to be issued, and is subject in

all respects to the underlying documents, copies of which will be available for inspection during business hours at the office of the Tender Agent. Information regarding the Facility Providers is included herein as “APPENDIX H—DESCRIPTION OF THE FACILITY PROVIDERS.” Neither the Authority nor the Underwriters make any representation with respect to the information in “APPENDIX H—DESCRIPTION OF THE FACILITY PROVIDERS.”

Substitution of a Credit Facility

The Authority may replace a Credit Facility with a substitute Credit Facility. However, the Subseries of the Fiscal 2008 B Bonds secured by the Credit Facility being replaced will be subject to mandatory tender, if solely as a result of such replacement, the long-term or short-term ratings assigned to such Fiscal 2008 B Bonds by Moody's, S&P and Fitch would be reduced or withdrawn. The substitute Credit Facility may only be delivered upon the satisfaction of certain requirements set forth in the Resolutions and the Credit Facility, including but not limited to receipt by the Trustee of: (i) written advice from each of Moody's, S&P and Fitch that upon such substitution the rating assigned thereby to the Fiscal 2008 B Bonds will not be reduced, suspended or withdrawn as a result of such substitution; (ii) an opinion of counsel to the new Facility Provider to the effect that such substitute Credit Facility constitutes a legal, valid and binding obligation of such Facility Provider enforceable in accordance with its terms, subject only to bankruptcy, insolvency, moratorium and other laws affecting creditors' rights insofar as the same may be applicable in the event of a bankruptcy, insolvency, moratorium or other similar proceeding or occurrence with respect to such Facility Provider and to equitable principles; (iii) an Opinion of Bond Counsel with respect to the substitution or replacement of the current Credit Facility; and (iv) the written consent of an Authorized Officer of the Authority.

No later than five Business Days prior to the effective date of the substitute Credit Facility the Tender Agent is to give notice to the Holders of the Outstanding Fiscal 2008 B Bonds, stating, among other things: (i) a description of such substitute Credit Facility (including the date of expiration of such Credit Facility); (ii) the name of the Facility Provider of such substitute Credit Facility; (iii) a statement as to the ratings on the Fiscal 2008 B Bonds as a result of the substitution of such substitute Credit Facility for the then existing Credit Facility; and (iv) a statement that the Opinion of Bond Counsel and the opinion of counsel to the Facility Provider necessary for such substitute Credit Facility to become effective have been obtained. The failure of any Holder of a Fiscal 2008 B Bond to receive such notice will not affect the validity of the proceedings in connection with the effectiveness of such substitute Credit Facility.

THE AUTHORITY

Purpose and Powers

The 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 to adequately operate and maintain the System, regardless of reimbursement by the Board of costs incurred by the City for operation and maintenance.

Pursuant to the Act, there is a statutory first lien on 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 (there is currently one vacancy on the board). 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>
Mark Page(1).....	Director of Management and Budget of the City
Alexander B. Grannis(1).....	Commissioner of Environmental Conservation of the State
Martha E. Stark(1).....	Commissioner of Finance of the City
Emily Lloyd(1)	Commissioner of Environmental Protection of the City
Arthur B. Hill(3).....	Retired, United Parcel Service
Peter J. Kenny(2)	Retired Partner, Willkie Farr & Gallagher

(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:

Alan L. Anders, Chief Executive Officer

Mr. Anders was appointed Chief Executive Officer in March 2007 after serving as Executive Director from June 2002 and Treasurer from October 1990 to June 2002. Mr. Anders also serves as Deputy Director for Finance of the Office of Management and Budget of the City. Prior to joining the Authority and the City in September 1990, Mr. Anders had been a senior investment banker for J. P. Morgan Securities since 1977. Prior to that date, he 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.

Patrick J. McCoy, Executive Director

Mr. McCoy was appointed Executive Director in March 2007. Prior to joining the Authority, Mr. McCoy served as the Director of Finance at the Metropolitan Transportation Authority (“MTA”). Prior to joining the MTA, Mr. McCoy was the Manager of Investor Relations for the NewPower Company. Prior to NewPower, he was a member of the Financial Communications group of Fleishman-Hillard. Mr. McCoy has nearly ten years of previous experience with the City of New York, including work as the Manager of Investor Relations for the Authority from 1994 to 2000. Mr. McCoy holds a M.S. Degree in Urban Policy Analysis and Management from the New School University in New York, and a B.A. from St. Ambrose University in Davenport, Iowa.

Marjorie E. Henning, Secretary

Ms. Henning was appointed Secretary in November 1993. Ms. Henning also serves as General 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.

Michele Mark Levine, Assistant Comptroller

Ms. Levine was appointed Comptroller in February 2008 after serving as Assistant Comptroller since February 2005. She is a graduate of the State University of New York at Binghamton and the Maxwell School of Citizenship and Public Administration at Syracuse University.

Eileen T. Moran, Deputy Comptroller

Ms. Moran was appointed Deputy Comptroller commencing in November 2007. She is a graduate of Hunter College and Pace University.

Olga Chernat, Deputy Treasurer

Ms. Chernat was appointed Deputy Treasurer in June 2006. She is a graduate of Baruch College, CUNY.

Prescott D. Ulrey, Assistant Secretary

Mr. Ulrey was appointed Assistant Secretary in February 1998. Mr. Ulrey also serves as Counsel to 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.

Jeffrey M. Werner, Assistant Secretary

Mr. Werner was appointed Assistant Secretary in March 2004. Mr. Werner also serves as Deputy Counsel to the Office of Management and Budget of the City. He is a graduate of Bowdoin College 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 is required to 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. There is currently one vacancy. The Act 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>
James T.B. Tripp, Chair	General Counsel, Environmental Defense Fund
Donald Capoccia	Principal, BFC Partners, L.P.
Dawn S. Davis	Bronx Pro Real Estate Management
Marilyn Gelber	Executive Director, Independence Community Foundation
Amaziah Howell	President, Howell Petroleum Products, Inc.
Alan Moss	Retired
Maria Santos Valentin	Senior Associate General Counsel, Open Society Institute

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

Steven Lawitts, Executive Director

Mr. Lawitts was appointed Executive Director in May 2006. He was also appointed First Deputy Commissioner to DEP in May 2006. Prior to joining DEP, Mr. Lawitts served as Senior Vice President at the New York City School Construction Authority for three years. Mr. Lawitts previously served as Deputy Commissioner of the New York City Department of Sanitation for nearly ten years. Prior to that, Mr. Lawitts served sixteen years in the transportation industry, including the Metropolitan Transportation Authority (where he was Chief Financial Officer of the Long Island Railroad), Conrail and Amtrak. Mr. Lawitts is a graduate of Columbia College and received an MBA from Columbia University.

William Kusterbeck, Treasurer

Mr. Kusterbeck was appointed 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 5,600 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 CIP, as hereinafter defined, and approximately 500 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 350 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 nine bureaus: Customer Services; Water and Sewer Operations; Water Supply; Engineering Design and Construction; Wastewater Treatment; Environmental Planning; Human Resources, Administration and Legal Affairs; and Executive.

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

Emily Lloyd, Commissioner

Ms. Lloyd was appointed Commissioner in February 2005. Prior to joining DEP, Commissioner Lloyd served as Executive Vice President for Columbia University for ten years, most recently as Executive Vice President for Government and Community Affairs and before that as Executive Vice President for Administration. Commissioner Lloyd has devoted much of her professional career to public service. She previously served as Commissioner of the New York City Department of Sanitation, Director of Business Development for the Port Authority of New York and New Jersey and Commissioner for Traffic and Parking for the City of Boston. Ms. Lloyd is a graduate of Wellesley College and received a Master of City Planning from the University of Pennsylvania. She also was a Loeb Fellow at Harvard University, has served on a variety of boards and commissions and is a lifetime Fellow of the National Academy of Public Administration.

Steven Lawitts, First Deputy Commissioner

Mr. Lawitts was appointed First Deputy Commissioner in May 2006. Prior to joining DEP, Mr. Lawitts served as Senior Vice President at the New York City School Construction Authority for three years. Mr. Lawitts previously served as Deputy Commissioner of the New York City Department of Sanitation for nearly ten years. Prior to that, Mr. Lawitts served sixteen years in the transportation industry, including the Metropolitan Transportation Authority (where he was Chief Financial Officer of the Long Island Railroad), Conrail and Amtrak. Mr. Lawitts is a graduate of Columbia College and received an MBA from Columbia University.

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

Mr. Greeley was appointed Director of the Bureau of Wastewater Treatment in February 2006. He has been with DEP since 1973 and has served in numerous capacities, including Chief of System Operations, Chief of the Maintenance Division, Chief of the Repairs Division of DEP’s Bureau of Water Supply and Wastewater Collection and Director of the Bureau of Water and Sewer Operations. Mr. Greeley is a graduate of the Stevens Institute of Technology. He is a Professional Engineer.

Angela Licata, Deputy Commissioner

Ms. Licata was appointed Deputy Commissioner of the Bureau of Environmental Planning in December 2005. She has been with DEP since 1988 and has served in numerous positions within the Office of Environmental Planning and Assessment, including Project Manager, Director of Program Management and most recently as Deputy Director. Ms. Licata is a graduate of Harpur College, Binghamton University.

Jim Mueller, Acting Deputy Commissioner

Jim Mueller, was appointed Acting Deputy Commissioner of the Bureau of Engineering Design and Construction in February 2008. Mr. Mueller has been with DEP since 1993 serving in a variety of roles, most recently as Director of Facilities Planning and Design for the Bureau of Engineering Design and Construction. Mr. Mueller holds a B.A. in Civil Engineering from Manhattan College and a Master of Science degree in Environmental Engineering and an MBA in Finance and Statistics from the Stern School of Business at New York University.

James Roberts, Deputy Commissioner

James J. Roberts, P.E. was appointed Deputy Commissioner of the Bureau of Water and Sewer Operations in November 2006. Mr. Roberts has been with DEP since 1986 and has served in numerous capacities including Borough Construction Engineer in the Borough of Queens and Chief of Shaft and Tunnel Maintenance and Operations for the Bureau of Water and Sewer Operations. Mr. Roberts is a Registered Professional Engineer and a graduate of Manhattan College's School of Engineering.

Paul Rush, P.E., Deputy Commissioner

Mr. Rush was appointed Deputy Commissioner of the Bureau of Water Supply in December 2006. He has been with the DEP since 1992. Most recently, Mr. Rush served as the Director, West of Hudson Operations Division of the Bureau of Water Supply and prior to that he held positions as District Engineer and Chief of Operations for the City's Delaware Water Supply System. Prior to joining DEP, Mr. Rush served on active duty with the United States Army as an Engineer Officer. Mr. Rush holds a Master of Science degree in Civil Engineering from Michigan Technological University and Bachelor of Science degree in Civil Engineering from the United States Military Academy. He is a Registered Professional Engineer in the State of New York.

Joseph Singleton, Deputy Commissioner

Mr. Singleton was appointed Deputy Commissioner for the Bureau of Customer Services in August 2006. He has been with DEP since 1995, serving in a variety of roles, including as Director of the Capital Budget. Mr. Singleton graduated with a B.A. in Economics from The State University of New York at Albany and received an MBA from St. John's University.

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. The majority of DEP employees who are members of unions are members of District Council 37 of the American Federation of State, County and Municipal Employees ("DC 37"). An agreement with DC 37, covering the period from July 1, 2005 through March 2, 2005, was reached on July 12, 2006 and ratified on August 25, 2006.

CAPITAL IMPROVEMENT AND FINANCING PROGRAM

Ten Year Capital Strategy, Current Capital Plan and the Capital Improvement Program

The City's Ten Year Capital Strategy, which is updated every two years, was released in April 2007 (the "Ten Year Capital Strategy"). The Ten Year Capital Strategy includes the projected capital improvements to the System for Fiscal Years 2008 through 2017. The City's Current Capital Plan (the "Current Capital Plan"), which covers Fiscal Years 2008 through 2012, was published in January 2008, is updated three times each Fiscal Year and supersedes the Ten Year Capital Strategy for Fiscal Years 2008 through 2012.

The Ten Year Capital Strategy as modified by the Current Capital Plan comprises the Capital Improvement Program (the "CIP"). The CIP establishes long range programmatic goals for the System and reflects a review of the present condition and long-term needs of the plant and equipment constituting the System. The CIP incorporates the present replacement cycle for System 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. The value of the actual work done in any given year will differ from that outlined in the CIP. Expected capital commitments for the years beyond the Current Capital Plan will differ from those shown in the CIP due to the addition of new projects, as well as due to changes in project schedules and costs.

In Fiscal Year 2007, the percentage of contractual commitments entered into by DEP increased significantly above projected levels. If this trend continues, it could result in increased Authority borrowing with related increases in projected debt service and water and sewer rates.

The CIP was evaluated independently by Metcalf & Eddy. Metcalf & Eddy concluded that the CIP is responsive to the long-term operating requirements of the area served by the System. See "APPENDIX A—LETTER OF METCALF & EDDY, CONSULTING ENGINEERS."

Although Amawalk Consulting, 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, Amawalk Consulting has concluded that the gross level of anticipated commitments through Fiscal Year 2017 as reflected in the CIP appears to be reasonable compared to other large water and wastewater utilities.

The CIP is presented in the following table.

CAPITAL IMPROVEMENT PROGRAM

(Thousands of Dollars)

CITY FUNDS	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
WATER SUPPLY AND TRANSMISSION											
Conveyance	\$ 8,488	\$ 30,000	\$ —	\$ —	\$ 24,000	\$ 105,690	\$ 115,000	\$ 130,000	\$ 26,000	\$ 159,713	\$ 598,891
Kensico–City Tunnel	—	—	—	—	—	—	30,000	55,000	—	137,500	222,500
City Tunnel No. 3, Stage 1	660	45,817	—	32,000	—	45,000	45,000	—	—	—	168,477
City Tunnel No. 3, Stage 2	5,367	284,798	280	60,647	105,348	5,325	340	4,544	370	385	467,604
City Tunnel No. 1 Reconstruction	2,737	—	—	—	—	—	—	30,000	—	—	32,737
Miscellaneous Programs	—	—	—	10,103	—	—	—	—	—	—	10,103
Subtotal	17,252	360,615	280	102,950	129,348	156,015	190,340	219,544	26,370	297,598	1,500,312
WATER DISTRIBUTION											
Brooklyn–Queens Aquifer	480	4,200	14,584	12,500	9,000	5,105	5,360	5,628	5,910	6,205	68,972
Croton Filtration Project	164,079	437,263	50,568	—	—	10,000	—	—	—	—	661,910
Dam Safety Program	65,666	16,607	125,600	529,000	27,650	55,000	12,500	—	—	—	832,023
Trunk Distribution and Main Extension	10,401	11,371	42,056	33,214	50,178	48,992	34,000	46,090	34,000	49,000	359,302
Trunk Distribution and Main Replacement	109,525	55,690	218,696	270,796	103,136	190,249	37,442	210,933	130,515	78,700	1,405,682
Water Quality Preservation	1,723,359	316,406	102,165	513,685	147,219	33,205	32,639	112,165	236,955	8,485	3,226,283
Extensions	100	2,000	7,768	—	—	—	—	—	—	—	9,868
Other System Improvements	63	2,260	12,076	—	16,313	—	—	—	—	—	30,712
Subtotal	2,073,673	845,797	573,513	1,359,195	353,496	342,551	121,941	374,816	407,380	142,390	6,594,752
WATER POLLUTION CONTROL											
Consent Decree Upgrading & Construction	572,838	1,043,177	720,078	46,025	11,000	—	—	32,087	—	—	2,425,205
Plant Upgrading & Reconstruction	172,537	202,041	217,237	188,116	327,755	186,219	123,524	177,602	103,028	98,183	1,796,242
Sludge Disposal	1,069	—	2,246	—	45,975	—	250,000	—	—	—	299,290
Plant Component Stabilization (1)	131,245	30,646	29,583	467,982	169,170	392,500	210,000	205,000	10,000	250,000	1,896,126
Water Quality Mandates	58,764	226,726	56,251	30,500	116,125	24,000	—	89,000	474,000	15,000	1,090,366
Subtotal	936,453	1,502,590	1,025,395	732,623	670,025	602,719	583,524	503,689	587,028	363,183	7,507,229
SEWERS											
Replacement or Augmentation	18,473	14,494	98,856	107,418	139,088	141,273	120,352	153,966	130,528	126,345	1,050,793
Extensions to Accommodate New Development	94,827	91,975	148,620	43,722	92,952	53,484	30,000	30,000	40,000	48,455	674,035
Programmatic Response to Regulatory Mandates	540	—	—	9,900	—	—	—	—	—	—	10,440
Programmatic Replacement and Reconstruction	661	2,286	21,868	3,500	28,375	19,292	—	—	—	—	75,982
Replacement of Chronically Failing Components	67,879	67,478	82,229	84,588	69,555	69,274	72,327	73,586	74,656	79,547	741,119
Trunks	16,042	2,027	3,371	1,284	1,384	—	—	—	—	—	24,108
Subtotal	198,422	178,260	354,944	250,412	331,354	283,323	222,679	257,552	245,184	254,347	2,576,477
EQUIPMENT											
Conservation	130,022	134,401	62,361	12,000	12,000	12,000	12,000	12,000	12,000	12,000	410,784
Management Information Systems	32,984	34,430	9,675	1,124	12,044	5,738	5,938	6,146	5,000	5,000	118,079
Facility Purchases & Reconstruction	42,026	29,705	17,050	—	14,640	61,000	—	—	—	—	164,421
Utility Relocation	38,115	33,548	39,715	36,350	36,727	42,680	40,101	44,760	42,629	44,425	399,050
Vehicles and Equipment	24,125	14,310	12,218	6,000	8,500	6,000	9,095	12,928	8,000	5,000	106,176
Subtotal	267,272	246,394	141,019	55,474	83,911	127,418	67,134	75,834	67,629	66,425	1,198,510
TOTAL CITY FUNDS	3,493,072	3,133,656	2,095,151	2,500,654	1,568,134	1,512,026	1,185,618	1,431,435	1,333,591	1,123,943	19,377,280
STATE, FEDERAL, AND PRIVATE FUNDS											
Water Quality Preservation	2,700	—	—	—	—	—	—	—	—	—	2,700
Management Information Systems	10,320	3,000	—	—	—	—	—	—	—	—	13,320
Plant Upgrading & Reconstruction	2,563	—	—	—	—	—	—	—	—	—	2,563
Plant Component Stabilization (1)	742	—	—	—	—	—	—	—	—	—	742
Water Quality Mandates	—	—	—	—	—	—	—	—	—	—	—
Other System Improvements	201	—	—	—	—	—	—	—	—	—	201
TOTAL NON-CITY FUNDS	16,526	3,000	—	—	—	—	—	—	—	—	19,526
TOTAL FUNDS	\$3,509,598	\$3,136,656	\$2,095,151	\$2,500,654	\$1,568,134	\$1,512,026	\$1,185,618	\$1,431,435	\$1,333,591	\$1,123,943	\$19,396,806

(1) Plant Component Stabilization includes amounts for the biological nutrient removal program.

Following is a detailed explanation of the major capital program elements within the CIP.

Water Supply and Transmission

Kensico-City Tunnel. The Kensico-City Tunnel will be a 16 mile long tunnel from the Kensico Reservoir to the Van Cortlandt Park Valve Chamber, bypassing the Hillview Reservoir. This tunnel will provide redundancy for the sections of the Catskill and Delaware Aqueducts that run from the Kensico Reservoir to the City.

Conveyance and Water Supply. This program will research and develop alternate conveyance conduits and/or water supplies for the City in order to provide more dependability within the Water System. The alternate water supplies could be used during drought situations, to augment the City's daily water supply, or during repairs and inspections of existing aqueducts and tunnels.

Tunnel 3. Stages I and II of Tunnel 3 include completion of the Brooklyn/Queens and Manhattan segments. Stage I became operational in July 1998 and has improved the reliability of the transmission system. Stage I amounts also relate to facility improvements at Hillview Reservoir. Completion of the Brooklyn/Queens segment of Stage II will improve services to Staten Island, Brooklyn and Queens. Activation of the Brooklyn and Queens segment of Stage II will follow activation of the Manhattan segment of Stage II which is expected to be completed in 2013. The entire Stage II is scheduled to be completed in 2015. See "THE SYSTEM—The Water System—Water Collection and Distribution."

Water Distribution

Croton Filtration 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."

Dam Safety Program. Engineering reports sponsored by the U.S. Army Corps of Engineers indicated that the dams and reservoirs in service in the Catskill, Croton and Delaware Systems are safe but in need of rehabilitation and reconstruction. An ongoing dam reconstruction program has been established for rehabilitation of dams within the Catskill, Croton and Delaware watersheds and the Kensico Dam.

Trunk Distribution and Main Extension and Replacement. This program includes the improvement and extension of the water distribution network for both trunk and distribution water mains. The program facilitates the replacement of undersized or failing system elements, as well as enhancing network reliability.

Water Quality Preservation. The City provides for improvements to the upstate watersheds including projects undertaken pursuant to the FADs (as hereinafter defined) in the Catskill and Delaware watersheds such as the acquisition of environmentally sensitive property, the upgrade of non-City owned water pollution control facilities and the construction of an ultraviolet water treatment facility. Other projects in the upstate watersheds include enhanced security systems and planing for the repair of the leak in the Rondout-West Branch Tunnel. See "THE SYSTEM—Overview," "THE SYSTEM—The Water System—Water Collection and Distribution," and "THE SYSTEM—The Water System—Governmental Regulation."

Water Pollution Control

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 six plants. The plant upgrades include the retrofitting of five plants to achieve additional nitrogen treatment and upgrades at the Newtown Creek plant to achieve secondary treatment and improve plant operations. In addition, during periods of heavy rainfall, a combination of stormwater and sewage bypasses treatment and is released into the City's waterways through the City's combined sewer overflow ("CSO") outfalls. Pursuant to a consent order between DEP and the New York State Department of Environmental Conservation ("NYSDEC"), DEP is implementing projects necessary to control the polluting effects of such releases. See "THE SYSTEM—The Sewer System—Government Regulation."

Plant Upgrading and Reconstruction. This program includes various projects undertaken to upgrade or reconstruct treatment plants, 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 and the retrofit of five water pollution control plants to decrease the amount of nitrogen discharged into the surrounding water.

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.

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.

Historical Capital Program

The following table presents capital commitments and capital expenditures of the System for Fiscal Years 2003 through 2007. 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)

	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
	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 and Transmission (3) . . .	\$ 63	\$ 63	\$ 39	\$ 39	\$ 746	\$ 746	\$ 26	\$ 26	\$ 64	\$ 64
Water Distribution . . .	337	337	480	481	499	498(4)	568	568	2,253	2,253
Water Pollution Control	681	687	877	935	838	839	843	848	1,071	1,071
Sewers	201	202	216	216	186	187	192	192	177	177
Equipment	84	84	41	41	63	64	73	107	92	92
Total	<u>\$1,366</u>	<u>\$1,373</u>	<u>\$1,653</u>	<u>\$1,711</u>	<u>\$2,332</u>	<u>\$2,334</u>	<u>\$1,702</u>	<u>\$1,741</u>	<u>\$3,657</u>	<u>\$3,690</u>

	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
	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)
Expenditures (5)										
Water Supply and Transmission (3) . . .	\$ 87	\$ 87	\$ 124	\$ 133	\$ 147	\$ 167	\$ 245	\$ 261	\$ 272	\$ 272
Water Distribution . . .	269	270	273	371	390	401	445	451	493	493
Water Pollution Control	568	575	742	810	846	804	778	812	793	805
Sewers	187	187	221	219	213	223	215	216	213	213
Equipment	47	47	44	98	40	85	68	101	76	94
Total	<u>\$1,158</u>	<u>\$1,166</u>	<u>\$1,404</u>	<u>\$1,631</u>	<u>\$1,636</u>	<u>\$1,680</u>	<u>\$1,751</u>	<u>\$1,841</u>	<u>\$1,847</u>	<u>\$1,878</u>

Totals may not add due to rounding.

- (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.
- (3) Includes capital costs for improvements to upstate water pollution control plants which were paid for with the proceeds of Authority bonds but which are reported as operating expenses in the System's financial statements because such plants are owned by municipalities outside the City.
- (4) A prior year, non-City contract, which was subsequently cancelled, caused the All-Funds commitment level for FY 2005 to fall below the System Funds level.
- (5) System Funds are shown on a cash basis. All Funds are shown on an accrual basis.

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 EFC in connection with the revolving loan fund program described below, (2) federal and State capital grants, and (3) cash-financed capital construction 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: (1) proceeds of bonds and other forms of indebtedness sold to the public and privately placed with EFC and (2) System revenues. Implementation of the CIP is dependent upon the Authority’s ability to market its securities successfully in the public credit markets. For purposes of forecasting revenue requirements for the System, the principal amount of bonds estimated to be issued for capital purposes as of April 30, 2007, excluding refunding bonds, in each of the Fiscal Years 2008 through 2011 averages approximately \$2.3 billion per year. See the table entitled “Sources and Uses of Capital Funds” below.

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 water pollution control facilities. The City has used these grant funds for five water pollution control 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 water pollution control facilities. To this end, a revolving loan program has been established by the State and administered by EFC in order to use 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, also administered by EFC, 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. These revolving loan programs have routinely featured the public sale of bonds by EFC to finance the purchase by EFC of Second Resolution Bonds.

Sources and Uses of Capital Funds

The following table presents the projected sources and uses of the funds for the System as of April 30, 2007. See "INTRODUCTORY STATEMENT— Financial Projection Assumptions."

Sources and Uses of Capital Funds (Millions of Dollars)

Line No.	Description	FY 2008	FY 2009	FY 2010	FY 2011	Period Total
	Sources of Funds					
1	Proceeds from Sale of Bonds (1)(2)	\$ 1,870.8	\$ 2,428.5	\$ 2,517.8	\$ 2,393.8	\$ 9,210.9
2	Proceeds from Commercial Paper Notes	1,739.0	2,253.0	2,213.0	2,221.0	8,426.0
3	Total Sources of Funds	3,609.8	4,681.5	4,730.8	4,614.8	17,636.9
	Uses of Funds					
4	Refunding of Prior Bonds (2)	—	—	132.7	—	132.7
5	Retirement of Commercial Paper Notes	1,739.0	2,253.0	2,213.0	2,221.0	8,426.0
6	Deposit to Construction Fund	1,739.0	2,253.0	2,213.0	2,221.0	8,426.0
7	Other (3)	131.8	175.5	172.1	172.8	652.2
8	Total Uses of Funds	3,609.8	4,681.5	4,730.8	4,614.8	17,636.9
	Construction Fund					
9	Beginning Balance	369.6	359.6	349.6	349.6	
10	Transfer from Proceeds from Commercial Paper Notes	1,739.0	2,253.0	2,213.0	2,221.0	8,426.0
11	Cash Financed Capital Construction (4)	90.0	90.0	100.0	80.0	360.0
12	Total Available Construction Funds (5)	2,198.6	2,702.6	2,662.6	2,650.6	10,214.4
13	Less: Total Capital Spending (6)	(1,839.0)	(2,353.0)	(2,313.0)	(2,321.0)	(8,826.0)
14	Ending Balance	\$ 359.6	\$ 349.6	\$ 349.6	\$ 329.6	

- (1) Includes proceeds from sale of First and Second Resolution Bonds.
- (2) For Fiscal Year 2010, includes Bonds to be issued to refund Crossover Bonds.
- (3) Includes issuance costs, Debt Service Reserve Fund requirements and capitalized interest.
- (4) Funds projected for Cash Financed Capital Construction may be used for the defeasance of bonds.
- (5) Based on the results of previous defeasances of bonds, the Authority expects to receive the following amounts in 2008, 2009 and 2011, respectively: \$20.4 million, \$30.5 million and \$19.5 million. These amounts are not included in the above table but will be added to the Construction Fund as the funds become available in each year.
- (6) Capital spending reflects commitments from current and prior years.

The following table shows projected debt service requirements, including payments on outstanding bonds and on future bonds projected to be issued as of April 30, 2007. For additional information, see “—Debt Service Requirements.”

Projected Future Debt Service Requirements
(Millions of Dollars)

<u>Description</u>	<u>Bonds Projected to be Issued</u>	<u>Projected Debt Service</u>			
		<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
First Resolution Bonds (1)					
Debt Service on Outstanding Bonds	\$ —	\$ 551.4	\$ 556.7	\$ 546.9	\$ 610.5
Projected First Resolution Bonds					
Fiscal Year 2008 Bonds	810.7 ⁽¹⁾	—	84.5	50.7	50.7
Fiscal Year 2009 Bonds	1,098.6 ⁽¹⁾	—	—	123.7	74.2
Fiscal Year 2010 Bonds	1,076.2 ⁽¹⁾	—	—	—	121.2
Fiscal Year 2011 Bonds	<u>1,080.7</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total First Resolution Debt Service	—	551.4	641.3	721.3	856.5
Subordinated Obligations					
Second Resolution Bonds					
Debt Service on Outstanding Second Resolution Bonds . . .	—	483.1	487.3	490.8	490.1
Projected Second Resolution Bonds					
Fiscal Year 2007 Bonds	421.5	35.5	22.1	22.1	22.1
Fiscal Year 2008 Bonds	1,060.1 ⁽²⁾	34.3	70.1	62.5	62.5
Fiscal Year 2009 Bonds	1,329.9 ⁽²⁾	—	46.2	89.1	81.1
Fiscal Year 2010 Bonds	1,308.9 ⁽²⁾	—	—	47.4	90.9
Fiscal Year 2011 Bonds	<u>1,313.1⁽²⁾</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>47.6</u>
Interest Payments on Commercial Paper Notes	—	34.0	34.0	34.0	34.0
Less: Current EFC Subsidy (3)	—	(101.1)	(102.4)	(98.3)	(93.4)
Less: Future EFC Subsidy (4)	—	(1.9)	(10.1)	(16.7)	(23.2)
Less: EFC Payments (5)	<u>—</u>	<u>(6.8)</u>	<u>(5.9)</u>	<u>(4.9)</u>	<u>(3.8)</u>
Actual Debt Service on Subordinated Indebtedness	—	477.2	541.3	625.9	707.8
Less: Carryforward Revenues	—	<u>(115.1)</u>	<u>(84.5)</u>	<u>(90.4)</u>	<u>(95.6)</u>
Net Debt Service on Subordinated Indebtedness	—	362.0	456.8	535.6	612.2
Total Debt Service Payable from Current Revenues (6)	<u>—</u>	<u>\$ 913.4</u>	<u>\$1,098.1</u>	<u>\$1,256.9</u>	<u>\$1,468.7</u>

(1) For Fiscal Year 2010, includes First Resolution Bonds expected to be issued in exchange for Crossover Bonds. See “SECURITY FOR THE SECOND RESOLUTION BONDS — Other Authority Indebtedness.”

(2) For Fiscal Years 2008 through 2011, includes Second Resolution Bonds expected to be issued to EFC.

(3) Includes the estimated EFC subsidy on outstanding Second Resolution Bonds.

(4) Includes the estimated EFC subsidy on anticipated future Second Resolution Bonds.

(5) Represents the anticipated transfer of surplus payments used to offset interest payments on Second Resolution Bonds.

(6) Includes Total First Resolution Debt Service plus Net Debt Service on Subordinated Indebtedness.

For purposes of these projections, the Authority has assumed that interest rates on Authority First and Second Resolution Bonds issued to the public were 5.25% in the second half of Fiscal Year 2007, and that such interest rates increased by 0.5% on July 1, 2007, 0.5% on January 1, 2008, and will increase by 0.5% on January 1, 2009, remaining stable at 6.75% each year thereafter. The Authority further has assumed that interest rates on Authority Second Resolution Bonds issued to EFC will be 0.05% lower than the rate assumed on its other bonds.

Debt Service Requirements

The following schedule sets forth the amount required 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 Outstanding First Resolution Bonds and Second Resolution Bonds assuming that variable rate bonds bear interest at a rate of 4.25% per annum through maturity. The schedule does not include debt service on any outstanding Commercial Paper Notes.

Debt Service Requirements

Fiscal Year Ending June 30	Debt Service on Outstanding First Resolution Bonds (1)(2)(3)	Debt Service on Outstanding Second Resolution Bonds (2)	Debt Service on Fiscal 2008 B Bonds		Debt Service on First Resolution Bonds including Fiscal 2008 B Bonds (1)(2)(3)(4)	Total Debt Service (1)(2)(3)(4)
			Principal	Interest		
2008	\$ 524,899,609	\$ 403,010,228	\$ —	\$ 5,431,736	\$ 538,048,262	\$ 941,048,491
2009	526,884,190	421,040,183	—	22,737,500	565,554,340	986,594,523
2010	517,292,495	445,596,796	—	22,737,500	555,933,495	1,001,530,291
2011	581,133,230	457,919,805	—	22,737,500	619,056,480	1,076,976,285
2012	559,284,682	457,505,966	—	22,737,500	596,847,182	1,054,353,149
2013	551,650,222	443,134,341	—	22,737,500	588,931,722	1,032,066,064
2014	651,552,799	428,485,390	—	22,737,500	688,508,799	1,116,994,189
2015	668,209,885	423,641,911	—	22,737,500	705,827,635	1,129,469,546
2016	639,385,863	442,898,452	—	22,737,500	676,827,863	1,119,726,315
2017	642,910,306	460,738,499	—	22,737,500	679,573,056	1,140,311,556
2018	686,683,556	421,581,108	—	22,737,500	722,912,806	1,144,493,914
2019	620,219,566	486,871,775	—	22,737,500	656,024,316	1,142,896,091
2020	611,527,643	490,756,494	—	22,737,500	646,956,143	1,137,712,638
2021	593,925,065	490,492,714	—	22,737,500	629,267,815	1,119,760,529
2022	567,165,290	416,664,171	85,000,000	22,737,500	674,902,790	1,091,566,961
2023	540,152,934	343,128,399	225,000,000	19,125,000	784,277,934	1,127,406,333
2024	523,864,615	304,767,885	175,000,000	9,562,500	708,427,115	1,013,195,000
2025	708,181,753	298,894,648	50,000,000	2,125,000	760,306,753	1,059,201,400
2026	768,172,875	336,531,839	—	—	768,172,875	1,104,704,714
2027	773,421,638	333,154,894	—	—	773,421,638	1,106,576,532
2028	752,796,625	348,895,634	—	—	752,796,625	1,101,692,259
2029	730,520,219	334,677,946	—	—	730,520,219	1,065,198,165
2030	709,300,463	315,009,821	—	—	709,300,463	1,024,310,283
2031	752,723,900	307,098,135	—	—	752,723,900	1,059,822,035
2032	763,773,206	276,973,840	—	—	763,773,206	1,040,747,046
2033	743,182,075	374,085,591	—	—	743,182,075	1,117,267,666
2034	720,246,675	282,381,551	—	—	720,246,675	1,002,628,226
2035	720,245,475	283,564,750	—	—	720,245,475	1,003,810,225
2036	772,904,888	288,729,406	—	—	772,904,888	1,061,634,294
2037	766,811,188	326,393,950	—	—	766,811,188	1,093,205,138
2038	760,700,188	283,146,250	—	—	760,700,188	1,043,846,438
2039	687,369,188	246,200,000	—	—	687,369,188	933,569,188
Total	<u>\$21,137,092,304</u>	<u>\$11,973,972,374</u>	<u>\$535,000,000</u>	<u>\$354,569,236</u>	<u>\$22,220,353,107</u>	<u>\$34,194,325,481</u>

Totals may not add due to rounding. Debt service is not included for bonds for which money has been set aside for payment at maturity or that have been previously refunded and are no longer Outstanding.

- (1) Assumes that on the respective tender dates, the Crossover Bonds will be exchanged for Bonds and the proceeds of the respective series of Crossover Bonds will be applied to redeem certain Outstanding Bonds.
- (2) Net of projected subsidy, surplus, and capitalized interest payments from EFC.
- (3) Does not include debt service on the First Resolution Bonds to be refunded with the proceeds of the Fiscal 2008 B Bonds and Fiscal 2008 C Bonds.
- (4) Includes projected debt service on the Fiscal 2008 C Bonds expected to be issued as fixed rate bonds in the aggregate principal amount of approximately \$150,000,000 simultaneously with the Fiscal 2008 B Bonds.

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. For more information, see “INTRODUCTORY STATEMENT—Financial Projection Assumptions.”

Revenues

The following table presents, on a cash basis, the System revenues received during Fiscal Years 2003 through 2007, as derived from the accounting records utilized in preparation of the statement of cash flows, which is contained in the annual financial statements for Fiscal Years 2003 through 2007.

System Revenues (Thousands of Dollars)

Revenue Category	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Flat Rate—Water and Sewer Charges(1)...	\$ 530,200	\$ 516,655	\$ 534,904	\$ 528,327	\$ 539,795
Metered—Water and Sewer Charges(1) ...	1,009,677	1,117,797	1,139,487	1,217,580	1,279,294
Meter—Upstate Customers	22,790	22,225	27,291	42,693	42,197
Miscellaneous Revenues(2)	73,633	77,216	89,193	100,542	103,178
Interest Penalty—Late Charges.....	38,235	41,766	47,810	45,519	43,286
Interest Income	97,351	93,567	97,195	110,913	101,134
Tax Lien Sale(3).....	—	7,783	10,581	20,026	—
Total.....	<u>\$1,771,886</u>	<u>\$1,877,009</u>	<u>\$1,946,461</u>	<u>\$2,065,600</u>	<u>\$2,108,884</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.

Expenses

The following table presents System expenses for Fiscal Years 2003 through 2007 on an accrual basis which have been derived from the accounting records utilized in preparation of the annual financial statements for Fiscal Years 2003 through 2007. These expenses represent operation, maintenance and general expenses excluding the lease rental payment to the City, bad debt expense and capital costs for improvements to upstate water pollution control plants that are reported as operating expenses in the System’s financial statements because such plants are owned by municipalities outside the City.

System Expenses
(Thousands of Dollars)

<u>Expense Category</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Water Operations(1)					
Personal Service(2)	\$135,627	\$141,927	\$137,174	\$152,262	\$170,226
Other Than Personal Service(3)	<u>176,913</u>	<u>171,821</u>	<u>188,801</u>	<u>211,821</u>	<u>201,772</u>
Total Water Operations	312,540	313,748	325,975	364,083	371,998
Wastewater Operations(1)					
Personal Service(2)	196,851	199,568	199,244	222,918	256,708
Other Than Personal Service(3)	<u>183,200</u>	<u>190,269</u>	<u>205,272</u>	<u>220,456</u>	<u>235,672</u>
Total Wastewater Operations.	<u>380,051</u>	<u>389,837</u>	<u>404,516</u>	<u>443,374</u>	<u>492,380</u>
Administrative and General(4)	15,181	19,853	23,368	26,727	35,493
Indirect Expenses(5)	<u>51,613</u>	<u>70,217</u>	<u>59,643</u>	<u>62,628</u>	<u>88,536</u>
Total System	<u>\$759,385</u>	<u>\$793,655</u>	<u>\$813,502</u>	<u>\$896,812</u>	<u>\$988,407</u>

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- (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 Board expenses, excluding Authority expenses for the defeasance of debt.
- (5) Indirect Expenses include City agency support, customer accounting, and judgments and claims costs.

Projected Revenues

April 2007 Projections

As indicated in the table below, “Subtotal Service Revenue” is projected as of April 30, 2007 to increase from approximately \$1.9 billion in Fiscal Year 2007 to approximately \$3.0 billion in Fiscal Year 2011. Projected rate increases in future Fiscal Years provide the majority of the increase in user payments. Upstate revenues are projected to increase from approximately \$36.5 million in Fiscal Year 2007 to approximately \$51.2 million in Fiscal Year 2011. This revenue growth is due to expected increases in the cost of water supply services.

City-wide water consumption declined each year from Fiscal Year 2001 through Fiscal Year 2006. The average rate of decline in Fiscal Years 2004 through 2006 was 0.8% annually. The projected revenues assume that water consumption by metered customers will decline by 1.0% annually for Fiscal Year 2008 through Fiscal Year 2011.

Revenue projections assume that initiatives will result in a 1% increase in annual cash collections from metered customers during Fiscal Years 2008 and 2009, in addition to increases from higher rates. It is also assumed that \$63 million in non-recurring revenue will be collected from customers with overdue bills during the period of 2008 through 2011. A portion of this anticipated revenue is attributable to the recovery of revenues from Fiscal Year 2007. In the event that DEP is not successful in implementing the enhancements to current collection strategies, the actual user rates in future Fiscal Years may be required to be increased above those currently forecasted.

As of April 2007, revenues derived from water and sewer payments for Fiscal Year 2007 were approximately \$65 million lower than projected in April 2006. As a result, a non-recurring reduction in such revenues of \$65 million was included as of April 2007 in the projected Fiscal Year 2007 revenues. Actual revenues from water and sewer payments for Fiscal Year 2007 were \$8 million lower than projected in April 2007 for this period.

Recent Developments

For the first eight months of Fiscal Year 2008, water and sewer payments were approximately \$55 million lower than projected in April 2007 for this eight month period. Additionally, for the first seven months of Fiscal Year 2008, City-wide water consumption was 4.0% higher than projected in April 2007 for this seven month period. Total costs of the System in Fiscal Year 2008 are currently projected to be lower than the amount projected in April 2007 as a result of reduced debt service and operation and maintenance expenses and a higher-than-expected carryforward surplus from Fiscal Year 2007.

A portion of the reduction in revenues is believed to be attributable to the absence of lien sales due to the expiration in Fiscal Year 2006 of the authorization of the City Commissioner of Finance to sell, on behalf of the Board and in conjunction with tax liens, liens securing unpaid water and sewer charges on certain properties. However, actions have been taken to address this reduction through expansion of enforcement mechanisms. In September 2007, the Board authorized a payment incentive program for delinquent single-family accounts that provides for service termination if payment is not made in accordance with the program. In October 2007, the Board authorized and approved modifications to the regulations governing service terminations, including reducing the dollar amount and the delinquent period thresholds determining an account’s eligibility for service termination and narrowing the period of time during the year when water cannot be shut off. In December 2007, the City Council and the Mayor reauthorized the City’s lien sale program and expanded it to allow the City, on behalf of the Board, to sell, with certain exceptions, liens from unpaid water and sewer charges on multi-family houses and commercial businesses, independent of the existence of property tax liens. With the implementation of these enforcement mechanisms and higher City-wide water consumption than projected in April 2007, it is currently estimated that water and sewer payments for Fiscal Year 2008 will be approximately 2%, or \$50 million, lower than projected in April 2007. However, after adjusting for the projected reduction in System costs described above, it is currently estimated that there will be a surplus for Fiscal Year 2008 of \$84.5 million, as projected in April 2007.

**Projected Revenues
(Millions of Dollars)**

Line No.	Description	FY 2008	FY 2009	FY 2010	FY 2011
	Operating Revenues				
1	User Payments (1)	\$2,178.7	\$2,391.6	\$2,636.8	\$2,907.2
2	Upstate Revenues	39.4	42.5	47.1	51.2
3	Subtotal Service Revenue	2,218.1	2,434.2	2,683.9	2,958.4
4	Miscellaneous Revenues	6.8	7.1	7.4	7.8
5	Subtotal Operating Revenue	<u>2,224.9</u>	<u>2,441.3</u>	<u>2,691.4</u>	<u>2,966.2</u>
	Nonoperating Revenues				
6	Interest Income on System Funds (2)	76.1	85.9	95.7	107.1
7	Total Revenues	<u>\$2,301.0</u>	<u>\$2,527.1</u>	<u>\$2,787.1</u>	<u>\$3,073.3</u>

Projected as of April 30, 2007.
Figures are calculated on a cash basis.
Totals may not add due to rounding.
Source: Amawalk Consulting.

(1) Includes late payment charges.

(2) Includes interest income on the Construction Fund, Debt Service Fund and the Debt Service Reserve Fund.

Projected Operating and Maintenance Expenses

The table set forth below shows, for Fiscal Years 2008 through 2011, the System's projected operation and maintenance expenses as of April 30, 2007. See "FINANCIAL OPERATIONS—Projected Revenues" "RATES AND BILLING—Rates—Projected Rates."

Total expenses for Fiscal Year 2008 through Fiscal Year 2011 reflect the expansion of DEP health and safety programs, the results of recent collective bargaining agreements, increased costs for pension contributions and fringe benefits and other factors. See "INTRODUCTORY STATEMENT—Financial Projection Assumptions."

**Projected Operation and Maintenance Expense
(Millions of Dollars)**

Line No.	Description	FY 2008	FY 2009	FY 2010	FY 2011
1	Authority/Board Operations (1)	\$ 39.6	\$ 35.5	\$ 37.8	\$ 39.2
	Water Operations				
2	Personal Services	183.6	188.8	193.4	199.0
3	Other Than Personal Services	271.1	275.9	298.2	310.2
4	Total Water Operations	454.6	464.7	491.6	509.2
	Wastewater Operations				
5	Personal Services	290.0	292.4	300.2	308.8
6	Other Than Personal Services	294.3	293.6	290.2	296.2
7	Total Wastewater Operations	584.3	586.0	590.3	605.0
8	Indirect Expenses	16.2	16.2	16.2	16.2
9	Judgments and Claims	8.0	8.0	8.0	8.0
10	Total Operating Expenses	1,102.8	1,110.4	1,144.0	1,177.6
11	Less: Trust Account Withdrawals	(45.0)	(40.0)	(12.2)	—
12	Net Operating Expenses	1,057.8	1,070.4	1,131.8	1,177.6
13	Less: Credit for Prior Year Excess O&M Payment.	—	—	—	—
14	Net Operating Expense Payments	<u>\$1,057.8</u>	<u>\$1,070.4</u>	<u>\$1,131.8</u>	<u>\$1,177.6</u>

(1) Includes Authority/Board operations, Authority receipts (payments) under its interest rate exchange agreements, and Authority arbitrage rebate payments.

Totals may not add due to rounding. Figures are calculated on a cash basis.
Source: Amawalk Consulting.

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 participation in the State Revolving Fund Program. These fees are projected to be \$12.3 million in Fiscal Year 2008 and are expected to increase as the outstanding principal of bonds issued to EFC increases. The Authority also expects to make arbitrage rebate payments of \$6.5 million in Fiscal Year 2008. Other expenses of the Authority include but are not limited to payments under interest rate exchange agreements (net of receipts), fees related to adjustable rate bonds and commercial paper notes 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 transmission and 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.

Personal services costs assume a 3% increase per year from Fiscal Years 2007 through 2011. Other than personal services costs, excluding property taxes, are assumed to increase at an estimated rate of 3% per year for the forecast period. Property tax payments for City-owned watershed lands are expected to be \$112 million in Fiscal Year 2008. It is assumed that such payments will increase at the rate of 6% annually reflecting both the addition of new watershed properties and increasing tax rates.

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 water pollution control 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. A major component of 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. 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 9 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 February 28, 2007, the value of the trust account was \$92.9 million. It is assumed that this value will increase with interest earnings at the rate of 4% per annum, until withdrawals are made. It is anticipated that \$45 million in Fiscal Year 2008, \$40.0 million in Fiscal Year 2009, and \$12.2 million in Fiscal Year 2010 will be available as an offset to operation and maintenance expenses. The Funds in the trust account are administered by DEP.

Projected Financial Operations

The following table shows a summary of the forecasted cash flows for the Authority as of April 30, 2007 for Fiscal Year 2008 through Fiscal Year 2011. See "CAPITAL IMPROVEMENT AND FINANCING PROGRAM—Debt Service Requirements." See "RATES AND BILLING—Rates—Projected Rate." The projected rate increases described herein under "RATES AND BILLING—Rates" have been assumed in order to meet projected cash expenditures in compliance with the Rate Covenant. See "FINANCIAL OPERATIONS—Projected Revenues." As shown on Line 31 of the table, positive net surpluses are projected to be maintained throughout the reporting period. Line 32 illustrates the projected coverage of First Resolution debt service by current revenues available for debt service. Line 33 illustrates the projected coverage of First Resolution and Second Resolution debt service by current revenues available for debt service.

Forecasted Cash Flows
(Millions of Dollars)

Line No.	Description	FY 2008	FY 2009	FY 2010	FY 2011
	Operating Revenues				
1	Water and Sewer User Payments	\$2,178.7	\$2,391.6	\$2,636.8	\$2,907.2
2	Upstate Revenue	39.4	42.5	47.1	51.2
3	Miscellaneous Revenue	6.8	7.1	7.4	7.8
	Other Revenues				
4	Interest on Funds	76.1	85.9	95.7	107.1
5	Current Revenues Available for Debt Service	2,301.0	2,527.1	2,787.1	3,073.3
	First Resolution Debt Service				
6	Outstanding Bonds	551.4	556.7	546.9	610.5
7	Anticipated Future Bonds	—	84.5	174.4	246.0
8	Total First Resolution Debt Service	551.4	641.3	721.3	856.5
	Subordinated Obligations				
9	Outstanding Second Resolution Bonds issued to the public	55.1	54.7	54.4	54.0
10	Anticipated Future Second Resolution Bonds issued to the public	62.8	101.8	160.8	220.5
11	Interest Payments on Commercial Paper Notes	34.0	34.0	34.0	34.0
12	Outstanding Second Resolution Bonds issued to EFC	428.0	432.6	436.4	436.1
13	Anticipated Future Second Resolution Bonds	7.0	36.6	60.3	83.7
14	Less: EFC Subsidy and Capitalized Interest on Subordinated Bonds	(109.8)	(118.4)	(120.0)	(120.5)
15	Actual Debt Service on Subordinated Indebtedness	477.2	541.3	625.9	707.8
	Less: Carryforward Revenues	(115.1)	(84.5)	(90.4)	(95.6)
17	Net Debt Service on Subordinated Indebtedness	362.0	456.8	535.6	612.2
18	Total Debt Service Payable from Current Revenues. (line 8 + line 17)	913.4	1,098.1	1,256.9	1,468.7
	Operating Expenses				
19	Authority/Board Operations	39.6	35.5	37.8	39.2
20	Water System	454.6	464.7	491.6	509.2
21	Wastewater System	584.3	586.0	590.3	605.0
22	Indirect Expense	16.2	16.2	16.2	16.2
23	Judgments and Claims	8.0	8.0	8.0	8.0
24	Total Operating Expenses	1,102.8	1,110.4	1,144.0	1,177.6
25	Less: Trust Account Withdrawals	(45.0)	(40.0)	(12.2)	—
26	Net Operating Expenses	1,057.8	1,070.4	1,131.8	1,177.6
27	Less: Credit for Prior Year Excess O&M Payment	—	—	—	—
28	Rental Payment to the City of New York	155.3	178.3	202.8	235.2
29	Cash Financed Capital Construction ⁽¹⁾	90.0	90.0	100.0	80.0
30	Total Expenses	1,303.1	1,338.7	1,434.6	1,492.8
31	Net Surplus (line 5—line 18—line 30)	\$ 84.5	\$ 90.4	\$ 95.6	\$ 111.8
32	First Resolution Debt Service Coverage (line 5/line 8)	4.17x	3.94x	3.86x	3.59x
33	First and Second Resolution Debt Service Coverage (line 5/line 18)	2.52x	2.30x	2.22x	2.09x

Source: Amawalk Consulting.

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

- (1) Funds projected for Cash Financed Capital Construction may be used for the defeasance of bonds in addition to funds otherwise provided for the defeasance of bonds.

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 Amawalk Consulting for the purpose of conducting a detailed review of the structure of water and sewer rates. The Board considers the results of Amawalk Consulting rate studies in establishing its rates and charges for service.

The System’s rates and charges are largely exempt from federal and State regulation. Water rates, fees and charges for water supply are the responsibility of the Board and are not subject to further approval or regulation except for rates for upstate users. Currently approximately 12% of System Revenues are collected from such upstate users. Sewer charges are established by the Board as a percentage of water charges. Participation in the Construction Grants Program, however, requires the maintenance of sewer charges sufficient to defray costs of operation, maintenance and replacement. The Board, as a matter of policy, conforms with these requirements when setting sewer charges. The Board uses data compiled from meter readings for billings and to determine 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
July 1, 2002	Increased 6.5%	Increased 6.5%	\$1.44	No change
July 1, 2003	Increased 5.5%	Increased 5.5%	\$1.52	No change
July 1, 2004	Increased 5.5%	Increased 5.5%	\$1.60	No change
July 1, 2005	Increased 3%	Increased 3%	\$1.65	No change
July 1, 2006	Increased 9.4%	Increased 9.4%	\$1.81	No change
July 1, 2007	Increased 11.5%	Increased 11.5%	\$2.02	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. As of April 2007, forecasted debt service, operating and other costs for the System indicated that the anticipated future rate increases to be set by the Board for water and sewer services combined were 11.5% in Fiscal Year 2009, 11.4% in Fiscal Year 2010, 11.3% in Fiscal Year 2011 and 7.0% in Fiscal Year 2012.

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"). 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. As of July 1, 2007, water taken from either the Croton or Catskill/Delaware systems is charged at a rate of \$798.62 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 in March 2007. 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—11, and for Industrial—17.

Comparative Annual Water and Sewer User Charges⁽¹⁾⁽²⁾

Single-Family Residential		Commercial		Industrial	
City	Annual Charge	City	Annual Charge	City	Annual Charge
Chicago	\$ 243	Chicago	\$ 3,329	Indianapolis	\$ 319,884
Indianapolis	529	Indianapolis	4,028	Chicago	332,870
Milwaukee	530	St. Louis	4,319	St. Louis	356,665
St. Louis	569	Dallas	4,431	Milwaukee	369,317
Newark	608	Milwaukee	4,643	Dallas	380,352
San Jose	623	Baltimore	5,387	Philadelphia	470,305
San Antonio	626	San Antonio	5,655	San Antonio	471,517
Baltimore	626	Honolulu	5,685	Baltimore	478,115
New York	627	San Jose	5,817	Detroit	506,315
Dallas	649	Newark	5,842	San Jose	511,157
Los Angeles	674	New York	6,267	Newark	533,032
Houston	687	Los Angeles	6,296	Jacksonville	553,801
Detroit	707	Jacksonville	6,303	Honolulu	566,050
Jacksonville	721	Detroit	6,384	New Orleans	588,162
Honolulu	725	Columbus	6,568	Columbus	611,161
Columbus	729	New Orleans	6,934	Los Angeles	613,057
Washington, D.C.	771	San Diego	7,246	New York	626,725
Cleveland	782	Houston	7,474	San Diego	664,529
New Orleans	790	Washington, D.C.	7,551	Houston	732,620
San Diego	1,021	Cleveland	7,966	Washington, D.C.	753,183
Boston	1,077	Philadelphia	8,024	Cleveland	798,113
Philadelphia	1,157	San Francisco	10,511	San Francisco	1,021,944
San Francisco	1,229	Boston	11,778	Boston	1,297,926
Atlanta	1,265	Atlanta	14,669	Atlanta	1,489,081
Average	\$ 748	Average	\$ 6,796	Average	\$ 626,912

(1) User Charges are based upon information provided by the identified cities and standardized assumptions regarding water consumption, wastewater discharge, stormwater drainage area 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. Sewer charges include stormwater charges in those cities where separate stormwater fees are assessed. Some cities use property tax revenue or other revenues to pay for part of the cost of water, wastewater or stormwater services. In such situations, the user charges do not reflect the full cost of water, wastewater or stormwater services.

(2) Charges for all cities reflect rate schedules in effect on April 1, 2007.

Accounts, Billing and Collection

The Bureau of Customer Services of DEP renders bills to customers of the System and collects payments of such bills. This bureau 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 831,000 water and sewer accounts, nearly all of which are for water and sewer service. Approximately 91% 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 56,000 accounts, representing 7% of total accounts, are billed annually through the flat-rate system. These accounts are charged for water either on a per unit charge or 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 frontage rate is computed when the building is first constructed, and amended upon notice from the City Department of Buildings ("DOB") 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 776,000 accounts, representing 93% of total 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. Still other meters transmit consumption data to the billing system via telephone lines. Metered accounts are billed quarterly and bills are sent out regularly throughout the year. DEP is in the process of contracting with a vendor to provide technology for an automatic meter reading system in which meters would transmit usage information by radio signal to DEP. DEP expects to begin installing transmitters in mid-2008, with substantial completion of installation at all locations by mid-2011. The cost of implementing this program is expected to be \$210 million, all of which is included in the CIP. 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. The City has issued contracts for the installation of meters for the remaining unmetered accounts and is testing and replacing meters where necessary. Approximately 97% of all water and sewer accounts have meters installed. Since July 2000, unmetered properties which have not taken steps to install a meter have been required to pay a surcharge doubling their annual water and sewer charge. A surcharge was levied on approximately 9,750 accounts in their 2007 annual 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 install low-flow fixtures in order to reduce consumption and charges. There are approximately 30,600 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.

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 buildings 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 became effective July 1, 2001. To date, approximately 600 applications for the program 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 corporations and certain educational institutions, charitable institutions, homes for the aged, hospitals and other non-profit or charitable corporations.

DEP manages its account and billing information through its Customer Information System ("CIS"), which incorporates both frontage and metered accounts. DEP has identified weaknesses in the ability of the CIS to identify and report account errors and corrections on a comparable basis over time. In addition, DEP continues to issue a high percentage of estimated bills and continues to have difficulty in verifying the accuracy of a significant proportion of its overall receivable balances. DEP is working to reduce estimated bills and correct billing inaccuracies.

The Board and DEP have undertaken initiatives to enhance the collection of water and sewer billings. These initiatives include establishing a delinquent accounts unit for small to mid-size customers, outsourcing selected delinquency notification and collection functions to reputable collection or credit organizations, and hiring a consultant to assist in analyzing and improving collection of the accounts receivable balance. In addition, in 1999, the Board adopted a regulation authorizing DEP to terminate water and sewer services to customers because of nonpayment of assessed charges. In May 2002, October 2007 and February 2008 the Board approved modifications to these regulations, including reducing the dollar amount and the delinquent period thresholds determining an account's eligibility for service termination and narrowing the period of time during the year when water cannot be shut off. In September 2007, the Board authorized a payment incentive program for delinquent residential accounts that provides for service termination if payment is not made in accordance with the program.

The Commissioner of Finance of the City was authorized by the City Council in conjunction with the sale of tax liens to sell liens on certain properties on behalf of the Board securing unpaid water and sewer charges. Such authorization expired in 2006. In December 2007, the City Council reauthorized the lien sale program and expanded it to allow the City, with certain exceptions, to sell liens from unpaid water and sewer charges on two to four family houses, coops and condominiums, multi-family rental properties, and commercial businesses, independent of the existence of property tax liens. For additional information, see "FINANCIAL OPERATIONS—Projected Revenues."

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 1,185 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 collects and treats an average of approximately 1,300 mgd of wastewater. 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.”)

In recent years, DEP has taken a number of steps to enhance and augment its security arrangements to protect the System, including water supply structures and facilities. These steps include, among others, increasing the size of the DEP police force to approximately 200 officers; obtaining legislation authorizing the DEP police to function as police officers within the City, as well as in the upstate watersheds; purchasing additional police vehicles and surveillance equipment; and further securing facilities through additional locks, fences and other physical barriers to prevent access by unauthorized persons. In addition, DEP has been consulting with other governmental agencies, including the Federal Bureau of Investigation and the U.S. Army Corps of Engineers, on longer-term plans to modernize and improve security systems. In response to the attacks on the World Trade Center, DEP, in concert with law enforcement authorities, immediately implemented certain further measures to protect the System. These include, among others, increased frequency of patrols, restricting vehicular access to certain facilities, and more frequent monitoring of the water supply for contaminants. Increased security requirements have resulted in additional labor costs and related expenses in the System.

The Water System

Water Collection and Distribution

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.

The three main reservoir systems are the Croton, Catskill and Delaware Systems. See “New York City Water Supply System” map in Appendix G.

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
Boyd's Corner.....	1.7	1873
Croton Falls Diverting.....	<u>0.9</u>	1911
Total.....	88.6	
Catskill		
Ashokan.....	122.9	1915
Schoharie.....	<u>17.6</u>	1926
Total.....	140.5	
Delaware		
Pepacton.....	140.2	1955
Cannonsville.....	95.7	1964
Rondout.....	49.6	1950
Neversink.....	<u>34.9</u>	1954
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	<u>0.9</u>	1915
Total Balancing Reservoirs.....	31.5	
Distribution Facilities		
Central Park	1.0	1862
Jerome Park	0.8	1905
Silver Lake (tanks)	<u>0.1</u>	1970
Total Distribution Facilities	<u>1.9</u>	
Total Storage Capacity	<u><u>33.4</u></u>	

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.....	<u>33</u>	<u>2.6</u>
Total.....	<u><u>1,323</u></u>	<u><u>550.1</u></u>

(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 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 Olivebridge Dam across Esopus Creek) and the Catskill Aqueduct.

Gilboa Dam is comprised of an earthen dam and a concrete gravity dam, with the concrete portion also acting as the spillway. In 2005, an engineering analysis of the dam showed that the spillway had lost some mass over time and that the dam did not meet NYSDEC safety guidelines applicable to the reconstruction of existing dams. In December 2006, DEP completed a series of interim steps to bring the dam into compliance with NYSDEC safety guidelines for the reconstruction of existing dams.

Although there is no evidence that the dam is facing imminent risk of failure, DEP has determined that the rehabilitation of the dam should be advanced. Work on the crest gates, which will increase DEP's

ability to monitor the Schoharie Reservoir and maintain it at proper levels is scheduled to begin in Fiscal Year 2008. Site preparation work is scheduled to begin in Fiscal Year 2009, with full reconstruction, which is anticipated to bring the dam up to compliance with NYSDEC safety guidelines for new dams, beginning in Fiscal Year 2011. The estimated cost to complete the rehabilitation is \$678 million, \$663 million which is currently included in the CIP.

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).

In addition, wells in Queens provide approximately 1% of the City's daily water supply. The wells could be used to 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. DEP is currently planning improvements to the ground water system which will augment the supply of water from underground aquifers.

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

The System's water supply is transported through an extensive system of tunnels and aqueducts. See "New York City Water Tunnels" map in Appendix G. 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 Reservoirs and Silver Lake Tanks) to the service area.

Rondout-West Branch Tunnel. 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. It has the highest pressures and the highest velocities in the Water System. In addition, a portion of the tunnel crosses a fractured rock formation, which is potentially subject to greater stress than the deep rock tunnels located in the City. DEP regularly assesses the condition and integrity of the System's tunnels and aqueducts to determine the extent and effect of water loss. In particular, since the early 1990s, DEP has monitored the condition of the Rondout-West Branch Tunnel, which comprises a portion of the Delaware Aqueduct. As a result of DEP's flow tests, visual observations and other analyses, it has been determined that approximately 15 mgd to 36 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 4% of the daily volume of water provided by the tunnel under peak flow conditions. 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. In the opinion of the professional engineering firm retained by DEP in conjunction with that investigation, there is very little 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 will have to be shut down and de-watered for a period of up to three years. 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. Under an extended shutdown of this tunnel, water quality in the remaining reservoirs could potentially suffer as storage volumes are drawn down. 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.

On August 15, 2007, the Office of the State Comptroller issued a Report detailing its audit of DEP's plans and preparation for the repair and monitoring of the Rondout-West Branch Tunnel. The audit report contained seven recommendations which are largely reflected in current DEP Policy. DEP commented that three assertions made in the audit should be corrected: (i) that the leak causes lost revenue; (ii) the leak has increased over time; and (iii) DEP has not upgraded its emergency plan. DEP submitted the following corrections to the three assertions: (i) the leak does not result in lost revenue; (ii) tests and monitoring have established that the tunnel structure and the leakage rate are stable; and (iii) although the leak is stable, DEP is upgrading its emergency plan. Although the final report appended these comments, the text of the Report was not adjusted to correct these inaccuracies.

DEP has begun to evaluate additional strategies and projects for improving dependability of water supplies, which could entail the development of additional or interim supplies to meet demands during periods of extended facility outages due to planned or unplanned inspection, repair or rehabilitation. DEP has retained a consultant to develop a long term dependability plan. DEP intends to evaluate various alternative projects which, when combined, could allow for any portion of the Water System to be taken out of service for a period of up to one year. Elements of that plan may include: interconnections with other neighboring jurisdictions; increased use of groundwater supplies; storage and recovery of existing supplies within underground aquifers; increased storage at existing reservoirs; withdrawals and treatment from other surface waters; hydraulic improvements to existing aqueducts; and additional tunnels.

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. 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 in Brooklyn. Tunnel 2 has a capacity of more than 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 replaced 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 by 2015. 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, and with the installation of additional surface mains or the construction of additional shafts, Stage II will enable the system to maintain full service even if Tunnel 1 or 2 was shut down. The Stage III project is

now referred to as the Kensico-City Tunnel (the “Kensico Tunnel”). 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.

Kensico-City Tunnel. The Kensico-City Tunnel will extend from the Kensico Reservoir to the interconnecting chamber of Tunnel 3, Stage I, south of Hillview Reservoir. The design work for the tunnel is estimated to cost \$119 million. The estimated cost to design and construct the tunnel is expected to be between \$4 billion and \$6 billion, most of which would be incurred in the years beyond the CIP. The amount currently included in the CIP for this project is \$253 million.

The water distribution system consists of a grid network of over 6,500 miles of pipe, as well as valves, fire hydrants, distribution facilities, gatehouses, pump stations, and maintenance and repair yards. Approximately 32% of the pipe in the System was laid before 1930, 37% between 1930 and 1969, and the remainder thereafter. 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.

Drought Response Measures

From time to time the Water System experiences drought conditions caused by significantly below-normal precipitation in the watershed areas. The most recent drought was in 2002. As of March 6, 2008, the System’s reservoirs were filled to 99.6% of capacity. Normal levels at this time of year are approximately 85.4% of capacity.

The Water System relies upon a surface water supply, and 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. To ensure adequate water supply during drought conditions, DEP, in conjunction with other City, State and interstate agencies, maintains a Drought Management Plan. The Drought Management Plan defines various drought phases that trigger specific management and operational action. Three defined phases are: “Drought Watch,” “Drought Warning,” and “Drought Emergency.” A Drought Emergency is further subdivided in four stages based on the projected severity of the drought and provides increasingly stringent and restrictive measures.

A Drought Watch is declared when there is less than a 50% probability, based on the existing record since 1927, that either the Catskill or Delaware reservoir system will be filled by the following June 1. This phase initiates the pumping of water from the Croton System. In addition, during this phase a public awareness program begins and users, including upstate communities taking water from the System, are requested to initiate conservation measures. New York State Department of Health (“NYSDOH”), NYSDEC, and the Delaware River Basin Commission (the “DRBC”) are advised of the Water System’s status, and discussions are held with City agencies concerning their prospective participation in the event of a declaration of a Drought Warning.

A Drought Warning is declared when there is less than a 33% probability that either the Catskill or Delaware reservoir system will fill by June 1. All previous efforts are continued or expanded and additional programs are initiated, including the coordination of specific water saving measures by other City agencies.

A Drought Emergency is declared when it becomes necessary to reduce consumption by imposing even more stringent measures. In addition to the imposition of restrictions, DEP may enhance existing System management and 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.

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 NYSDEC and NYSDOH; at the interstate level in the DRBC and the Interstate Environmental Commission and at the municipal level in DEP, the New York City Department of Health and Mental Hygiene (“NYCDOH”), DOB and the Department of Small Business Services 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 construction activities and wastewater treatment in the watershed, 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 federal Safe Drinking Water Act (“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.

Drinking Water Regulations. In January 2006, USEPA issued final versions of two drinking water supply regulations, developed pursuant to the SDWA: the Long Term 2 Surface Water Treatment Rule (“LT2”) and the Stage 2 Disinfection/Disinfectant By-Products Rule (“DBP2”). Compliance with these new regulations may require additional capital expenses, not all of which are currently included in the CIP.

The purpose of LT2 is to reduce the incidence of waterborne disease by mandating certain levels of inactivation and/or the removal of certain microorganisms from water supply systems, including the Catskill and Delaware Systems. DEP anticipates achieving compliance with such levels through the construction and operation of its planned ultraviolet treatment facility (the “UV Facility”). See “—*Watershed Protection/Catskill, Delaware Filtration.*” LT2 also mandates that uncovered finished water storage facilities, which include the Hillview Reservoir, be covered or that water from such facilities be treated. DEP is a party to an Administrative Order with NYSDOH (“Hillview Administrative Order”) which requires, among other things, that the City install or construct a cover for the Hillview Reservoir. See “—*Hillview Reservoir.*” DEP is seeking a variance from the LT2 requirement that Hillview Reservoir be covered as a finished water storage facility. The cost of covering the Hillview Reservoir, which is not included in the CIP, is expected to be \$1.6 billion.

The purpose of DBP2 is to reduce the potential health risks associated with disinfection byproducts, which are chemical compounds formed when disinfectants such as chlorine are added to drinking water. Based on preliminary assessments, DEP believes that the mandated level of disinfection byproducts set forth by DBP2 may be exceeded in certain parts of the System. DEP is investigating this possibility and assessing whether alternative disinfection methods or the use of filtration would be required to achieve compliance with the regulation.

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, disinfection, fluoridation, and the addition of caustic soda and phosphoric acid for corrosion control. Additions of copper sulfate for algae control and alum for turbidity control are made only when needed. Historically, this level of treatment proved to be more than sufficient to maintain water quality standards throughout the entire Water System. However, more stringent federal standards for surface water treatment in the 1980s and 1990s led to a 1992 stipulation with NYSDOH, which has been superseded by a 1998 federal court consent decree, as supplemented in 2002 and 2005 (the “Croton Filter Consent Decree”). The Croton Filter Consent Decree mandates the construction of a full scale water treatment facility to filter Croton System water.

After an extensive study, DEP identified the Mosholu Golf Course in the Bronx as its preferred site for the treatment facility and began work at the site in late 2004. The Croton Filter Consent Decree sets

forth milestones, including commencement of operations of the facility on October 31, 2011 which, if not met by the City, require the payment of penalties to the State and federal governments. Because of the withdrawal of the low bidder on one of the general construction contracts for the facility, DEP missed several milestones in February 2007 for the issuance of notices to proceed on that contract and certain others. On August 21, 2007 DEP issued the required notices to proceed in satisfaction of the milestones which had been missed in February. DEP paid \$4,785,000 in penalties for the missed milestones. It is anticipated that the total cost to complete the Croton filtration plant will be \$518 million, all of which is included in the CIP. As a result of the delay in commencing the construction of the water treatment facility, DEP may not meet other milestones in the Croton Filter Consent Decree, which could result in the imposition of additional penalties.

From time to time, the Croton System has failed to meet the water quality standard for haloacetic acids, a disinfection by-product regulated by USEPA. Pursuant to a USEPA Administrative Order issued in June 2003, DEP has evaluated feasible and cost-effective interim measures that could be taken to reduce haloacetic acid levels in Croton water until the Croton filtration plant is completed. It is anticipated that, pending completion of the Croton filtration plant the Croton System will be off-line for extended periods in order to rehabilitate and upgrade the New Croton Aqueduct. As such, DEP has determined that implementation of such interim measures is not needed at present.

Watershed Protection/Catskill, Delaware Filtration. Pursuant to the 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 many of its related regulations was delegated by USEPA to the State. With respect to the Catskill and Delaware systems, the City believes that it will continue to be able to meet the criteria for non-filtered supplies under the SWTR.

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 for economic-environmental partnership programs with upstate communities. As provided under the Watershed Memorandum of Agreement, the State issued a land acquisition permit to the City to acquire water quality sensitive land in the watershed until January 2012 and approved the City's revised rules and regulations governing certain aspects of land use in the watershed.

Since 1993, USEPA has been issuing filtration avoidance determinations ("FADs") pursuant to which the City is not required to filter water from the Catskill and Delaware Systems. If the City were to have to filter water from the Catskill and Delaware Systems, construction costs to provide for such filtration are estimated to be between \$6 billion and \$8 billion. In July 2007 USEPA issued a new FAD (the "2007 FAD") which supersedes previous determinations and has a term of 10 years, divided into two five-year periods. The 2007 FAD requires the City to take certain actions to protect the Catskill and Delaware water supplies. These actions included the continuation and enhancement of certain environmental and economic partnership programs established under the Watershed Memorandum of Agreement, and the creation of new programs.

The 2007 FAD also requires that the City continue to solicit property from owners of land in the watershed and actually acquire (with certain limited exceptions) title to or conservation easements on any solicited land if the owner accepts the City's purchase price. The 2007 FAD requires the City to allocate a total of \$300 million for land acquisition during its ten year term, including approximately \$59 million of unspent funds remaining from moneys set aside for land acquisition under the Watershed Memorandum of Agreement and the previous FAD and \$241 million in new funding. In addition, the City is obligated to develop and implement a strategy to augment its land acquisition efforts through increased participation of land trusts and other non-governmental organizations in identifying and helping the City acquire eligible lands. As of February 15, 2008, title to or conservation easements on approximately

83,546 acres of land in the Catskill and Delaware watersheds at a cost of approximately \$244 million have either been acquired or are under contract for acquisition. The current NYSDEC land acquisition permit allowing the City to continue its watershed land acquisition program expires in early 2012. It will be necessary for DEP to obtain a new permit in order to continue acquiring watershed land during the second five years of the 2007 FAD. Under the 2007 FAD DEP must apply for the new permit in early 2010. Other stakeholders will have the opportunity, as part of the permitting process, to oppose the issuance of the permit or to request the inclusion of conditions or limitations on such permit. A failure to obtain such a permit will impact DEP's ability to comply with the 2007 FAD.

The 2007 FAD also calls for the continuation, during its first five years, of many of the City's other successful watershed protection programs that were part of the previous FAD, with additional enhancements to several programs including the Community Wastewater Management Program and the Stream Management Program. Prior to commencement of the second five years of the 2007 FAD, the City will need to reach agreement with USEPA and NYSDOH on which of such programs should be further continued into the second five-year period, whether and how any of such programs to be further continued should be modified, and/or whether additional programs are needed to justify continuation of the 2007 FAD into the second five years of its term. To assist in making these decisions and reaching an agreement, DEP will prepare a Revised Long Term Watershed Protection Program, to be submitted to USEPA/NYSDOH by December 15, 2011.

On September 12, 2007, the Coalition of Watershed Towns and three individual towns in the watershed filed a petition for review in the Federal Circuit Court of Appeals for the Second Circuit, challenging the USEPA's issuance of the 2007 FAD. The petitioners claim: first, that based on language in the Watershed Memorandum of Agreement, and correspondence between USEPA and NYSDOH in 1997, primary responsibility for administering the SWTR for the Catskill and Delaware water supplies should have been transferred to NYSDOH in May 2007 and, therefore, USEPA lacked authority in July 2007 to issue the 2007 FAD for Catskill and Delaware systems; and, second, that the Watershed Control Program embodied in the 2007 FAD does not conform to the SWTR requirement that the water supplier demonstrate "through ownership and/or written agreements with landowners within the watershed that it can control all human activities which may have an adverse impact on the microbiological quality of the source water." An adverse determination on the first claim could invalidate the 2007 FAD and require that a new FAD be issued by NYSDOH. An adverse determination on the second claim could invalidate the 2007 FAD and prevent either USEPA or NYSDOH from issuing a new FAD. USEPA and the other respondents are actively defending the 2007 FAD. See "LITIGATION."

UV Facility. The UV Facility will provide treatment for Catskill and Delaware water by achieving certain levels of inactivation of cryptosporidium. The 2002 FAD, as initially issued, called for the UV Facility to be operable by September 2009. There have since been a number of delays attributable to design changes and permitting issues. In January 2007, DEP entered into an Administrative Order on Consent ("UV Order"), with USEPA, pursuant to USEPA's authority under LT2. The UV Order establishes a revised schedule of milestones for the construction of the UV Facility including a final completion date of October 29, 2012. The milestones in the UV Order have been incorporated into the 2007 FAD. See "*Watershed Protection/Catskill, Delaware Filtration.*"

At DEP's request, USEPA extended the milestone in the UV Order for issuance of a notice to proceed on such contract from October 31 to December 31, 2007. In December 2007, DEP notified USEPA that it would miss the December 31, 2007 milestone for issuance of the notice to proceed. The notice to proceed was issued on January 31, 2008. The next milestone under the UV Order is October 31, 2008. DEP has advised USEPA that within six months of the notice to proceed, it will be able to confirm whether or not it will be able to meet that subsequent milestone. While the UV Order does not provide for stipulated penalties, DEP can be assessed penalties of up to \$37,500 per day for each missed milestone under the SDWA. Violations of the UV Order could also affect DEP's standing under the terms of the FAD. The cost to complete the UV Facility is expected to be \$1.4 billion all of which included in the CIP.

USEPA/U.S. Attorney Investigations. In August 2001, pursuant to a plea agreement entered into with the United States Attorney's Office for the Southern District of New York, DEP pleaded guilty to a criminal violation of both the Clean Water Act and the Toxic Substances Control Act. As a result, DEP has been placed on probation and a court-appointed federal monitor was assigned to oversee DEP's compliance with the terms of the plea agreement. Among other things, the plea agreement required DEP to establish an agency compliance office, and to develop and implement a compliance program for its water supply operations and its upstate water pollution control plants, intended to detect and prevent violations of environmental, health and safety laws, rules and regulations.

The Clean Water Act violation is based on the discharge of water containing low levels of mercury from a DEP facility in Sullivan County. The Toxic Substances Control Act violation is based on DEP's use of flow control equipment which contains PCBs in other than a totally enclosed manner at a facility in Westchester County. The conditions which gave rise to the violations have not had any detectable impact on water quality and the City's water supply has been, and continues to be, safe. The federal government, NYSDOH and DEP have all indicated that the water supply remains safe with respect to mercury, PCBs and lead. DEP has been and continues to be engaged in programs to remediate mercury, PCBs, lead, and other constituents of concern from the affected facilities. DEP's operation and management of the System will not materially change as a result of the plea.

On August 14, 2003, the City (along with major portions of the northeastern United States) experienced a massive power blackout. With the loss of electrical power during the blackout, DEP's North River and Red Hook water pollution control plants were unable to treat wastewater being conveyed to those facilities, resulting in the outflow of untreated wastewater into the waters of New York Harbor. The United States Attorney's Office for the Southern District of New York conducted an investigation into operations at the two plants in connection with the blackout. On January 13, 2006, DEP entered into an agreement with the United States Attorney's Office, whereby DEP admitted that it had violated the terms of probation by failing to properly maintain emergency back-up generators at the Red Hook plant, in violation of its SPDES permit for the plant. It further agreed to an extension of probation for three years, ending February 6, 2009, with a possible further extension until December 31, 2009 upon motion by the United States Attorney's Office. Finally, DEP agreed to expand its environmental, health and safety compliance program to the balance of the agency's operations, and to extend the monitor's oversight to include DEP's in-City wastewater treatment operations. On February 7, 2006, the United States District Court for the Southern District of New York entered an order extending probation and the monitor's oversight, and directing DEP to expand its compliance program, as contemplated by the agreement.

In recognition of progress made by DEP in developing and implementing its compliance program, and based on an agreement reached among DEP, the United States Attorney's Office and the federal monitor, the court issued orders releasing DEP's Bureau of Water and Sewer Operations, Bureau of Water Supply, and DEP's risk management and process safety management programs at the four DEP facilities where drinking water is chlorinated for disinfection, from the monitor's day-to-day supervision.

From time to time, the United States Attorney's Office requests additional information from DEP concerning the System, and issues subpoenas for additional documents. DEP cooperates with the office and provides information and documents in response to such requests and subpoenas.

Tap Water Testing Program. DEP has historically monitored key locations in its distribution system for over 40 individual water quality parameters, including lead. DEP data indicated that lead was absent from or present in very low levels in both the water supply and distribution systems. Beginning in the early 1990s, USEPA and NYSDOH regulations require water suppliers to monitor for lead and copper that may have leached into the water from service lines or interior building plumbing. In compliance with these requirements, DEP began testing tap water for lead and copper. Sample results indicated the presence of lead in some of the tested residential taps, in excess of State lead action levels. To minimize these occurrences, 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. The most recent test results for lead in tap water, for 2005 and 2006, show the City to be in compliance with State action levels for lead in the State Sanitary Code.

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.

Hillview Reservoir. In March 1996, DEP entered into the Hillview Administrative Order with NYSDOH which, as modified in 1997 and 1999, required, among other things, the City to cover the Hillview Reservoir by December 31, 2005 to reduce the possibility of E. coli bacteria entering the Water System.

The City has not commenced construction of a cover for the Hillview Reservoir and therefore did not meet the December 31, 2005 milestone date set out in the Hillview Administrative Order. On February 22, 2008, DEP entered into a revised Hillview Administrative Order which requires the City to cover the Hillview Reservoir by October 31, 2016 while also allowing the City to pursue an evaluation of other strategies to protect the reservoir. The revised order also requires DEP to pay NYSDOH \$2 million in stipulated penalties for failing to meet the December 31, 2005 milestone date and to spend the entire balance of \$2.7 million in the escrow account, which was established under the order, on water quality projects. Currently, the cost of a Hillview Reservoir cover is expected to be \$1.6 billion. This cost, is not included in the CIP. The LT2 rule promulgated by USEPA is expected to have an impact on DEP's discussions with NYSDOH. See "*—Recent Drinking Water Regulations.*"

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 CCR covering calendar year 2006, the most recent such report, demonstrates that the quality of New York City's drinking water remains high. The CCR notes several exceedences of standards for the naturally-occurring elements iron and manganese, as well as a treatment technique violation, violation of State monitoring requirements in the Groundwater System and PH exceedences in the Catskill/Delaware system. None of these exceedences are considered harmful to public health. DEP issued a public notification about the treatment technique violation and has taken steps to address the cause of the violation.

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, an October 2007 agreement with the Delaware River Basin Commission requires the System, under certain circumstances, to release water from the three reservoirs into the tributaries of the Delaware River, when the reservoirs are full. 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.

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 water pollution control facilities. See "New York City Drainage Areas and Water Pollution Control Plants" map in Appendix G.

Sewage Collection and Treatment

The Sewer System's plants treat approximately 1,330 mgd of wastewater. The Sewer System is divided into 14 drainage areas corresponding to the 14 water pollution control plants and includes over 6,600 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 approximately 15% of all sewer pipe in the collection system is over 100 years old.

The facilities related to the treatment of sewage include water pollution control plants, two combined sewer overflow retention facilities, 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. Sludge that is treated through the sewage treatment process (or "biosolids") is acceptable for land-based beneficial use either directly or after additional provisions such as composting, lime stabilization or thermal pelletization.

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 water pollution control plants in the System are either being constructed under the CIP or are under continuing review for feasibility and cost effectiveness. DEP has been addressing both the issues of supply and treatment capacity by promoting conservation, through voluntary changes in user behavior, through education and the imposition of 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 Sewer System's water pollution control pump stations convey wastewater to the water pollution control 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; composting in Pennsylvania; direct land application in Colorado and Virginia; and lime stabilization in Colorado.

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 Permit Program and the issuance of water pollution control plant operating permits. As authorized by the Clean Water Act, administration of the permit program has been delegated to the State.

Full Secondary Treatment Requirements/Newton Creek. Thirteen of the System's 14 in-City water pollution control plants have been upgraded to meet the full secondary treatment requirements of the Clean Water Act. The remaining plant, Newtown Creek, is in the process of being upgraded to meet secondary treatment requirements and to improve plant operations. All of this work is being undertaken pursuant to the terms of a State court consent judgment (the "Newtown Creek Consent Judgment"), agreed to by NYSDEC and DEP, which required that the plant meet secondary treatment levels by December 31, 2007 and that all other construction-related activities specified in the consent judgment be completed by July 4, 2013. DEP has determined that the amount of time required to take certain plant

facilities out of service, upgrade them, and return them to service is in excess of prior estimates. As a result, DEP has advised NYSDEC that it will likely not be able to comply with the July 4, 2013 milestone for completion of construction. NYSDEC has requested that DEP investigate the possibility of accelerating the work. In response, DEP has proposed certain measures which DEP believes will shorten the overall time period for completion of construction. DEP has requested that NYSDEC approve such measures and grant relief from the December 31, 2007 milestone by approving interim discharge limits for the plant and extending the date for attainment of secondary treatment until construction is completed. On November 7, 2006, a court-appointed referee issued a recommendation that the Newtown Creek Consent Judgment be modified to extend interim discharge limits at the plant and the milestone for attainment of secondary treatment to December 31, 2008. The referee also recommended that the City be required to determine if the overall construction schedule at the plant could be accelerated. DEP and NYSDEC are currently negotiating an accelerated construction completion schedule. In addition, on January 23, 2007, NYSDEC issued a notice of violation (“NOV”) to DEP, seeking penalties for certain past construction milestones under the Newtown Creek Consent Judgment which NYSDEC alleges have been missed through January 22, 2007. On August 24, 2007, NYSDEC filed a judgment in New York State Supreme Court for approximately \$27 million in penalties with respect to such past missed construction milestones. DEP intends to move to vacate the judgment. In addition, NYSDEC issued a further NOV for additional accrued penalties in respect of such past missed construction milestones, in the amount of \$20,683,000 for the period from January 23, 2007 to August 27, 2007. NYSDEC contends that penalties are continuing to accrue at a rate of \$125,000 per day. DEP continues to seek a negotiated resolution of this matter, including a revised schedule for attainment of secondary treatment and for completion of all construction at the Newtown Creek WPCP. Due to higher than expected bids, the current estimated cost to complete the work at Newtown Creek is \$327 million more than is reflected in the CIP. For additional information on the Newtown Creek Consent Judgment, see “LITIGATION.”

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. The CSO Consent Order was modified in January 2005. This modification imposed penalties for missed deadlines and established revised milestones for those projects which suffered delays. Certain of these milestones extend beyond the end of the CIP. The estimated remaining cost of complying with the CSO Consent Order, through the end of the CIP, as revised, is \$1.25 billion, \$1.02 billion of which is currently included in the CIP. 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. NYSDEC has issued NOVs for two missed milestones, which are subject to stipulated penalties under the CSO Consent Order. DEP and NYSDEC have negotiated and released for public comment a proposed consent order modification settling the two NOVs, along with other issues under the CSO Consent Order and other outstanding obligations for a \$1 million penalty and \$4 million in environmental benefit projects to be proposed by DEP. Final NYSDEC approval is pending completion of the comment period. In November 2007, NYSDEC issued an NOV alleging three separate violations of a permit related to work on combined sewer overflows. Such permit violations are subject to civil and criminal penalties. DEP is continuing to negotiate with NYSDEC to resolve the NOVs.

DEP’s SPDES permits for the City’s 14 in-City water pollution control plants require those plants to be capable of accepting and treating two times dry weather flow. DEP has met this requirement at 12 plants. Design work has begun for the necessary upgrades at the Tallman Island plant and construction is expected to be completed in fiscal year 2015, the full cost of which is included in the CIP. DEP believes that the Rockaway plant currently meets the two times dry weather flow requirement and is monitoring the performance of the plant in order to gather data for submission to NYSDEC. In 2002, NYSDEC proposed modifications of the existing SPDES permits for the 14 in-City water pollution control plants operated and maintained by DEP. The proposed modifications included certain provisions relating to the control of CSOs. NYSDEC has issued draft SPDES permits which are acceptable to DEP. However, these

permits have been challenged by several environmental groups. Such challenge could result in additional permit provisions relating to the control of CSOs and/or a request to modify the terms of the revised CSO Consent Order.

SPDES/Water Pollution Control Plants. Over the past several years, NYSDEC and DEP have resolved various alleged permit violations at the System's 14 in-City water pollution control 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. The most recent such consent order (the "Omnibus VI Consent Order") covers alleged violations from January 1, 2000 through December 31, 2001, including alleged effluent, operating and bypass violations at a number of plants.

NYSDEC issued a notice of violation related to the SPDES permit for the Spring Creek Auxiliary Water Pollution Control Plant, alleging excessive infiltration/inflow entering the facility dating to June 2006. DEP is in the process of responding to the notice of violation. SPDES permit violations are subject to penalties up to \$37,500 per day.

The System also includes eight City-owned upstate water pollution control 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 funds to upgrade the eighth facility.

Harbor and Waterway Protection. According to the most recent Harbor Survey issued by DEP, the water quality in New York Harbor and surrounding rivers continues to show long-term overall improvement. The Harbor Survey is an ongoing monitoring effort of the City's waterways that has been done since 1909. The Survey monitors over a dozen water quality parameters at 37 sampling stations within New York Harbor and its tributaries. A key parameter of the overall health of aquatic systems is dissolved oxygen ("DO"). The Harbor Survey has found DO levels in most parts of the harbor at historic highs, although river-bottom DOs are periodically below acceptable concentrations. Many local waterways, which were unfishable just 20 years ago, now meet the coliform bathing standards. These water quality improvements are primarily a response to: continued water pollution control plant construction and upgrades; abatement and surveillance of illegal discharges; and increased capture of wet-weather flows.

In April 2004, the City health code for bathing beaches began utilizing a standard based on enterococcus, rather than coliform, which is regarded as a more precise indicator of water quality. DEP's Harbor Survey has begun a monitoring program for enterococcus and has been assisting the NYCDOH in its beach assessments.

The Long Island Sound Study ("LISS"), which began in 1985, 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 water pollution control plants, stormwater run-off carrying lawn and agricultural fertilizer, organic materials, and air-deposited nitrate substances. In 2001, the LISS resulted in the issuance and approval of a Total Maximum Daily Load ("TMDL") for nitrogen in Long Island Sound. The TMDL, as approved, would require point source dischargers into Long Island Sound, such as the operators of water pollution control plants, to reduce their nitrogen discharges in three phases over a period of fifteen years. In 2006, the City entered into a State Court Consent Judgment with NYSDEC (the "Nitrogen Consent Judgment") which requires DEP to upgrade five water pollution control plants, four of which discharge into the Upper East River and one of which discharges into Jamaica Bay, in order to reduce nitrogen discharges and comply with draft SPDES nitrogen limits by January 1, 2017. The Nitrogen Consent Judgment also required DEP to pay a \$2.7 million penalty to the State Marine Resources Account and \$5.3 million for projects to benefit waters in and around the City. The Nitrogen Consent Judgment also establishes less stringent nitrogen limits during construction of the modified facility plan than those set out in the draft SPDES permits. The facilities plan pursuant to the Nitrogen Consent Judgment is estimated to cost approximately \$419 million, which is currently included in the CIP. DEP has missed certain consent judgment milestones,

and is projected to miss additional future milestones. These milestones are subject to maximum stipulated penalties of up to \$15,000 per day under the Nitrogen Consent Judgment. The draft SPDES permit nitrogen levels have been challenged by several environmental groups. Such challenge could result in additional permit provisions relating to the control of nitrogen at certain plants and/or a request to modify the terms of the Nitrogen Consent Judgment.

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

ECONOMIC AND DEMOGRAPHIC INFORMATION

This section presents information regarding certain economic and demographic information about 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 provided by non-city sources 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 securities, banking, law, accounting, new media 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, professional and business services, 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 United Nations and the 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. The City experienced a recession in the early 1970s through the middle of that decade, followed by a period of expansion in the late 1970s through the late 1980s. The City fell into recession again in the early 1990s which was followed by an expansion that lasted until 2001. The economic slowdown that began in 2001 as a result of the September 11 attack, a national economic recession, and a downturn in the securities industry came to an end in 2003. Since then, Wall Street activity, tourism and the real estate market have driven a broad-based economic recovery. The Financial Plan assumes that a decrease in economic activity began in the second half of 2007, and will persist through 2008.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1995 to 2005 (the most recent year for which City personal income data are available). From 1995 to 2005, personal income in the City averaged 4.5% growth compared to 5.3% for the nation. After increasing by 7.7% in 2004, total personal income has increased by 4.2% in 2005. The following table sets forth information regarding personal income in the City from 1995 to 2005.

Personal Income(1)

<u>Year</u>	<u>Total City (\$ billions)</u>	<u>Per Capita City</u>	<u>Per Capita U.S.</u>	<u>Per Capita City as a Percent of U.S.</u>
1995	\$221.2	\$28,981	\$23,078	125.6%
1996	234.1	30,407	24,176	125.8
1997	245.5	31,579	25,334	124.7
1998	262.0	33,341	26,880	124.0
1999	275.4	34,658	27,933	124.1
2000.....	296.0	36,910	29,844	123.7
2001.....	302.7	37,481	30,558	122.7
2002.....	299.8	36,987	30,792	120.1
2003.....	306.1	37,592	31,456	119.5
2004.....	329.6	40,300	33,075	121.8
2005.....	343.4	41,803	34,687	120.5

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

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

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, fashion design and retail fields. From 1989 to 1992, the City lost approximately 9% of its employment base. From 1992 through 2000, the City experienced significant private sector job growth with the addition of approximately 452,700 new private sector jobs (an average growth rate of approximately 2%). Between 2000 and 2003 the City lost 174,300 private sector jobs. The City recovered 134,500 private sector jobs by the end of 2006. As of December 2007, total employment in the City was 3,798,100 compared to 3,744,700 in December 2006, an increase of approximately 1.4%.

The table below shows the distribution of employment from 1997 to 2007.

Employment Distribution

	Average Annual Employment (In thousands)										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Goods Producing Sectors											
Construction	93	101	112	121	122	116	113	112	113	118	124
Manufacturing	201	196	187	177	156	139	127	121	114	106	100
Service Producing Sectors											
Trade Transportation and Utilities	537	542	556	570	557	536	534	539	547	557	563
Information	163	166	173	187	200	177	164	160	163	165	165
Financial Activities	168	477	481	489	474	445	434	435	445	458	470
Professional and Business Services	194	525	553	587	582	550	537	541	555	571	587
Education and Health Services	576	589	604	615	627	646	658	665	679	695	708
Leisure and Hospitality	228	236	244	257	260	255	260	270	277	283	291
Other Services	129	134	142	147	149	150	149	151	153	154	156
Total Private	2,889	2,966	3,052	3,149	3,127	3,015	2,975	2,995	3,047	3,109	3,164
Government	550	560	567	569	562	566	557	554	556	555	555
Total	3,440	3,527	3,619	3,718	3,689	3,581	3,531	3,549	3,602	3,664	3,719

Note: Totals may not add due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics. Data are presented using the North American Industry Classification System ("NAICS").

Sectoral Distribution of Employment and Earnings

In 2005, the City's service producing sectors provided approximately 2.8 million jobs and accounted for approximately 78% of total employment. Figures on the sectoral distribution of employment in the City from 1980 to 2000 reflect a significant shift to the service producing sectors and a shrinking manufacturing base relative to the nation.

The structural shift to the service producing sectors affects the total earnings as well as the average wage per employee because employee compensation in certain of those sectors, such as financial activities and professional and business services, tends to be considerably higher than in most other sectors. Moreover, average wage rates in these sectors are significantly higher in the City than in the nation. In the City in 2005, the employment share for the financial activities and professional and business services sectors was approximately 28% while the earnings share for that same sector was approximately 49%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 25% of earnings in 2005. Due to the earnings distribution in the City, sudden or large shocks in the financial markets may have a disproportionately adverse effect on the City relative to the nation.

The City's and the nation's employment and earnings by sector for 2005 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2005(1)

	<u>Employment</u>		<u>Earnings(2)</u>	
	<u>NYC</u>	<u>U.S.</u>	<u>NYC</u>	<u>U.S.</u>
Goods Producing Sectors				
Mining.	0.0%	0.5%	0.3%	1.2%
Construction	3.1	5.5	2.9	6.5
Manufacturing	<u>3.2</u>	<u>10.6</u>	<u>2.7</u>	<u>12.8</u>
Total Goods Producing	6.3	16.6	5.9	20.4
Service Producing Sectors				
Trade, Transportation and Utilities	15.2	19.4	9.1	16.0
Information	4.5	2.3	7.5	3.6
Financial Activities	12.4	6.1	28.7	10.1
Professional and Business Services	15.4	12.6	20.0	15.4
Education and Health Services	18.8	13.0	10.5	10.8
Leisure & Hospitality	7.7	9.6	3.8	3.8
Other Services	<u>4.3</u>	<u>4.0</u>	<u>2.5</u>	<u>2.9</u>
Total Service Producing	78.3	67.0	82.0	62.6
Total Private Sector	84.6	83.7	89.2	83.4
Government(3)	15.4	16.3	10.8	16.6

Note: Data may not add due to rounding or restrictions on reporting earnings data. Data are presented using NAICS.

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

- (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 proprietor's income. The latest information available is 2005 data.
- (3) Excludes military establishments.

The comparison of employment and earnings in 1980 and 2000 set forth below is presented using the industry classification system which was in use until the adoption of NAICS in the late 1990s. Though NAICS has been implemented for most government industry statistical reporting, most historical earnings data have not been converted. Furthermore, it is not possible to compare data from the two classification systems except in the general categorization of government, private and total employment. The table below reflects the overall increase in the service producing sectors and the declining manufacturing base in the City from 1980 to 2000.

The City's and the nation's employment and earnings by industry are set forth in the following table.

Sectoral Distribution of Employment and Earnings(1)

Sector	Employment				Earnings(2)			
	1980		2000		1980		2000	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
Private Sector:								
Non-Manufacturing:								
Services	27.0%	19.8%	39.1%	30.7%	26.0%	18.4%	30.2%	28.7%
Wholesale and Retail Trade	18.6	22.5	16.8	23.0	15.1	16.6	9.3	14.9
Finance, Insurance and Real Estate	13.6	5.7	13.2	5.7	17.6	5.9	35.5	10.0
Transportation and Public Utilities	7.8	5.7	5.7	5.3	10.1	7.6	5.2	6.8
Contract Construction	2.3	4.8	3.3	5.1	2.6	6.3	2.9	5.9
Mining	0.0	1.1	0.0	0.4	0.4	2.1	0.1	1.0
Total Non-Manufacturing	69.3	59.6	78.1	70.3	71.8	56.9	83.2	67.3
Manufacturing:								
Durable.	4.4	13.4	1.6	8.4	3.7	15.9	1.3	10.5
Non-Durable.	10.6	9.0	4.9	5.6	9.5	8.9	4.8	6.1
Total Manufacturing	15.0	22.4	6.5	14.0	13.2	24.8	6.1	16.6
Total Private Sector	84.3	82.0	84.7	84.3	85.2	82.1	89.8	84.6
Government(3)	15.7	18.0	15.3	15.7	14.8	17.9	10.3	15.4

Note: Totals may not add due to rounding. Data are presented using the Standard Industrial Classification System.

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.

- (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 2000 data.
- (3) Excludes military establishments.

Population

The City has been the most populous city in the United States since 1790. 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 following table provides information concerning the City's population.

Year	Population Total
1970	7,895,563
1980	7,071,639
1990	7,322,564
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.

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 Fiscal 2008 B Bonds or in any way contesting or affecting the validity of the Fiscal 2008 B Bonds or any proceedings of the Authority, the

Board or the City taken with respect to the issuance or sale of the Fiscal 2008 B Bonds or with respect to the Resolution, the Second Resolution or the pledge or application of any money or security provided for the payment of the Fiscal 2008 B 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. In Fiscal Years 2002 through 2006, respectively, the City paid \$18.2, \$15.1, \$27.9, \$6.1 and \$8.2 million in satisfaction of tort claims relating to the operation of the System. Contract claims on water supply, sewer and water pollution control projects arise in varying amounts based on alleged change orders and related matters. While most seek under \$10 million in damages, one action seeks damages of approximately \$14 million, a second seeks damages of approximately \$18 million, a third seeks damages of \$20 million, and a fourth seeks damages in excess of \$20 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 ultimate outcome of the proceedings described below is not currently predictable, and unfavorable determinations therein could result in substantial expenditures.

As a result of federal litigation resulting in a determination that a SPDES permit is required for water transfers such as the City's transfer of water through the Shandaken Tunnel, DEP applied for and obtained a SPDES permit for the Shandaken Tunnel. The SPDES permit issued by NYSDEC requires, among other things, that DEP submit a report for approval indicating what short-term and long-term structural measures it intends to undertake to achieve compliance with the permit's temperature and turbidity limits. DEP submitted its report in December 2006, which analyzed several alternatives including construction of a multiple level intake (with an estimated cost of between \$74 million and \$360 million depending on location), and modification of existing operations at the Schoharie Reservoir (from which water is diverted into the Shandaken Tunnel), using a highly sophisticated water quality simulation tool (with an estimated cost of \$6.2 million). The report recommended that DEP implement the latter alternative.

On September 22, 2006, the plaintiffs in the federal litigation commenced a proceeding against NYSDEC and DEP under Article 78 of the Civil Practice Law and Rules, in State Supreme Court in Ulster County, seeking to overturn the SPDES permit issued by NYSDEC on September 1, 2006. The motion of the State and the City to transfer the case to the Appellate Division was denied on May 18, 2007. The matter is fully submitted. All parties have requested oral arguments. For additional information on SPDES permits, see "THE SYSTEM—The Water System—Governmental Regulation—SPDES/Shandaken Tunnel."

Complaints representing approximately 160 plaintiffs have been filed against the City due to flooding allegedly caused by the City's operation of certain upstate dams in April 2005. The complaints in aggregate seek compensation of more than \$8 million associated with alleged property damage. The trial court dismissed one of the complaints in January 2007 and the plaintiffs have filed an appeal, which is pending in the Appellate Division for the Third Department. In April 2007, another group of plaintiffs filed an amended complaint in the United States District Court for the Southern District of New York. The amended complaint adds claims under the Endangered Species Act and the Clean Water Act. The City is vigorously defending all these actions.

On August 24, 2007, NYSDEC filed a judgment in New York State Supreme Court for approximately \$27 million in penalties with respect to allegedly having missed construction milestones, through January 22, 2007, under the Newtown Creek Consent Judgment. The City will seek to vacate this judgment. In addition, NYSDEC issued a NOV for additional penalties accrued through August 27, 2007 in the amount of approximately \$20,683,000. NYSDEC contends that penalties are continuing to accrue at a rate of \$125,000 per day. For additional information on the Newtown Creek Consent Judgment, see “THE SYSTEM—The Sewer System—Governmental Regulation—Full Secondary Treatment Requirements/Newtown Creek.”

On September 12, 2007, the Coalition of Watershed Towns and three individual towns in the watershed filed a petition for review in the Federal Circuit Court of Appeals for the Second Circuit, challenging the USEPA's issuance of the 2007 FAD on both procedural and substantive grounds. An adverse determination on the procedural claim could invalidate the 2007 FAD and require that a new FAD be issued by NYSDOH. An adverse determination on the substantive claim could invalidate the 2007 FAD and prevent either USEPA or NYSDOH from issuing a new FAD. Under the briefing schedule ordered by the Second Circuit, the matter will be fully submitted in early April 2008, and oral argument is likely to be held in the Spring of 2008. The same petitioners also filed a proceeding in State Court against the City and the State challenging the environmental review of the 2007 FAD. That litigation has been suspended pending settlement discussion. See “THE SYSTEM—The Water System—Governmental Regulation—Watershed Protection/Catskill, Delaware Filtration.”

On September 26, 2007, the Delaware County Supreme Court ruled in *Worcester Creameries Corp. v. City of New York* that the City is responsible for all costs associated with equipment required solely by the City's Watershed Regulations and not otherwise required under State or federal law at certain private wastewater treatment plants in the watershed. The court also held that Section 1105 of the Public Health Law entitles “any property owner to recover damages caused by the City's enforcement of its Watershed Regulations.” The City believes that this broad reading of Section 1105 conflicts with three recent Second Department decisions. The City is appealing the *Worcester Creameries* decision. On November 7, 2007, the Greene County Supreme Court issued a decision in *Amy's Take Away, Inc. v. City of New York*, another case involving the scope of the City's obligations under Section 1105 of the Public Health Law. In contrast to the court in *Worcester Creameries*, the Greene County court agreed with the City's and the Second Department's narrow interpretation of Section 1105. Greene County and Delaware County are both in the Third Department, which will hear the *Worcester Creameries* appeal in 2008. If the *Worcester Creameries* decision is ultimately affirmed upon appeal, the City could incur substantial costs in connection with the administration and enforcement of the City's Watershed Regulations.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the Fiscal 2008 B Bonds is subject to the approval of legality by Orrick, Herrington & Sutcliffe 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 Nixon Peabody LLP, New York, New York.

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 Fiscal 2008 B Bonds.

FURTHER INFORMATION

The references herein to and summaries of federal, State and local laws, including but not limited to the Code, the Constitution and laws of the State, the Act, the 1905 Act, the Clean Water Act, the SDWA, the Ban Act, the MPRSA, and documents, agreements and court decisions, including but not limited to the Lease, the Agreement, the Resolution and the Second Resolution 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 and the Second Resolution 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. Neither this Official Statement nor 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 Fiscal 2008 B Bonds.

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 respective Underwriters to determine, as a condition to purchasing the Fiscal 2008 B 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 Fiscal 2008 B Bonds (“Bondholders”) that it will:

(1) within 240 days after the end of each 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 this Official Statement under the captions “CAPITAL IMPROVEMENT AND FINANCING PROGRAM,” “FINANCIAL OPERATIONS,” “RATES AND BILLING” and “THE SYSTEM;”

(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 Fiscal 2008 B 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 Fiscal 2008 B 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 Fiscal 2008 B 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

(3) 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 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, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor’s Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041; FT Interactive Data, 100 William Street, New York, NY 10038, Attn: NRMSIR and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

No Bondholder 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 Fiscal 2008 B 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 Fiscal 2008 B 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.

INVESTMENTS

The Authority invests moneys available in the Debt Service Fund, the Debt Service Reserve Fund, the 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. Annual valuation of all 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.

RATINGS

It is expected that Standard & Poor’s Rating Services (“Standard & Poor’s”) will issue a long-term rating on the Fiscal 2008 B Bonds of “AA+,” that Moody’s Investors Service, Inc. (“Moody’s”) will issue a long-term rating on the Fiscal 2008 B Bonds of “Aa2” and that Fitch, Inc. (“Fitch”) will issue a long-term rating on the Fiscal 2008 B Bonds of “AA.”

It is also expected the short term ratings for each Subseries of the Fiscal 2008 B Bonds will be assigned by Standard & Poor's, Moody's and Fitch. Such ratings are based on the short term rating of the respective Facility Provider. The following table shows the expected short term ratings for each Subseries of Fiscal 2008 B Bonds.

Fiscal 2008 B-1	Fitch:	F1+
	Moody's:	VMIG1
	Standard & Poor's:	A-1+
Fiscal 2008 B-2	Fitch:	F1+
	Moody's:	VMIG1
	Standard & Poor's:	A-1+
Fiscal 2008 B-3	Fitch:	F1+
	Moody's:	VMIG1
	Standard & Poor's:	A-1+
Fiscal 2008 B-4	Fitch:	F1+
	Moody's:	VMIG1
	Standard & Poor's:	A-1+

Such ratings will 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 rating 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 Fiscal 2008 B Bonds.

UNDERWRITING

Goldman, Sachs & Co., has agreed, subject to certain conditions, to purchase the Fiscal 2008 B-1 Bonds at an aggregate purchase price which is \$106,381 less than the initial offering price thereof. J.P. Morgan Securities Inc., has agreed, subject to certain conditions, to purchase the Fiscal 2008 B-2 Bonds at an aggregate purchase price equal to par. Banc of America Securities LLC has agreed, subject to certain conditions, to purchase the Fiscal 2008 B-3 Bonds at an aggregate purchase price equal to par. Citigroup Global Markets Inc., has agreed, subject to certain conditions, to purchase the Fiscal 2008 B-4 Bonds at an aggregate purchase price equal to par.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the Act, the Fiscal 2008 B Bonds 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 Fiscal 2008 B Bonds or obligations of the State, may properly and legally invest funds including capital in their control or belonging to them in such Fiscal 2008 B Bonds. The Act further provides that the Fiscal 2008 B Bonds 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 STATEMENTS AND INDEPENDENT AUDITORS

The financial statements of the System as of and for the years ended June 30, 2007 and June 30, 2006 (the "Audited System Financial Statements") included in Appendix D to this Official Statement have been audited by Grant Thornton LLP, independent certified public accountants, as stated in their report appearing therein.

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 has provided the opinion letter set forth in Appendix A confirming such information. 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” and “Future Debt Service Requirements” under the caption “CAPITAL IMPROVEMENT AND FINANCING PROGRAM” and “Projected Operating and Maintenance Expenses,” “Projected Revenues,” and “Forecasted Cash Flows” under the caption “FINANCIAL OPERATIONS” have been examined by Amawalk Consulting, to the extent and for the periods indicated in those tables. The conclusions of Amawalk Consulting with respect to the reasonableness of the forecasts are set forth in an opinion letter attached hereto as Appendix B. The President of Amawalk Consulting has provided consulting services including feasibility studies, rate studies and organizational analysis to numerous clients in the water and wastewater industry including the City of New York Water and Sewer System, the Boston Water and Sewer Commission and the Shanghai, PRC Water and Sewer.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Fiscal 2008 B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Fiscal 2008 B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Fiscal 2008 B Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

Fiscal 2008 B Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Fiscal 2008 B Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Fiscal 2008 B Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Fiscal 2008 B Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Fiscal 2008 B Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Fiscal 2008 B Bonds may adversely affect the value of, or the tax status of interest on, the Fiscal 2008 B Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Fiscal 2008 B Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York), the ownership or disposition of, or the accrual or receipt of interest on, the Fiscal 2008 B Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code, such as regulations or rulings, or court decisions may cause interest on the Fiscal 2008 B Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, on November 5, 2007, the United States Supreme Court heard an appeal from a Kentucky State court which ruled that the United States Constitution prohibited disparate state tax treatment of interest on bonds issued by the State of Kentucky and its political subdivisions and on obligation issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Fiscal 2008 B Bonds. Prospective purchasers of the Fiscal 2008 B Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Fiscal 2008 B Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Fiscal 2008 B Bonds ends with the issuance of the Fiscal 2008 B Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Fiscal 2008 B Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Fiscal 2008 B Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Fiscal 2008 B Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

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 First Resolution, the Second 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, subject to all the facts, assumptions and qualifications set forth therein, that under the Bankruptcy Code 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. This opinion will be based on an analysis of existing laws, regulations, rulings and court decisions, and will cover certain matters not directly addressed by such authorities. There are no court decisions directly on point.

Bond Counsel is also of the opinion that, subject to all the facts, assumptions and qualifications set forth therein, 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, subject to all the facts, assumptions and qualifications set forth therein, that under the Bankruptcy Code neither the Authority nor the Board could properly be a debtor in a voluntary or involuntary case 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.

NEW YORK CITY MUNICIPAL WATER
FINANCE AUTHORITY

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

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

March 6, 2008

Mr. Patrick J. McCoy
Executive Director
New York City Municipal Water Finance Authority

Subject: New York City Municipal Water Finance Authority
Water and Sewer System Revenue Bonds,
Fiscal 2008 Series B

Dear Mr. McCoy:

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 this 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 2008 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 by the New York City Municipal Water Finance Authority (the “Authority”) of the Water and Sewer System Revenue Bonds, Fiscal 2008 Series B. 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 2008-2017 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, 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,

A handwritten signature in black ink, appearing to read 'W. P. Pfrang', with a stylized flourish at the end.

William P. Pfrang, P.E.
Director of Engineering
Metcalf & Eddy of New York, Inc.

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**LETTER OF AMAWALK CONSULTING GROUP LLC,
RATE CONSULTANTS**

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Amawalk Consulting Group LLC

26 BROADWAY, SUITE 761, NEW YORK, NY 10004 • TEL: 212.361.0050 • FAX: 212.361.0055

March 6, 2008

Mr. Patrick J. McCoy
Executive Director
New York City Municipal Water Finance Authority

Subject: New York City Municipal Water Finance Authority
Water and Sewer System Revenue Bonds,
Fiscal 2008 Series B

Dear Mr. McCoy:

The purpose of this letter is to summarize the conclusions of the independent analysis of the financial forecast of the Authority (the "Forecasted Cash Flows") for Fiscal Years 2008 through 2012 (the "Reporting Period") prepared by the Amawalk Consulting Group LLC in connection with the issuance by the New York City Municipal Water Finance Authority (the "Authority") of the Authority's \$535,000,000 Water and Sewer System Revenue Bonds, Fiscal 2008 Series B (the "Fiscal 2008 B Bonds"). Proceeds from the Fiscal 2008 B Bonds are expected to be used: (i) to pay principal and interest on certain of the Authority's Outstanding Water and Sewer System Revenue Bonds and (ii) to pay certain costs of issuance. In conducting the analysis, the Amawalk Consulting Group LLC has prepared the following tables which are included in this 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 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 five years ending June 30, 2013 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 and (ii) all moneys or securities in any of the funds and accounts established under the Second Resolution, except the Arbitrage Rebate Fund and the Debt Service Reserve Fund.

The Forecasted Cash Flows summarize the anticipated financial operations of the Authority for the Reporting Period. The Authority's books, records, financial reports, and statistical data have been reviewed to the extent practicable, and other investigations and analyses were conducted as deemed necessary to assemble and analyze the forecast of revenues, revenue requirements, and debt service coverage for the Reporting Period. Various financial tests and analyses have been performed to support the findings and conclusions presented herein. The Authority's fiscal year ends on 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 capital and operating expenditures that are necessary during the Reporting Period to maintain the System in good working order.

Based on the studies performed, the Amawalk Consulting Group LLC offers the following opinions and conclusions:

1. 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 all 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 System;

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 this Official Statement, the Amawalk Consulting Group LLC has reviewed certain assumptions with respect to conditions, events and circumstances which may occur in the future. 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. The water and wastewater rates, fees and charges of the Board, including projected increases, are reasonable and compare favorably to the rates and charges of other major cities.

The opportunity to be of service to the Authority in this important matter is greatly appreciated.

Very truly yours,

A handwritten signature in black ink that reads "Edward J. Markus". The signature is written in a cursive, flowing style.

Edward J. Markus
Amawalk Consulting Group LLC

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, 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. Bond Counsel has determined that payments made under an Interest Rate Exchange Agreement are deemed Authority Expenses if the Interest Rate Exchange Agreement relates to First Resolution Bonds.

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 (and as used in this Official Statement unless the context otherwise requires), 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: Each date on which interest or both a Principal Installment and interest is due and payable on any Outstanding Bonds according to their respective terms.

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: 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 Services.

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: As of any date of calculation, and for any Fiscal Year, shall mean 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: (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 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) or (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: 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 Services; 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 Services; 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: 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 Services 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 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, the Authority 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 Depositary: 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 Series 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 Water), 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 the 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. (*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 any general obligation bonds of the City 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 amendment, 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 or to be 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 8.2 of the Lease and (ii) the amount of the payments described in Section 8.1 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 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 ($\frac{1}{6}$ 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 Fund 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 Depositary 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 Depositary 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 Depositary 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⁽¹⁾, 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. (*Section 1201*)

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. (*Section 1201*)

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*)

⁽¹⁾ The Seventy-Ninth Supplemental Resolution provides that the verification report may be prepared by a firm of nationally recognized verification agents rather than a firm of nationally independent certified public accountants.

FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK CITY WATER AND SEWER SYSTEM

June 30, 2007 and 2006

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Members of the Boards of
**New York City Municipal Water Finance Authority
and the New York City Water Board**

We have audited the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets, and cash flows of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board, which collectively comprise the New York City Water and Sewer System (the "System"), a component unit of the City of New York, New York, as of and for the years ended June 30, 2007 and 2006. These financial statements, which collectively comprise the basic financial statements of the System, are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board of the System as of June 30, 2007 and 2006, and the respective changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis ("MD&A") is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information comprising the MD&A and express no opinion on it.

Grant Thornton LLP

New York, New York
October 30, 2007

60 Broad Street
25th Floor
New York, NY 10004
T 212.422.1000
F 212.422.0144
W www.grantthornton.com

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The following is an overview of the financial activities of the New York City Water and Sewer System (the "System") for the fiscal years ended June 30, 2007 and 2006. The System 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 basic financial statements of the System, which include the balance sheets, the statements of revenues, expenses and changes in net assets and the statements of cash flows, are presented for the purposes of displaying entity-wide information, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended. These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Financial Analysis and Results of Operations

The following summarizes the activities of the System for the years 2007, 2006 and 2005.

	<u>2007</u>	<u>2006</u> (in thousands)	<u>2005</u>
Revenues			
Water supply and distribution	\$ 796,404	\$ 735,200	\$ 755,693
Sewer collection and treatment	1,238,612	1,143,424	1,043,575
Other operating revenues	<u>98,061</u>	<u>100,306</u>	<u>85,459</u>
Total operating revenues	2,133,077	1,978,930	1,884,727
Subsidy income	90,601	88,447	78,834
Investment income, net	<u>98,132</u>	<u>105,239</u>	<u>97,362</u>
Total revenues	<u>2,321,810</u>	<u>2,172,616</u>	<u>2,060,923</u>
Expenses			
Operations and maintenance	1,147,157	1,056,379	944,919
Bad debt expense	226,028	87,222	114,702
Administration and general	35,493	26,727	23,168
Depreciation and amortization	579,860	500,161	515,325
Loss on retirement of fixed assets	23,257	7,046	7,971
Interest expense	<u>771,656</u>	<u>731,563</u>	<u>668,675</u>
Total expenses	<u>2,783,451</u>	<u>2,409,098</u>	<u>2,274,760</u>
Net loss before capital contributions (distributions)	(461,641)	(236,482)	(213,837)
Capital (distributions) contributions, net	<u>(20,776)</u>	<u>(19,241)</u>	<u>(185,242)</u>
Change in net assets	(482,417)	(255,723)	(399,079)
Net assets - beginning	<u>2,899,381</u>	<u>3,155,104</u>	<u>3,554,183</u>
Net assets - ending	<u>\$2,416,964</u>	<u>\$2,899,381</u>	<u>\$3,155,104</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Operating Revenue

2007 - 2006

Total operating revenues increased by 8%, principally from a rate increase of 9.4%.

2006 - 2005

Total operating revenues increased by 5%, principally resulting from a rate increase of 3%.

The following summarizes other operating revenues (in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Upstate water fees	\$42,197	\$ 42,693	\$27,290
Late payment fees	43,286	45,519	47,810
Connection fees and permits	<u>12,578</u>	<u>12,094</u>	<u>10,359</u>
Total other operating revenues	<u>\$98,061</u>	<u>\$100,306</u>	<u>\$85,459</u>

2007 - 2006

Other operating revenues have remained relatively level for 2007.

Investment income decreased by \$7 million or 7% primarily due to reduced average balances in escrow accounts, less unrealized gains on investments and swap payments.

2006 - 2005

The System collected \$15 million of upstate water fees that had been in dispute for several years. These payments resulted in an increase in other fee revenue of nearly 17% or \$15 million.

Investment income increased by \$8 million. Average investment balances in construction and revenue and debt service funds increase from 2005. Interest rates earned on investments also increased.

Operating Expenses

2007 - 2006

Total operations and maintenance expense increased by \$91 million or 9%. Key components of the changes are the rental payment to the City increased by \$13 million and judgments and claims increased by \$23 million. All other operations and maintenance costs increased by \$47 million or 6%.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Bad debt expense increased by \$139 million. The System has not collected past-due receivables.

Interest expense increased by \$40 million or 5% because total debt of the System has increased by \$1.9 billion or 12%.

In 2007, the System granted back to the City land that had been purchased with bond proceeds. The total grant was \$33 million. The System also received capital grants from other sources of \$12 million.

2006 - 2005

Total operations and maintenance expense increased by \$111 million or 12%. The rental payment to the City for debt service increased by \$10 million. Payments for watershed improvements increased by \$21 million. All other operations and maintenance costs increased by \$80 million or 10%.

Bad debt expense decreased by \$28 million. Receivable balances decreased, as the System collected on past-due amounts.

Interest expense increased by \$63 million or 9%. Total debt of the System increased by 9% and interest expense also increased by about the same percentage.

In 2006, the System granted back to the City land that had been purchased with bond proceeds. The total grant was \$33 million. The System also received capital grants from other sources of \$14 million.

A summary of the System's assets, liabilities and net assets follows:

	<u>2007</u>	<u>2006</u> (in thousands)	<u>2005</u>
Current assets	\$ 2,075,754	\$ 1,954,277	\$ 2,436,222
Deferred bond and financing expenses	134,673	130,728	125,582
Capital assets	<u>18,435,696</u>	<u>17,155,603</u>	<u>16,008,960</u>
Total assets	<u>20,646,123</u>	<u>19,240,608</u>	<u>18,570,764</u>
Long-term liabilities	16,691,440	15,306,834	13,955,495
Current liabilities	<u>1,537,719</u>	<u>1,034,393</u>	<u>1,460,165</u>
Total liabilities	<u>18,229,159</u>	<u>16,341,227</u>	<u>15,415,660</u>
Net assets			
Invested in capital assets, net of related debt	2,130,364	2,556,766	2,803,031
Restricted for debt service	161,661	171,859	152,544
Restricted for operations and maintenance	175,161	157,806	145,693
Unrestricted (deficit)	<u>(50,222)</u>	<u>12,950</u>	<u>53,836</u>
Total net assets	<u>2,416,964</u>	<u>2,899,381</u>	<u>3,155,104</u>
Total liabilities and net assets	<u>\$20,646,123</u>	<u>\$19,240,608</u>	<u>\$18,570,764</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

2007 - 2006

Current assets increased by \$122 million or 6%. This increase was due to construction funds on deposit at June 30, 2007.

Total liabilities increased by \$1.9 billion, which was due to the increase in long-term debt payable.

2006 - 2005

Current assets decreased by \$482 million. This decrease was due primarily to escrow deposits, which decreased by \$363 million as bonds were paid off by the escrow amounts.

Capital Assets

The System's capital assets include buildings, equipment, water treatment systems and water collection systems. Such amounts are detailed as follows:

	<u>2007</u>	<u>2006</u> (in thousands)	<u>2005</u>
Utility plant construction	\$ <u>4,766,145</u>	\$ <u>4,546,209</u>	\$ <u>4,010,861</u>
Buildings	23,493	22,266	22,071
Equipment	629,384	472,034	424,673
Water supply and wastewater treatment systems	12,127,873	10,886,477	10,152,707
Water distribution and sewage collection systems	<u>8,014,647</u>	<u>7,844,126</u>	<u>7,579,881</u>
Total utility plant in service	<u>20,795,397</u>	<u>19,224,903</u>	<u>18,179,332</u>
Less accumulated depreciation	<u>7,125,846</u>	<u>6,615,509</u>	<u>6,181,233</u>
Total, net utility plant in service	<u>13,669,551</u>	<u>12,609,394</u>	<u>11,998,099</u>
Total capital assets	<u>\$18,435,696</u>	<u>\$17,155,603</u>	<u>\$16,008,960</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The net increase in the System's capital assets during fiscal year 2007 was \$1,280 million or 8%. Net capital asset additions for 2007 were \$1,790 million.

The net increase in the System's capital assets during fiscal year 2006 was \$1,147 million or 7%. Net capital asset additions for 2006 were \$1,581 million.

The capital assets of the System are detailed in footnotes 2-d and 3 of the notes to the accompanying financial statements.

Debt Administration

The Authority issues debt to pay for the capital improvements to the System and certain related costs. The debt program of the Authority includes commercial paper and long-term debt of the Authority and subsidized bonds issued through the New York State Environmental Facilities Corporation ("EFC"). The commercial paper program is the main source of financing to reimburse the City for payments made for water and sewer projects. The Authority then issues long-term debt of its own or through EFC to retire outstanding commercial paper. The Authority also periodically issues refunding bonds to refinance higher coupon debt.

At June 30, 2007, the total outstanding debt of the System was \$18.1 billion, of which \$800 million was commercial paper. The remaining \$17.3 billion consisted of variable and fixed-rate bonds and notes maturing in varying installments through 2039. The total outstanding long-term debt at June 30, 2007 was as follows:

<u>Issue date</u>	<u>(In thousands)</u>
2007	\$ 2,214,873
2006	2,588,192
2005	2,790,956
2004	1,669,095
2003	2,770,818
2002 and prior	<u>5,237,250</u>
Total long-term debt	<u>\$17,271,184</u>

In the summary above, bonds retired through refundings in 2007 are removed from the year in which the refunded bonds were issued and the refunding bonds are included in the 2007 amount.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

In fiscal year 2007, the Authority issued \$1,527,745,000 water and sewer revenue bonds directly to the public, including \$411,860,000 of refunding bonds and \$1,115,885,000 in new money financing. The Authority also issued \$693,364,670 of Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC, \$518,427,784 of which were issued for new money purposes and \$174,936,886 refunded outstanding debt. The new money bond proceeds provided long-term financing of commercial paper notes which had previously financed capital improvements to New York City's Water and Sewer System.

In fiscal year 2007, the Authority continued to take advantage of historically low interest costs on fixed-rate borrowing by issuing predominantly fixed-rate bonds on the long end of the curve. In fiscal 2007, the Authority sold seven fixed-rate and one variable-rate demand bond issues. The First Resolution Fiscal 2007 Series A bonds and the Second Resolution Fiscal 2007 Series AA, BB, CC and DD bonds were sold directly to public. The Second Resolution Fiscal 2007 Series 1, 2 and 3 were issued to EFC to secure bonds issued by EFC on behalf on the Authority.

On October 25, 2006, the Authority closed its first transaction of fiscal year 2007. The Second Resolution Fiscal 2007 Series AA and Series BB were sold at a par amount of \$199,910,000 and \$134,360,000, respectively. The Fiscal 2007 Series AA was comprised of three term bonds maturing in 2037. Proceeds from the sale of these bonds were used to defease a portion of the Authority's commercial paper Series 6 notes and to pay costs of issuance. The Fiscal 2007 Series BB refunded on a current basis \$29,045,000 of the Fiscal 1996 Series C bonds and \$105,045,000 of the Fiscal 1997 Series A bonds. The Fiscal 2007 Series BB were issued as serial bonds.

On November 30, 2006, the Authority closed on its variable-rate demand bonds. The Fiscal 2007 Series CC were sold in two sub-series at a total par amount of \$210,500,000. Both sub-series were offered in the daily reset mode. Two different remarketers were chosen to remarket these bonds. Proceeds from the sale were used to defease all of the Authority's commercial paper Series 1 and a portion of Series 5 Lot A notes, to fund a portion of the Authority's capital program and to pay certain costs of issuance.

On March 27, 2007, the Authority closed on its first transaction with EFC in fiscal year 2007. The Fiscal 2007 Series 1 and Series 2 bonds were issued to EFC in the respective amounts of \$228,112,917 and \$290,314,867. Proceeds of these borrowings were used to defease all of the Authority's commercial paper Series 5 and 7 and a portion of commercial paper Series 1 notes. Proceeds were also used to fund a portion of the Authority's capital program and to pay the costs of issuance of the bonds. Both series were comprised of serial bonds in years 2007 through 2036.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

On March 29, 2007, in common plan of finance with the Fiscal 2007 Series 1 and Series 2 bonds, the Authority issued the Fiscal 2007 Series A bonds directly to the public. The bonds were sold at a par amount of \$587,975,000. Proceeds from the sale were used to refund all of the then outstanding Fiscal 1998 Series B bonds and a portion of the Fiscal 2002 Series A bonds, defease a portion of the Authority's commercial paper Series 1 notes and all of commercial paper Series 6 notes, pay certain costs of issuance and fund a portion of the debt service reserve fund. This issue consisted of four term bonds maturing in years 2030, 2033, 2037 and 2039. The 2039 maturity was insured by Financial Security Assurance Inc.

On May 15, 2007, \$174,936,886 of Fiscal 2007 Series 3 bonds was issued to EFC to partially refund the Authority's Fiscal 1998 Series 3 bonds. The Fiscal 2007 Series 3 bonds extended the maturity date to 30 years from the original issuance date of the refunded bonds and paid certain costs of issuance.

On May 31, 2007, the Authority sold \$395,000,000 of the Fiscal 2007 Series DD bonds. Proceeds from the sale were applied to defease all of the Authority's commercial paper Series 1 and 6 notes, to fund a portion of the Authority's capital program and pay costs of issuance. The issue included term bonds that mature in years 2035, 2036, 2038 and 2036.

The total of bonds and notes payable are detailed in footnote numbers 7 and 8 of the notes to the financial statements.

Economic Factors and Next Year's Rates

Rates are adopted each year by the Board in May for the following fiscal year. A rate increase of 9.4% for fiscal 2007 became effective July 1, 2006 based on projected revenues and costs.

Request for Information

This financial report is provided as an overview of the System's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Raymond Orlando, Manager of Public Relations, New York City Municipal Water Finance Authority, 75 Park Place, New York, New York 10007. His phone number is (212) 788-5875 and his fax number is (212) 788-9721.

New York City Water and Sewer System

BALANCE SHEETS

June 30, 2007
(in thousands)

Assets	New York City		<u>Eliminations</u>	<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>		
Utility plant in service, less accumulated depreciation of \$7,125,846	\$13,669,551	\$ -	\$ -	\$13,669,551
Utility plant construction	<u>4,766,145</u>	<u>-</u>	<u>-</u>	<u>4,766,145</u>
Total capital assets	<u>18,435,696</u>	<u>-</u>	<u>-</u>	<u>18,435,696</u>
Current assets				
Cash and cash equivalents	104,932	1,070,154	-	1,175,086
Investments	83,406	350,944	-	434,350
Accrued interest receivable	145	2,969	-	3,114
Accounts receivable				
Billed, less allowance for uncollectible receivables of \$213,840	278,176	-	-	278,176
Unbilled	169,310	-	-	169,310
Receivable from the City	<u>15,718</u>	<u>-</u>	<u>-</u>	<u>15,718</u>
Total current assets	<u>651,687</u>	<u>1,424,067</u>	<u>-</u>	<u>2,075,754</u>
Revenue requirement due from the Board	-	9,479,193	(9,479,193)	-
Long-term deferred bond and financing expenses	<u>-</u>	<u>134,673</u>	<u>-</u>	<u>134,673</u>
Total assets	<u>\$19,087,383</u>	<u>\$11,037,933</u>	<u>\$(9,479,193)</u>	<u>\$20,646,123</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

BALANCE SHEETS (continued)

June 30, 2007
(in thousands)

Liabilities and Net Assets	New York City		<u>Eliminations</u>	<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>		
Long-term liabilities				
Bonds and notes payable, less current portion	\$ -	\$17,060,213	\$ -	\$17,060,213
Net discount on bonds and notes payable	-	(13,838)	-	(13,838)
Deferred bond refunding costs	-	(354,935)	-	(354,935)
Revenue requirement payable to the Authority	<u>9,479,193</u>	<u>-</u>	<u>(9,479,193)</u>	<u>-</u>
Total long-term liabilities	<u>9,479,193</u>	<u>16,691,440</u>	<u>(9,479,193)</u>	<u>16,691,440</u>
Current liabilities				
Accounts payable and accrued expenses	34,110	43,397	-	77,507
Revenues received in advance	73,727	-	-	73,727
Current portion of bonds and notes payable	-	1,010,971	-	1,010,971
Payable to the City	-	361,860	-	361,860
Refunds payable to customers	<u>13,654</u>	<u>-</u>	<u>-</u>	<u>13,654</u>
Total current liabilities	<u>121,491</u>	<u>1,416,228</u>	<u>-</u>	<u>1,537,719</u>
Total liabilities	<u>9,600,684</u>	<u>18,107,668</u>	<u>(9,479,193)</u>	<u>18,229,159</u>
Net assets				
Invested in capital assets, net of related debt	18,435,696	(16,305,332)	-	2,130,364
Restricted for debt service	-	161,661	-	161,661
Restricted for operations and maintenance	175,161	-	-	175,161
Unrestricted (deficit)	<u>(9,124,158)</u>	<u>9,073,936</u>	<u>-</u>	<u>(50,222)</u>
Total net assets (deficit)	<u>9,486,699</u>	<u>(7,069,735)</u>	<u>-</u>	<u>2,416,964</u>
Total liabilities and net assets	<u>\$19,087,383</u>	<u>\$11,037,933</u>	<u>\$(9,479,193)</u>	<u>\$20,646,123</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

BALANCE SHEETS

June 30, 2006
(in thousands)

Assets	New York City		<u>Eliminations</u>	<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>		
Utility plant in service, less accumulated depreciation of \$6,615,509	\$12,609,394	\$ -	\$ -	\$12,609,394
Utility plant construction	<u>4,546,209</u>	<u>-</u>	<u>-</u>	<u>4,546,209</u>
Total capital assets	<u>17,155,603</u>	<u>-</u>	<u>-</u>	<u>17,155,603</u>
Current assets				
Cash and cash equivalents	87,723	879,236	-	966,959
Investments	78,753	433,725	-	512,478
Accrued interest receivable	611	2,228	-	2,839
Accounts receivable				
Billed, less allowance for uncollectible receivables of \$143,696	308,165	-	-	308,165
Unbilled	155,330	-	-	155,330
Receivable from the City	<u>8,506</u>	<u>-</u>	<u>-</u>	<u>8,506</u>
Total current assets	<u>639,088</u>	<u>1,315,189</u>	<u>-</u>	<u>1,954,277</u>
Revenue requirement due from the Board	-	8,376,317	(8,376,317)	-
Long-term deferred bond and financing expenses	<u>-</u>	<u>130,728</u>	<u>-</u>	<u>130,728</u>
Total assets	<u>\$17,794,691</u>	<u>\$9,822,234</u>	<u>\$(8,376,317)</u>	<u>\$19,240,608</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

BALANCE SHEETS (continued)

June 30, 2006
(in thousands)

Liabilities and Net Assets	New York City		<u>Eliminations</u>	<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>		
Long-term liabilities				
Bonds and notes payable, less current portion	\$ -	\$ 15,719,290	\$ -	\$15,719,290
Net discount on bonds and notes payable	-	(42,007)	-	(42,007)
Deferred bond refunding costs	-	(370,449)	-	(370,449)
Revenue requirement payable to the Authority	<u>8,376,317</u>	<u>-</u>	<u>(8,376,317)</u>	<u>-</u>
Total long-term liabilities	<u>8,376,317</u>	<u>15,306,834</u>	<u>(8,376,317)</u>	<u>15,306,834</u>
Current liabilities				
Accounts payable and accrued expenses	6,099	42,820	-	48,919
Revenues received in advance	78,480	-	-	78,480
Current portion of bonds and notes payable	-	566,061	-	566,061
Payable to the City	-	326,124	-	326,124
Refunds payable to customers	<u>14,809</u>	<u>-</u>	<u>-</u>	<u>14,809</u>
Total current liabilities	<u>99,388</u>	<u>935,005</u>	<u>-</u>	<u>1,034,393</u>
Total liabilities	<u>8,475,705</u>	<u>16,241,839</u>	<u>(8,376,317)</u>	<u>16,341,227</u>
Net assets				
Invested in capital assets, net of related debt	17,155,603	(14,598,837)	-	2,556,766
Restricted for debt service	-	171,859	-	171,859
Restricted for operations and maintenance	157,806	-	-	157,806
Unrestricted (deficit)	<u>(7,994,423)</u>	<u>8,007,373</u>	<u>-</u>	<u>12,950</u>
Total net assets (deficit)	<u>9,318,986</u>	<u>(6,419,605)</u>	<u>-</u>	<u>2,899,381</u>
Total liabilities and net assets	<u>\$17,794,691</u>	<u>\$ 9,822,234</u>	<u>\$(8,376,317)</u>	<u>\$19,240,608</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2007

(in thousands)

	<u>New York City</u>		
	<u>Water</u>	<u>Municipal</u>	
	<u>Board</u>	<u>Water</u>	
		<u>Finance</u>	<u>Total</u>
		<u>Authority</u>	
Operating revenues			
Water supply and distribution	\$ 796,404	\$ -	\$ 796,404
Sewer collection and treatment	1,238,612	-	1,238,612
Other operating revenues	<u>98,061</u>	<u>-</u>	<u>98,061</u>
Total operating revenues	<u>2,133,077</u>	<u>-</u>	<u>2,133,077</u>
Operating expenses			
Operations and maintenance	1,147,157	-	1,147,157
Bad debt expense	226,028	-	226,028
Administration and general	<u>16,996</u>	<u>18,497</u>	<u>35,493</u>
Total operating expenses	<u>1,390,181</u>	<u>18,497</u>	<u>1,408,678</u>
Depreciation and amortization	<u>535,530</u>	<u>44,330</u>	<u>579,860</u>
Operating income (loss)	207,366	(62,827)	144,539
Nonoperating revenue (expense)			
Interest expense	-	(771,656)	(771,656)
Loss on retirement of fixed assets	(23,257)	-	(23,257)
Subsidy income	-	90,601	90,601
Investment income, net	<u>4,380</u>	<u>93,752</u>	<u>98,132</u>
Net income (loss) before capital contributions			
(distributions)	188,489	(650,130)	(461,641)
Capital distributions - net	<u>(20,776)</u>	<u>-</u>	<u>(20,776)</u>
Change in net assets	167,713	(650,130)	(482,417)
Net assets (deficit) at beginning of year	<u>9,318,986</u>	<u>(6,419,605)</u>	<u>2,899,381</u>
Net assets (deficit) at end of year	<u>\$9,486,699</u>	<u>\$(7,069,735)</u>	<u>\$2,416,964</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2006

(in thousands)

	<u>New York City</u>		
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	<u>Total</u>
Operating revenues			
Water supply and distribution	\$ 735,200	\$ -	\$ 735,200
Sewer collection and treatment	1,143,424	-	1,143,424
Other operating revenues	<u>100,306</u>	<u>-</u>	<u>100,306</u>
Total operating revenues	<u>1,978,930</u>	<u>-</u>	<u>1,978,930</u>
Operating expenses			
Operations and maintenance	1,056,379	-	1,056,379
Bad debt expense	87,222	-	87,222
Administration and general	<u>8,670</u>	<u>18,057</u>	<u>26,727</u>
Total operating expenses	<u>1,152,271</u>	<u>18,057</u>	<u>1,170,328</u>
Depreciation and amortization	<u>450,860</u>	<u>49,301</u>	<u>500,161</u>
Operating income (loss)	375,799	(67,358)	308,441
Nonoperating revenue (expense)			
Interest expense	-	(731,563)	(731,563)
Loss on retirement of fixed assets	(7,046)	-	(7,046)
Subsidy income	-	88,447	88,447
Investment income, net	<u>3,092</u>	<u>102,147</u>	<u>105,239</u>
Net income (loss) before capital contributions (distributions)	371,845	(608,327)	(236,482)
Capital distributions - net	<u>(19,241)</u>	<u>-</u>	<u>(19,241)</u>
Change in net assets	352,604	(608,327)	(255,723)
Net assets (deficit) at beginning of year	<u>8,966,382</u>	<u>(5,811,278)</u>	<u>3,155,104</u>
Net assets (deficit) at end of year	<u>\$9,318,986</u>	<u>\$(6,419,605)</u>	<u>\$2,899,381</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS

Year ended June 30, 2007

.(in thousands)

	<u>New York City</u>		
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 1,917,152	\$ -	\$ 1,917,152
Payments for operations and maintenance	(1,071,086)	-	(1,071,086)
Payments for administration	<u>(10,291)</u>	<u>(18,169)</u>	<u>(28,460)</u>
Net cash provided by (used in) operating activities	<u>835,775</u>	<u>(18,169)</u>	<u>817,606</u>
Cash flows from capital and related financing activities			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	-	4,103,578	4,103,578
Acquisition and construction of capital assets	(20,000)	(1,865,902)	(1,885,902)
Payments by the Board to the Authority	(798,763)	798,763	-
Repayments of bonds, notes and other borrowings	-	(2,329,510)	(2,329,510)
Interest paid on bonds, notes and other borrowings	<u>-</u>	<u>(671,831)</u>	<u>(671,831)</u>
Net cash (used in) provided by capital and related financing activities	<u>(818,763)</u>	<u>35,098</u>	<u>(783,665)</u>
Cash flows from investing activities			
Proceeds from sales and maturities of investments	78,655	147,644	226,299
Purchases of investments	(83,303)	(67,339)	(150,642)
Interest on investments	<u>4,845</u>	<u>93,684</u>	<u>98,529</u>
Net cash provided by investing activities	<u>197</u>	<u>175,989</u>	<u>174,186</u>
Net increase in cash and cash equivalents	<u>17,209</u>	<u>190,918</u>	<u>208,127</u>
Cash and cash equivalents, beginning of year	<u>87,723</u>	<u>879,236</u>	<u>966,959</u>
Cash and cash equivalents, end of year	<u>\$ 104,932</u>	<u>\$ 1,070,154</u>	<u>\$ 1,175,086</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS (continued)

Year ended June 30, 2007
(in thousands)

	<u>New York City</u>		
	<u>Water</u>	<u>Municipal</u>	
	<u>Board</u>	<u>Water</u>	
		<u>Finance</u>	<u>Total</u>
		<u>Authority</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 207,366	\$ (62,827)	\$ 144,539
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	535,530	44,330	579,860
Bad debt expense	226,028	-	226,028
Operations and maintenance expense paid with bond proceeds	61,983	-	61,983
Changes in net assets and liabilities			
Receivables, net	(210,020)	-	(210,020)
Receivable from the City	(7,212)	-	(7,212)
Accounts payable and accrued expenses	28,008	328	28,336
Revenues received in advance	(4,753)	-	(4,753)
Refunds payable to customers	<u>(1,155)</u>	<u>-</u>	<u>(1,155)</u>
Net cash provided by (used in) operating activities	<u>\$ 835,775</u>	<u>\$ (18,169)</u>	<u>\$ 817,606</u>

The following are the noncash capital and related financing activities:

- Interest expense includes the amortization of premium and discount in the amount of \$(3,106) in 2007.
- Capital expenditures in the amount of \$361,860 had been incurred but not paid at June 30, 2007.
- The Board received capital assets of \$12,357 in 2007, which represented capital contributed by the City.

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS

Year ended June 30, 2006
(in thousands)

	<u>New York City</u>		
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$1,866,240	\$ -	\$ 1,866,240
Payments for operations and maintenance	(966,661)	-	(966,661)
Payments for administration	<u>(9,081)</u>	<u>(17,961)</u>	<u>(27,042)</u>
Net cash provided by (used in) operating activities	<u>890,498</u>	<u>(17,961)</u>	<u>872,537</u>
Cash flows from capital and related financing activities			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	-	4,018,669	4,018,669
Acquisition and construction of capital assets	-	(1,652,636)	(1,652,636)
Payments by the Board to the Authority	(882,898)	882,898	-
Repayments of bonds, notes and other borrowings	-	(3,190,094)	(3,190,094)
Interest paid on bonds, notes and other borrowings	<u>-</u>	<u>(644,464)</u>	<u>(644,464)</u>
Net cash used in capital and related financing activities	<u>(882,898)</u>	<u>(585,627)</u>	<u>(1,468,525)</u>
Cash flows from investing activities			
Proceeds from sales and maturities of investments	52,334	418,596	470,930
Purchases of investments	(58,660)	(59,289)	(117,949)
Interest on investments	<u>2,783</u>	<u>108,130</u>	<u>110,913</u>
Net cash (used in) provided by investing activities	<u>(3,543)</u>	<u>467,437</u>	<u>463,894</u>
Net increase (decrease) in cash and cash equivalents	<u>4,057</u>	<u>(136,151)</u>	<u>(132,094)</u>
Cash and cash equivalents, beginning of year	<u>83,666</u>	<u>1,015,387</u>	<u>1,099,053</u>
Cash and cash equivalents, end of year	<u>\$ 87,723</u>	<u>\$ 879,236</u>	<u>\$ 966,959</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS (continued)

Year ended June 30, 2006
(in thousands)

	<u>New York City</u>		
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 375,799	\$ (67,358)	\$ 308,441
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	450,860	49,301	500,161
Bad debt expense	87,222	-	87,222
Operations and maintenance expense paid with bond proceeds	66,833	-	66,833
Changes in net assets and liabilities			
Receivables, net	(116,768)	-	(116,768)
Receivable from the City	22,884	-	22,884
Other	-	(71)	(71)
Accounts payable and accrued expenses	(411)	167	(244)
Revenues received in advance	7,998	-	7,998
Refunds payable to customers	<u>(3,919)</u>	<u>-</u>	<u>(3,919)</u>
Net cash provided by (used in) operating activities	<u>\$ 890,498</u>	<u>\$ (17,961)</u>	<u>\$ 872,537</u>

The following are the noncash capital and related financing activities:

- Interest expense includes the amortization of premium and discount in the amount of \$3,606 in 2006.
- Capital expenditures in the amount of \$326,124 had been incurred but not paid at June 30, 2006.
- The Board received capital assets of \$13,700 in 2006, which represented capital contributed by the City.

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

NOTE 1 - ORGANIZATION

The New York City Water and Sewer System (the "System") provides water supply and distribution, sewage collection, treatment, and disposal for The City of New York (the "City"). The System, as presented in the accompanying 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 Financing Agreement (the "Agreement") provides that the Authority will issue bonds to finance the cost of capital investment and related costs 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.

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 the Board.

In accordance with Statement No. 14, amended by Statements No. 34 and No. 39, of the Governmental Accounting Standards Board ("GASB"), the Board and the Authority are considered to be part of the same reporting entity (the "System") since they are fiscally interdependent. Accordingly, the accompanying financial statements for the System present the individual financial statements of the Board and the Authority as major funds. In addition, the accompanying financial statements present a total column which represents the entity-wide financial statements of the System. Transactions and balances between the Board and the Authority are eliminated in the entity-wide financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the System have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 2 (continued)

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:

a. Investments and Cash Equivalents

Investments and cash equivalents consist principally of securities of the United States and its agencies, certificates of deposit, guaranteed investment contracts, and repurchase agreements. Investments with maturity periods of greater than one year are carried at market value. Investments with maturities less than one year are carried at cost which approximates fair value. For purposes of the 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 Deferred Financing Expenses

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 bond issuance costs.

d. Utility Plant

Utility plant acquired through purchase or internal construction is recorded at cost, net of retirements. It is the Board’s policy to capitalize assets over \$35,000. Contributed utility plant 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 wastewater treatment systems	15 - 50
Water distribution and sewage collection systems	15 - 75
Equipment	5 - 35

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 2 (continued)

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are recorded as utility plant.

e. Operating Revenues and Operating Expenses

Operating revenues consist of customer payments for services of the System. Revenues are based on billing rates imposed by the Board and upon customers' water and sewer usage. The System records estimated unbilled revenue at year-end. Operating expenses consist of administration, maintenance, repair and operations of the System, administration costs of the Board and the Authority, rental payments to the City, and bad debt expense.

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. 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. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the 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 results could differ from those estimates.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 3 - UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2007 and 2006 (in thousands):

	Balance at June 30, 2005	Additions	Deletions	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007
Nondepreciable assets							
Utility construction	\$ 4,010,861	\$1,704,324	\$1,168,976	\$ 4,546,209	\$1,933,996	\$1,714,060	\$ 4,766,145
Depreciable assets							
Buildings	22,071	195	-	22,266	1,227	-	23,493
Equipment	424,673	49,430	2,069	472,034	162,341	4,991	629,384
Water supply and wastewater treatment systems	10,152,707	733,770	-	10,886,477	1,241,396	-	12,127,873
Water distribution and sewage collection systems	<u>7,579,881</u>	<u>285,806</u>	<u>21,561</u>	<u>7,844,126</u>	<u>213,980</u>	<u>43,459</u>	<u>8,014,647</u>
	22,190,193	2,773,525	1,192,606	23,771,112	3,552,940	1,762,510	25,561,542
Less accumulated depreciation	<u>6,181,233</u>	<u>450,860</u>	<u>16,584</u>	<u>6,615,509</u>	<u>535,530</u>	<u>25,193</u>	<u>7,125,846</u>
	<u>\$16,008,960</u>	<u>\$2,322,665</u>	<u>\$1,176,022</u>	<u>\$17,155,603</u>	<u>\$3,017,410</u>	<u>\$1,737,317</u>	<u>\$18,435,696</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 4 - INVESTMENTS AND CASH DEPOSITS

a. 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 of the City 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 \$200 thousand on deposit at June 30, 2007 and 2006, which was covered by Federal depository insurance and the remaining balance was uncollateralized.

At June 30, 2007 and 2006, the carrying amounts of bank deposits were \$20.7 million and \$5.9 million, respectively, and the bank balances were \$21.9 million and \$7 million, respectively.

b. Investments

Pursuant to the Water and Sewer General Revenue Bond Resolution and the Authority's and the Board's investment guidelines, the Authority and the Board may generally invest in obligations of, or guaranteed by, the U.S. government; certain highly rated obligations of the State of New York or any subdivision or instrumentality thereof; certain certificates of deposit and similar instruments issued by highly rated commercial banks; certain highly rated corporate securities or commercial paper securities; certain repurchase agreements with highly rated institutions; certain investment agreements with highly rated institutions; certain highly rated money market funds; and certain highly rated municipal obligations.

The System had the following investments and maturities (in thousands):

<u>Investment type</u>	<u>2007</u>	<u>2006</u>	<u>Investment maturity</u>
Certificate of Deposit	\$ 104	\$ 100	Greater than one year
U.S. Government securities	1,232,617	1,018,495	Less than one year
New York State securities	77,474	77,230	Greater than one year
Repurchase agreements	70,345	82,259	Less than one year
Guaranteed investment contracts	<u>211,315</u>	<u>298,306</u>	Greater than one year
	<u>\$1,591,855</u>	<u>\$1,476,390</u>	

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 4 (continued)

All of the System's investments in U.S. agencies carry the explicit guarantee of the U.S. Government. At June 30, 2007 and 2006, the System's investment in New York State securities was rated AAA by Standard & Poor's and Aaa by Moody's investment services. The System's investments in guaranteed investment contracts are not rated.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The System's investments, other than repurchase agreements, are not collateralized. All investments and collateral are held in the Authority's name by the trustee or in the Board's name by the agent.

NOTE 5 - 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.

In addition to the payments described above, the Board pays rent to 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.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 5 (continued)

A summary of operation and maintenance expenses for the years ended June 30, 2007 and 2006 is as follows (in thousands)

	<u>2007</u>	<u>2006</u>
Water transmission and distribution	\$ 339,854	\$ 332,174
Sewer collection systems	413,837	392,071
City agency support cost	57,304	54,387
Fringe benefits	110,687	83,212
Payments for watershed improvements	61,983	66,833
Judgments and claims	<u>31,232</u>	<u>8,241</u>
	1,014,897	936,918
Rental payments to the City	<u>132,260</u>	<u>119,461</u>
	<u>\$1,147,157</u>	<u>\$1,056,379</u>

NOTE 6 - PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2007 and 2006, all utility construction 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, 2007 and 2006, the System had net payables of \$346.1 million and \$317.6 million, respectively, from the City for payments of utility construction and for overpayment of operations and maintenance expense.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 7 - SHORT-TERM LIABILITIES

In fiscal years 2007 and 2006, the changes in short-term liabilities were as follows (in thousands):

	Balance at June 30, 2005	Additions	Deletions	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007
Commercial paper (1)	<u>\$800,000</u>	<u>\$1,392,800</u>	<u>\$1,841,800</u>	<u>\$351,000</u>	<u>\$2,059,000</u>	<u>\$1,610,000</u>	<u>\$ 800,000</u>

- (1) Commercial paper is used to pay construction costs in advance of long-term bond financing. It is reported as part of the current portion of bonds and notes payable on the System's balance sheets.

Commercial paper activity comprises the following for the year ended June 30, 2007 (in thousands):

	Balance at June 30, 2006	Issued	Retired	Balance at June 30, 2007
Commercial Paper Series 1 - Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	\$200,000	\$ 600,000	\$ 600,000	\$200,000
Commercial Paper Series 5 - Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	140,000	270,000	210,000	200,000
Commercial Paper Series 6 - Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	11,000	789,000	600,000	200,000
Commercial Paper Series 7 - Variable Rate, Short-term Rolling Maturity	<u>-</u>	<u>400,000</u>	<u>200,000</u>	<u>200,000</u>
Total commercial paper payable	<u>\$351,000</u>	<u>\$2,059,000</u>	<u>\$1,610,000</u>	<u>\$800,000</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 - LONG-TERM LIABILITIES

In fiscal years 2007 and 2006, the changes in long-term liabilities were as follows (in thousands):

<u>Bonds payable</u>	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>	<u>Due within one year</u>
First resolution	\$10,634,596	\$1,431,080	\$1,171,123	\$10,894,553	587,975	\$549,068	\$10,933,460	\$ 42,943
Second resolution	<u>3,999,455</u>	<u>1,186,847</u>	<u>146,504</u>	<u>5,039,798</u>	<u>1,633,132</u>	<u>335,206</u>	<u>6,337,724</u>	<u>168,028</u>
Total bonds payable	<u>14,634,051</u>	<u>2,617,927</u>	<u>1,317,627</u>	<u>15,934,351</u>	<u>2,221,107</u>	<u>884,274</u>	<u>17,271,184</u>	<u>\$210,971</u>
Less discounts (net)	100,304	(31,866)	26,431	42,007	(15,838)	12,331	13,838	
Less deferred refunding costs	<u>340,268</u>	<u>66,222</u>	<u>36,041</u>	<u>370,449</u>	<u>21,575</u>	<u>37,089</u>	<u>354,935</u>	
Total long-term liabilities	<u>\$14,193,479</u>	<u>\$2,583,571</u>	<u>\$1,255,155</u>	<u>\$15,521,895</u>	<u>2,215,370</u>	<u>\$834,854</u>	<u>\$16,902,411</u>	

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.

During 2007 and 2006, the Authority issued \$586.8 and \$720.7 million, respectively, of bonds to refund \$683.5 and \$683.3 million, respectively, of outstanding bonds. The advance refundings resulted in an accounting loss of \$21.6 and \$66.2 million, respectively. The Authority in effect reduced its aggregate debt service by \$17.3 and \$56.3 million, respectively, and obtained an economic benefit of \$46.3 and \$37.3 million, respectively.

During 2006, the Authority economically defeased \$70.4 million of bonds with current revenue. Bonds economically defeased remain a liability, and the escrow deposited with the Authority's trustee is an asset on the Authority's records.

During 2006, the Authority defeased \$60.1 million, of outstanding bonds with \$60.1 million of current revenue, which resulted in an accounting loss of \$1.0 million.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

The Authority has defeased cumulatively \$9.740 billion and \$9.056 billion of outstanding bonds as of June 30, 2007 and 2006, respectively, by placing proceeds of refunding bonds issued in irrevocable escrow accounts to provide for all future debt service payments on defeased bonds. Proceeds were used to purchase U.S. Government securities that were placed in the irrevocable escrow account. Accordingly, the escrow account assets and liabilities for the defeased bonds are not included in the Authority's financial statements.

As of June 30, 2007 and 2006, \$8.081 billion and \$6.883 billion of the defeased bonds, respectively, had been retired from the assets of the escrow accounts.

Debt service requirements to maturity including amounts relating to commercial paper at June 30, 2007 are as follows (in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest (1)</u>	<u>Total</u>
2008	\$ 1,010,971	\$ 647,046	\$ 1,658,017
2009	227,162	636,656	863,818
2010	247,686	630,870	878,556
2011	332,263	622,230	954,493
2012	320,280	611,722	932,002
2013-2017	2,053,174	2,880,881	4,934,055
2018-2022	2,588,943	2,513,995	5,102,938
2023-2027	2,814,390	2,009,096	4,823,486
2028-2032	3,524,825	1,406,868	4,931,693
2033-2037	3,390,315	767,661	4,157,976
2038-2042	<u>1,561,175</u>	<u>103,644</u>	<u>1,664,819</u>
	<u>\$18,071,184</u>	<u>\$12,830,669</u>	<u>\$30,901,853</u>

- (1) Includes interest for variable rate bonds estimated at 3.8%, which is the rate at the end of the fiscal year. Variable rate bonds are sold daily or weekly and interest rates are determined by the market on the day sold.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2007 (in thousands):

	Balance at June 30, 2006	Issued	Retired/ defeased	Balance at June 30, 2007
1991 Fiscal Series B - 6.00% to 7.25% Serial and Term Bonds maturing in varying installments through 2012	\$ 10,255	\$ -	\$ 2,590	\$ 7,665
1992 Fiscal Series B - 6.66% to 6.86% Serial and Term Bonds maturing in varying installments through 2014	11,318	-	2,698	8,620
1993 Fiscal Series A - 5.875% to 6.0% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2013	82,195	-	11,835	70,360
1993 Fiscal Series C - Adjustable Rate Term Bonds maturing 2022	100,000	-	-	100,000
1994 Fiscal Series 1 - 3.00% to 6.00% Serial Bonds maturing in varying installments through 2013	31,500	-	320	31,180
1994 Fiscal Series C - Adjustable Rate Term Bonds maturing in 2023	200,000	-	-	200,000
1994 Fiscal Series G - Adjustable, Auction and Leveraged Reverse Rate Bonds maturing in varying installments through 2024	185,000	-	-	185,000
1995 Fiscal Series A - Adjustable Rate Term Bonds maturing in varying installments through 2025	204,700	-	6,000	198,700
1995 Fiscal Series 1 - 5.25% to 6.875% Serial Bonds maturing in varying installments through 2016	26,495	-	2,585	23,910
1996 Fiscal Series C - 4.90% to 5.75% Serial Bonds maturing in varying installments through 2017	29,455	-	29,455	-
1997 Fiscal Series A - 4.85% to 6.0% Serial Bonds maturing in varying installments through 2026	130,545	-	105,545	25,000
1997 Fiscal Series B - 5.75% to 5.80% Serial Bonds maturing in varying installments through 2029	100,000	-	100,000	-

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

	Balance at June 30, 2006	Issued	Retired/ defeased	Balance at June 30, 2007
1998 Fiscal Series 1 - 4.00% to 5.35% Serial Bonds maturing in varying installments through 2017	\$ 30,435	\$ -	\$ 2,085	\$ 28,350
1998 Fiscal Series 3 - 4.30% to 6.00% Serial Bonds maturing in varying installments through 2016	313,038	-	192,902	120,136
1998 Fiscal Series 4 - 3.60% to 5.20% Serial Bonds maturing in varying installments through 2018	10,370	-	750	9,620
1998 Fiscal Series 6 - 4.827% to 5.125% Serial Bonds maturing in varying installments through 2019	13,633	-	854	12,779
1998 Fiscal Series A - 4.80% to 5.125% Serial Bonds maturing in varying installments through 2022	256,315	-	-	256,315
1998 Fiscal Series B - 5.125% to 5.25% Serial Bonds maturing in varying installments through 2030	224,470	-	224,470	-
1998 Fiscal Series C - 4.30% to 5.125% Serial Bonds maturing in varying installments through 2021	84,300	-	325	83,975
1998 Fiscal Series D - 4.25% to 5.00% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	359,270	-	4,050	355,220
1999 Fiscal Series 2 - 4.00% to 5.25% Serial Bonds maturing in varying installments through 2020	94,565	-	4,916	89,649
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 - 4.0% to 5.25% Serial, Term and Capital Appreciation Bonds maturing in varying installments through 2020	171,910	-	-	171,910
2000 Fiscal Series B - 6.00% to 6.10% Serial Bonds maturing in varying installments through 2033	131,865	-	-	131,865
2000 Fiscal Series C - Adjustable Rate Term Bonds maturing in 2033	107,500	-	-	107,500
2000 Fiscal Series 2 - 3.80% to 5.96% Serial Bonds maturing in varying installments through 2019	9,580	-	530	9,050

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

	Balance at June 30, 2006	Issued	Retired/ defeased	Balance at June 30, 2007
2001 Fiscal Series B - 4.5% to 5.125% Serial and Term Bonds maturing in varying installments through 2031	\$ 67,390	\$ -	\$ 165	\$ 67,225
2001 Fiscal Series C - 5.125% Term Bonds maturing in varying installments through 2033	112,040	-	-	112,040
2001 Fiscal Series D - 4.5% to 5.5% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	234,800	-	1,860	232,940
2001 Fiscal Series E - 4.5% to 5.25% Serial and Term Bonds maturing in varying installments through 2031	86,105	-	-	86,105
2001 Fiscal Series F - Adjustable Rate Bonds maturing in varying installments through 2033	184,130	-	-	184,130
2002 Fiscal Series A - 5.00% to 5.75% Serial and Term Bonds maturing in varying installments through 2033	166,305	-	50,000	116,305
2002 Fiscal Series B - 3.625% to 5.00% Serial and Term Bonds maturing in varying installments through 2026	171,455	-	235	171,220
2002 Fiscal Series C - 4.1% to 5.125% Serial and Term Bonds maturing in varying installments through 2032	46,580	-	-	46,580
2002 Fiscal Series D - 3.0% to 4.90% Serial and Term Bonds maturing in varying installments through 2020	41,580	-	85	41,495
2002 Fiscal Series E - 3.4% to 5.0% Serial and Term Bonds maturing in varying installments through 2026	213,850	-	105	213,745
2002 Fiscal Series F - 3.6% to 5.0% Serial and Term Bonds maturing in varying installments through 2029	105,635	-	-	105,635
2002 Fiscal Series G - 5.00% to 5.125% Term Bonds maturing in varying installments through 2034	216,375	-	-	216,375

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

	Balance at June 30, 2006	Issued	Retired/ defeased	Balance at June 30, 2007
2002 Fiscal Series 1 - 4.82% to 5.25% Serial Bonds maturing in varying installments through 2031	\$ 180,638	\$ -	\$ 5,685	\$ 174,953
2002 Fiscal Series 2 - 4.22% to 5.00% Serial Bonds maturing in varying installments through 2031	61,835	-	2,501	59,334
2002 Fiscal Series 3 - 4.65% to 5.00% Serial Bonds maturing in varying installments through 2031	463,310	-	14,273	449,037
2002 Fiscal Series 4 - 5.13% to 6.74% Serial Bonds maturing in varying installments through 2023	200,533	-	8,005	192,528
2002 Fiscal Series 5 - 3.82% to 5.21% Serial Bonds maturing in varying installments through 2031	163,882	-	5,434	158,448
2002 Fiscal Series 6 - 3.82% to 5.21% Serial Bonds maturing in varying installments through 2019	81,319	-	4,872	76,447
2002 Fiscal Series 7 - 7.4% to 7.5% Serial Bonds maturing in varying installments through 2012	5,925	-	1,490	4,435
2003 Fiscal Series A - 4.0% to 6.0% Serial, Term and Muni-CP1 Bonds maturing in varying installments through 2034	689,180	-	3,335	685,845
2003 Fiscal Series C Adjustable Rate Bonds maturing in 2018	300,300	-	-	300,300
2003 Fiscal Series D - 2.0% to 5.25% Serial and Term Bonds maturing in varying installments through 2017	216,355	-	1,830	214,525
2003 Fiscal Series E - 5% Term Bonds maturing in 2034 and 2038	367,265	-	-	367,265
2003 Fiscal Series F - Adjustable Rate Bonds maturing in 2035	201,655	-	-	201,655
2003 Fiscal Series 1 - 4.23% to 4.375% Serial Bonds maturing in varying installments through 2032	137,413	-	4,726	132,687

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

	Balance at June 30, 2006	Issued	Retired/ defeased	Balance at June 30, 2007
2003 Fiscal Series 2 - 5.27% Serial Bonds maturing in varying installments through 2028	\$ 561,664	\$ -	\$ 11,590	\$ 550,074
2003 Fiscal Series 3 - 5.15% Serial Bonds maturing in varying installments through 2025	19,825	-	695	19,130
2003 Fiscal Series 4 - 5.18% Serial Bonds maturing in varying installments through 2025	31,545	-	1,110	30,435
2003 Fiscal Series 5 - 4.23% to 4.45% Serial Bonds maturing in varying installments through 2032	277,930	-	9,028	268,902
2004 Fiscal Series A - 5.0% Term Bonds maturing in 2027 and 2035	217,000	-	-	217,000
2004 Fiscal Series B - 2.00% - 5.00% Serial and Term Bonds maturing in varying installments through 2023	338,500	-	1,780	336,720
2004 Fiscal Series C - 2.00% - 5.00% Serial and Term Bonds maturing in varying installments through 2035	595,745	-	575	595,170
2004 Fiscal Series 1 - 4.12% - 4.45% Serial Bonds maturing in varying installments through 2033	287,567	-	8,712	278,855
2004 Fiscal Series 2 - 4.46% Serial Bonds maturing in varying installments through 2026	249,063	-	7,713	241,350
2005 Fiscal Series A - 5.00% Serial Bonds maturing in varying installments through 2039	150,000	-	-	150,000
2005 Fiscal Series B - 2.125% - 5.00% Serial Bonds maturing in varying installments through 2036	921,005	-	1,045	919,960
2005 Fiscal Series C - 3.00% - 5.00% Serial Bonds maturing in varying installments through 2036	575,735	-	730	575,005
2005 Series D - 5.00% Serial Bonds maturing in varying installments through 2039	559,205	-	-	559,205
2005 Fiscal Series 1 - 3.95% - 5.00% Bonds maturing in varying installments through 2034	223,946	-	6,783	217,163
2005 Fiscal Series 2 - 2.567% - 5.00% Bonds maturing in varying installments through 2026	381,274	-	11,651	369,623
2006 Series A - 3.50% - 5.00% Serial Bonds maturing in varying installments through 2039	519,245	-	355	518,890
2006 Series B - 5.00% Term Bonds maturing in 2036	150,000	-	-	150,000
2006 Series C - 4.50% - 4.75% Term Bonds maturing in 2033	350,345	-	-	350,345

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

	Balance at June 30, 2006	Issued	Retired/ defeased	Balance at June 30, 2007
2006 Fiscal Series D - 4.5% - 5.00% Serial Bonds maturing in varying installments through 2038	\$ 406,205	\$ -	\$ -	\$ 406,205
2006 Fiscal Series AA - Adjustable rate bonds maturing in varying installments through 2032	400,000	-	-	400,000
2006 Fiscal Series BB - 3.25%- 5.00% Serial Bonds maturing in varying installments through 2016	100,000	-	10,000	90,000
2006 Fiscal Series 1 - Adjustable rate bonds maturing in varying installments through 2036	224,684	-	4,423	220,261
2006 Fiscal Series 2 - Adjustable rate bonds maturing in varying installments through 2036	201,441	-	2,428	199,013
2006 Fiscal Series 3 - Adjustable rate bonds maturing in varying installments through 2036	256,388	-	2,910	253,478
2007 Fiscal Series A - 4.25% - 4.75% Serial Bonds maturing in varying installments through 2039	-	587,975	-	587,975
2007 Fiscal Series AA - 4.50% - 5.00% Serial Bonds maturing in varying installments through 2037	-	199,910	-	199,910
2007 Fiscal Series BB - 3.75% - 5.00% Serial Bonds maturing in varying installments through 2021	-	134,360	2,615	131,745
2007 Fiscal Series CC - Adjustable rate bonds maturing in varying installments through 2038	-	210,500	-	210,500
2007 Fiscal Series DD - 4.75% - 5.00% Serial Bonds maturing in varying installments through 2039	-	395,000	-	395,000
2007 Fiscal Series 1 - 4.35% - 4.40% Serial Bonds maturing in varying installments through 2036	-	228,112	1,578	226,534
2007 Fiscal Series 2 - 4.45% - 4.50% Serial Bonds maturing in varying installments through 2036	-	290,314	2,042	288,272
2007 Fiscal Series 3 - 4.90% Serial Bonds maturing in varying installments through 2024	-	174,936	-	174,936
Total debt payable	<u>15,934,351</u>	<u>2,221,107</u>	<u>884,274</u>	<u>17,271,184</u>
Current portion of bonds and notes payable	<u>215,061</u>			<u>210,971</u>
Bonds and notes payable, less current portion	<u>\$15,719,290</u>			<u>\$17,060,213</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 8 (continued)

Derivatives

In 2004, the Authority entered into a \$200 million interest rate exchange agreement under which the Authority receives a fixed rate in exchange for a floating rate based on the SIFMA Index (formerly the BMA Municipal Swap Index). This effectively converted a portion of the Authority's second resolution bonds issued through the New York State Environmental Facilities Corporation to variable rate bonds. The terms of this agreement require the Authority to pay the SIFMA index and the counterparty to pay 3.567%.

In 2003, the Authority sold \$20 million of muni-CP bonds in the 2013 maturity of its Fiscal 2003 Series A issue. In connection with the muni-CP bonds, the Authority entered into an interest rate exchange agreement under which the Authority receives a floating rate tied to the consumer price index, which matches the rate on the bonds, and pays a fixed interest rate. This allowed the Authority to achieve a yield 10 basis points lower than traditional fixed rate debt with a 2013 maturity. The terms of this transaction require the counterparty to pay the Authority the muni-CP rate, which is set at 1.53% plus a floating rate CPI, with the CPI being equal to the change in the consumer price index.

In keeping with market standards, the Authority or the counterparty may terminate the swap if the other party fails to perform under its terms as defined in the agreements. The Authority views termination risk to be remote at this time. Depending on the fair value at the time of termination, the Authority may have a liability to the counterparties.

Through the swap agreements the Authority is exposed to credit risk, i.e., the risk that the counterparties fail to perform their contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swap. The fair value of the swaps at June 30, 2007 and 2006 was approximately \$3.1 million and \$5.8 million in favor of the counterparty, respectively. To mitigate credit risk, the agreement requires the counterparty to post collateral for the Authority's benefit if it is downgraded below a designated threshold, as defined in the agreement.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 9 - RESTRICTED ASSETS

Certain cash and investments, plus accrued interest and other receivables, of the System are restricted as follows (in thousands):

	<u>2007</u>	<u>2006</u>
<u>The Board</u>		
Operation and maintenance reserve account	\$ 175,151	\$ 157,797
Operation and maintenance reserve general account	<u>10</u>	<u>10</u>
	<u>175,161</u>	<u>157,807</u>
<u>The Authority</u>		
Revenue fund	161,863	171,859
Debt service reserve fund	801,226	787,808
Construction fund	259,708	62,097
Arbitrage fund	6,519	-
Escrow fund	<u>194,713</u>	<u>293,394</u>
	<u>1,424,029</u>	<u>1,315,158</u>
	<u>\$1,599,190</u>	<u>\$1,472,965</u>

The operation and maintenance reserve account is established as a depository to hold the operations and maintenance reserve fund as required by the 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 escrow funds. It is funded through cash transfers from the 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.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 9 (continued)

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 commercial paper, bond and note sales. The escrow fund is established as a depository to refund debt in future years. It is funded through bond proceeds.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

a. Construction

The System has contractual commitments of approximately \$7 billion and \$5.1 billion at June 30, 2007 and 2006, respectively, for water and sewer projects.

b. 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 prior year's audited financial statements of the System. 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 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, 2007, the potential future liability attributable to the System for claims outstanding against the City was estimated to be \$255.3 million. This amount is included in the estimated liability for unsettled claims, which is reported in the City's balance sheet. 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.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 10 (continued)

c. 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 nonpurpose 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. 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. During 2007 and 2006, the System paid \$2,458 thousand and \$882 thousand, respectively, in rebates. At June 30, 2007 and 2006, the Authority had a liability of \$6.733 million and \$7.493 million, respectively.

NOTE 11 - PENSION PLANS

During 2007, the System employed four individuals at the Water Authority. Pension expense for these employees totaled \$239,000. All other personnel are employees of the City and are covered under the City's pension plan. The System pays the costs of the City employees' pension through an allocation of fringe benefit costs, which are included principally within operations and maintenance expenses in the accompanying financial statements.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Authority's policy is to provide certain health and related benefits to eligible retirees of the Authority, which constitute another post-employment benefit ("OPEB") plan (the "Plan") in accordance with GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

The Authority's policy is to follow the eligibility criteria applicable to retirees of the City and to provide benefits substantially the same as those provided to City retirees and eligible beneficiaries/dependents. OPEB benefits include health insurance, Medicare Part B reimbursements, and welfare fund contributions.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 12 (continued)

Funding Policy

The Authority is not required to provide funding for OPEB, other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal years ended June 30, 2007 and 2006, the Authority had no retirees, and thus made no contribution. Members are not required to contribute, although retirees may elect basic health insurance programs and/or optional coverage that requires contributions.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount that was actuarially determined in accordance with the parameters of GASB Statement No. 45. The frozen entry age cost method was used in the actuarial valuation prepared as of June 30, 2006, which was the basis for the 2007 ARC calculation.

The following table shows the elements of the Authority's annual OPEB cost for the years, the amounts actually contributed, and changes in the Authority's net OPEB obligation for the years ended June 30, 2007:

	<u>2007</u>
Annual required contribution	\$ 229,398
Interest on net OPEB obligations	15,920
Adjustment to annual required contribution	<u>(413,930)</u>
Annual OPEB cost (reduction in liability)	(168,612)
Payments	<u>-</u>
Decrease in net OPEB obligation	(168,612)
Net OPEB obligation - beginning of year	<u>398,010</u>
Net OPEB obligation - end of year	<u>\$ 229,398</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 12 (continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the fiscal years ended June 30, 2007 and June 30, 2006 were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2007	\$(168,010)	0%	\$229,398
June 30, 2006	\$ 398,010	0%	\$398,010

The OPEB cost for fiscal 2007 was negative to reflect the reduction of the Authority's OPEB liability that resulted from the transfer of a large portion of the Authority's administrative staff members to the City, which assumed the OPEB obligations for the transferred staff members.

Funded Status and Funding Progress

As of June 30, 2006, the most recent actuarial valuation date, the cost was 0.0% funded. The actuarial accrued liability for benefits was \$173 thousand, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$173 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was \$306 thousand, and the ratio of the UAAL to the covered payroll was 57%.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007 and 2006

NOTE 12 (continued)

The schedule of funding progress, shown as required supplementary information below, presents the results of OPEB valuations as of June 30, 2006 and 2005, and looking forward, the schedule will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Required Supplementary Information (unaudited)

Schedule of Funding Progress

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL) - entry age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
6/30/06	\$ -	\$172,974	\$172,974	0%	\$ 306,155	56%
6/30/05	-	308,348	308,348	0%	1,041,223	29%

NOTE 13 - SUBSEQUENT EVENTS

On October 10, 2007, the Authority issued fiscal 2007 Series AA Second Resolution Bonds in the aggregate amount of \$400.0 million to reimburse outstanding commercial paper notes and to pay certain costs of issuance.

On October 24, 2007, the Authority issued fiscal 2007 Series BB Second Resolution Bonds in the aggregate amount of \$401.0 million to refund outstanding bonds and to pay for certain costs of issuance.

On October 24, 2007, the Authority issued fiscal 2007 Series CC Second Resolution Bonds in the aggregate amount of \$352.2 million to refund outstanding commercial paper notes and to pay for certain costs of issuance.

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

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**FORM OF OPINION OF BOND COUNSEL
(Fiscal 2008 Series B Bonds)**

March , 2008

New York City Municipal
Water Finance Authority

**New York City Municipal Water Finance Authority
Water and Sewer System Revenue Bonds,
Adjustable Rate Fiscal 2008 Series B
(Final Opinion)**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the New York City Municipal Water Finance Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"), created and existing under and pursuant to the Constitution and statutes of the State, including the Act (defined below), of \$535,000,000 aggregate principal amount of Water and Sewer System Revenue Bonds, Adjustable Rate Fiscal 2008 Series B (the "2008 Series B Bonds"), issued under and pursuant to the New York City Municipal Water Finance Authority Act, being Title 2-A of Article 5 of the Public Authorities Law of the State, as amended (which, together with Section 1046 of the Public Authorities Law of the State, is herein referred to as the "Act") and a resolution of the Authority adopted November 14, 1985 entitled "Water and Sewer System General Revenue Bond Resolution," as amended and supplemented to the date hereof (the "Resolution"), including by a resolution adopted March 7, 2008 entitled "Seventy-Ninth Supplemental Resolution Authorizing the Issuance of up to \$600,000,000 Water and Sewer System Revenue Bonds, Adjustable Rate Fiscal 2008 Series B" (the "Seventy-Ninth Supplemental Resolution") authorizing the 2008 Series B Bonds. The 2008 Series 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 Resolution, as then in effect, and without limitation as to amount except as provided in the Resolution or as may be limited by law. The 2008 Series B Bonds are being issued for the purposes of the Resolution. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

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 July 1, 1985, as amended (the "Financing Agreement"), related to, among other things, the financing Water Projects.

In such connection, we have reviewed the Resolution, the Seventy-Ninth Supplemental Resolution, the Lease, the Financing Agreement and the Tax Certificate of the Authority (the "Tax Certificate"), opinion of Corporation Counsel of The City of New York, certificates of the Authority, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update

this letter. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution, the Seventy-Ninth Supplemental Resolution, the Lease, the Financing Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2008 Series B Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2008 Series B Bonds, the Resolution, the Seventy-Ninth Supplemental Resolution, the Lease, the Financing Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Resolution, the Seventy-Ninth Supplemental Resolution, the Lease or the Financing Agreement, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2008 Series B Bonds and express no opinion with respect thereto herein.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof we are of the following opinions:

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 enter into the Financing Agreement, to adopt the Resolution and the Seventy-Ninth Supplemental Resolution and to issue the 2008 Series B Bonds.

2. The Resolution and the Seventy-Ninth 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 Resolution and the Seventy-Ninth 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 for the repayment of the Bonds, subject only to the provisions of the Resolution, the Seventy-Ninth 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 2008 Series B Bonds have been duly and validly authorized and issued. The 2008 Series B Bonds are valid and binding special obligations of the Authority payable as provided in the Resolution, are enforceable in accordance with their terms and the terms of the Resolution and are entitled, together with all other Bonds issued under the Resolution to the benefits of the Resolution and the Act.

4. The 2008 Series B Bonds are payable solely from the Revenues and other amounts pledged to such payment under the Resolution. The 2008 Series B Bonds are not 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.

5. 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.

6. 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.

7. 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.

8. Interest on the 2008 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2008 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the 2008 Series B Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2008 Series B Bonds.

In rendering the opinions set forth in paragraphs 5 and 6 above, we wish to advise you that we have, with your consent, relied upon the opinion of Corporation Counsel of The City of New York dated the date hereof and addressed to you as to the validity, binding effect and enforceability of the Lease and the Financing Agreement with respect to the Board and the City. In rendering the priority of lien opinion set forth in paragraph 7 above, we have (i) relied upon a certification by the Board that it has not made or granted a pledge of or security interest in the Revenues to any person other than the Authority and that it has not taken any action which could result in the imposition by operation of law of any lien, charge or encumbrance upon the Revenues, and (ii) assumed, without making any independent investigation, that (1) no lien, charge or encumbrance upon the Revenues has been imposed or exists by operation of law that is prior to the lien in favor of the Authority and (2) no facts or circumstances have occurred or exist which could result in the imposition by operation of law of any lien, charge or encumbrance upon the Revenues that is prior to the lien in favor of the Authority.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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BOOK-ENTRY-ONLY FORM

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BOOK-ENTRY-ONLY FORM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Fiscal 2008 B Bonds. The Fiscal 2008 B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Fiscal 2008 B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC, in the aggregate principal amount of the Fiscal 2008 B Bonds, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of New York Banking Law, 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 and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (“NSCC,” “FICC” and “EMCC,” also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc. the American Stock Exchange LLC, and the National Association of Securities Dealers Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com or www.dtc.org.

Purchases of Fiscal 2008 B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Fiscal 2008 B Bonds on DTC’s records. The ownership interest of each actual purchaser of each Fiscal 2008 B 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. Beneficial Owners are, however, 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 Fiscal 2008 B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Fiscal 2008 B Bonds, except in the event that use of the book-entry system for the Fiscal 2008 B Bonds is discontinued.

To facilitate subsequent transfers, all Fiscal 2008 B Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Fiscal 2008 B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of any Fiscal 2008 B Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts the Fiscal 2008 B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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. Beneficial Owners of Fiscal 2008 B Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Fiscal 2008 B Bonds, such as redemptions, tenders, defaults and proposed amendments to the bond documents. For example, Beneficial Owners of Fiscal 2008 B Bonds may wish to ascertain that the nominee holding the Fiscal 2008 B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Fiscal 2008 B 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. (nor any other DTC nominee) will consent or vote with respect to the Fiscal 2008 B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. 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 Fiscal 2008 B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Fiscal 2008 B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee on the payable date in accordance with their respective holdings shown on DTC's records. 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 (nor its nominee), 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 on the Fiscal 2008 B Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Fiscal 2008 B 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.

Unless otherwise noted, the information contained in the preceding paragraphs of this subsection "Book-Entry-Only System" has been extracted from information given by DTC. Neither the Authority, the Trustee nor 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 OBLIGATIONS 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.

TABLE OF REFUNDED BONDS

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TABLE OF REFUNDED BONDS

The Authority expects to refund the Outstanding Water and Sewer System Revenue Bonds specified below on March 19, 2008 by providing for the payment of the principal of, and interest on such Bonds to the redemption dates specified below. The refunding is contingent upon delivery of the Fiscal 2008 B Bonds and the Fiscal 2008 C Bonds.

Series	Maturity Date	Principal Amount Outstanding	Principal Amount to be Refunded	Redemption Price	Redemption Date
Fiscal 1993 Series C	6/15/22	\$100,000,000	\$100,000,000	100%	March 25, 2008
Fiscal 1994 Series C-1	6/15/23	100,000,000	100,000,000	100	March 26, 2008
Fiscal 1994 Series C-2	6/15/23	100,000,000	100,000,000	100	March 24, 2008
Fiscal 1994 Series G-1	6/15/24	92,500,000	92,500,000	100	March 20, 2008
Fiscal 1994 Series G-2	6/15/24	92,500,000	92,500,000	100	March 24, 2008
Fiscal 1995 Series A-1	6/15/25	99,350,000	99,350,000	100	March 20, 2008
Fiscal 1995 Series A-2	6/15/25	99,350,000	99,350,000	100	March 24, 2008

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DESCRIPTION OF FACILITY PROVIDERS

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JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

JPMorgan Chase Bank, National Association (“JPMorgan”) is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMorgan offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of September 30, 2007, JPMorgan Chase Bank, National Association, had total assets of \$1,244.0 billion, total net loans of \$456.4 billion, total deposits of \$699.0 billion, and total stockholder's equity of \$102.9 billion. These figures are extracted from JPMorgan's unaudited Consolidated Reports of Condition and Income as of September 30, 2007, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation.

Additional information, including the most recent Form 10-K for the year ended December 31, 2006, of JPMorgan Chase & Co., the 2006 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information contained in this Appendix relates to and has been obtained from JPMorgan. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of JPMorgan since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

THE LLOYDS TSB BANK GROUP

“Disclosure Statement”

Lloyds TSB Bank plc (“Lloyds”) is a wholly-owned subsidiary of Lloyds TSB Group plc (“LTSB Group”). Lloyds and its subsidiaries (the “Lloyds’s Group”) comprise one of the leading United Kingdom-based financial services groups, whose businesses provide a wide range of banking and financial services in the United Kingdom and overseas.

At the end of 2006, total consolidated assets of LTSB Group were nearly £344 billion. The total number of persons employed by LTSB Group and its subsidiaries was approximately 76,000.

The activities of Lloyds’s Groups are organized into three divisions described below:

UK Retail Banking

UK Retail Banking provides banking, financial services, mortgages and private banking to some 16 million personal customers through their multi-channel distribution capabilities.

Insurance and Investments

Insurance and Investments offers life assurance, pensions, and investment products, general insurance and fund management services.

Wholesale and International Banking

Wholesale and International Banking provides banking and related services for major United Kingdom and multinational corporations and financial institutions, and small and medium-sized United Kingdom businesses. It also provides asset finance and share registration services to personal and corporate customers, manages Bank’s Group’s activities in financial markets through its treasury function and provides banking and financial services overseas.

Availability of Public Information

Lloyds will provide, upon request, to each person to whom this Official Statement is delivered a copy of the most recently available (i) Annual Report and Accounts of LTSB Group for the fiscal year ended December 31, 2006 (ii) Annual Report on Form 20F of LTSB Group. Written requests should be directed to the Bank at 1251 Avenue of the Americas, 39th Floor, New York, New York 10020; Attention: Structured Finance. Additional information (including a full copy of such Report and Accounts) is available from the LTSB Group web site at <http://www.investorrelations.lloydstsb.com>

BANK OF AMERICA, N.A.

CERTAIN INFORMATION CONCERNING THE BANK

Bank of America, N.A. (the “*Bank*”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “*Corporation*”) and is engaged in general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of December 31, 2007, the Bank had consolidated assets of \$1,312,794,218,000, consolidated deposits of \$793,571,969,000 and stockholder’s equity of \$108,480,218,000 based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, together with any subsequent documents it filed with the Securities and Exchange Commission (the “*SEC*”) pursuant to the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”).

Additional information regarding the foregoing is available from the filings made by the Corporation with the SEC, which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Bank contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Credit Facility has been issued by the Bank. Moody’s Investors Service, Inc. (“*Moody’s*”) currently rates the Bank’s long-term debt as “Aaa” and short-term debt as “P-1.” The outlook is stable. Standard & Poor’s rates the Bank’s long-term debt as “AA+” and its short-term debt as “A-1+.” The outlook is stable. Fitch Ratings, Inc. (“*Fitch*”) rates long-term debt of the Bank as “AA” and short-term debt as “F1+.” The outlook is negative. Further information with respect to such ratings may be obtained from Moody’s, Standard & Poor’s and Fitch, respectively. No assurances can be given that the current ratings of the Bank’s instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communications

PAYMENTS OF THE PURCHASE PRICE OF THE BONDS WILL BE MADE FROM AMOUNTS MADE AVAILABLE UNDER THE CREDIT FACILITY IF REMARKETING PROCEEDS ARE NOT AVAILABLE. THE OBLIGATION OF THE BANK TO PAY THE PURCHASE PRICE IS SUBJECT TO IMMEDIATE TERMINATION OR SUSPENSION WITHOUT NOTICE UPON THE OCCURENCE OF CERTAIN EVENTS. ALTHOUGH THE CREDIT FACILITY IS A BINDING OBLIGATION OF THE BANK, THE BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date hereof, or that the information contained or referred to in this Appendix H is correct as of any time subsequent to its date.



BANK DISCLOSURE STATEMENT

The BNP Paribas Group (the “Group”) (of which BNP Paribas, a French corporation (société anonyme), is the parent company) is a European leader in banking and financial services. It has approximately 150,500 employees, 118,700 of whom are based in Europe. The Group occupies leading positions in three significant fields of activity: Corporate and Investment Banking, Asset Management & Services and Retail Banking. It is present in 85 countries and has a strong presence in all the key financial centers. Present throughout Europe, in all its business lines, France and Italy are its two domestic markets in retail banking. BNP Paribas has a significant and growing presence in the United States and leading positions in Asia and in emerging markets.

The Group has three divisions: Retail Banking, Asset Management and Services and Corporate and Investment Banking, the latter two of which also constitute “core businesses”. Operationally, the Retail Banking division is itself comprised of three core businesses: French Retail Banking, International Retail Banking and Financial Services, Italian Retail Banking (BNL bc). The Group has additional activities, including those of its listed real estate subsidiary, Klépierre, which are conducted outside of its core businesses.

As of June 30, 2007, the Group had consolidated assets of €1,663.6 billion (compared to €1,440.3 billion as of December 31, 2006), consolidated loans and receivables due from customers of €426.8 billion (compared to €393.1 billion as of December 31, 2006), consolidated items due to customers of €321.9 billion (compared to €298.7 billion as of December 31, 2006) and shareholders’ equity (Group share including income as of June 30, 2007) of €52.2 billion (compared to €49.5 billion as of December 31, 2006). Pre-tax net income as of June 30, 2007 was €6.8 billion (compared to €10.6 billion for the year ended December 31, 2006). Net income, Group share as of June 30, 2007 was €4.8 billion (compared to €7.3 billion for the year ended December 31, 2006). Revenues as of June 30, 2007 were €16.4 billion (compared to 27.9 billion for the year ended December 31, 2006).

The Group currently has long-term senior debt ratings of “Aa1” with stable outlook from Moody’s, “AA+” with stable outlook from Standard & Poor’s and “AA” with stable outlook from Fitch Ratings.

The information concerning BNP Paribas and the Group contained herein is furnished solely to provide limited introductory information regarding BNP Paribas and the Group and does not purport to be comprehensive.

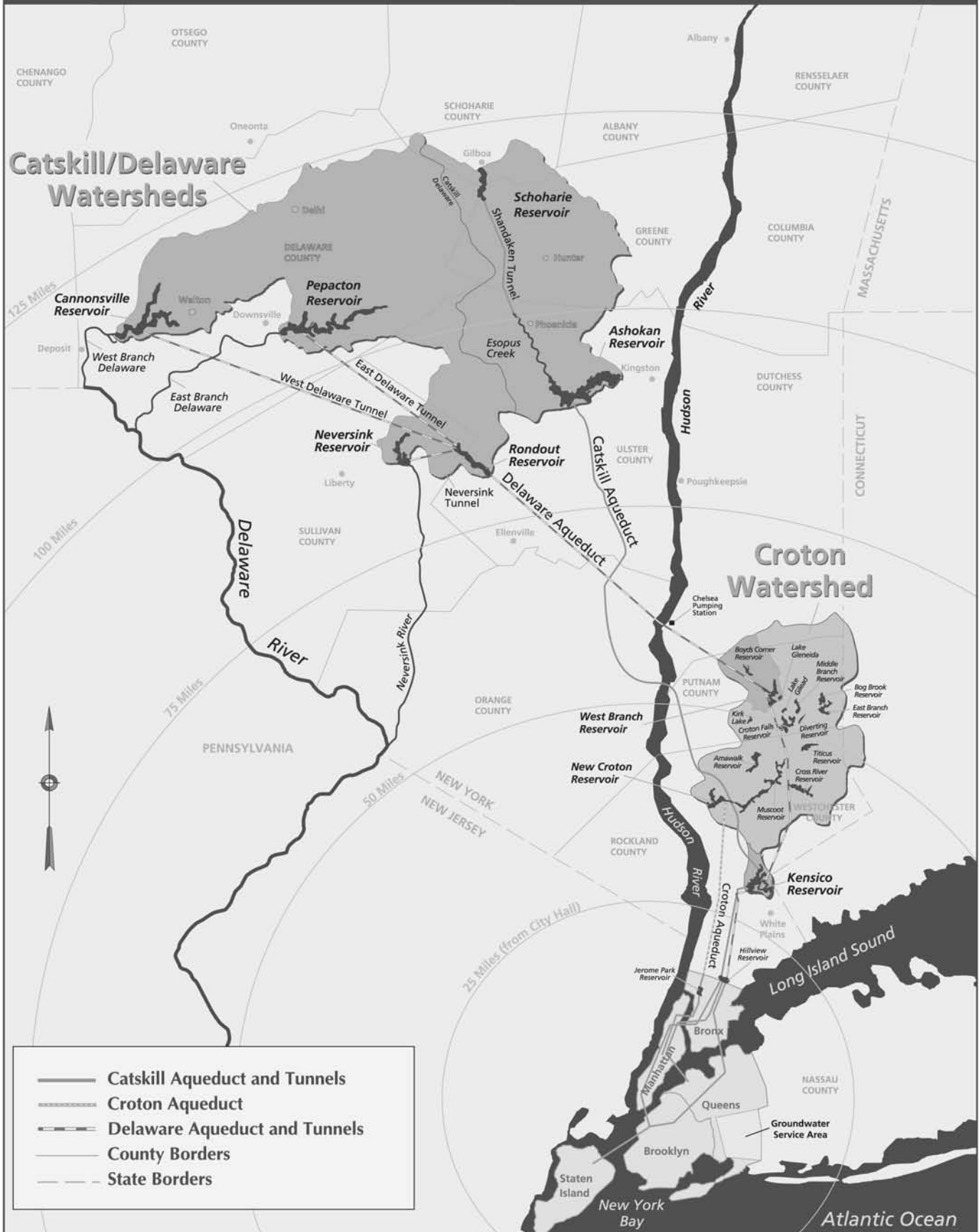
The delivery of the information contained in this section shall not create any implication that there has been no change in the affairs of BNP Paribas or the Group since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

APPENDIX I

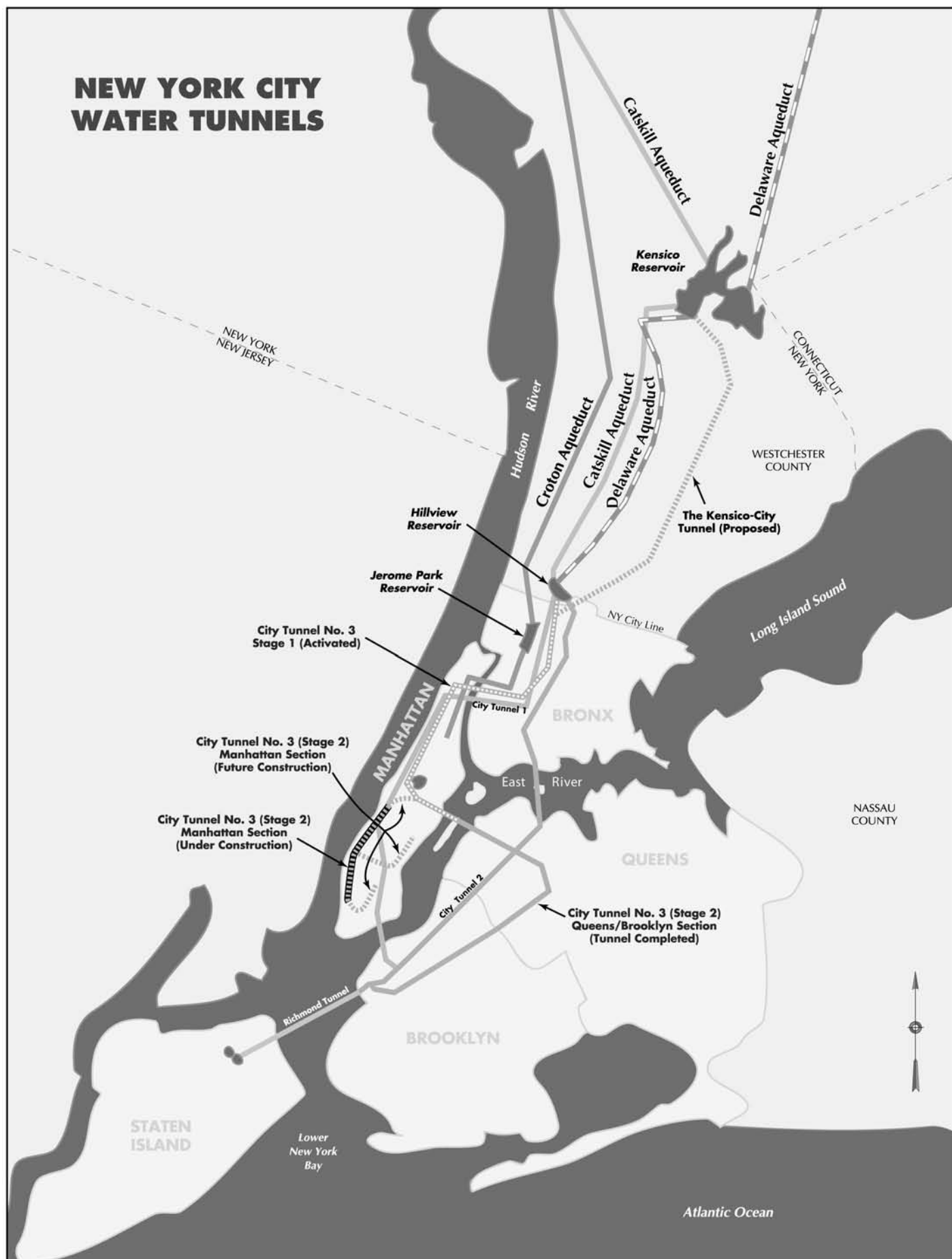
SYSTEM MAPS

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New York City Water Supply System



NEW YORK CITY WATER TUNNELS

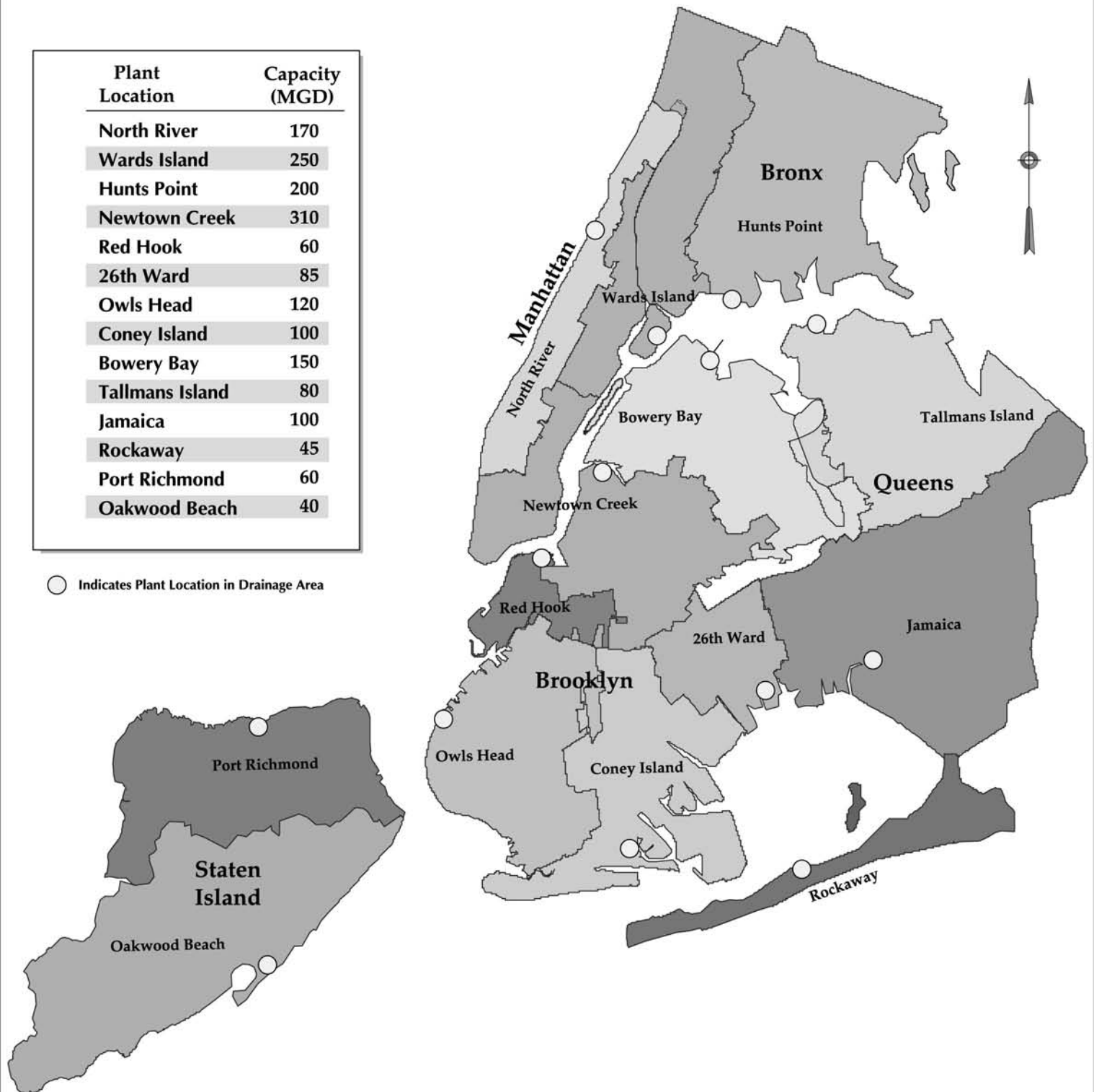


New York City Drainage Areas and Water Pollution Control Plants

Plant Location	Capacity (MGD)
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North River	170
Wards Island	250
Hunts Point	200
Newtown Creek	310
Red Hook	60
26th Ward	85
Owls Head	120
Coney Island	100
Bowery Bay	150
Tallmans Island	80
Jamaica	100
Rockaway	45
Port Richmond	60
Oakwood Beach	40

○ Indicates Plant Location in Drainage Area



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