

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 compliance with certain covenants, interest on the Fiscal 2011 AA 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 (the “City”). Bond Counsel observes that interest on the Fiscal 2011 AA Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. 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 2011 AA Bonds. See “TAX MATTERS.”

\$750,000,000

New York City

Municipal Water Finance Authority

Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2011 Series AA (Taxable Build America Bonds)

Dated: Date of Delivery

Due: June 15, as shown on the inside cover

The Fiscal 2011 AA Bonds will be issued as registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York which will act as securities depository for the Fiscal 2011 AA Bonds. Purchases of beneficial interests in such Fiscal 2011 AA Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing the ownership interest in the Fiscal 2011 AA Bonds purchased by them. See “BOOK-ENTRY-ONLY SYSTEM.”

Interest on the Fiscal 2011 AA Bonds will accrue from their date of delivery and will be payable semiannually on each June 15th and December 15th, commencing December 15, 2010. The Fiscal 2011 AA Bonds will be issued in authorized denominations of \$5,000 and integral multiples thereof. The Fiscal 2011 AA Bonds are subject to redemption prior to maturity as described herein. The proceeds of the Fiscal 2011 AA Bonds are expected to be applied (i) to pay principal and interest on a portion of the Authority’s outstanding Commercial Paper Notes, (ii) to make a deposit to the Construction Fund and (iii) to pay certain costs of issuance.

The Fiscal 2011 AA Bonds are special obligations of the Authority, payable solely from and secured by a pledge of and subordinate lien on the gross revenues of the System. The Authority has no taxing power. The Fiscal 2011 AA 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 2011 AA Bonds.

The Fiscal 2011 AA 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 2011 AA Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about September 23, 2010.

Barclays Capital

Jefferies & Company
M.R. Beal & Company

Morgan Keegan & Company, Inc.
Ramirez & Co., Inc.

BofA Merrill Lynch
Goldman, Sachs & Co.
Morgan Stanley

Citi
J.P. Morgan
Raymond James & Associates, Inc.

Fidelity Capital Markets
Loop Capital Markets, LLC
RBC Capital Markets

Rice Financial Products Company

Roosevelt & Cross Incorporated

Siebert Brandford Shank & Co., LLC

Wells Fargo Bank, National Association

BB & T Capital Markets
Piper Jaffray

Lebenthal & Co., LLC
Stifel Nicolaus

Oppenheimer & Co., Inc.
Stone & Youngberg

September 16, 2010

\$750,000,000

New York City Municipal Water Finance Authority

**Water and Sewer System Second General Resolution Revenue Bonds,
Fiscal 2011 Series AA (Taxable Build America Bonds)**

\$250,000,000 5.79% Bond Maturing June 15, 2041, Price: 100% CUSIP Number⁽¹⁾: 64972FT55

\$500,000,000 5.44% Bond Maturing June 15, 2043, Price: 100% CUSIP Number⁽¹⁾: 64972FT63

⁽¹⁾ Copyright, 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 2011 AA Bonds and the Authority and the Underwriters do not make any representation with respect to such numbers nor 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 2011 AA 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 2011 AA Bonds.

New York City Municipal Water Finance Authority
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New York, New York 10007
212-788-5889

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David M. Frankel, <i>ex officio</i>	<i>Member</i>
Caswell F. Holloway IV, <i>ex officio</i>	<i>Member</i>
Peter J. Kenny	<i>Member</i>
Marc V. Shaw	<i>Member</i>

Alan L. Anders	<i>Chief Executive Officer</i>
Thomas G. Paolicelli	<i>Executive Director</i>
Marjorie E. Henning	<i>Secretary</i>
Michele Mark Levine	<i>Comptroller</i>
Eileen T. Moran	<i>Deputy Comptroller</i>
Robert L. Balducci	<i>Assistant Comptroller</i>
Prescott D. Ulrey	<i>Assistant Secretary</i>
Jeffrey M. Werner	<i>Assistant Secretary</i>
Raymond Orlando	<i>Director of Media and Investor Relations</i>

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718-595-4032

Alan Moss	<i>Chair</i>
Marcia Bystryn	<i>Member</i>
Donald Capoccia	<i>Member</i>
Mehul Patel	<i>Member</i>
Benjamin A. Tisdell	<i>Member</i>
Steven Lawitts	<i>Executive Director</i>
Mathilde O. McLean	<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>AECOM USA, Inc.</i>
Financial Advisors	<i>Lamont Financial Services Corporation/MFR Securities, Inc.</i>
Rate Consultant	<i>Amawalk Consulting Group LLC</i>

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the Fiscal 2011 AA 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 2011 AA 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 2011 AA 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.

Deloitte & Touche LLP, the Authority's independent auditor has not reviewed, commented on or approved, and is not associated with, this Official Statement. The report of Deloitte & Touche LLP relating to the Authority's financial statements for the fiscal years ended June 30, 2009 and 2008, which is a matter of public record, is included in this Official Statement. However, Deloitte & Touche LLP has not performed any procedures on any financial statements or other financial information of the Authority, including without limitation any of the information contained in this Official Statement, since the date of such report and has not been asked to consent to the inclusion of its report in this Official Statement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE FISCAL 2011 AA BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THIS OFFICIAL STATEMENT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

IN CONNECTION WITH OFFERS AND SALES OF THE FISCAL 2011 AA BONDS, NO ACTION HAS BEEN TAKEN BY THE AUTHORITY THAT WOULD PERMIT A PUBLIC OFFERING OF THE FISCAL 2011 AA BONDS, OR POSSESSION OR DISTRIBUTION OF ANY INFORMATION RELATING TO THE PRICING OF THE FISCAL 2011 AA BONDS, THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING OR PUBLICITY MATERIAL RELATING TO THE FISCAL SERIES AA BONDS, IN ANY NON-UNITED STATES JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, EACH UNDERWRITER IS OBLIGATED TO COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN ANY NON-UNITED STATES JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS THE FISCAL 2011 AA BONDS OR POSSESSES OR DISTRIBUTES THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING OR PUBLICITY MATERIAL RELATING TO THE FISCAL 2011 AA BONDS AND WILL OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE PURCHASE, OFFER OR SALE BY IT OF THE FISCAL 2011 AA BONDS UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY NON-UNITED STATES JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES AND THE AUTHORITY SHALL HAVE NO RESPONSIBILITY THEREFOR.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
SUMMARY STATEMENT	xxi	THE SYSTEM	42
INTRODUCTORY STATEMENT	1	Overview	42
General	1	The Water System	42
Financial Projection Assumptions	2	Water Collection and Distribution	42
PLAN OF FINANCE	2	Drought Response Measures	47
USE OF PROCEEDS	3	Governmental Regulation	48
THE FISCAL 2011 AA BONDS	3	The Sewer System	52
General	3	Sewage Collection and Treatment	52
Designation of the Fiscal 2011 AA Bonds as “Build America Bonds”	3	Governmental Regulation	53
Redemption	3	ECONOMIC AND DEMOGRAPHIC INFORMATION	56
Book-Entry Only System	5	New York City Economy	56
Global Settlement Procedures	7	Personal Income	56
SECURITY FOR THE SECOND RESOLUTION BONDS	11	Employment Trends	57
Revenues	11	Sectoral Distribution of Employment and Earnings ..	57
Debt Service Reserve Fund	13	Population	59
Rate Covenant	13	LITIGATION	60
Additional Second Resolution Bonds	14	APPROVAL OF LEGAL PROCEEDINGS	61
Authority Debt	15	FINANCIAL ADVISORS	61
Derivatives	15	FURTHER INFORMATION	61
Covenant of the State	15	CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12	62
THE AUTHORITY	16	INVESTMENTS	63
Purpose and Powers	16	RATINGS	64
Membership	16	UNDERWRITING	64
THE BOARD	18	LEGALITY FOR INVESTMENT AND DEPOSIT ..	65
Purpose and Powers	18	FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS	65
Membership	18	ENGINEERING FEASIBILITY REPORT AND FORECASTED CASH FLOWS	65
THE DEPARTMENT OF ENVIRONMENTAL PROTECTION	20	TAX MATTERS	66
Organization	20	For U.S. Holders	66
Labor Relations	21	For Non-U.S. Holders	67
CAPITAL IMPROVEMENT AND FINANCING PROGRAM	22	Circular 230	68
Ten Year Capital Strategy, Current Capital Plan and the Capital Improvement Program	22	ERISA CONSIDERATIONS	69
Historical Capital Program	25	CERTAIN LEGAL OPINIONS	69
Financing Program	26	APPENDICES	
Sources and Uses of Capital Funds	28	Appendix A — LETTER OF AECOM USA INC., CONSULTING ENGINEERS	A-1
Debt Service Requirements	30	Appendix B — LETTER OF AMAWALK CONSULTING GROUP LLC, RATE CONSULTANTS	B-1
FINANCIAL OPERATIONS	32	Appendix C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS	C-1
Revenues	32	GLOSSARY	C-1
Expenses	32	Summary of Certain Documents	C-19
Projected Revenues	33	Summary of the Agreement	C-19
Projected Operating and Maintenance Expenses ..	34	Summary of the Lease	C-25
Projected Financial Operations	36	Summary of the First Resolution	C-28
RATES AND BILLINGS	38	Summary of the Second Resolution	C-38
Rates	38	Appendix D — FINANCIAL STATEMENTS	D-1
Accounts, Billing and Collection	40	Appendix E — FORM OF OPINION OF BOND COUNSEL	E-1
		Appendix F — SYSTEM MAPS	F-1

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**INFORMATION CONCERNING OFFERING RESTRICTIONS
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES**

REFERENCES HEREIN TO THE “ISSUER” MEAN THE AUTHORITY AND REFERENCES TO “BONDS” OR “SECURITIES” MEAN THE FISCAL 2011 AA BONDS.

MINIMUM UNIT SALES

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$5,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 20 UNITS (BEING 20 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$100,000).

NOTICE TO PROSPECTIVE INVESTORS LOCATED IN AUSTRALIA

ANY OFFER OF SECURITIES IN CONNECTION WITH THIS NOTICE WILL NOT BE MADE BY WAY OF A DISCLOSURE DOCUMENT UNDER PART 6D OF THE CORPORATIONS ACT (CTH) (THE “ACT”).

NEITHER THE ISSUER NOR THE UNDERWRITER IS REQUIRED TO PROVIDE YOU WITH A PROSPECTUS OR OTHER DISCLOSURE DOCUMENT FOR THE ISSUE OF SECURITIES BECAUSE OF THE APPLICATION OF SPECIFIC EXEMPTIONS FROM THE REQUIREMENTS FOR DISCLOSURE SET OUT IN SECTION 708 OF THE ACT. IN PARTICULAR, THIS NOTICE IS BEING PROVIDED TO YOU ON THE BASIS THAT:

1. ANY OFFER IN CONNECTION WITH THIS NOTICE IS A PERSONAL OFFER WITHIN THE MEANING OF SECTION 708(2) OF THE ACT, AND THAT OFFER WILL NOT RESULT IN ANY BREACH REFERRED TO IN THAT SECTION;
2. SECTION 708(8) OF THE ACT APPLIES AND YOU ARE A SOPHISTICATED INVESTOR IN ACCORDANCE WITH THE TERMS OF THAT SECTION;
3. YOU ARE AN EXPERIENCED INVESTOR WITHIN THE MEANING OF S 708(10) OF THE ACT; OR
4. YOU ARE A PROFESSIONAL INVESTOR IN ACCORDANCE WITH SECTION 708(11) OF THE ACT).

ANY DOCUMENTS PROVIDED IN CONNECTION WITH THIS NOTICE ARE FURNISHED SOLELY FOR INFORMATION PURPOSES ONLY AND MAY NOT BE REPRODUCED OR REDISTRIBUTED TO ANY OTHER PERSONS EXCEPT WITH OUR PRIOR WRITTEN CONSENT. THE DOCUMENTS ARE STRICTLY CONFIDENTIAL.

THIS NOTICE DOES NOT CONSTITUTE AN OFFER OR INVITATION TO SUBSCRIBE FOR OR TO PURCHASE ANY SECURITIES AND NEITHER THIS NOTICE NOR ANYTHING CONTAINED IN IT WILL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT ON THE PART OF THE ISSUER OR UNDERWRITER TO ISSUE OR TRANSFER SECURITIES TO ANY PERSON.

NOTICE TO RESIDENTS OF BRAZIL

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE BRAZILIAN SECURITIES COMMISSION (COMISSÃO DE VALORES MOBILIÁRIOS – “CVM”). ANY PUBLIC OFFERING, AS DEFINED UNDER BRAZILIAN LAWS AND REGULATIONS OF THE SECURITIES IN BRAZIL IS NOT LEGAL WITHOUT SUCH PRIOR REGISTRATION UNDER LAW NO. 6.385/76.

OFFERING IN CANADA (BRITISH COLUMBIA, ONTARIO, AND QUEBEC)

THE OFFERING OF THE SECURITIES IN CANADA IS BEING MADE IN THE PROVINCES OF BRITISH COLUMBIA, ONTARIO AND QUÉBEC (EACH, A “CANADIAN JURISDICTION” AND COLLECTIVELY, THE “CANADIAN JURISDICTIONS”) PURSUANT TO EXEMPTIONS FROM THE PROSPECTUS REQUIREMENTS OF APPLICABLE SECURITIES LAWS. THE SECURITIES WILL BE OFFERED TO “ACCREDITED INVESTORS” IN THE CANADIAN JURISDICTIONS PURSUANT TO SECTION 2.3 (THE “ACCREDITED INVESTOR EXEMPTION”) OF NATIONAL INSTRUMENT 45-106 – *PROSPECTUS AND REGISTRATION EXEMPTIONS* OF THE CANADIAN SECURITIES ADMINISTRATORS (“NI 45-106”). UNDER THE ACCREDITED INVESTOR EXEMPTION, A SUBSCRIBER OR ANY PRINCIPAL ON WHOSE BEHALF THE SUBSCRIBER IS ACTING AS AGENT (A “CANADIAN PURCHASER”) MUST QUALIFY AS AN “ACCREDITED INVESTOR,” AS SUCH TERM IS DEFINED IN NI 45-106. ALL CANADIAN PURCHASERS OF THE SECURITIES WILL BE REQUIRED TO EXECUTE A SUBSCRIPTION AGREEMENT WHICH WILL CONTAIN REPRESENTATIONS, WARRANTIES, COVENANTS AND ACKNOWLEDGMENTS OF THE CANADIAN PURCHASER TO ESTABLISH THE AVAILABILITY OF SUCH EXEMPTION AND TO ENSURE COMPLIANCE WITH APPLICABLE CANADIAN SECURITIES LAWS.

RESALE RESTRICTIONS

THE SECURITIES ACQUIRED BY CANADIAN PURCHASERS HEREUNDER MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF IN ANY MANNER UNLESS SUCH SALE, TRANSFER OR DISPOSITION COMPLIES WITH THE RESALE RESTRICTIONS OF THE SECURITIES LAWS OF THE CANADIAN JURISDICTIONS. PURSUANT TO APPLICABLE CANADIAN PROVINCIAL AND TERRITORIAL SECURITIES LAWS, THE SECURITIES ACQUIRED BY A CANADIAN PURCHASER HEREUNDER WILL BE SUBJECT TO RESTRICTIONS ON RESALE UNTIL SUCH TIME AS:

(a) THE APPROPRIATE “HOLD PERIODS” HAVE BEEN SATISFIED AND SUCH PURCHASER HAS COMPLIED WITH OTHER APPLICABLE REQUIREMENTS, INCLUDING THE FILING OF APPROPRIATE REPORTS PURSUANT TO APPLICABLE SECURITIES LEGISLATION;

(b) A FURTHER STATUTORY EXEMPTION MAY BE RELIED UPON BY SUCH PURCHASER; OR

(c) AN APPROPRIATE DISCRETIONARY ORDER IS OBTAINED PURSUANT TO APPLICABLE SECURITIES LAWS.

AS THE ISSUER IS NOT A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY OF CANADA, THE APPLICABLE HOLD PERIOD FOR THE SECURITIES MAY NEVER EXPIRE, AND IF NO FURTHER STATUTORY EXEMPTION MAY BE RELIED UPON AND IF NO DISCRETIONARY ORDER IS OBTAINED, THIS COULD RESULT IN A CANADIAN PURCHASER HAVING TO HOLD THE SECURITIES FOR AN INDEFINITE PERIOD OF TIME. EACH CERTIFICATE REPRESENTING THE SECURITIES ISSUED TO CANADIAN PURCHASERS WILL BEAR A LEGEND INDICATING THAT THE RESALE OF SUCH SECURITIES IS RESTRICTED.

THE FOREGOING IS A SUMMARY ONLY OF APPLICABLE RESALE RESTRICTIONS AND IS SUBJECT TO THE EXPRESS PROVISIONS OF APPLICABLE SECURITIES LEGISLATION. ALL CANADIAN PURCHASERS SHOULD CONSULT WITH THEIR OWN LEGAL ADVISORS TO DETERMINE THE EXTENT OF THE APPLICABLE HOLD PERIOD AND THE POSSIBILITIES OF UTILIZING ANY FURTHER STATUTORY EXEMPTIONS OR THE OBTAINING OF A DISCRETIONARY ORDER.

INDIRECT COLLECTION OF PERSONAL INFORMATION

BY PURCHASING THE SECURITIES, A CANADIAN PURCHASER ACKNOWLEDGES THAT ITS NAME, RESIDENTIAL ADDRESS, TELEPHONE NUMBER AND OTHER SPECIFIED INFORMATION MAY BE DISCLOSED TO CANADIAN SECURITIES REGULATORY AUTHORITIES AND BECOME AVAILABLE TO THE PUBLIC IN ACCORDANCE WITH THE REQUIREMENTS OF APPLICABLE CANADIAN LAWS. BY PURCHASING THE SECURITIES, A CANADIAN PURCHASER CONSENTS TO THE DISCLOSURE OF SUCH INFORMATION.

BY PURCHASING THE SECURITIES, A CANADIAN PURCHASER THAT IS RESIDENT IN THE PROVINCE OF ONTARIO ACKNOWLEDGES THAT IT HAS BEEN NOTIFIED BY THE ISSUER: (A) OF THE REQUIREMENT TO DELIVER TO THE ONTARIO SECURITIES COMMISSION (THE “OSC”) THE FULL NAME, RESIDENTIAL ADDRESS AND TELEPHONE NUMBER OF SUCH PURCHASER, THE NUMBER AND TYPE OF SECURITIES PURCHASED, THE TOTAL PURCHASE PRICE, THE EXEMPTION RELIED UPON AND THE DATE OF DISTRIBUTION; (B) THAT THIS INFORMATION IS BEING COLLECTED INDIRECTLY BY THE OSC UNDER THE AUTHORITY GRANTED TO IT IN APPLICABLE SECURITIES LEGISLATION; (C) THAT THIS INFORMATION IS BEING COLLECTED FOR THE PURPOSES OF THE ADMINISTRATION AND ENFORCEMENT OF THE SECURITIES LEGISLATION OF ONTARIO; AND (D) THAT THE ADMINISTRATIVE SUPPORT CLERK CAN BE CONTACTED AT THE ONTARIO SECURITIES COMMISSION, SUITE 1903, BOX 55, 20 QUEEN STREET WEST, TORONTO, ONTARIO M5H 3S8, OR AT (416) 593-3684, AND CAN ANSWER ANY QUESTIONS ABOUT THE OSC’S INDIRECT COLLECTION OF THIS INFORMATION.

RIGHTS OF ACTIONS FOR DAMAGES OR RESCISSION

ONTARIO PURCHASERS THE *SECURITIES ACT* (ONTARIO) (THE “ONTARIO ACT”) PROVIDES CANADIAN PURCHASERS RESIDENT IN THE PROVINCE OF ONTARIO WITH, IN ADDITION TO ANY OTHER RIGHT THEY MAY HAVE AT LAW, RIGHTS OF RESCISSION OR DAMAGES, OR BOTH, WHERE THIS DOCUMENT AND ANY AMENDMENT TO IT CONTAINS A MISREPRESENTATION (AS DEFINED BELOW). HOWEVER, SUCH RIGHTS MUST BE EXERCISED BY THE PURCHASERS WITHIN THE TIME LIMITS PRESCRIBED BY THE ONTARIO ACT. CANADIAN PURCHASERS RESIDENT IN THE PROVINCE OF ONTARIO SHOULD CONSULT WITH A LEGAL ADVISOR OR REFER TO THE APPLICABLE PROVISIONS OF THE ONTARIO ACT, FOUND IN SECTION 130.1, FOR THE COMPLETE TEXT OF THESE RIGHTS, THE DEFENCES AVAILABLE TO THE ISSUER AND OTHERS AND THE TIME LIMITS DURING WHICH THESE RIGHTS MUST BE EXERCISED.

THE RIGHTS OF ACTION SUMMARIZED BELOW SHALL BE AVAILABLE TO EACH CANADIAN PURCHASER OF THE SECURITIES RESIDENT IN ONTARIO AND ARE IN ADDITION TO AND WITHOUT DEROGATION FROM ANY OTHER RIGHT OR REMEDY AVAILABLE AT LAW TO SUCH PURCHASER AND ARE INTENDED TO CORRESPOND TO THE RIGHTS AGAINST AN ISSUER OF SECURITIES PROVIDED IN THE ONTARIO ACT AND ARE SUBJECT TO THE DEFENCES CONTAINED THEREIN. WHERE USED IN THIS SECTION, “MISREPRESENTATION” MEANS AN UNTRUE STATEMENT OF MATERIAL FACT OR AN OMISSION TO STATE A MATERIAL FACT THAT IS REQUIRED TO BE STATED OR THAT IS NECESSARY TO MAKE A STATEMENT NOT MISLEADING IN THE LIGHT OF THE CIRCUMSTANCES IN WHICH IT WAS MADE.

IN THE EVENT THAT THIS OFFICIAL STATEMENT, TOGETHER WITH ANY AMENDMENTS HERETO, IS DELIVERED TO A CANADIAN PURCHASER RESIDENT IN ONTARIO AND CONTAINS A MISREPRESENTATION, SUCH PURCHASER SHALL BE DEEMED TO HAVE RELIED UPON SUCH MISREPRESENTATION AND HAS, SUBJECT AS HEREINAFTER PROVIDED, A STATUTORY RIGHT OF ACTION AGAINST THE ISSUER EITHER FOR

DAMAGES OR ALTERNATIVELY, WHILE STILL THE OWNER OF ANY THE SECURITIES, RESCISSION, PROVIDED THAT:

(a) AN ACTION IS COMMENCED TO ENFORCE SUCH RIGHT (I) IN THE CASE OF AN ACTION FOR RESCISSION, WITHIN 180 DAYS AFTER THE DATE OF PURCHASE, OR (II) IN THE CASE OF AN ACTION FOR DAMAGES, WITHIN THE EARLIER OF 180 DAYS FOLLOWING THE DATE SUCH PURCHASER FIRST HAD KNOWLEDGE OF THE MISREPRESENTATION AND THREE YEARS AFTER THE DATE OF THE PURCHASE;

(b) A PERSON OR COMPANY WILL NOT BE LIABLE IF IT PROVES THAT SUCH PURCHASER PURCHASED THE SECURITIES WITH KNOWLEDGE OF THE MISREPRESENTATION;

(c) IN THE CASE OF AN ACTION FOR DAMAGES, THE ISSUER WILL NOT BE LIABLE FOR ALL OR ANY PORTION OF THE DAMAGES THAT IT PROVES DOES NOT REPRESENT THE DEPRECIATION IN VALUE OF THE SECURITIES AS A RESULT OF THE MISREPRESENTATION RELIED UPON;

(d) IN NO CASE WILL THE AMOUNT RECOVERABLE IN ANY ACTION EXCEED THE PRICE AT WHICH THE SECURITIES WERE SOLD TO SUCH PURCHASER; AND

(e) IF SUCH PURCHASER ELECTS TO EXERCISE THE RIGHT OF RESCISSION, IT WILL HAVE NO RIGHT OF ACTION FOR DAMAGES.

NOTWITHSTANDING THE FOREGOING, A CANADIAN PURCHASER RESIDENT IN THE PROVINCE OF ONTARIO WILL NOT HAVE THE RIGHTS REFERRED TO ABOVE IF SUCH PURCHASER IS:

(A) A CANADIAN FINANCIAL INSTITUTION, MEANING EITHER:

(ii) AN ASSOCIATION GOVERNED BY THE *COOPERATIVE CREDIT ASSOCIATIONS ACT* (CANADA) OR A CENTRAL COOPERATIVE CREDIT SOCIETY FOR WHICH AN ORDER HAS BEEN MADE UNDER SECTION 473(1) OF THAT ACT; OR

(iii) A BANK, LOAN CORPORATION, TRUST COMPANY, TRUST CORPORATION, INSURANCE COMPANY, TREASURY BRANCH, CREDIT UNION, CAISSE POPULAIRE, FINANCIAL SERVICES CORPORATION, OR LEAGUE THAT, IN EACH CASE, IS AUTHORIZED BY AN ENACTMENT OF CANADA OR A JURISDICTION OF CANADA TO CARRY ON BUSINESS IN CANADA OR A JURISDICTION IN CANADA;

(B) A SCHEDULE III BANK, MEANING AN AUTHORIZED FOREIGN BANK NAMED IN SCHEDULE III OF THE *BANK ACT* (CANADA);

(C) THE BUSINESS DEVELOPMENT BANK OF CANADA INCORPORATED UNDER THE *BUSINESS DEVELOPMENT BANK OF CANADA ACT* (CANADA); OR

(D) A SUBSIDIARY OF ANY PERSON REFERRED TO IN PARAGRAPHS (A), (B) OR (C), IF THE PERSON OWNS ALL OF THE VOTING SECURITIES OF THE SUBSIDIARY, EXCEPT THE VOTING SECURITIES REQUIRED BY LAW TO BE OWNED BY THE DIRECTORS OF THE SUBSIDIARY.

THE FOREGOING SUMMARY IS SUBJECT TO THE EXPRESS PROVISIONS OF THE ONTARIO ACT AND THE RESPECTIVE REGULATIONS AND RULES THEREUNDER. EACH CANADIAN PURCHASER RESIDENT IN ONTARIO SHOULD REFER TO THE COMPLETE TEXT OF SUCH PROVISIONS OR CONSULT WITH A LEGAL ADVISOR.

LANGUAGE OF DOCUMENTS

UPON RECEIPT OF THIS OFFICIAL STATEMENT, THE PURCHASER HEREBY CONFIRMS THAT HE, SHE OR IT HAS EXPRESSLY REQUESTED THAT ALL DOCUMENTS

EVIDENCING OR RELATING IN ANY WAY TO THE OFFER AND/OR SALE OF THE SECURITIES BE DRAWN UP IN THE ENGLISH LANGUAGE ONLY. *PAR LA RÉCEPTION DE CE DOCUMENT, L'ACHETEUR CONFIRME PAR LES PRÉSENTES QU'IL A EXPRESSÉMENT EXIGÉ QUE TOUS LES DOCUMENTS FAISANT FOI OU SE RAPPORTANT DE QUELQUE MANIÈRE QUE CE SOIT À L'OFFRE OU À LA VENTE DES VALEURS MOBILIÈRES DÉCRITES AUX PRÉSENTES (INCLUANT, POUR PLUS DE CERTITUDE, TOUTE CONFIRMATION D'ACHAT OU TOUT AVIS) SOIENT RÉDIGÉS EN ANGLAIS SEULEMENT.*

NOTICE TO PROSPECTIVE INVESTORS IN THE PEOPLES REPUBLIC OF CHINA (PRC)

THIS OFFICIAL STATEMENT HAS NOT BEEN AND WILL NOT BE CIRCULATED OR DISTRIBUTED IN THE PRC, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD, AND WILL NOT BE OFFERED OR SOLD TO ANY PERSON FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, TO ANY RESIDENTS OF THE PRC EXCEPT PURSUANT TO APPLICABLE LAWS AND REGULATIONS OF THE PRC. FOR THE PURPOSES OF THIS PARAGRAPH, THE PRC DOES NOT INCLUDE TAIWAN, HONG KONG OR MACAU.

NOTICE TO PROSPECTIVE INVESTORS IN DENMARK

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE A PROSPECTUS UNDER ANY DANISH LAW AND HAS NOT BEEN FILED WITH OR APPROVED BY THE DANISH FINANCIAL SUPERVISORY AUTHORITY AS THIS OFFICIAL STATEMENT HAS NOT BEEN PREPARED IN THE CONTEXT OF A PUBLIC OFFERING OF SECURITIES IN DENMARK WITHIN THE MEANING OF THE DANISH SECURITIES TRADING ACT OR ANY EXECUTIVE ORDERS ISSUED PURSUANT THERETO. PURSUANT TO SECTION 11 (1) OF THE DANISH PROSPECTUS ORDER NO. 223 OF 10 MARCH 2010 AND SECTION 2 OF THE DANISH EXECUTIVE ORDER NO. 222 OF MARCH 10, 2010, THIS OFFICIAL STATEMENT WILL ONLY BE DIRECTED TO:

(I) QUALIFIED INVESTORS AS DEFINED IN SECTION 2 OF THE DANISH PROSPECTUS ORDER NO. 223 OF 10 MARCH 2010 AND/OR

(II) FEWER THAN 100 NATURAL OR LEGAL PERSONS IN DENMARK, AND/OR

(III) INVESTORS WHO ACQUIRE SECURITIES FOR A TOTAL CONSIDERATION OF AT LEAST EUR 50,000 PER INVESTOR FOR EACH SINGLE OFFER OF SECURITIES, AND/OR

(IV) SECURITIES WHICH ARE SUBJECT TO A MINIMUM DENOMINATION EQUIVALENT TO AT LEAST EUR 50,000 PER SECURITY.

ACCORDINGLY, THIS OFFICIAL STATEMENT MAY NOT BE MADE AVAILABLE NOR MAY THE SECURITIES OTHERWISE BE MARKETED AND OFFERED FOR SALE IN DENMARK OTHER THAN IN CIRCUMSTANCES WHICH ARE DEEMED NOT TO BE CONSIDERED AS MARKETING OR AN OFFER TO THE PUBLIC IN DENMARK.

NOTICE TO PROSPECTIVE INVESTORS IN DUBAI INTERNATIONAL FINANCIAL CENTRE

THIS OFFICIAL STATEMENT RELATES TO AN EXEMPT OFFER IN ACCORDANCE WITH THE OFFERED SECURITIES RULES OF THE DUBAI FINANCIAL SERVICES AUTHORITY.

THIS OFFICIAL STATEMENT IS INTENDED FOR DISTRIBUTION ONLY TO PERSONS OF A TYPE SPECIFIED IN THOSE RULES. IT MUST NOT BE DELIVERED TO, OR RELIED ON BY, ANY OTHER PERSON.

THE DUBAI FINANCIAL SERVICES AUTHORITY HAS NO RESPONSIBILITY FOR REVIEWING OR VERIFYING ANY DOCUMENTS IN CONNECTION WITH EXEMPT OFFERS. THE DUBAI FINANCIAL SERVICES AUTHORITY HAS NOT APPROVED THIS OFFICIAL

STATEMENT NOR TAKEN STEPS TO VERIFY THE INFORMATION SET OUT IN IT, AND HAS NO RESPONSIBILITY FOR IT.

THE SECURITIES TO WHICH THIS OFFICIAL STATEMENT RELATES MAY BE ILLIQUID AND/OR SUBJECT TO RESTRICTIONS ON THEIR RESALE. PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED SHOULD CONDUCT THEIR OWN DUE DILIGENCE ON THE SECURITIES.

IF YOU DO NOT UNDERSTAND THE CONTENTS OF THIS OFFICIAL STATEMENT YOU SHOULD CONSULT AN AUTHORISED FINANCIAL ADVISER.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

THIS OFFICIAL STATEMENT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE SECURITIES WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 3 OF DIRECTIVE 2003/7 1/EC (THE “PROSPECTUS DIRECTIVE”), AS IMPLEMENTED IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA (THE “EEA”), FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE SECURITIES. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER WITHIN THE EEA OF THE SECURITIES SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE INITIAL PURCHASERS TO PRODUCE A PROSPECTUS FOR SUCH OFFER. NEITHER THE ISSUER NOR THE INITIAL PURCHASERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF SECURITIES THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE INITIAL PURCHASERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE SECURITIES CONTEMPLATED IN THIS OFFICIAL STATEMENT.

IN RELATION TO EACH MEMBER STATE OF THE EEA THAT HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A “RELEVANT MEMBER STATE”), WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE, THE OFFER OF ANY SECURITIES WHICH IS THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS OFFICIAL STATEMENT IS NOT BEING MADE AND WILL NOT BE MADE TO THE PUBLIC IN THAT RELEVANT MEMBER STATE, OTHER THAN: (A) TO LEGAL ENTITIES WHICH ARE AUTHORIZED OR REGULATED TO OPERATE IN THE FINANCIAL MARKETS OR, IF NOT SO AUTHORIZED OR REGULATED, WHOSE CORPORATE PURPOSE IS SOLELY TO INVEST IN SECURITIES; (B) TO ANY LEGAL ENTITY WHICH HAS TWO OR MORE OF (I) AN AVERAGE OF AT LEAST 250 EMPLOYEES DURING THE LAST FINANCIAL YEAR, (II) A TOTAL BALANCE SHEET OF MORE THAN EURO 43,000,000, AND (III) AN ANNUAL NET TURNOVER OF MORE THAN EURO 50,000,000, AS SHOWN IN ITS LAST ANNUAL OR CONSOLIDATED ACCOUNTS; OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE; PROVIDED THAT NO SUCH OFFER OF THE SECURITIES SHALL REQUIRE THE ISSUER OR THE INITIAL PURCHASERS TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF SECURITIES TO THE PUBLIC” IN RELATION TO THE SECURITIES IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE SECURITIES TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE SECURITIES, AS THE SAME MAY BE VARIED IN THAT RELEVANT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT RELEVANT MEMBER STATE AND THE EXPRESSION “PROSPECTUS DIRECTIVE” MEANS DIRECTIVE 2003/7 1/BC AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN EACH RELEVANT MEMBER STATE.

NOTICE TO RESIDENTS OF FRANCE

THE SECURITIES HAVE NOT BEEN OFFERED OR SOLD AND WILL NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, BY WAY OF A PUBLIC OFFER IN FRANCE (OFFRE AU PUBLIC, AS DEFINED IN ARTICLES L. 411-1, OF THE CODE MONÉTAIRE ET FINANCIER). THE SECURITIES MAY ONLY BE SUBSCRIBED FOR OR HELD BY QUALIFIED INVESTORS (INVESTISSEURS QUALIFIÉS), AS DEFINED BY ARTICLES L. 411-2, D. 411-1 AND D. 411-2 OF THE CODE MONÉTAIRE ET FINANCIER,.

THIS OFFICIAL STATEMENT IS FURNISHED TO POTENTIAL QUALIFIED INVESTORS SOLELY FOR THEIR INFORMATION AND MAY NOT BE REPRODUCED OR REDISTRIBUTED TO ANY OTHER PERSON. IT IS STRICTLY CONFIDENTIAL AND IS SOLELY DESTINED FOR QUALIFIED INVESTORS TO WHICH IT WAS INITIALLY SUPPLIED. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO SUBSCRIBE FOR OR TO PURCHASE ANY SECURITIES AND NEITHER THIS OFFICIAL STATEMENT NOR ANYTHING HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.

THIS OFFICIAL STATEMENT OR ANY OTHER MATERIAL RELATING TO THE SECURITIES MAY NOT BE DISTRIBUTED TO THE PUBLIC IN FRANCE OR USED IN CONNECTION WITH ANY OFFER FOR SUBSCRIPTION OR SALE OF SECURITIES IN FRANCE OTHER THAN IN ACCORDANCE WITH ARTICLES L. 411-2, D. 411-1 AND D. 411-2 OF THE CODE MONÉTAIRE ET FINANCIER. THIS OFFICIAL STATEMENT HAS NOT BEEN SUBMITTED TO THE “AUTORITÉ DES MARCHÉS FINANCIERS” FOR APPROVAL AND DOES NOT CONSTITUTE AN OFFER FOR SALE OR SUBSCRIPTION OF SECURITIES. ANY CONTACT WITH POTENTIAL QUALIFIED INVESTORS IN FRANCE DOES NOT AND WILL NOT CONSTITUTE FINANCIAL AND BANKING SOLICITATION (DÉMARCHAGE BANCAIRE ET FINANCIER) AS DEFINED IN ARTICLES L. 341-1 ET SEQ. OF THE CODE MONÉTAIRE ET FINANCIER.

NOTICE TO PROSPECTIVE INVESTORS IN GERMANY

THE SECURITIES HAVE NOT BEEN, WILL NOT BE AND MAY NOT BE OFFERED, PROMOTED OR SOLD, EITHER DIRECTLY OR INDIRECTLY, IN GERMANY BY WAY OF AN OFFER TO THE PUBLIC WITHIN THE MEANING OF SECTION 2 NO. 4 OF THE SECURITIES PROSPECTUS ACT (WERTPAPIERPROSPEKTGESETZ). THE SECURITIES MAY ONLY BE OFFERED TO, SOLD TO, SUBSCRIBED FOR OR HELD BY QUALIFIED INVESTORS WITHIN THE MEANING OF SECTION 2 NO. 6 OF THE SECURITIES PROSPECTUS ACT OR, IF APPLICABLE, ANY PERSON IN GERMANY WHOSE PROFESSIONAL OR COMMERCIAL ACTIVITIES INVOLVE THEM IN THE ACQUIRING OR DISPOSING OF INVESTMENTS WITHIN THE MEANING OF SECTION 8F SUBSECTION 2 NO. 4 OF THE SALES PROSPECTUS ACT (VERKAUFSPROSPEKTGESETZ) EITHER AS PRINCIPAL OR AGENT.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SUBSCRIBE FOR OR BUY ANY OF THE SECURITIES OFFERED HEREBY TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN GERMANY. THIS OFFICIAL STATEMENT IS GIVEN TO POTENTIAL INVESTORS SOLELY FOR THEIR INFORMATION AND MAY NOT BE DISTRIBUTED TO ANY OTHER PERSON. IT IS CONFIDENTIAL AND SOLELY TARGETED AT THE RECIPIENTS, I.E. QUALIFIED INVESTORS WITHIN THE MEANING OF SECTION 2 NO. 6 OF THE SECURITIES PROSPECTUS ACT, TO WHICH IT HAS BEEN INITIALLY SUPPLIED.

NOTICE TO RESIDENTS OF HONG KONG

THE SECURITIES HAVE NOT BEEN AUTHORISED BY THE SECURITIES AND FUTURES COMMISSION IN HONG KONG FOR PUBLIC OFFERING IN HONG KONG, NOR HAS A COPY

OF THIS OFFICIAL STATEMENT BEEN REGISTERED WITH THE REGISTRAR OF COMPANIES IN HONG KONG.

THE SECURITIES MAY NOT BE OFFERED OR SOLD BY MEANS OF ANY DOCUMENT OTHER THAN (I) IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE, OR FORM PART OF, AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE COMPANIES ORDINANCE (CAP.32 OF THE LAWS OF HONG KONG), OR (II) TO “PROFESSIONAL INVESTORS” WITHIN THE MEANING OF THE SECURITIES AND FUTURES ORDINANCE (CAP.571 OF THE LAWS OF HONG KONG) AND ANY RULES MADE THEREUNDER, OR (III) IN OTHER CIRCUMSTANCES WHICH DO NOT RESULT IN THE DOCUMENT BEING A “PROSPECTUS” WITHIN THE MEANING OF THE COMPANIES ORDINANCE (CAP.32 OF THE LAWS OF HONG KONG), AND THAT NO ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE SECURITIES MAY BE ISSUED OR MAY BE IN THE POSSESSION OF ANY PERSON FOR THE PURPOSE OF ISSUE (IN EACH CASE WHETHER IN HONG KONG OR ELSEWHERE), WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC IN HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO THE SECURITIES WHICH ARE OR ARE INTENDED TO BE SOLD OR OTHERWISE DISPOSED OF ONLY TO PERSONS OUTSIDE HONG KONG OR ONLY TO “PROFESSIONAL INVESTORS” WITHIN THE MEANING OF THE SECURITIES AND FUTURES ORDINANCE (CAP. 571 OF THE LAWS OF HONG KONG) AND ANY RULES MADE THEREUNDER.

NOTICE TO RESIDENTS OF JAPAN

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE LAW OF JAPAN (LAW NO. 25 OF 1948, AS AMENDED, THE “FIEL”). THE SECURITIES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN (WHICH TERM AS USED HEREIN MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY CORPORATION OR OTHER ENTITY ORGANIZED UNDER THE LAWS OF JAPAN), OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FIEL AND ANY OTHER APPLICABLE LAWS, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

NOTICE TO PROSPECTIVE INVESTORS IN KOREA

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENTS SERVICES AND CAPITAL MARKETS ACT OF KOREA AND THE DECREES AND REGULATIONS THEREUNDER (THE “FSCMA”) AND THE SECURITIES HAVE BEEN AND WILL BE OFFERED IN KOREA AS A PRIVATE PLACEMENT UNDER THE FSCMA. NONE OF THE SECURITIES MAY BE OFFERED, SOLD AND DELIVERED DIRECTLY OR INDIRECTLY, OR OFFERED OR SOLD TO ANY PERSON FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT PURSUANT TO THE APPLICABLE LAWS AND REGULATIONS OF KOREA, INCLUDING THE FSCMA AND THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND THE DECREES AND REGULATIONS THEREUNDER (THE “FETL”). FOR A PERIOD OF ONE YEAR FROM THE ISSUE DATE OF THE SECURITIES, THE DENOMINATION OF THE SECURITIES MAY NOT BE SUB-DIVIDED. FURTHERMORE, THE PURCHASER OF THE SECURITIES SHALL COMPLY WITH ALL APPLICABLE REGULATORY REQUIREMENTS (INCLUDING BUT NOT LIMITED TO REQUIREMENTS UNDER THE FETL) IN CONNECTION WITH THE PURCHASE OF THE SECURITIES.

EACH UNDERWRITER WILL REPRESENT AND AGREE THAT IT HAS NOT OFFERED, SOLD OR DELIVERED THE SECURITIES DIRECTLY OR INDIRECTLY TO ANY PERSON FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA AND WILL NOT OFFER, SELL OR DELIVER THE SECURITIES DIRECTLY OR INDIRECTLY TO ANY PERSON FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FSCMA, THE FETL AND OTHER RELEVANT LAWS AND REGULATIONS OF KOREA.

NOTICE TO PROSPECTIVE INVESTORS IN THE NETHERLANDS

1. IN ACCORDANCE WITH THE DUTCH FINANCIAL SUPERVISION ACT (“WET OP HET FINANCIËEL TOEZICHT” OR “WFT”) AND THE WFT EXEMPTIONS REGULATION (IN DUTCH: “VRIJSTELLINGSREGELING WFT”) A STRAIGHT FORWARD OFFERING OF THE SECURITIES TO THE PUBLIC IN THE NETHERLANDS REQUIRES PUBLICATION OF A PROSPECTUS THAT IS DULY APPROVED BY THE COMPETENT DUTCH AUTHORITY (I.E. NETHERLANDS AUTHORITY FOR THE FINANCIAL MARKETS, IN DUTCH: “AUTORITEIT FINANCIËLE MARKTEN” OR “AFM”) OR BY A COMPETENT AUTHORITY OF ANOTHER EUROPEAN MEMBER STATE, UNLESS:

(a) THE SECURITIES ARE OFFERED EXCLUSIVELY TO QUALIFIED INVESTORS AS DEFINED IN THE WFT; AND/OR

(b) THE SECURITIES ARE OFFERED TO LESS THAN 100 PEOPLE, NOT BEING QUALIFIED INVESTORS AS DEFINED IN THE WFT; AND/OR

(c) THE SECURITIES ARE OFFERED IN MINIMUM LOTS OF EUR 50,000 IN TERMS OF NOMINAL VALUE OR SUBSCRIPTION PRICE; AND/OR

(d) THE TOTAL CONSIDERATION VALUE OF THE OFFERING OF SECURITIES INVOLVES A TOTAL AMOUNT OF LESS THAN EUR 100,000 CALCULATED OVER A 12-MONTH-PERIOD; AND/OR

(e) THE OFFERING OF SECURITIES FORMS PART OF AN OFFER UNDER WHICH THE TOTAL CONSIDERATION VALUE OF THE OFFER, CALCULATED OVER A PERIOD OF TWELVE MONTHS, DOES NOT EXCEED EUR 2.5 MILLION, PROVIDED THAT IN ALL RELEVANT DOCUMENTATION AND ADVERTISEMENTS THE OFFEROR MENTIONS THAT THE OFFER IN QUESTION IS EXEMPTED FROM THE STATUTORY REQUIREMENT TO PUBLISH A PROSPECTUS; AND/OR

(f) THE SECURITIES ARE OFFERED TO INVESTORS, NOT BEING QUALIFIED INVESTORS, WHO HAVE CONCLUDED A WRITTEN MANDATE AGREEMENT (“SCHRIFTELIJKE OVEREENKOMST VAN LASTGEVING”) WITH AN ASSET MANAGER ENTITLED TO PROVIDE INVESTMENT SERVICES UNDER THE LAW OF THE NETHERLANDS AND WHO IS ENTITLED IN TERMS OF THAT AGREEMENT TO UNDERTAKE OR REALISE TRANSACTIONS AT HIS OWN DISCRETION WITHOUT TAKING ORDERS FROM OR CONSULTING WITH THE INVESTORS WHO GRANTED THE MANDATE.

2. IN LIGHT OF THE ABOVE, THE SECURITIES THAT ARE OFFERED TO YOU WITHOUT PUBLICATION OF A PROSPECTUS THAT IS DULY APPROVED BY THE AFM OR BY A COMPETENT AUTHORITY OF ANOTHER EUROPEAN MEMBER STATE SHALL NOT BE DEEMED TO BE IN VIOLATION OF THE WFT AND THE WFT EXEMPTION REGULATION, IF AND INsofar AS:

(a) YOU ARE A QUALIFIED INVESTOR AS DEFINED IN THE WFT; AND /OR

(b) YOU ARE NOT A QUALIFIED INVESTOR AS DEFINED IN THE WFT, BUT YOU HAVE CONCLUDED A WRITTEN MANDATE AGREEMENT (“SCHRIFTELIJKE OVEREENKOMST VAN LASTGEVING”) WITH AN ASSET MANAGER ENTITLED TO PROVIDE INVESTMENT SERVICES UNDER THE LAW OF THE NETHERLANDS AND WHO IS ENTITLED IN TERMS OF THAT AGREEMENT TO UNDERTAKE OR REALISE TRANSACTIONS IN THE SECURITIES AT HIS OWN DISCRETION WITHOUT BEING REQUIRED TO TAKE ORDERS FROM OR CONSULT WITH YOU; AND/OR

(c) YOU INVEST AT LEAST EUR 50,000 IN THE ACQUISITION OF THE SECURITIES.

3. THE OFFERING OF SECURITIES IS ONLY AIMED AT, DIRECTED AND MADE TO PROSPECTIVE INVESTORS IN THE NETHERLANDS WHO FALL WITHIN THE SCOPE OF PAR. 2 ABOVE AND, THEREFORE, ANY RESPONSE TO AN OFFER OF SECURITIES MADE BY AN INVESTOR THAT DOES NOT FALL WITHIN THE SCOPE OF PAR. 2 ABOVE SHALL NOT BE DEEMED TO CONSTITUTE NOR IMPLY ACCEPTANCE OF THE OFFER AND THE OFFEROR SHALL IN THAT CASE NOT BE HELD TO SELL THE SECURITIES TO THAT INVESTOR.

4. THIS NOTICE IS FURNISHED TO PROSPECTIVE INVESTORS IN THE NETHERLANDS ONLY IN CONNECTION WITH THIS OFFICIAL STATEMENT AND IS SOLELY FOR THEIR INFORMATION. THIS OPINION IS NOT TO BE USED, CIRCULATED, QUOTED OR OTHERWISE RELIED UPON BY ANY OTHER PERSON OR ENTITY OR, FOR ANY PURPOSE.

NOTICE TO PROSPECTIVE INVESTORS IN NEW ZEALAND

NO ACTION HAS BEEN TAKEN TO AUTHORIZE THE OFFER OF ANY OF THE SECURITIES TO THE PUBLIC IN NEW ZEALAND. ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED OR SOLD, OR RE-OFFERED OR RESOLD, AND THIS OFFICIAL STATEMENT OR ANY OTHER MATERIAL IN CONNECTION WITH THE SECURITIES MAY NOT BE ISSUED, CIRCULATED, DELIVERED OR DISTRIBUTED, IN NEW ZEALAND, EITHER DIRECTLY OR INDIRECTLY, OTHER THAN TO:

(a) PERSONS WHOSE PRINCIPAL BUSINESS IS THE INVESTMENT OF MONEY OR WHO, IN THE COURSE OF AND FOR THE PURPOSES OF THEIR BUSINESS, HABITUALLY INVEST MONEY;

(b) PERSONS WHO ARE EACH REQUIRED TO PAY A MINIMUM SUBSCRIPTION PRICE OF AT LEAST \$500,000 FOR THE SECURITIES BEFORE THE ALLOTMENT OF THOSE SECURITIES;

(c) PERSONS WHO HAVE EACH, IN A SINGLE TRANSACTION, PREVIOUSLY PAID THE ISSUER OF THE CURRENT SECURITIES A MINIMUM SUBSCRIPTION PRICE OF AT LEAST \$500,000 FOR OTHER SECURITIES ISSUED BY THE SAME ENTITY BEFORE THE ALLOTMENT OF SUCH OTHER SECURITIES AND PROVIDED THAT THE OFFER OF THE CURRENT SECURITIES IS MADE WITHIN 18 MONTHS OF THE DATE OF THE FIRST ALLOTMENT OF THE PREVIOUS SECURITIES; OR

(d) PERSONS WHO ARE “ELIGIBLE PERSONS” (AS DEFINED IN SECTION 5(2CC) OF THE SECURITIES ACT 1978 (NZ)),

IN EACH CASE AS INTERPRETED IN ACCORDANCE WITH THE SECURITIES ACT 1978 (NZ) AND THE LAWS OF NEW ZEALAND.

ALL PERSONS INTO WHOSE POSSESSION THIS MATERIAL MAY COME MUST INFORM THEMSELVES ABOUT AND STRICTLY OBSERVE THE RESTRICTIONS DETAILED IN THE PRECEDING SENTENCE.

THIS OFFICIAL STATEMENT IS NOT A NEW ZEALAND REGISTERED PROSPECTUS OR INVESTMENT STATEMENT, THE CONTENT OF WHICH IS PRESCRIBED BY THE

SECURITIES ACT 1978 (NZ) AND OTHER LAWS, AND DOES NOT CONTAIN THE INFORMATION THAT SUCH DOCUMENTS WOULD BE REQUIRED TO CONTAIN.

NOTICE TO PROSPECTIVE INVESTORS IN NORWAY

THE SECURITIES HAVE NOT AND WILL NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, TO ANY PERSON IN NORWAY, OTHER THAN TO LEGAL AND PHYSICAL PERSONS DEEMED TO BE PROFESSIONAL INVESTORS AS FURTHER DEFINED IN SECTION 7-1 OF THE NORWEGIAN REGULATION OF SECURITIES TRADING (“THE REGULATION”).

PROFESSIONAL INVESTORS ARE CATEGORIZED AS:

(I) LEGAL ENTITIES THAT ARE DEEMED TO BE PROFESSIONAL INVESTORS WITHOUT FURTHER REQUIREMENTS, CF. SECTION 7-1 (1) OF THE REGULATION,

(II) LEGAL AND PHYSICAL PERSONS THAT MUST BE REGISTERED WITH THE COMPETENT AUTHORITY RESPONSIBLE FOR INSPECTING PROSPECTUSES IN ORDER TO BE DEEMED PROFESSIONAL INVESTORS, CF. SECTION 7-1 (2) AND (3) OF THE REGULATION.

THIS OFFICIAL STATEMENT IS FURNISHED TO POTENTIAL INVESTORS SOLELY FOR THEIR INFORMATION AND MAY NOT BE REPRODUCED OR REDISTRIBUTED TO ANY OTHER PERSON. IT IS STRICTLY CONFIDENTIAL AND IS SOLELY DESTINED FOR PERSONS OR INSTITUTIONS TO WHICH IT WAS INITIALLY SUPPLIED. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO SUBSCRIBE FOR OR TO PURCHASE ANY SECURITIES. NEITHER THIS OFFICIAL STATEMENT NOR ANYTHING HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.

THIS OFFICIAL STATEMENT HAS NOT BEEN SUBMITTED TO THE OSLO STOCK EXCHANGE / THE NORWEGIAN FINANCIAL SUPERVISORY AUTHORITY FOR APPROVAL.

INVESTMENT SERVICES, INCLUDING OFFERING AND SUBSCRIPTION OF SECURITIES, CAN ONLY BE MADE THROUGH INVESTMENT FIRMS AUTHORIZED BY THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY, CF. THE NORWEGIAN SECURITIES TRADING ACT CHAPTER 9. THE ISSUER RESERVES ITS RIGHTS, AT ITS SOLE DISCRETION, TO REJECT ANY SUBSCRIPTION MADE THROUGH NON-AUTHORIZED INVESTMENT FIRMS.

SELLING RESTRICTIONS FOR OFFER OF SECURITIES IN SINGAPORE TO ACCREDITED INVESTORS AND INSTITUTIONAL INVESTORS

NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH ANY OFFER OF THE SECURITIES HAS BEEN OR WILL BE LODGED OR REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE (MAS) UNDER THE SECURITIES AND FUTURES ACT (CAP.289) OF SINGAPORE (SFA). ACCORDINGLY, MAS ASSUMES NO RESPONSIBILITY FOR THE CONTENTS OF THIS OFFICIAL STATEMENT. THIS OFFICIAL STATEMENT IS NOT A PROSPECTUS AS DEFINED IN THE SFA AND STATUTORY LIABILITY UNDER THE SFA IN RELATION TO THE CONTENTS OF PROSPECTUSES WOULD NOT APPLY.

THIS OFFICIAL STATEMENT AND ANY OTHER DOCUMENTS OR MATERIALS IN CONNECTION WITH THIS OFFER AND THE SECURITIES MAY NOT BE DIRECTLY OR INDIRECTLY ISSUED, CIRCULATED OR DISTRIBUTED, NOR MAY THE SECURITIES BE OFFERED OR SOLD, OR BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN SINGAPORE OTHER THAN (I) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SFA; (II) TO A RELEVANT PERSON (AS DEFINED IN SECTION 275(2) OF THE SFA) PURSUANT TO

SECTION 275(1) OF THE SFA; (III) TO ANY PERSON PURSUANT TO THE CONDITIONS OF SECTION 275(1A) OF THE SFA; OR (IV) OTHERWISE PURSUANT TO, AND IN ACCORDANCE WITH, THE CONDITIONS OF ANY OTHER APPLICABLE PROVISIONS OF THE SFA.

ANY SUBSEQUENT OFFERS IN SINGAPORE OF SECURITIES ACQUIRED PURSUANT TO AN INITIAL OFFER MADE IN RELIANCE ON AN EXEMPTION UNDER SECTION 274 OF THE SFA OR SECTION 275 OF THE SFA MAY ONLY BE MADE, PURSUANT TO THE REQUIREMENTS OF SECTION 276 OF THE SFA, FOR THE INITIAL SIX MONTH PERIOD AFTER SUCH ACQUISITION TO PERSONS WHO ARE INSTITUTIONAL INVESTORS (AS DEFINED IN SECTION 4A OF THE SFA) OR TO ACCREDITED INVESTORS AND CERTAIN OTHER PERSONS (AS SET OUT IN SECTION 275 OF THE SFA). ANY TRANSFER AFTER SUCH INITIAL SIX MONTH PERIOD IN SINGAPORE SHALL BE MADE, PURSUANT TO THE REQUIREMENTS OF SECTION 257 OF THE SFA, IN RELIANCE ON ANY APPLICABLE EXEMPTION UNDER SUBDIVISION (4) OF DIVISION 1 OF PART XIII OF THE SFA.

IN ADDITION TO THE ABOVE, PURSUANT TO THE REQUIREMENTS OF SECTION 276(3) OF THE SFA, WHERE THE SECURITIES ARE ACQUIRED PURSUANT TO AN OFFER MADE IN RELIANCE ON THE EXEMPTION UNDER SECTION 275 OF THE SFA BY A CORPORATION (OTHER THAN A CORPORATION THAT IS AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) WHOSE SOLE BUSINESS IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS EACH OF WHOM IS AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA), SECURITIES OF SUCH CORPORATION SHALL NOT BE TRANSFERRED WITHIN 6 MONTHS AFTER THE CORPORATION HAS ACQUIRED THE SECURITIES PURSUANT TO AN OFFER MADE IN RELIANCE ON THE EXEMPTION UNDER SECTION 275 OF THE SFA UNLESS THAT TRANSFER IS MADE ONLY TO INSTITUTIONAL INVESTORS (AS DEFINED SECTION 4A OF THE SFA) OR RELEVANT PERSONS (AS DEFINED IN SECTION 275(2) OF THE SFA); OR ARISES FROM AN OFFER REFERRED TO IN SECTION 275(1A) OF THE SFA; OR NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER; OR THE TRANSFER IS BY OPERATION OF LAW. THIS RESTRICTION DOES NOT APPLY TO SECURITIES PREVIOUSLY MADE IN OR ACCOMPANIED BY A PROSPECTUS AND WHICH ARE OF THE SAME CLASS AS OTHER SECURITIES OF A CORPORATION LISTED ON THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED.

PURSUANT TO THE REQUIREMENTS OF SECTION 276(4) OF THE SFA, WHERE THE SECURITIES ARE ACQUIRED PURSUANT TO AN OFFER MADE IN RELIANCE ON THE EXEMPTION UNDER SECTION 275 OF THE SFA FOR A TRUST (OTHER THAN A TRUST THE TRUSTEE OF WHICH IS AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY OF THE TRUST IS AN INDIVIDUAL WHO IS AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA), THE BENEFICIARIES' RIGHTS AND INTEREST (HOWSOEVER DESCRIBED) IN THE TRUST SHALL NOT BE TRANSFERRED WITHIN 6 MONTHS AFTER THE SECURITIES ARE ACQUIRED FOR THE TRUST PURSUANT TO AN OFFER MADE IN RELIANCE ON THE EXEMPTION UNDER SECTION 275 OF THE SFA UNLESS THAT TRANSFER IS MADE ONLY TO INSTITUTIONAL INVESTORS (AS DEFINED IN SECTION 4A OF THE SFA) OR RELEVANT PERSONS (AS DEFINED IN SECTION 275(2) OF THE SFA); OR ARISES FROM AN OFFER THAT IS MADE ON TERMS THAT SUCH RIGHTS OR INTEREST ARE ACQUIRED AT A CONSIDERATION OF NOT LESS THAN S\$200,000 (OR ITS EQUIVALENT IN A FOREIGN CURRENCY) FOR EACH TRANSACTION, WHETHER SUCH AMOUNT IS TO BE PAID FOR IN CASH OR BY EXCHANGE OF SECURITIES OR OTHER ASSETS; OR NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER; OR THE TRANSFER IS BY OPERATION OF LAW. THIS RESTRICTION DOES NOT APPLY TO SECURITIES PREVIOUSLY MADE IN OR ACCOMPANIED BY A PROSPECTUS AND WHICH ARE OF THE SAME CLASS AS

OTHER SECURITIES OF A CORPORATION LISTED ON THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED.

NOTICE TO SWEDISH INVESTORS

THIS OFFICIAL STATEMENT HAS NOT BEEN, AND WILL NOT BE, REGISTERED WITH OR APPROVED BY THE SWEDISH FINANCIAL SUPERVISORY AUTHORITY (SW. FINANSINSPEKTIONEN). ACCORDINGLY, THIS OFFICIAL STATEMENT IS NOT INTENDED FOR AND MAY NOT BE MADE AVAILABLE TO THE PUBLIC IN SWEDEN. NOR MAY THE SECURITIES OTHERWISE BE MARKETING AND OFFERED FOR SALE, OTHER THAN UNDER CIRCUMSTANCES THAT ARE DEEMED NOT TO BE AN OFFER TO THE PUBLIC IN SWEDEN UNDER THE SWEDISH FINANCIAL INSTRUMENTS TRADING ACT (1991:980). NOTWITHSTANDING THE ABOVE, IF THE OFFER IS DEEMED AS AN OFFER TO THE PUBLIC IN SWEDEN, PLEASE NOTE THAT THE OFFER IS DIRECTED SOLELY TO QUALIFIED INVESTORS.

NOTICE TO PROSPECTIVE INVESTORS IN SWITZERLAND

THIS OFFICIAL STATEMENT TOGETHER WITH THE ANY ACCOMPANYING DOCUMENTS DOES NOT CONSTITUTE AN ISSUE PROSPECTUS TO ART. 1156 AND ART. 652A OF THE SWISS FEDERAL CODE OF OBLIGATIONS. THE SECURITIES MAY NOT BE OFFERED TO THE PUBLIC IN OR FROM SWITZERLAND, BUT ONLY TO A SELECTED AND LIMITED CIRCLE OF INVESTORS. THIS OFFICIAL STATEMENT TOGETHER WITH ANY ACCOMPANYING DOCUMENTS AND ANY OTHER SUPPLEMENT HERETO ARE PERSONAL TO EACH OFFEREE AND DO NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON. THIS OFFICIAL STATEMENT TOGETHER WITH ANY ACCOMPANYING DOCUMENTS MAY ONLY BE USED BY THOSE PERSONS TO WHOM THEY HAVE BEEN DISTRIBUTED IN CONNECTION WITH THE OFFERING OF THE SECURITIES AND MAY NEITHER BE COPIED NOR DIRECTLY OR INDIRECTLY BE DISTRIBUTED NOR BE MADE AVAILABLE TO OTHER PERSONS WITHOUT THE EXPRESS PRIOR WRITTEN CONSENT OF THE ISSUER.

NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN

THE OFFER OF THE SECURITIES HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS OF TAIWAN AND THE SECURITIES, INCLUDING ANY COPY OF THIS OFFICIAL STATEMENT OR ANY OTHER DOCUMENTS RELATING TO THE SECURITIES, MAY NOT BE OFFERED, SOLD, DELIVERED OR DISTRIBUTED WITHIN TAIWAN THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE ACT OF TAIWAN THAT REQUIRES THE PRIOR REGISTRATION WITH OR APPROVAL OF THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN. TAIWAN INVESTORS WHO SUBSCRIBE AND PURCHASE THE SECURITIES SHALL COMPLY WITH ALL RELEVANT SECURITIES, TAX AND FOREIGN EXCHANGE LAWS AND REGULATIONS IN EFFECT IN TAIWAN.

NOTICE TO PROSPECTIVE INVESTORS IN THE KINGDOM OF THAILAND

WARNINGS:

PRIOR TO MAKING AN INVESTMENT DECISION, INVESTORS SHOULD EXERCISE THEIR OWN JUDGMENT WHEN CONSIDERING INFORMATION RELATING TO A PARTY ISSUING SECURITIES OR BONDS AS WELL AS THE TERMS AND CONDITIONS OF THE SECURITIES OR BONDS, INCLUDING THE SUITABILITY OF SUCH SECURITIES OR BONDS FOR INVESTMENT AND THEIR RELEVANT RISK EXPOSURE. NOTHING IN THE OFFICIAL

STATEMENT SHOULD BE READ TO REPRESENT OR EVEN SUGGEST THAT THE SECURITIES AND EXCHANGE COMMISSION OR THE OFFICE OF THE SECURITIES AND EXCHANGE COMMISSION HAVE RECOMMENDED INVESTMENT IN THE OFFERED SECURITIES OR BONDS; NOR DOES THE OFFICIAL STATEMENT CONTAIN ANY ASSURANCE IN RELATION TO THE VALUE OR RETURNS ON THE OFFERED SECURITIES OR BONDS; NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR THE OFFICE OF THE SECURITIES AND EXCHANGE COMMISSION CERTIFIED THE ACCURACY AND COMPLETENESS OF INFORMATION CONTAINED IN THE OFFICIAL STATEMENT. THE LIABILITY FOR CERTIFICATION OF THE ACCURACY AND COMPLETENESS OF INFORMATION CONTAINED IN THE OFFICIAL STATEMENT IS VESTED IN THE OFFEROR OF THE SECURITIES OR BONDS.

IF THE OFFICIAL STATEMENT CONTAINS ANY FALSE STATEMENTS OR OMITS TO STATE ANY MATERIAL INFORMATION WHICH SHOULD HAVE BEEN DISCLOSED, THE SECURITIES OR BOND HOLDERS SHALL BE ENTITLED TO CLAIM DAMAGES FROM THE SECURITIES OR BOND OFFEROR OR THE SECURITIES OR BOND OWNERS PURSUANT TO SECTION 82 OF THE SECURITIES AND EXCHANGE ACT B.E. 2535 (1992) WITHIN ONE YEAR FROM THE DATE ON WHICH THE FACT THAT THIS OFFICIAL STATEMENT CONTAINED FALSE INFORMATION BECOMES KNOWN OR SHOULD HAVE BEEN KNOWN, BUT NOT EXCEEDING TWO YEARS FROM THE DATE THE OFFICIAL STATEMENT WAS DELIVERED TO THE BOND OR SECURITIES HOLDERS.

RISKS AND RESTRICTIONS:

IN RESPECT OF INVESTING IN SECURITIES OR BONDS OFFERED IN THAILAND BY A FOREIGN OFFEROR, INVESTORS SHALL BE ENTITLED TO RIGHTS AND PROTECTIONS SIMILAR IN NATURE TO THOSE PROVIDED BY ANY FOREIGN JURISDICTION TO INVESTORS MAKING DIRECT INVESTMENTS IN THE SECURITIES OR BONDS OFFERED. ACCORDINGLY, INVESTORS ARE STRONGLY ENCOURAGED TO REVIEW AND UPDATE THEMSELVES ON THE PERTINENT LAWS AND REGULATIONS OF THE FOREIGN OFFEROR'S HOME JURISDICTION AND OF ANY JURISDICTION WHERE THE SECURITIES OR BONDS OF THE FOREIGN OFFEROR ARE TRADED ON AN EXCHANGE.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED ARAB EMIRATES

THE OFFICIAL STATEMENT HAS NOT BEEN REVIEWED, APPROVED OR LICENSED BY THE UAE CENTRAL BANK OR ANY OTHER RELEVANT LICENSING AUTHORITIES OR GOVERNMENTAL AGENCIES IN THE UNITED ARAB EMIRATES. THIS OFFICIAL STATEMENT IS STRICTLY PRIVATE AND CONFIDENTIAL AND HAS NOT BEEN REVIEWED, DEPOSITED OR REGISTERED WITH ANY LICENSING AUTHORITY OR GOVERNMENTAL AGENCY IN THE UNITED ARAB EMIRATES, AND IS BEING ISSUED TO A LIMITED NUMBER OF INSTITUTIONAL OR PRIVATE INVESTORS AND MUST NOT BE PROVIDED TO ANY PERSON OTHER THAN THE ORIGINAL RECIPIENT AND MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE. THE SECURITIES MAY NOT BE OFFERED OR SOLD DIRECTLY OR INDIRECTLY TO THE PUBLIC IN THE UNITED ARAB EMIRATES.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFERING MEMORANDUM IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM, (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "FINANCIAL PROMOTION ORDER"), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT BANKING

ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SECURITIES MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

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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 Authority Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2011 Series AA (Taxable Build America Bonds) (the "Fiscal 2011 AA Bonds") are expected to be applied (i) to pay principal and interest on a portion of the Authority's outstanding Commercial Paper Notes, (ii) to make a deposit to the Construction Fund and (iii) to pay certain costs of issuance.
Description of the Bonds:	The Fiscal 2011 AA Bonds are being issued by the Authority in the principal amount of \$750,000,000 pursuant to its Water and Sewer System Second General Revenue Bond Resolution, adopted on March 30, 1994, as amended (the "Second Resolution"), and its Supplemental Resolution No. 73 adopted on September 13, 2010. The Fiscal 2011 AA Bonds are issued in book-entry only form and in authorized denominations of \$5,000 and integral multiples thereof.
Redemption Provisions:	The Fiscal 2011 AA Bonds are subject to redemption as described herein.
The System:	The Water System provides approximately 1,015 million gallons per day (mgd) of water to approximately 835,000 accounts. It supplies water to over 9 million people, of which approximately 8.4 million 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 approximately 1,260 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.

Revenue Bond Coverage (Cash Basis):

	Historical			Projected (1)	
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
	(Millions of Dollars)				
Revenues Available for Debt Service (2)	\$1,994.9	\$2,236.5	\$2,400.8	\$2,606.4	\$2,935.7
Net Operating Expenses (2)	963.0	1,121.8	1,142.1	1,378.0	1,162.8
Other Expenses (including Rental Payments to New York City) (2)	173.8	134.1	178.9	155.2	299.6
Total Expenses (2)	1,136.8	1,255.9	1,321.0	1,533.2	1,462.3
Total First Resolution Bond Debt Service	521.4	529.1	513.9	500.7	620.9
Net Debt Service on Subordinated Indebtedness (3)	163.0	229.3	266.1	336.0	639.6
Net Surplus	173.6	222.3	299.8	236.6	212.9
First Resolution Debt Service Coverage	3.83x	4.23x	4.67x	5.21x	4.73x
First and Second Resolution Debt Service Coverage (3)	2.91x	2.95x	3.08x	3.12x	2.33x
Rate Increase	9.4%	11.5%	14.5%	12.9%(4)	12.9%(4)

Totals may not add due to rounding.

- (1) Projections are as of May 21, 2010.
- (2) Historical figures, which are derived from the accounting records used to prepare the statements of cash flows contained in the annual financial statements, and projected figures are shown on a cash basis. Interest earned in escrow accounts for economically defeased debt is not included.
- (3) Includes interest on Commercial Paper Notes and reflects offset of carryforward revenues and subsidies provided by the New York State Environmental Facilities Corporation.
- (4) Actual rate increase.

Total Authority Debt Outstanding:

As of the date of this Official Statement, the Authority has approximately \$10.4 billion of First Resolution Bonds (defined below) and \$13.6 billion of Second Resolution Bonds (defined below) Outstanding. See “CAPITAL IMPROVEMENT AND FINANCING PROGRAM—Debt Service Requirements.” In addition, the Authority currently has a \$1 billion commercial paper program.

Capital Program:

The City’s Ten Year Capital Strategy, which is updated every two years, was released on May 1, 2009 (the “Ten Year Capital Strategy”). The Ten Year Capital Strategy includes the projected capital improvements to the System for Fiscal Years 2010 through 2019. The City’s Current Capital Plan (the “Current Capital Plan”), which covers Fiscal Years 2010 through 2014, published on May 6, 2010, is updated three times each Fiscal Year and supersedes the Ten Year Capital Strategy for Fiscal Years 2010 through 2014. The Ten Year Capital Strategy, together with 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:

The following table shows, as of May 21, 2010, total Authority long-term indebtedness expected to be issued, excluding refunding bonds, from Fiscal Year 2011 to Fiscal Year 2014. As of the date of this Official Statement, during Fiscal Year 2011 the Authority has not yet issued any debt.

<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>Period Total</u>
(Millions of Dollars)				
\$2,159.4	\$1,929.9	\$1,636.6	\$1,489.9	\$7,215.8

Security for the bonds:

Revenue Pledge:

The Second Resolution Bonds are special obligations of the Authority, payable solely from and secured by a pledge of amounts on deposit in the Subordinated Indebtedness Fund established under the First Resolution and all moneys and securities in any of the funds and accounts established under the Second Resolution, except the Arbitrage Rebate Fund and Debt Service Reserve Fund.

Debt Service Reserve Fund:

The Fiscal 2011 AA Bonds will not be secured by the Debt Service Reserve Fund.

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 First Resolution Bonds Outstanding and on any Projected Series of First Resolution Bonds (excluding Refundable Principal Installments for the payment of which funds are held in trust) payable in such Fiscal Year, and 100% of the Operating Expenses and Required Deposits (which includes debt service on the Second Resolution Bonds and other

Subordinate Indebtedness) to the extent required to be paid from Revenues for such Fiscal Year.

Additional Bonds Test:

Additional Second Resolution Bonds may be issued for capital purposes under the Second Resolution only if the Revenues for either of the last two Fiscal Years preceding the Fiscal Year in which the Second Resolution Bonds are to be issued were at least equal to the sum of (i) 110% of the Aggregate Debt Service for such Fiscal Year on the First Resolution Bonds, the Second Resolution Bonds and certain other Subordinated Indebtedness (excluding any Debt Service paid from sources other than the Revenues) and (ii) 100% of the sum of Operating Expenses and Required Deposits for such Fiscal Year (excluding Required Deposits for the payment of Outstanding Second Resolution Bonds and certain other Subordinated Indebtedness). Second Resolution Refunding Bonds may be issued under the Second Resolution either upon satisfaction of such conditions or other conditions.

Summary of Certain Legal Opinions:

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.

Rates:

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 1.7% of Revenues.

The Authority:

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.

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.

OFFICIAL STATEMENT

\$750,000,000

NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY WATER AND SEWER SYSTEM SECOND GENERAL RESOLUTION REVENUE BONDS, FISCAL 2011 SERIES AA (TAXABLE BUILD AMERICA BONDS)

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 Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2011 Series AA (Taxable Build America Bonds) (the “Fiscal 2011 AA 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 “First Resolution” and, when issued thereunder the “First Resolution 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 2011 AA Bonds will be issued by the Authority pursuant to its Water and Sewer Second General Revenue Bond Resolution adopted on March 30, 1994, as amended (the “Second Resolution”) and its Supplemental Resolution No. 73 adopted on September 13, 2010 (the “Supplemental Resolution”). All bonds issued under the Second Resolution, are referred to herein as “Second Resolution Bonds.” The Second Resolution and the Supplemental Resolution are collectively referred to herein as the “Resolutions.” The Bank of New York Mellon 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 Second Resolution.

The Second Resolution Bonds are special obligations of the Authority, payable solely from and secured by a pledge of amounts on deposit in the Subordinated Indebtedness Fund established by the First Resolution and all moneys or securities in any of the funds and accounts established under the Second Resolution, subject only to provisions of the Second 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 First Resolution Bonds to become due in such Fiscal Year on all First Resolution 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 SECOND RESOLUTION 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 SECOND RESOLUTION 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 1.7% of Revenues. See “RATES AND BILLINGS.”

The Authority has relied upon AECOM USA, Inc. (“AECOM”), 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 May 21, 2010, and are expected to be updated annually. Actual financial results will differ from these projections.

PLAN OF FINANCE

In addition to the issuance of the Fiscal 2011 Series AA Bonds, on or about September 30, 2010, the Authority expects to issue approximately \$200,000,000 aggregate principal amount of its Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2011 Series BB for the purpose of (i) paying principal and interest on a portion of the Authority’s outstanding First Resolution Bonds and/or Second Resolution Bonds, and (ii) paying certain costs of issuance.

USE OF PROCEEDS

The proceeds of the Fiscal 2011 AA Bonds are anticipated to be applied in the following manner:

Payment of Commercial Paper Notes	\$200,015,795
Deposit to Construction Fund	544,692,339
Underwriters' Discount	4,826,866
Costs of Issuance	<u>465,000</u>
Total Uses of Proceeds.	<u>\$750,000,000</u>

THE FISCAL 2011 AA BONDS

General

The Fiscal 2011 AA Bonds initially delivered to the Underwriters will be dated their date of delivery. The Fiscal 2011 AA Bonds will mature on and will bear interest at the rates shown on the inside cover of this Official Statement. Interest on the Fiscal 2011 AA Bonds will be payable on each June 15th and December 15th, commencing December 15, 2010.

Principal of, redemption premium, if any, and interest on the Fiscal 2011 AA Bonds will be payable in lawful money of the United States of America. The Fiscal 2011 AA Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 and integral multiples thereof.

Designation of the Fiscal 2011 AA Bonds as "Build America Bonds"

The Authority intends to make an irrevocable election to treat the Fiscal 2011 AA Bonds as "Build America Bonds" under Section 54AA of the Internal Revenue Code of 1986, as amended (the "Code"), for which it will receive, pursuant to Sections 54AA(g) and 6431 of the Code, a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the Authority on the Build America Bonds. It is expected that any cash subsidy payments received will be deposited, upon receipt, to the Revenue Fund.

Redemption

Optional Redemption

The Fiscal 2011 AA Bonds maturing June 15, 2041 are subject to redemption prior to their stated maturity date at the option of the Authority in whole or in part at any time (i) at the Make-Whole Redemption Price (as defined below) prior to June 15, 2020 and (ii) on and after June 15, 2020 at a price of the principal amount thereof plus accrued interest to the redemption date.

The Fiscal 2011 AA Bonds maturing June 15, 2043 are subject to redemption prior to their stated maturity date at the option of the Authority, in whole or in part on any date, at a redemption price (the "Make-Whole Redemption Price") equal to the greater of:

(1) the issue price (but not less than 100%) of the principal amount of such Fiscal 2011 AA Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Fiscal 2011 AA Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Fiscal 2011 AA Bonds are to be redeemed, discounted to the date on which such Fiscal 2011 AA Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described below) plus 40 basis points;

plus, in each case, accrued interest on such Fiscal 2011 AA Bonds to be redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Fiscal 2011 AA Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days, but not more than 30 calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to (but not shorter than) the period from the redemption date to the maturity date of the Fiscal 2011 AA Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Extraordinary Optional Redemption. The Fiscal 2011 AA Bonds are subject to redemption prior to their stated maturity dates at the option of the Authority, in whole or in part upon the occurrence of an Extraordinary Event (described below), at a redemption price (the “Extraordinary Redemption Price”) equal to the greater of:

(1) the issue price (but not less than 100%) of the principal amount of such Fiscal 2011 AA Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Fiscal 2011 AA Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Fiscal 2011 AA Bonds are to be redeemed, discounted to the date on which such Fiscal 2011 AA Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points;

plus, in each case, accrued interest on such Fiscal 2011 AA Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 (the “Recovery Act”), pertaining to the “Build America Bonds”) is modified, amended or interpreted in a manner pursuant to which the Authority’s 35% cash subsidy payment from the United States Treasury is reduced or eliminated.

Selection of Fiscal 2011 AA Bonds to Be Redeemed

The particular maturities of Fiscal 2011 AA Bonds to be redeemed at the option of the Authority will be determined by the Authority in its sole discretion.

If the Fiscal 2011 AA Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Fiscal 2011 AA Bonds, if less than all of the Fiscal 2011 AA Bonds of a maturity are called for prior redemption, the particular Fiscal 2011 AA Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Fiscal 2011 AA Bonds are held in book-entry form, the selection for redemption of such Fiscal 2011 AA Bonds shall be made in accordance with the operational arrangements of DTC then in effect.

It is the Authority’s intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither the Authority nor the Underwriters can provide any assurance that DTC, DTC’s direct and indirect participants or any other intermediary will allocate the redemption of Fiscal 2011 AA Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Fiscal 2011 AA Bonds on a pro rata pass-through distribution of principal basis as discussed above, then the Fiscal 2011 AA Bonds will be selected for redemption, in accordance with DTC procedures, by lot. If the Fiscal 2011 AA Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the Fiscal 2011 AA Bonds shall be allocated among the registered owners of such Fiscal 2011 AA Bonds on a pro-rata basis.

Notice of Redemption. Notice of redemption is to be given by first class mail, postage prepaid, at least ten days prior to the date fixed for redemption, to the registered owners of Fiscal 2011 AA 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 2011 AA Bonds, notice of redemption is to be sent to DTC, which may also waive the ten day notice period. If DTC requires a longer notice period, such notice of redemption is to be given in compliance with such requirement. No assurance can be given by the Authority that DTC and DTC participants will promptly transmit notices of redemption to Beneficial Owners. See “BOOK-ENTRY-ONLY SYSTEM.”

If, on any redemption date, moneys for the redemption of the Fiscal 2011 AA 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 2011 AA Bonds to be redeemed will cease to accrue from and after the redemption date and such Fiscal 2011 AA Bonds will no longer be considered to be Outstanding under the Second Resolution.

The notice of redemption may provide that the Fiscal 2011 AA 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.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Fiscal 2011 AA Bonds. The Fiscal 2011 AA 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 2011 AA Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC, in the aggregate principal amount of the Fiscal 2011 AA Bonds. Purchasers may own beneficial interests in the Fiscal 2011 AA Bonds in the United States through DTC and in Europe through Clearstream Banking, société anonyme (“Clearstream”), or the Euroclear System (“Euroclear”).

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 2011 AA Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Fiscal 2011 AA Bonds on DTC’s records. The ownership interest of each actual purchaser of each Fiscal 2011 AA Bonds (“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 2011 AA 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 2011 AA Bonds, except in the event that use of the book-entry system for the Fiscal 2011 AA Bonds is discontinued.

To facilitate subsequent transfers, all Fiscal 2011 AA 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 2011 AA 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 2011 AA Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Fiscal 2011 AA 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.

Redemption notices shall be sent to DTC.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Fiscal 2011 AA Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 2011 AA Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of redemption proceeds and principal and interest payments on the Fiscal 2011 AA 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, 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 2011 AA 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 2011 AA 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.

Global Settlement Procedures

The Fiscal 2011 AA Bonds initially will be registered in the name of Cede & Co. as registered owner and nominee for DTC, which will act as securities depository for the Fiscal 2011 AA Bonds. Purchases of the Fiscal 2011 AA Bonds will be in book-entry form only. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depositories, which, in turn, hold such positions in customers' securities accounts in the U.S. Depositories' names on the books of DTC. Citibank, N.A. acts as the U.S. Depository for Clearstream and JPMorgan Chase Bank acts as the U.S. Depository for Euroclear.

Clearstream

Clearstream Banking, société anonyme, 42 Avenue J.F. Kennedy, L-1855 Luxembourg ("*Clearstream, Luxembourg*"), was incorporated in 1970 as "Cedel S.A.," a company with limited liability under Luxembourg law (a société anonyme). Cedel S.A. subsequently changed its name to Cedelbank. On 10 January 2000, Cedelbank's parent company, Cedel International, société anonyme ("*CI*") merged its clearing, settlement and custody business with that of Deutsche Börse AG ("*DBAG*"). The merger involved the transfer by CI of substantially all of its assets and liabilities (including its shares in Cedelbank), and the transfer by DBAG of its shares in Deutsche Börse Clearing ("*DBC*"), to a new Luxembourg company, which with effect from 14 January 2000 was renamed Clearstream International, société anonyme, and was then 50% owned by CI and 50% owned by DBAG. Following this merger, the subsidiaries of Clearstream International were also renamed to give them a cohesive brand name. On 18 January 2000, Cedelbank was renamed "Clearstream Banking, société anonyme," and Cedel Global Services was renamed "Clearstream Services, société anonyme." On 17 January 2000, Deutsche Börse Clearing AG was renamed "Clearstream Banking AG." Today Clearstream International is 100% owned by DBAG. The shareholders of DBAG are comprised of mainly banks, securities dealers and financial institutions.

Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier ("*CSSF*") and the Banque Centrale du Luxembourg ("*BCL*") which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream, Luxembourg's U.S. customers are limited to securities brokers and dealers and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear Bank S.A./N.V. as the Operator of the Euroclear System (the "*Euroclear Operator*") in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Euroclear

Euroclear Bank S.A./N.V. ("*Euroclear Bank*") holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other

securities intermediaries. Euroclear Bank provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the managers or underwriters for this offering, or other financial entities involved in this offering, may be Euroclear Participants. Non-Participants in the Euroclear System may hold and transfer book-entry interests in the securities through accounts with a Participant in the Euroclear System or any other securities intermediary that holds a book-entry interest in the securities through one or more securities intermediaries standing between such other securities intermediary and Euroclear Bank.

Clearance and Settlement. Although Euroclear Bank has agreed to the procedures provided below in order to facilitate transfers of securities among Participants in the Euroclear System, and between Euroclear Participants and Participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

Initial Distribution. Investors electing to acquire securities through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. Securities to be acquired against payment through an account with Euroclear Bank will be credited to the securities clearance accounts of the respective Euroclear Participants in the securities processing cycle for the business day following the settlement date for value as of the settlement date, if against payment.

Secondary Market. Investors electing to acquire, hold or transfer securities through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities. Euroclear Bank will not monitor or enforce any transfer restrictions with respect to the securities offered herein.

Custody. Investors who are Participants in the Euroclear System may acquire, hold or transfer interests in the securities by book-entry to accounts with Euroclear Bank. Investors who are not Participants in the Euroclear System may acquire, hold or transfer interests in the securities by book-entry to accounts with a securities intermediary who holds a book-entry interest in the securities through accounts with Euroclear Bank.

Custody Risk. Investors that acquire, hold and transfer interests in the securities by book-entry through accounts with Euroclear Bank or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

Euroclear Bank has advised as follows:

Under Belgian law, investors that are credited with securities on the records of Euroclear Bank have a co-property right in the fungible pool of interests in securities on deposit with Euroclear Bank in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear Bank, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear Bank. If Euroclear Bank did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Participants credited with such interests in securities on Euroclear Bank's records, all Participants having an amount of interests in securities of such type credited to their accounts with Euroclear Bank would have the right under Belgian law to the return of their pro-rata share of the amount of interests in securities actually on deposit.

Under Belgian law, Euroclear Bank is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Initial Settlement; Distributions; Actions on Behalf of the Owners. All of the Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus

positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream and JPMorgan Chase Bank acts as depository for Euroclear (the "US Depositories"). Holders of the Bonds may hold their Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or directly through organizations that are participants in such systems. Investors electing to hold their Bonds through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional EuroBonds in registered form. Securities will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the Bonds held beneficially through Clearstream will be credited to the cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations.

Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the Bonds on behalf of a Clearstream customer or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the U.S. Depository's ability to effect such actions on its behalf through DTC.

Procedures May Change. Although DTC, Clearstream and Euroclear have agreed to these procedures in order to facilitate transfers of securities among DTC and its Participants, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

Secondary Market Trading. Secondary market trading between Participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds. Secondary market trading between Euroclear Participants and/or Clearstream customers will be settled using the procedures applicable to conventional EuroBonds in same-day funds. When securities are to be transferred from the account of a Participant (other than U.S. Depositories) to the account of a Euroclear Participant or a Clearstream customer, the purchaser must send instructions to the applicable U.S. Depository one business day before the settlement date. Euroclear or Clearstream, as the case may be, will instruct its U.S. Depository to receive securities against payment. Its U.S. Depository will then make payment to the Participant's account against delivery of the securities. After settlement has been completed, the securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear Participant's or Clearstream customers' accounts. Credit for the securities will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Bonds will accrue from the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear Participants and Clearstream customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the securities are credited to their accounts one day later. As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants/customers can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear Participants or Clearstream customers purchasing securities would incur overdraft charges for one day, assuming they cleared the overdraft when the securities were credited to their accounts. However, interest on the securities would accrue from the value date. Therefore, in many cases, the investment income on securities earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's/customer's

particular cost of funds. Because the settlement is taking place during New York business hours, Participants can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear Participants or Clearstream customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the participant, a cross-market transaction will settle no differently from a trade between two participants.

Due to time zone differences in their favor, Euroclear Participants and Clearstream customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another participant's. In these cases, Euroclear will instruct its U.S. Depository to credit the securities to the participant's account against payment. The payment will then be reflected in the account of the Euroclear Participant or Clearstream customer the following business day, and receipt of the cash proceeds in the Euroclear Participant's or Clearstream customers' accounts will be back valued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear Participant or Clearstream customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one day period.

If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear Participant's or Clearstream customer's accounts would instead be valued as of the actual settlement date.

THE AUTHORITY AND TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE FISCAL 2011 AA BONDS (1) PAYMENTS OF PRINCIPAL OF OR INTEREST OR REDEMPTION PREMIUM ON THE FISCAL 2011 AA BONDS (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE FISCAL 2011 AA BONDS OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE FISCAL 2011 AA BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

THE AUTHORITY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR REDEMPTION PREMIUM ON THE FISCAL 2011 AA BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE CERTIFICATE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED HOLDER OF THE FISCAL 2011 AA BONDS.

THE INFORMATION CONTAINED HEREIN CONCERNING DTC, CLEARSTREAM AND EUROCLEAR AND THEIR BOOK-ENTRY SYSTEMS HAS BEEN OBTAINED FROM DTC, CLEARSTREAM AND EUROCLEAR, RESPECTIVELY, AND THE AUTHORITY MAKES NO 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 HEREOF.

SECURITY FOR THE SECOND RESOLUTION 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 First Resolution the Revenues in the Local Water Fund, for deposit in the Revenue Fund established under the First 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 8")), 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."

After the Board makes the deposits described above to the First Resolution Revenue Fund in such month from the balance remaining in the Local Water Fund, the Board is required, after paying monthly Board Expenses, to pay the City $\frac{1}{2}$ of the Operating Expenses for such Fiscal Year. 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 First Resolution Revenue Fund until the total of all amounts deposited in the First Resolution 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. Pursuant to the Second Resolution, amounts deposited into the First Resolution Revenue Fund in any Fiscal Year in excess of the amounts required to be deposited into the First Resolution's Debt Service Fund, Authority Expense Fund, Debt Service Reserve Fund, and Arbitrage Rebate Fund are to be deposited into the Subordinated Indebtedness Fund established under the First Resolution until the amount on deposit therein, together with the amounts on deposit in the Revenue Fund and Debt Service Fund established under the Second Resolution, equals the Aggregate Debt Service for such Fiscal Year on Second Resolution Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations. 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 First Resolution" and "Summary of the Agreement."

Amounts on deposit in the Subordinated Indebtedness Fund will be available to pay debt service on Second Resolution Bonds to the extent not otherwise required under the terms of the First Resolution. On the first day of each calendar month a portion of the amounts on deposit in the Subordinated Indebtedness Fund will be transferred free and clear of the lien of the First Resolution to the Revenue Fund under the Second Resolution in an amount sufficient, together with the amount on deposit in the Revenue Fund and Debt Service Fund established under the Second Resolution, to make the amount on deposit therein equal the Monthly Balance (as defined in the Second Resolution). The Monthly Balance is the amount required to provide for timely payment of all Debt Service on Outstanding Second Resolution Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations. See “APPENDIX C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — GLOSSARY — Definition of Certain Terms Used in Second Resolution — Monthly Balance.”

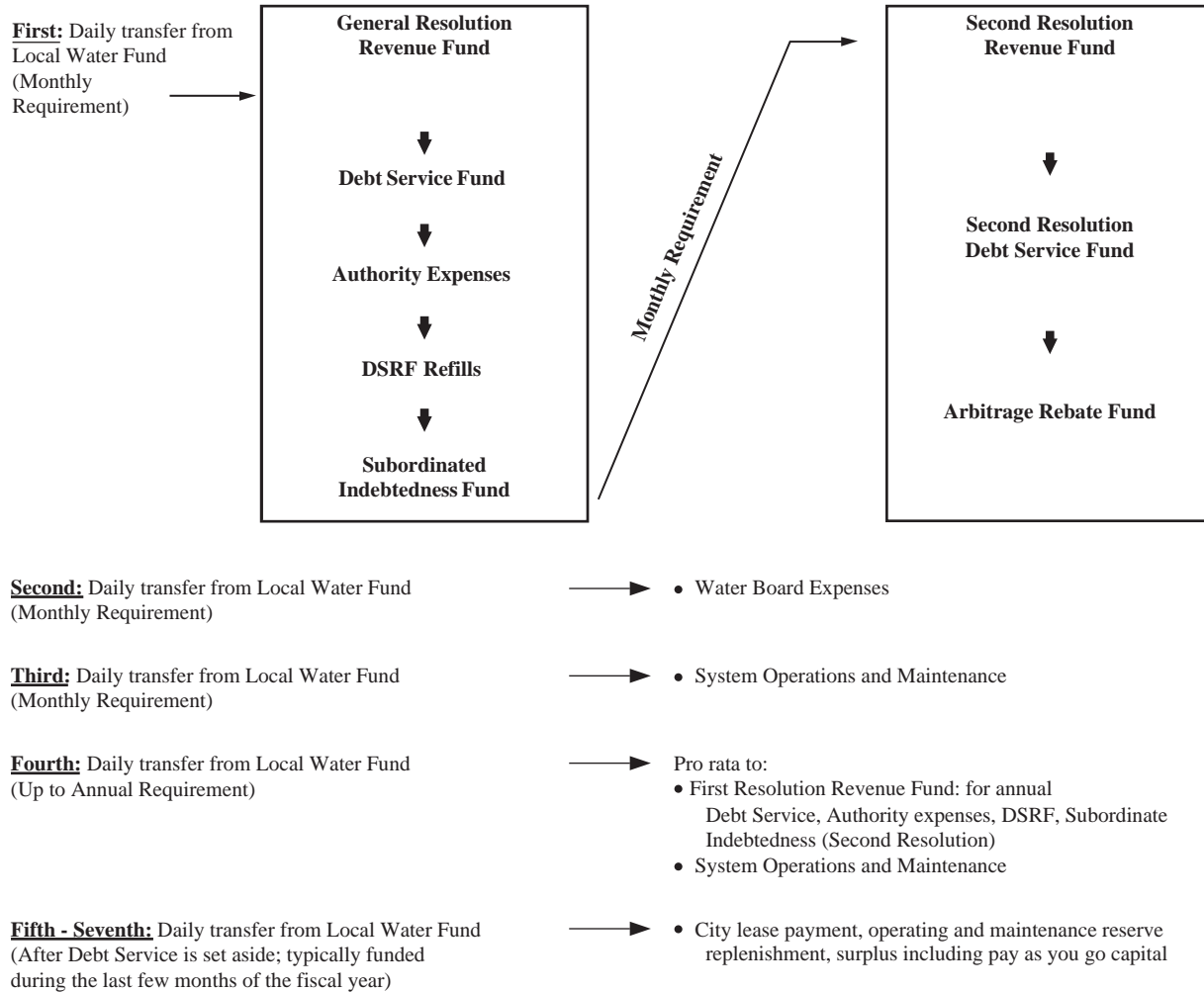
In addition, beginning on the day when no First Resolution Bonds are Outstanding, Revenues are to be deposited from the Local Water Fund into the Revenue Fund established under the Second Resolution. As described below, such Revenues will be used to make payments to the Authority Expense Fund, the Arbitrage Rebate Fund and the Subordinated Indebtedness Fund established under the Second Resolution.

Amounts on deposit in the Revenue Fund established under the Second Resolution are to be paid to the following funds established under the Second Resolution in the following order of priority: first, to the Debt Service Fund; second, if no First Resolution Bonds are then Outstanding, to the Authority Expense Fund; third, to the Debt Service Reserve Fund to replenish any deficiency therein; fourth, to the Arbitrage Rebate Fund; and fifth, if no First Resolution Bonds are then Outstanding, to the Subordinated Indebtedness Fund established under the Second Resolution, the amount required to be deposited in such Fund for such month in accordance with the Authority Budget. See “APPENDIX C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Second Resolution — Payments into Certain Funds.”

The Fiscal 2011 AA Bonds will be on a parity with all other outstanding Second Resolution Bonds heretofore and hereafter issued. The Fiscal 2011 AA Bonds are payable from and secured by a pledge of (a) amounts on deposit in the Subordinated Indebtedness Fund, subject, however, to the first lien on such amounts in favor of First Resolution Bonds and (b) except as described below under the heading “Debt Service Reserve Fund,” all moneys or securities in any of the funds and accounts established under the Second Resolution, except the Arbitrage Rebate Fund. See “APPENDIX C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Second Resolution” and “Summary of the Agreement.”

Pursuant to the Agreement, the First 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 First Resolution and the Second Resolution.

Consolidated Flow of Funds



Debt Service Reserve Fund

No deposit will be made to the Debt Service Reserve Fund established under the Second Resolution upon the issuance of the Fiscal 2011 AA Bonds, and the Fiscal 2011 AA Bonds will not be secured by any amounts on deposit in such Debt Service Reserve Fund in the future. For a discussion of the Debt Service Reserve Fund established under the Second Resolution, see “APPENDIX C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Second Resolution — Debt Service Reserve Fund.”

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 First Resolution 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 First Resolution 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 First 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 Second Resolution Bonds

The Authority may issue additional Second Resolution Bonds to pay for capital improvements to the System, to pay or provide for the payment of First Resolution Bonds, Second Resolution Bonds, bond anticipation notes, including Commercial Paper Notes (as hereinafter defined), to refund general obligation bonds of the City issued for water or sewer purposes and to fund certain reserves. Under the Second Resolution such additional Second Resolution Bonds may be issued on a parity with all Second Resolution Bonds Outstanding only upon satisfaction of certain requirements including receipt by the Trustee of 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 Second Resolution Bonds are to be issued were at least equal to the sum of 110% of the Aggregate Debt Service on Outstanding First Resolution Bonds, Second Resolution Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations during such Fiscal Year (excluding from Aggregate Debt Service the amount 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 (excluding Required Deposits for the payment of Outstanding Second Resolution Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations).

The Authority may issue additional Second Resolution 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 Second Resolution 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 Second Resolution Bonds does not exceed the maximum debt service in any Fiscal Year on the Second Resolution Bonds to be refunded.

See “APPENDIX C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Second Resolution.”

Authority Debt

At the date of this Official Statement, the Authority has approximately \$10.4 billion aggregate principal amount of Outstanding First Resolution Bonds (Capital Appreciation Bonds are included at their full accreted value at maturity). In addition, at the date of this Official Statement, the Authority has approximately \$13.6 billion aggregate principal amount of Outstanding Second Resolution Bonds. Of such First Resolution Bonds and Second Resolution Bonds, approximately \$2.44 billion are adjustable rate demand bonds, none of which is insured, and none of which is an auction rate bond. The Authority is authorized to have outstanding up to \$1 billion of commercial paper notes, including the Extendable Municipal Commercial Paper Notes described below (collectively, the “Commercial Paper Notes”).

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 First Resolution Bonds. Amounts on deposit in the Subordinated Indebtedness Fund will be available, to the extent not utilized for First Resolution 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 payable from standby line of credit agreements which provide liquidity for such Commercial Paper Notes. The Authority has authorized its Extendable Municipal Commercial Paper Notes, Series Seven and Extendable Municipal Commercial Paper Notes, Series Eight (collectively, the “EMCP Notes”). Principal of and interest on the EMCP Notes are not payable from any liquidity or credit facility and are payable from remarketing proceeds and the proceeds of additional EMCP Notes, First Resolution 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 First Resolution for the benefit of the holders of First Resolution Bonds. Principal of the Commercial Paper Notes is secured solely by the proceeds of bonds issued to repay the Commercial Paper Notes.

The Authority’s obligations to the banks providing standby lines of credit in connection with outstanding Commercial Paper Notes, including the Authority’s obligation to pay principal of and interest on indebtedness incurred under such lines of credit, 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. Indebtedness incurred by the Authority under such lines of credit, if not repaid within 90 days, becomes payable over a period ending on the earlier of (i) three years after the expiration of the line of credit agreement or (ii) five years after the date of incurrence of such indebtedness. Interest on such advances is also secured by a pledge of Revenues which is subordinate to the pledge securing the First Resolution Bonds.

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 First Resolution Bonds and Second Resolution 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 First Resolution Bonds and Second Resolution Bonds until such obligations together with the interest thereon are fully met and discharged.

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). 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
David M. Frankel (1)	Commissioner of Finance of the City
Caswell F. Holloway IV (1)	Commissioner of Environmental Protection of the City
Peter J. Kenny (2)	Retired Partner, Willkie Farr & Gallagher
Marc V. Shaw (2)	Interim Senior Vice Chancellor, City University of New York

(1) *Ex officio*.

(2) Appointed by the Mayor.

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.

Thomas G. Paolicelli, Executive Director

Mr. Paolicelli was appointed Executive Director in August 2008. Prior to joining the Authority, Mr. Paolicelli was a Vice President/Senior Analyst for Moody's Investors Service ("Moody's") in their U.S. Public Infrastructure Team. Prior to joining Moody's, Mr. Paolicelli worked at the Authority for nearly 5 years where he served in several capacities, including most recently as Treasurer. He has a Master's in Public Administration from the University of Albany and a Bachelor's in Civil Engineering from the University of Buffalo and is also a Professional Engineer.

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, 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.

Robert L. Balducci, Assistant Comptroller

Mr. Balducci was appointed Assistant Comptroller in December 2008. He is a graduate of Baruch College of the City University of New York.

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, Director of Media and Investor Relations

Mr. Orlando was appointed Director of Media and 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 are currently two vacancies on the Board. 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>
Alan Moss, Chair	Retired
Marcia Bystryn	President, New York League of Conservation Voters
Donald Capoccia	Principal, BFC Partners, L.P.
Mehul J. Patel	Vice President, Moynihan Station Development Corporation
Benjamin A. Tisdell	Associate, Lazard Freres & Co.

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 appointed Chief Financial Officer of DEP in January 2010, where he had served since November 2008 as Acting Commissioner and as First Deputy Commissioner since 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 MTA (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.

Mathilde O. McLean, Treasurer

Ms. McLean was appointed Treasurer in June 2010. Prior to joining DEP, Ms. McLean worked as a financial consultant to EFC, an Assistant Vice President at Citigroup in the Municipal Securities Division Infrastructure Group, and a Consultant with Public Financial Management. Ms. McLean is a

graduate of Dartmouth College and received an MBA from Columbia University. She is also a CFA charterholder.

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 5,900 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 400 provide administrative and support services to both System and non-System staff. There are approximately 200 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; Legal Affairs; and Executive.

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

Caswell F. Holloway IV, Commissioner

Mr. Holloway was appointed Commissioner effective January 1, 2010. Prior to his appointment, Mr. Holloway served as Chief of Staff to the Deputy Mayor for Operations Edward Skyler and as Special Advisor to Mayor Bloomberg. During his time in the mayor’s office, Mr. Holloway played a leading role in the passage and implementation of the City’s solid waste management plan and the development of an alternative plan for the environmental remediation of the Gowanus Canal. Mr. Holloway started key initiatives like the new City-wide public recycling program, and worked with the City’s fire department to implement new inspection protocols and safety measures for the first responders on construction sites. Prior to joining the mayor’s office, Mr. Holloway was an associate at Debevoise & Plimpton LLP and Cravath, Swaine & Moore LLP and served as law clerk to Judge Dennis G. Jacobs, now Chief Judge of the United States Court of Appeals for the Second Circuit. Prior to law school, Mr. Holloway also served as Chief of Staff at the New York City Department of Parks and Recreation. Mr. Holloway graduated from Harvard College and the University of Chicago Law School.

Steven Lawitts, Chief Financial Officer

Mr. Lawitts was appointed Chief Financial Officer in January 2010 after serving since November 2008 as Acting Commissioner and as First Deputy Commissioner since 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 MTA (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.

Kathryn Garcia, Deputy Commissioner

Ms. Garcia was appointed Deputy Commissioner for Operations in January 2010. Since joining DEP in early 2006, Mrs. Garcia has served as the agency’s Chief of Staff and the Assistant Commissioner for the Office of Strategic Projects. Prior to joining DEP, she worked for a consulting firm, Appleseed, specializing in economic development strategies and urban planning. Ms. Garcia began her career at the NYC Department of Finance in the Audit and Enforcement Division, before pursuing opportunities in affordable housing development with the Local Initiatives Support Corporation. Ms. Garcia is a graduate of the University of Wisconsin-Madison.

Kathryn Mallon, Deputy Commissioner

Kathryn Mallon, P.E. was appointed Deputy Commissioner of the Bureau of Engineering Design and Construction in May 2010. Ms. Mallon has been with the Bureau of Engineering Design and Construction since 2008, previously serving as the Assistant Commissioner of In-House Design and Support. Prior to joining DEP, Ms. Mallon spent 20 years in the private sector focused primarily on the design and construction of drinking water treatment facilities. Ms. Mallon has a Bachelor's of Science in Civil Engineering from the University of Illinois-Urbana/Champaign and a Master's Degree in Environmental Engineering from the University of North Carolina — Chapel Hill.

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.

Vincent Sapienza, P.E., Deputy Commissioner

Mr. Sapienza was appointed Deputy Commissioner of the Bureau of Wastewater Treatment in September 2009. He has been with DEP since 1983 and has held numerous positions in the bureau, most recently as Assistant Commissioner of Wastewater Treatment. His other positions have included Director of Regulatory Compliance, Chief of North Operations, Chief of Operations Support and Chief of Program Development. Mr. Sapienza is a graduate of Columbia University's School of Engineering and Applied Science and received an MBA from Hofstra University. He is a Professional Engineer.

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.

Carter H. Strickland, Jr., Deputy Commissioner

Mr. Strickland was appointed Deputy Commissioner for Sustainability in January 2010. Prior to joining DEP, Mr. Strickland served as the Senior Policy Advisor for Air and Water with the Mayor's Office of Long Term Planning and Sustainability. His other positions have included Acting Director and Associate Clinical Professor, Rutgers Environmental Law Clinic, and Assistant Attorney General, New York State Attorney General's Office. Mr. Strickland received his J.D. from Columbia University School of Law and his B.A. from Dartmouth College.

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 March 3, 2008 through March 2, 2010, was ratified on December 8, 2008. Those DEP employees who are not members of labor unions have generally received salary and benefits increases consistent with DC 37. Projected operation and maintenance expenses in this Official Statement include an annual 3% increase for Fiscal Years 2011 through 2014 to reflect allowances for changes in staffing, salary and wage adjustments covering all DEP employees, including collective bargaining increases beyond the 2008-10 round of collective bargaining, and other factors.

The City has not yet reached a collective bargaining agreement through the 2008-10 round of collective bargaining for approximately 1,130 sewage treatment and other workers whose contract expired at the end of the 2006–08 round of collective bargaining, or for approximately 200 environmental protection officers, whose contract expired at the end of the 2005-06 round of collective bargaining. If the City reaches a settlement with these workers through the 2008-10 round of collective bargaining along previous settlement patterns, such settlement would result in costs to the System of approximately \$28 million in Fiscal Year 2011 and incremental annual costs of \$14 million thereafter. Projected operation and maintenance expenses in this Official Statement do not include any funding to cover the retroactive costs of settling these expired collective bargaining agreements through the 2008-10 round of collective bargaining nor does it include an allowance for annual costs thereafter.

For information on other assumptions related to personal services costs, see “FINANCIAL OPERATIONS — Projected Operation and Maintenance Expenses.”

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 on May 1, 2009 (the “Ten Year Capital Strategy”). The Ten Year Capital Strategy includes the projected capital improvements to the System for Fiscal Years 2010 through 2019. The City’s Current Capital Plan (the “Current Capital Plan”), which covers Fiscal Years 2010 through 2014, published on May 6, 2010, is updated three times each Fiscal Year and supersedes the Ten Year Capital Strategy for Fiscal Years 2010 through 2014.

The Ten Year Capital Strategy, together with the Current Capital Plan, comprises the Capital Improvement Program (the “CIP”). The CIP establishes long range programmatic goals for capital commitments 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.

The CIP was evaluated independently by AECOM. AECOM concluded that the CIP is responsive to the long-term operating requirements of the area served by the System. See “APPENDIX A — LETTER OF AECOM USA, INC., 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 2019 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)

SYSTEM FUNDS(1)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Total
WATER SUPPLY AND TRANSMISSION											
Conveyance and Water Supply	\$ 32,860	\$ 51,585	\$ —	\$ 97,800	\$ 115,147	\$ 309,261	\$ 26,000	\$ 556,177	\$ 84,949	\$ 599,802	\$ 1,873,581
Kensico-City Tunnel	—	—	191,176	—	68,224	28,217	—	24,744	—	21,676	74,637
City Tunnel No. 3, Stage 1	12,698	—	—	13,200	—	—	—	—	250,000	—	535,298
City Tunnel No. 3, Stage 2	45,157	14,203	50,848	370	292,022	9,446	85,007	467	475	482	498,477
City Tunnel No. 1 Reconstruction	—	—	—	10,000	—	—	25,000	247,000	—	—	282,000
Subtotal	90,715	65,788	242,024	121,370	475,393	346,924	136,007	828,388	335,424	621,960	3,263,993
WATER DISTRIBUTION											
Brooklyn-Queens Aquifer	4,204	1,000	—	—	—	4,000	4,000	4,000	4,000	4,000	25,204
Croton Filtration Project	204,914	51,411	4,000	97,984	23,386	—	—	—	—	—	381,695
Dam Safety Program	82,009	214,072	19,929	224,959	45,092	—	—	—	—	—	586,061
Trunk Distribution and Main Extension	35,517	48,454	32,275	256	7,585	16,090	4,000	6,963	—	29,314	180,454
Trunk Distribution and Main Replacement	328,927	101,775	100,746	62,802	43,513	109,458	57,030	97,244	106,897	97,247	1,105,639
Water Quality Preservation	241,042	174,126	127,164	67,242	26,192	10,011	154,709	962	9,138	482	811,068
Other System Improvements	45,035	27,710	36,593	6,355	28,810	1,310	—	11,600	—	—	157,413
Subtotal	941,648	618,548	320,707	459,598	174,578	140,869	219,739	120,769	120,035	131,043	3,247,534
WATER POLLUTION CONTROL											
Consent Decree Upgrading & Construction	503,525	110,799	23,725	22,000	10,523	—	8,000	—	—	8,000	686,572
Plant Upgrading & Reconstruction	291,939	175,194	204,791	228,000	246,883	249,447	252,536	175,244	197,330	141,511	2,162,875
Plant Component Stabilization(2)	439,059	251,591	84,397	12,285	15,095	—	—	—	—	—	802,427
Water Quality Mandates	197,288	83,068	89,764	186,420	63,000	79,257	222,329	—	88,160	97,946	1,107,232
Subtotal	1,431,811	620,652	402,677	448,705	335,501	328,704	482,865	175,244	285,490	247,457	4,759,106
SEWERS											
Replacement or Augmentation	27,767	71,527	96,632	4,860	86,394	70,722	90,377	49,266	21,000	54,922	573,467
Extensions to Accommodate New Development	52,239	130,978	112,336	61,655	55,628	62,643	50,593	58,561	60,921	37,891	683,445
Programmatic Replacement and Reconstruction	567	25,057	1,100	33,714	550	—	—	9,856	18,712	—	89,556
Replacement of Chronically Failing Components	99,069	76,072	66,291	73,209	74,311	77,916	75,368	57,750	70,876	57,750	728,612
Trunk and Distribution Main Replacement	7,152	1,854	12,732	—	1,284	—	—	9,443	—	2,224	34,689
Subtotal	186,794	305,488	289,091	173,438	218,167	211,281	216,338	184,876	171,509	152,787	2,109,769
EQUIPMENT											
Conservation	(11,083)	33,050	3,693	12,805	40,600	—	5,967	3,810	113	838	89,793
Management Information Systems	27,802	12,240	26,498	10,527	12,885	—	5,000	—	—	—	94,952
Facility Purchases & Reconstruction	(14,539)	29,650	20,655	250	250	—	5,000	77,000	—	—	118,266
Utility Relocation	33,941	14,000	20,046	10,024	30,600	18,662	15,000	15,000	—	10,000	167,273
Vehicles and Equipment	4,503	5,502	22,094	10,527	12,885	11,471	5,000	—	—	—	71,982
Subtotal	40,624	94,442	92,986	44,133	97,220	30,133	35,967	95,810	113	10,838	542,266
TOTAL SYSTEM FUNDS	2,691,592	1,704,918	1,347,485	1,247,244	1,300,859	1,057,911	1,090,916	1,405,087	912,571	1,164,085	13,922,668
TOTAL NON-SYSTEM FUNDS											
TOTAL FUNDS	249,091	4,889	—	10,000	—	—	—	—	—	—	263,980
	\$2,940,683	\$1,709,807	\$1,347,485	\$1,257,244	\$1,300,859	\$1,057,911	\$1,090,916	\$1,405,087	\$912,571	\$1,164,085	\$14,186,648

(1) System Funds include the proceeds of Authority Bonds and System revenues.

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

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

Water Supply and Transmission

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 or conveyances 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 2018. See "THE SYSTEM — The Water System — Water Collection and Distribution."

Tunnel 1 Reconstruction. Once Stages I and II of Tunnel 3 are complete and the Manhattan and Queens segments have been activated, DEP will be able to take Tunnel 1 off-line for inspection and conduct any needed maintenance. This program will initiate the steps necessary to effectuate such work, including the investigation of the condition of all surface structures, equipment and access points to the tunnel. The work will encompass the study of tunnel dewatering capabilities, tunnel repair scenarios, plan infrastructure upgrades, and tunnel dewatering and reactivation plans.

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.

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 planning 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 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 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 — Governmental 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 reliability and the retrofit of five water pollution control plants to decrease the amount of nitrogen discharged into the surrounding water.

Water Quality Mandates. This program includes various projects being undertaken to mitigate CSOs in accordance with USEPA and NYSDEC mandates. These projects include optimization of the Sewer System to reduce the volume of CSO discharged, controls to prevent debris that enters the combined sewer system from being discharged, dredging of CSO sediments that contribute to low dissolved oxygen and poor aesthetic conditions, and other water quality based enhancements to enable attainment of the dissolved oxygen water quality standards.

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. The City constructs sewers to replace septic tanks in populated areas to avoid 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 2005 through 2009. 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 2005		FY 2006		FY 2007		FY 2008		FY 2009	
	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)	\$ 746	\$ 746	\$ 26	\$ 26	\$ 64	\$ 64	\$ 20	\$ 20	\$ 237	\$ 237
Water Distribution	499	498(4)	568	568	2,253	2,253	1,839	1,838(4)	662	662
Water Pollution Control	838	839	843	848	1,071	1,071	843	842(4)	944	936(4)
Sewers	186	187	192	192	177	177	200	200	164	164
Equipment	63	64	73	107	92	92	149	150	156	156
Total	<u>\$2,332</u>	<u>\$2,334</u>	<u>\$1,702</u>	<u>\$1,741</u>	<u>\$3,657</u>	<u>\$3,690</u>	<u>\$3,051</u>	<u>\$3,051</u>	<u>\$2,163</u>	<u>\$2,155</u>

	FY 2005		FY 2006		FY 2007		FY 2008		FY 2009	
	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)	\$ 147	\$ 167	\$ 245	\$ 261	\$ 272	\$ 272	\$ 868	\$ 868	\$ 98	\$ 98
Water Distribution	390	401	445	451	493	493	211	211	1,164	1,164
Water Pollution Control	846	804	778	812	793	805	917	929	1,021	1,032
Sewers	213	223	215	216	213	213	190	190	185	185
Equipment	40	85	68	101	76	94	65	71	74	79
Total	<u>\$1,636</u>	<u>\$1,680</u>	<u>\$1,751</u>	<u>\$1,841</u>	<u>\$1,847</u>	<u>\$1,878</u>	<u>\$2,251</u>	<u>\$2,269</u>	<u>\$2,542</u>	<u>\$2,558</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 EFC 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) Cancellation of a non-City contract caused the All-Funds commitment level 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 New York State Environmental Facilities Corporation ("EFC") in connection with the revolving loan fund program described below, (2) federal and State capital grants, and (3) cash-financed capital construction paid from System revenues. See "Debt Service Requirements" below.

Future Financing. The Authority estimates that nearly 100% 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 May 21, 2010, excluding refunding bonds, in each of the Fiscal Years 2011 through 2014 averages approximately \$1.8 billion per year. Projected Authority capital spending reflects commitments from both current and prior years. 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.

EFC has entered into an agreement to provide to the Authority approximately \$217.5 million in funds made available for certain projects through the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"). The Authority expects to receive these funds over the next several years. The projected issuance of Authority debt in Fiscal Years 2010 through 2014 does not assume the receipt of such funds.

Sources and Uses of Capital Funds

The following table presents the projected sources and uses of the funds for the System as of May 21, 2010. See “INTRODUCTORY STATEMENT — Financial Projection Assumptions.”

Sources and Uses of Capital Funds (Millions of Dollars)

Line No.	Description	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Period Total
Sources of Funds							
1	Proceeds from Sale of Bonds (1)(2)	\$ 3,171.6	\$ 2,159.4	\$ 1,929.9	\$ 1,636.6	\$ 1,489.9	10,387.4
2	Proceeds from Commercial Paper Notes	<u>1,200.0</u>	<u>2,005.0</u>	<u>1,811.0</u>	<u>1,543.0</u>	<u>1,406.0</u>	<u>7,965.0</u>
3	Total Sources of Funds	4,371.6	4,164.4	3,740.9	3,179.6	2,895.9	18,352.4
Uses of Funds							
4	Refunding of Prior Bonds (1)	710.6	—	—	—	—	710.6
5	Deposit to Construction Fund	2,392.0	2,005.0	1,811.0	1,543.0	1,406.0	9,157.0
6	Retirement of Commercial Paper Notes (2)	1,200.0	2,005.0	1,811.0	1,543.0	1,406.0	7,965.0
7	Other (3)	<u>69.0</u>	<u>154.4</u>	<u>118.9</u>	<u>93.6</u>	<u>83.9</u>	<u>519.8</u>
8	Total Uses of Funds	4,371.6	4,164.4	3,740.9	3,179.6	2,895.9	18,352.4
Construction Fund							
9	Beginning Balance	480.0	480.0	480.0	480.0	480.0	
10	Transfer from Proceeds from Sale of Bonds (2) . .	1,108.0	—	—	—	—	1,108.0
11	Transfer from Proceeds from Commercial Paper Notes	1,200.0	2,005.0	1,811.0	1,543.0	1,406.0	7,965.0
12	Cash Financed Capital Construction (4)(5)	<u>—</u>	<u>80.0</u>	<u>125.0</u>	<u>150.0</u>	<u>175.0</u>	<u>530.0</u>
13	Total Available Construction Funds (2)	2,788.0	2,565.0	2,416.0	2,173.0	2,061.0	9,603.0
14	Less: Total Capital Spending (6)	(2,308.0)	(2,085.0)	(1,936.0)	(1,693.0)	(1,581.0)	(9,603.0)
15	Ending Balance	<u>\$ 480.0</u>	<u>\$ 480.0</u>	<u>\$ 480.0</u>	<u>\$ 480.0</u>	<u>\$ 480.0</u>	

(1) Includes proceeds from sale of First and Second Resolution Bonds.

(2) The Authority expects to receive approximately \$217.5 million through the Recovery Act, which is not included in this table.

(3) Includes issuance costs and Debt Service Reserve Fund requirements.

(4) Funds projected for Cash Financed Capital Construction may be used for the defeasance of bonds and may be increased or decreased by the Authority from the amounts projected in each year.

(5) Based on the results of previous defeasances of bonds, the Authority expects to receive \$19.5 million in 2011. This amount is not included in this table and is expected to be added above to Line No. 12, Cash Financed Capital Construction, as the funds become available.

(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 May 21, 2010. For additional information, see “— Debt Service Requirements.”

Projected Future Debt Service Requirements
(Millions of Dollars)

Line No.	Description	Bond Issues	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	First Resolution Debt Service(1)						
1	Outstanding Bonds		\$ 500.7	\$ 609.0	\$ 581.8	\$ 545.9	\$ 608.6
	Anticipated Future Bonds						
2	Fiscal Year 2010 Bonds	—	—	—	—	—	—
3	Fiscal Year 2011 Bonds	\$ 479.8	—	11.9	28.8	28.8	28.8
4	Fiscal Year 2012 Bonds	273.4	—	—	7.4	17.8	17.8
5	Fiscal Year 2013 Bonds	177.7	—	—	—	5.0	12.1
6	Fiscal Year 2014 Bonds	154.7	—	—	—	—	4.3
7	Total First Resolution Debt Service		500.7	620.9	618.0	597.5	671.6
	Subordinated Obligations						
	Second Resolution Debt Service(1)						
8	Outstanding Second Resolution Bonds Issued to the Public		259.6	380.4	382.8	415.1	445.5
	Anticipated Future Second Resolution Bonds						
9	Fiscal Year 2010 Bonds	450.8	—	22.5	22.5	22.5	22.5
10	Fiscal Year 2011 Bonds	1,379.6	—	25.0	89.4	88.1	88.1
11	Fiscal Year 2012 Bonds	1,356.5	—	—	30.6	89.1	87.8
12	Fiscal Year 2013 Bonds	1,158.9	—	—	—	27.9	74.9
13	Fiscal Year 2014 Bonds	1,035.2	—	—	—	—	25.0
14	Interest Payments on Commercial Paper Notes		5.0	42.5	42.5	42.5	42.5
15	Outstanding Second Resolution Bonds Issued to EFC		479.6	508.0	513.6	490.0	472.7
	Anticipated Future Second Resolution EFC Bonds						
16	Fiscal Year 2010 Bonds	—	—	—	—	—	—
17	Fiscal Year 2011 Bonds	300.0	—	12.6	21.7	21.7	21.7
18	Fiscal Year 2012 Bonds	300.0	—	—	13.3	22.9	22.9
19	Fiscal Year 2013 Bonds	300.0	—	—	—	13.7	23.6
20	Fiscal Year 2014 Bonds	300.0	—	—	—	—	13.7
21	Less: Current EFC Subsidy(2)		(108.4)	(111.4)	(111.2)	(107.0)	(101.9)
22	Less: Future EFC Subsidy(3)		—	(3.4)	(9.6)	(16.1)	(22.6)
23	Actual Debt Service on Subordinated Indebtedness		635.8	876.1	995.6	1,110.4	1,216.4
24	Less: Carryforward Revenues		(299.8)	(236.6)	(212.9)	(176.5)	(160.2)
25	Net Debt Service on Subordinated Indebtedness		336.0	639.6	782.7	934.0	1,056.2
26	Total Debt Service Payable from Current Revenues (Line 7+Line 25)(4)		<u>\$ 836.7</u>	<u>\$1,260.5</u>	<u>\$1,400.7</u>	<u>\$1,531.5</u>	<u>\$1,727.8</u>

(1) Debt service does not reflect federal interest subsidy payments on Build America Bonds. Federal subsidy payments on outstanding Build America Bonds are included as Revenues. See “FINANCIAL OPERATIONS — Projected Revenues.”

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

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

(4) 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 First Resolution Bonds and Second Resolution Bonds issued to the public were 5% for the remainder of Fiscal Year 2010. The Authority has assumed that interest rates on future First and Second Resolution Bonds issued to the public will be 6% for Fiscal Year 2011, 6.5% for the first half of Fiscal Year 2012 and 6.8% for the second half of Fiscal Year 2012 and each year thereafter. Interest rates on future Authority Second Resolution Bonds issued to EFC will be 0.05% lower than the rate assumed on its other bonds. The Authority has further assumed that existing adjustable rate bonds and Commercial Paper Notes bore interest at an average rate of 0.5% per annum for Fiscal Year 2010 and will bear interest at an average rate of 4.25% per annum each year thereafter. These projections do not include interest subsidy payments from the federal government to the Authority on Build America Bonds pursuant to the Recovery Act.

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 all adjustable rate bonds bear interest at an average rate of 4.25% for Fiscal Year 2011 and for each Fiscal Year thereafter with interest computed on the basis of a 30-day month and a 360-day year. The schedule does not include debt service on any outstanding Commercial Paper Notes, and does not reflect interest subsidy payments from the federal government to the Authority on Build America Bonds pursuant to the Recovery Act.

Debt Service Requirements

Fiscal Year Ending June 30	Debt Service on Outstanding Authority First Resolution Bonds	Debt Service on Outstanding Authority Second Resolution Bonds (1)(2)(3)	Fiscal 2011 AA Bonds(2)		Debt Service on Second Resolution Bonds, including Fiscal 2011 AA Bonds Bonds(1)(2)(3)	Total Debt Service on First and Second Resolution Bonds (1)(2)(3)
			Principal	Interest		
2011	\$ 589,542,091	\$ 808,214,371	\$ —	\$ 30,330,139	\$ 838,544,510	\$ 1,428,086,601
2012	581,762,294	817,825,186	—	41,675,000	859,500,186	1,441,262,480
2013	545,891,209	830,708,984	—	41,675,000	872,383,984	1,418,275,192
2014	608,643,842	848,842,967	—	41,675,000	890,517,967	1,499,161,809
2015	677,859,866	794,865,148	—	41,675,000	836,540,148	1,514,400,014
2016	596,130,544	887,778,136	—	41,675,000	929,453,136	1,525,583,680
2017	633,109,350	865,064,981	—	41,675,000	906,739,981	1,539,849,331
2018	592,635,200	903,999,906	—	41,675,000	945,674,906	1,538,310,106
2019	675,195,591	822,808,954	—	41,675,000	864,483,954	1,539,679,545
2020	658,497,837	832,784,846	—	41,675,000	874,459,846	1,532,957,683
2021	656,097,653	835,353,727	—	41,675,000	877,028,727	1,533,126,379
2022	710,358,009	756,837,813	—	41,675,000	798,512,813	1,508,870,822
2023	758,323,621	708,910,772	—	41,675,000	750,585,772	1,508,909,393
2024	728,011,984	727,702,870	—	41,675,000	769,377,870	1,497,389,854
2025	611,477,759	779,192,124	—	41,675,000	820,867,124	1,432,344,883
2026	775,400,931	688,423,594	—	41,675,000	730,098,594	1,505,499,525
2027	625,446,219	828,500,076	—	41,675,000	870,175,076	1,495,621,295
2028	732,784,013	719,259,332	—	41,675,000	760,934,332	1,493,718,345
2029	705,421,438	743,815,738	—	41,675,000	785,490,738	1,490,912,175
2030	728,128,544	703,332,851	—	41,675,000	745,007,851	1,473,136,395
2031	711,553,375	705,089,761	—	41,675,000	746,764,761	1,458,318,136
2032	786,245,356	695,197,092	—	41,675,000	736,872,092	1,523,117,448
2033	765,654,225	688,157,261	—	41,675,000	729,832,261	1,495,486,486
2034	742,718,825	712,045,433	—	41,675,000	753,720,433	1,496,439,258
2035	742,717,625	695,182,443	—	41,675,000	736,857,443	1,479,575,068
2036	795,377,038	673,235,557	—	41,675,000	714,910,557	1,510,287,595
2037	789,283,338	670,532,074	—	41,675,000	712,207,074	1,501,490,411
2038	783,172,338	670,277,371	—	41,675,000	711,952,371	1,495,124,708
2039	709,841,338	746,792,664	—	41,675,000	788,467,664	1,498,309,002
2040	413,292,150	1,017,229,423	—	41,675,000	1,058,904,423	1,472,196,573
2041	—	1,217,334,586	250,000,000	41,675,000	1,509,009,586	1,509,009,586
2042	—	1,130,466,911	—	27,200,000	1,157,666,911	1,157,666,911
2043	—	—	500,000,000	27,200,000	527,200,000	527,200,000
Total . . .	<u>\$20,430,573,599</u>	<u>\$25,525,762,950</u>	<u>\$750,000,000</u>	<u>\$1,334,980,139</u>	<u>\$27,610,743,089</u>	<u>\$48,041,316,688</u>

Totals may not add due to rounding.

(1) Net of projected subsidy, surplus and capitalized interest payments from EFC.

(2) Does not reflect the interest subsidy on Build America Bonds provided by the federal government pursuant to the Recovery Act.

(3) Does not include debt service on the Fiscal 2011 Series BB Bonds expected to be issued on September 30, 2010.

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 2005 through 2009, 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 2005 through 2009.

System Revenues (Millions of Dollars)

<u>Line No.</u>	<u>Description</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Operating Revenues						
1	User Payments (1)	\$1,732.8	\$1,811.5	\$1,862.4	\$2,109.6	\$2,273.7
2	Upstate Revenues	27.3	42.7	42.2	46.0	42.2
3	Subtotal Service Revenue	1,760.1	1,854.1	1,904.6	2,155.6	2,315.9
4	Miscellaneous Revenues (2)	10.4	12.1	12.6	10.6	15.4
5	Subtotal Operating Revenue	1,770.4	1,866.2	1,917.2	2,166.2	2,331.3
Nonoperating Revenues						
6	Interest Income on System Funds (3)	97.1	110.9	101.1	84.6	69.6
7	Total Revenues	<u>\$1,867.5</u>	<u>\$1,977.2</u>	<u>\$2,018.9</u>	<u>\$2,250.8</u>	<u>\$2,400.9</u>

Totals may not add due to rounding.

- (1) Includes both current payments and payments relating to accounts in arrears.
- (2) Miscellaneous Revenues does not include subsidy payments from EFC on First Resolution Bonds or Second Resolution Bonds.
- (3) Includes interest income on the Construction Fund, Debt Service Fund, the Debt Service Reserve Fund, the Subordinated Debt Service Fund, the Revenue Fund and interest earned in escrow accounts for economically defeased debt.

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 2005 through 2009 on a cash basis which have been derived from the budget records utilized in preparation of the annual certificates of cash equivalents. These expenses represent operation, maintenance and general expenses excluding the lease rental payment to the City.

System Expenses
(Millions of Dollars)

<u>Expense Category</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Authority/Board Operations	\$ 23.8	\$ 27.0	\$ 28.4	\$ 50.2	\$ 47.6
Water Operations (1)					
Personal Services (2)	137.8	143.3	144.7	190.8	180.9
Other Than Personal Services (3)	<u>210.5</u>	<u>229.9</u>	<u>252.4</u>	<u>257.6</u>	<u>284.8</u>
Total Water Operations	348.3	373.2	397.1	448.4	465.7
Wastewater Operations (1)					
Personal Services (2)	213	227.9	242.1	308	288.9
Other Than Personal Services (3)	<u>191.9</u>	<u>208</u>	<u>240.7</u>	<u>260.5</u>	<u>299.1</u>
Total Wastewater Operations	404.9	435.9	482.8	568.5	588
Indirect Expenses (4)	50	53.8	53.9	56.2	56.2
Judgments and Claims	<u>8.0</u>	<u>8.0</u>	<u>8.0</u>	<u>12.4</u>	<u>8.0</u>
Total Operating Expenses	\$835.0	\$897.9	\$970.2	\$1,135.7	\$1,165.5
Less: Trust Account Withdrawals	—	—	—	—	—
Net Operating Expenses	835	897.9	970.2	1135.7	1165.5
Less: Credit for Prior Year Excess O&M Payment	<u>(3.3)</u>	<u>(31.3)</u>	<u>(8.5)</u>	<u>(15.7)</u>	<u>(22.9)</u>
Net Operating Expense Payments	\$831.7	\$866.6	\$961.7	\$1,120.0	\$1,142.6

Totals may not add due to rounding.

- (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, sludge disposal costs and for electricity, chemicals and supply costs.
- (4) Indirect Expenses include City agency support, and judgments and claims costs.

Projected Revenues

As indicated in the table below, “Subtotal Service Revenue” is projected as of May 21, 2010 to increase from approximately \$2.5 billion in Fiscal Year 2010 to approximately \$3.6 billion in Fiscal Year 2014. Projected rate increases in future Fiscal Years provide the majority of the increase in user payments. Upstate revenues are projected to increase from approximately \$43.6 million in Fiscal Year 2010 to approximately \$62.1 million in Fiscal Year 2014. This revenue growth is due to expected increases in the cost of water supply services.

City-wide water consumption in Fiscal Year 2010 was about 2% lower than consumption in Fiscal Year 2009. The projected revenues reflect the declines in consumption in Fiscal Year 2010 and assume that water consumption by metered customers will decline by 1.0% annually for Fiscal Year 2011 through Fiscal Year 2013 and 0.5% in Fiscal Year 2014. City-wide consumption in the two months of Fiscal Year 2011 is about 8.7% higher than consumption during the same period in Fiscal Year 2010.

For the first two months of Fiscal Year 2011, water and sewer payments were approximately \$10.3 million, or 1% higher than projected in May 2010 for this two month period.

Projected Revenues
(Millions of Dollars)

Line No.	Description	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Revenues						
1	User Payments (1)(2)	\$2,481.7	\$2,783.2	\$3,035.4	\$3,288.4	\$3,581.0
2	Upstate Revenues	43.6	51.2	55.0	58.5	62.1
3	Subtotal Service Revenue	2,525.3	2,834.5	3,090.4	3,346.9	3,643.1
4	Miscellaneous Revenues (3)	19.3	18.9	18.5	18.1	18.9
5	Subtotal Operating Revenue	2,544.5	2,853.4	3,109.0	3,365.0	3,661.9
Nonoperating Revenues						
6	Interest Income on System Funds (4)	48.6	49.0	54.5	53.2	57.8
7	Federal Subsidy on Build America Bonds	13.3	33.3	33.3	33.3	33.3
8	Subtotal Nonoperating Revenue	61.9	82.3	87.8	86.5	91.1
9	Total Revenues	\$2,606.4	\$2,935.7	\$3,196.8	\$3,451.5	\$3,753.0

Totals may not add due to rounding. Figures are calculated on a cash basis.

Source: Amawalk Consulting.

(1) Includes late payment charges.

(2) User Payments assume renewal of the authorization for the lien sale program, which is scheduled to expire on December 31, 2010.

(3) Miscellaneous Revenue includes subsidy payments from EFC on First Resolution Bonds, but does not include subsidy payments from EFC on Second Resolution Bonds. Miscellaneous revenues include fees paid to DEP's Bureau of Customer Service for a variety of services such as new connections to the System and fees paid to the Bureau of Water and Sewer Operations for the review of developers' plans. Miscellaneous fees are higher than shown in previous projections to reflect the reclassification of certain revenues that were previously shown as user payments.

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

Projected Operating and Maintenance Expenses

The table set forth below shows, for Fiscal Years 2010 through 2014, the System's projected operation and maintenance expenses as of May 21, 2010. See "INTRODUCTORY STATEMENT — Financial Projection Assumptions."

Projected Operation and Maintenance Expense
(Millions of Dollars)

Line No.	Description	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
1	Authority/Board Operations	\$ 32.4	\$ 50.9	\$ 55.6	\$ 60.8	\$ 66.9
Water Operations						
2	Personal Services	205.4(1)	179.0	206.9	213.7	219.8
3	Other Than Personal Services	294.0	298.1	315.0	372.8	397.7
4	Total Water Operations	499.4	477.1	521.9	586.5	617.5
Wastewater Operations						
5	Personal Services	623.9(1)	334.8	385.9	380.8	391.8
6	Other Than Personal Services	296.1	273.0	267.2	293.7	311.3
7	Total Wastewater Operations	920.1	607.8	653.1	674.5	703.2
8	Indirect Expenses	19.0	19.0	19.0	19.0	19.0
9	Judgments and Claims	6.0	8.0	8.0	8.0	8.0
10	Total Operating Expenses	1,476.8	1,162.8	1,257.6	1,348.8	1,414.5
11	Less: Trust Account Withdrawals	(98.8)	0.0	0.0	0.0	0.0
12	Net Operating Expenses	1,378.0	1,162.8	1,257.6	1,348.8	1,414.5
13	Less: Credit for Prior Year Excess O&M Payment	(13.3)	—	—	—	—
14	Net Operating Expense Payments	<u>\$1,364.7</u>	<u>\$1,162.8</u>	<u>\$1,257.6</u>	<u>\$1,348.8</u>	<u>\$1,414.5</u>

Totals may not add due to rounding. Figures are calculated on a cash basis.

Source: Amawalk Consulting.

(1) Includes recent retroactive contract settlements through the 2006-08 round of collective bargaining for sewage treatment and certain other workers whose contract expired in periods dating back to 1994.

Operating 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.

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 \$13.9 million in Fiscal Year 2011, and are expected to increase in future years as the outstanding principal of bonds issued to EFC increases. 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, Commercial Paper Notes and the management of investments and arbitrage rebate payments. The expenses of the Board include payments for lock box services as well as consulting services for the following: the environmental health and safety program, capital program management, customer service and rates and charges.

Personal services costs for both water operations and wastewater operations include direct salary costs plus fringe benefit and pension costs. In anticipation of the completion of both the Croton Filtration Plant and the UV Facility, preliminary estimated operating costs for both facilities have been incorporated in Projected Operation and Maintenance Expenses. The projected personal services costs for Fiscal Years 2010 through 2014 include an annual 3% increase to reflect allowances for changes in staffing, salary and wage adjustments, including collective bargaining increases, and other factors. Allowances for fringe benefit and pension contributions are expected to decline in Fiscal Year 2011 to 30% from 49% in Fiscal Year 2010 and then to increase to 40% of salary and wage costs in Fiscal Year 2012 and subsequent years. For information on labor relations including retroactive contract settlements, see "THE DEPARTMENT OF ENVIRONMENTAL PROTECTION — Labor Relations."

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.

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.

Property tax payments for City-owned watershed lands are expected to be approximately \$137 million in Fiscal Year 2011. It is assumed that such payments will generally increase at the rate of 6% annually reflecting both the addition of new watershed properties and increasing tax rates.

DEP adds chemicals, including fluoride, orthophosphate and chlorine, to drinking water and uses other chemicals in the treatment of wastewater. In Fiscal Year 2011, the anticipated cost of chemicals for the System is approximately \$58 million.

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. The projected expenses for Fiscal Year 2011 include \$18 million for programs related to filtration avoidance including the operation and maintenance of wastewater treatment facilities in the watershed. Such programs will include certain capital investments which are contained within the CIP. The forecasted operation and maintenance expenses for the Water System reflect operation and maintenance costs due to the Watershed Agreement.

Beginning in Fiscal Year 2011, System expenses include an allowance of \$7.9 million for upstate property taxes on the UV Facility. In Fiscal Year 2012, an allowance of approximately \$21 million is included for operation and maintenance expenses for both the UV Facility and the Croton Filtration Plant, inclusive of property taxes and startup costs. In Fiscal Year 2013, when both plants are expected to be fully

operational, operation and maintenance expenses for both facilities are projected to be a total of \$61 million.

Wastewater Operations. The operating costs of the Sewer System include direct operation and maintenance costs applicable to 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.

Other than personal services costs, excluding property taxes, are generally assumed to increase at an estimated rate of 3% per year for the forecast period. 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. The projected costs for heat, light and power for the Water System and the Sewer System in Fiscal Year 2011 are approximately \$96 million. The vast majority of such expenses are for electricity for the Sewer System. The vast majority of the fuel oil used by DEP is for the Sewer System. The projected allowance for fuel oil in Fiscal Year 2011 is \$17 million. Another major component of other than personal services costs for the Sewer System is biosolids management, which is projected to be \$50 million in expenses in Fiscal Year 2011.

In Fiscal Year 2009, other than personal services expenses included \$29.0 million in escrow payments for the resolution of claims filed by NYSDEC relative to improvements at the Newtown Creek wastewater treatment plant. Some or all of the payments may be recovered by the System if DEP meets certain future milestone dates. No allowance has been made for the return of the payments in the forecasted cash flows of the System. See, “THE SYSTEM — THE SEWER SYSTEM — Full Secondary Treatment Requirements/Newtown Creek.” Projected operating expenses for the System do not include provisions for the payment of any additional potential fines or penalties. See “THE SYSTEM.” In the event that fines or penalties are required to be paid, operating expenses will increase in the year in which such payments are made.

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

Credits Against Operation and Maintenance Expense. Pursuant to a consent decree (the “1989 Consent Decree”) entered into in 1989 under the Marine Protection Research and Sanctuaries Act of 1972 (“MPRSA”), as amended by the Ocean Dumping Ban Act of 1988 (the “Ban Act”), DEP ceased the ocean disposal of sludge in June 1992. The Ban Act and the 1989 Consent Decree provide that 85% of the fees and penalties paid shall be deposited into a trust account and shall be available to reimburse the City for costs incurred to meet the requirements of the federal Water Pollution Control Act. These funds were used in Fiscal Year 2010 as an offset to operation and maintenance expenses.

Projected Financial Operations

The following table shows a summary of the forecasted cash flows for the Authority as of May 21, 2010 for Fiscal Year 2010 through Fiscal Year 2014. See “CAPITAL IMPROVEMENT AND FINANCING PROGRAM — Debt Service Requirements.” See “RATES AND BILLINGS — Rates — Projected Rates.” The projected rate increases described herein under “RATES AND BILLINGS — 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 33 of the table, positive net surpluses are projected to be maintained throughout the reporting period. Line 34 illustrates the projected coverage of First Resolution

debt service by current revenues available for debt service. Line 35 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 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Revenues						
1	Water and Sewer User Payments	\$2,481.7	\$2,783.2	\$3,035.4	\$3,288.4	\$3,581.0
2	Upstate Revenue	43.6	51.2	55.0	58.5	62.1
3	Miscellaneous Revenue	19.3	18.9	18.5	18.1	18.9
Other Revenues						
4	Interest on Funds	48.6	49.0	54.5	53.2	57.8
5	Federal Subsidy on Outstanding Build America Bonds	13.3	33.3	33.3	33.3	33.3
6	Current Revenues Available for Debt Service	2,606.4	2,935.7	3,196.8	3,451.6	3,753.0
First Resolution Debt Service(1)						
7	Outstanding Bonds	500.7	609.0	581.8	545.9	608.6
8	Anticipated Future Bonds	—	11.9	36.2	51.6	63.0
9	Total First Resolution Debt Service	500.7	620.9	618.0	597.5	671.6
Second Resolution Debt Service(1)						
10	Outstanding Second Resolution Bonds issued to the public	259.6	380.4	382.8	415.1	445.5
11	Anticipated Future Second Resolution Bonds issued to the public	—	47.5	142.5	227.6	298.3
12	Interest Payments on Commercial Paper Notes	5.0	42.5	42.5	42.5	42.5
13	Outstanding Second Resolution Bonds issued to EFC	479.6	508.0	513.6	490.0	472.7
14	Anticipated Future Second Resolution EFC Bonds	—	12.6	35.0	58.3	81.9
15	Less: EFC Subsidy and Capitalized Interest on Subordinated Bonds	(108.4)	(114.9)	(120.8)	(123.0)	(124.5)
16	Actual Debt Service on Subordinated Indebtedness	635.8	876.1	995.6	1,110.4	1,216.4
17	Less: Carryforward Revenues	(299.8)	(236.6)	(212.9)	(176.5)	(160.2)
18	Net Debt Service on Subordinated Indebtedness	336.0	639.6	782.7	934.0	1,056.2
19	Total Debt Service Payable from Current Revenues (line 9 + line 18)	836.7	1,260.5	1,400.7	1,531.5	1,727.8
Operating Expenses						
20	Authority/Board Operations	32.4	50.9	55.6	60.8	66.9
21	Water System	499.4	477.1	521.9	586.5	617.5
22	Wastewater System	920.1	607.8	653.1	674.5	703.2
23	Indirect Expense	19.0	19.0	19.0	19.0	19.0
24	Judgments and Claims	6.0	8.0	8.0	8.0	8.0
25	Total Operating Expenses	1,476.8	1,162.8	1,257.6	1,348.8	1,414.5
26	Less: Trust Account Withdrawals	(98.8)	—	—	—	—
27	Net Operating Expenses	1,378.0	1,162.8	1,257.6	1,348.8	1,414.5
28	Less: Credit for Prior Year Excess O&M Payment	(13.3)	—	—	—	—
29	Deposits to O&M Reserve Fund	—	—	—	9.9	4.2
30	Rental Payment to the City of New York	168.5	219.6	237.0	251.2	278.2
31	Cash Financed Capital Construction(2)	—	80.0	125.0	150.0	175.0
32	Total Expenses	1,533.2	1,462.3	1,619.7	1,759.9	1,872.0
33	Net Surplus (line 6-line 19-line 32)	\$ 236.6	\$ 212.9	\$ 176.5	\$ 160.2	\$ 153.2
34	First Resolution Debt Service Coverage (line 6/line 9)	5.21	4.73	5.17	5.78	5.59
35	First and Second Resolution Debt Service Coverage (line 6/line 19)	3.12	2.33	2.28	2.25	2.17

Source: Amawalk Consulting.

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

- (1) Does not reflect interest subsidy on Build America Bonds provided by the federal government pursuant to the Recovery Act.
- (2) 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 and may be increased or decreased by the Authority from the amounts projected in each year.

RATES AND BILLINGS

Rates

The Board is responsible for setting rates in compliance with the Rate Covenant. See “SECURITY FOR THE SECOND RESOLUTION 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 1.7% of System Revenues are collected from such upstate users. Sewer charges are established by the Board as a percentage of water 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 2001:

History of Water and Sewer Rate Increases

Effective Date	Increase in Flat-Rate Water	Increase in Metered Water	Metered Water Rate (per ccf)(1)	Change in Sewer(2)
July 1, 2001	3	3	1.35	No change
July 1, 2002	6.5	6.5	1.44	No change
July 1, 2003	5.5	5.5	1.52	No change
July 1, 2004	5.5	5.5	1.60	No change
July 1, 2005	3	3	1.65	No change
July 1, 2006	9.4	9.4	1.81	No change
July 1, 2007	11.5	11.5	2.02	No change
July 1, 2008	14.5	14.5	2.31	No change
July 1, 2009	12.9	12.9	2.61	No change
July 1, 2010	12.9	12.9	2.94	No change

(1) ccf: 100 cubic feet.

(2) For the period shown, the sewer charge has been a constant 159% of the water charge.

Projected Rates. Although the Board sets rates for an annual period, it may increase rates during such period, as required. As of May 21, 2010, 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 9.8% in each of Fiscal Years 2012, 2013, and 2014.

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, 2010, water taken from either the Croton or Catskill/Delaware systems is charged at a rate of \$1,149.72 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 30 large cities based upon a survey conducted in February 2010. Using a ranking system where 1 represents the lowest rates, the City's ranking relative to these cities is: for Single-Family Residential — 16, for Commercial — 18, and for Industrial — 20.

Comparative Annual Water and Sewer User Charges⁽¹⁾⁽²⁾⁽³⁾

Single Family Residential		Commercial		Industrial	
City	Annual Charge	City	Annual Charge	City	Annual Charge
Memphis	\$ 260	Memphis	\$3,514	Memphis	\$191,656
Chicago	298	Chicago	4,778	St. Louis	433,912
Denver	421	Denver	5,612	Denver	438,917
Phoenix	475	San Antonio	5,949	Chicago	477,803
Miami-Dade	528	St. Louis	6,250	Dallas	481,323
San Antonio	564	Dallas	6,359	Indianapolis	482,039
Milwaukee	597	Baltimore	6,986	Milwaukee	484,028
Houston	616	Indianapolis	7,192	San Antonio	495,133
Baltimore	649	Milwaukee	7,249	Philadelphia	588,316
St. Louis	649	Detroit	7,601	Detroit	596,451
Dallas	661	Houston	8,185	Baltimore	617,172
Indianapolis	675	Louisville	8,286	Louisville	636,020
Fort Worth	699	Fort Worth	8,369	Fort Worth	677,109
Charlotte	719	San Jose	8,378	Jacksonville	723,260
Louisville	720	Phoenix	8,543	San Jose	723,458
New York	723	Jacksonville	8,552	Columbus	725,910
Detroit	725	Los Angeles	8,977	Houston	801,811
Los Angeles	739	New York	9,037	Charlotte	822,425
Washington, D.C.	797	Philadelphia	9,377	Los Angeles	864,956
Columbus	803	Charlotte	9,608	New York	903,730
San Jose	803	Columbus	9,673	Washington, D.C.	921,164
Jacksonville	816	San Diego	10,413	San Diego	972,766
Cleveland	828	Cleveland	10,690	Phoenix	1,020,243
Austin	876	Miami-Dade	10,833	Cleveland	1,071,896
Boston	974	Washington, D.C.	11,475	Miami-Dade	1,107,278
San Diego	1,075	Austin	11,858	Austin	1,163,037
San Francisco	1,134	Boston	13,378	San Francisco	1,359,630
Philadelphia	1,193	San Francisco	13,767	Boston	1,474,347
Seattle	1,613	Seattle	19,854	Seattle	1,739,717
Atlanta	1,641	Atlanta	23,153	Atlanta	2,338,006
Average	\$ 776	Average	\$9,463	Average	\$844,451

(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. There may be significant differences in typical single family residential usage among cities which results in charges that are different than shown above. 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 will not reflect the full cost of water, wastewater or stormwater services.

(2) Charges for all cities reflect rate schedules in effect in February 2010.

(3) Single family residential water and sewer annual user charges are based on 80,000 gallons per year ("GPY"). Prior surveys were based on annual consumption of 100,000 GPY. The reduction reflects declining average consumption by residential customers.

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 835,000 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 50,000 accounts, representing 6% 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.

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. Approximately 786,000 accounts, representing 94% of total accounts, are billed on a metered basis. Approximately 98% of all water and sewer accounts have meters installed, although some accounts that have meters installed are not yet billed on that basis. The City has issued contracts for the installation of meters for the remaining unmetered accounts and is testing and replacing meters where necessary. 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 7,400 accounts in their most recent bills. 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. Meters are read and billed on a quarterly basis except meters for some larger accounts which are read and billed more frequently. 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.

DEP is aggressively pursuing the replacement of old meters and the implementation of an automated meter reading system. Likewise, meters being installed in new construction or as upgrades using the reimbursable metering program must meet new requirements for automated meter reading equipment. DEP plans to replace over 400,000 meters, and it has installed 140,000 new water meters to date. The cost of implementing this program is fully funded in the CIP.

DEP has contracted with a vendor to provide technology for the automated meter reading system in which meters transmit usage information by radio signal to DEP. DEP began installing transmitters in the second half of 2008, with substantial completion of installation at all locations expected by January 2012. To date, DEP has installed over 450,000 transmitters, covering 54% of all customers, and the automated meter reading system has been activated for those accounts that have had transmitters installed. All customers whose accounts have been upgraded for automated meter reading can now access a website, which updates at least four times per day to display their water consumption, including detail of the cubic feet and gallons consumed and the cost to be billed. For the majority of meters without automated transmitters, readings are obtained by hand-held devices and uploaded daily to a centralized computer billing system. A small number of meters transmit readings via telephone lines, and some older meters are read manually. However, as a result of the City's aggressive implementation of the automated meter reading system, DEP has recorded a decrease in the percentage of estimated bills from an average of 20.1% in Fiscal Year 2002 to approximately 12.5% as of July 2010.

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 29,000 accounts in the transitional program.

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

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 700 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. Pursuant to a request for proposal process, DEP has entered into a contract with a vendor to replace the existing CIS.

The Board and DEP have undertaken initiatives to enhance the collection of water and sewer billings. 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. DEP has issued water shut-off notices to single family residential customers pursuant to the Board's regulations governing service terminations. Although most customers receiving such notices pay their bills or enter into payment agreements, DEP has terminated service for a small number of single family residential properties. In December 2007, the City Council and the Mayor reauthorized the City's lien sale program which had expired in 2006, 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. The lien sale program authorization is scheduled to expire on December 31, 2010. DEP is seeking to have such lien sale authorization extended. The Board has also adopted updated policies regarding the denial of access and new policies regarding theft of service, effective July 1, 2009.

The Board, at its annual meeting on May 21, 2010, authorized a 2% discount on Fiscal Year 2011 water bills for meter-billed customers who enroll in DEP's on-line direct debit program. To enroll in the direct debit program, customers must register for automatic payment withdrawal and agree to pay their bills in full each quarter automatically five days after issuance. This program is not expected to have a significant impact on 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 approximately 8.4 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 1 million people. The Water System provides an average of approximately 1,015 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 1,260 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 AECOM, the System is in adequate condition (the highest rating category). See “APPENDIX A — LETTER OF AECOM USA, Inc., 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; the installation of a watershed-wide radio communication system; 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. 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 can be drawn 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 75% 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 F.

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	0.9	1915
Total Balancing Reservoirs	31.5	
Distribution Facilities		
Central Park (offline)	1.0	1862
Jerome Park	0.8	1905
Silver Lake (tanks)	0.1	1970
Total Distribution Facilities	1.9	
Total Storage Capacity	33.4	

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

Water System Dependable Yield and Capacity

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

(1) Capacity above minimum operating level.

The total volume of water used each year by the City and upstate customers includes water consumed by metered and unmetered customer accounts, water used in firefighting, leakage and other uses. The following table summarizes the total quantities of water delivered each year to the City and upstate customers for Fiscal Year 2006 through Fiscal Year 2010.

Historical Annual Water Use by the City and Upstate Customers (million gallons)

<u>Year</u>	<u>City Use</u>	<u>Upstate</u>	<u>Total</u>
2006	396,974	44,504	441,477
2007	400,658	43,895	444,553
2008	408,490	43,559	452,048
2009	378,961	41,477	420,438
2010	371,441	40,797	412,238

When operating at full capacity, the Croton System provides approximately 10% of the City's daily water supply and can provide substantially more of the daily water supply during drought conditions. Due to abundance of higher quality water from the Catskill and Delaware Systems, the Croton System has not been operating at full capacity for several years. It was shut down entirely from the summer of 2007 to the fall of 2008 when it was briefly placed in service during planned maintenance of the Delaware System. It may be used intermittently and for short periods over the next few years. The completion of the Croton filtration plant is expected to eliminate the water quality problems of the Croton System water. With completion of the Croton filtration plant, the Croton System will be able to operate at full capacity. See

“— Governmental Regulation — *Croton Filtration*.” 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. Schoharie Reservoir water is delivered to the Esopus Creek via the Shandaken Tunnel, from which it then travels to the Ashokan Reservoir.

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 manage the Schoharie Reservoir and maintain it at proper levels is scheduled to be completed by December 2010. Site preparation work began in September 2009, with full reconstruction, which is anticipated to bring the dam up to compliance with NYSDEC safety guidelines for new dams, scheduled to begin in Fiscal Year 2011. The estimated cost to complete the rehabilitation is \$458 million, \$362 million of 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, which have been offline since 2007 due to the availability of higher quality water from the Catskill and Delaware Systems, are capable of providing 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 F. 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 890 mgd and normally conveys 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 four 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.

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 four years. Elements of that plan may include: interconnections with other neighboring jurisdictions; increased use of groundwater supplies; 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 2018. 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 were shut down. The Stage III project is now referred to as the Kensico-City Tunnel (the "Kensico-City 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 \$75 million.

The water distribution system consists of a grid network of over 6,700 miles of pipe, as well as valves, fire hydrants, distribution facilities, gatehouses, pump stations, and maintenance and repair yards. Approximately 35% of the pipe in the System was laid before 1930, 35% 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 last drought was in 2002. As of September 15, 2010, the System's reservoirs were filled to 69.1% of capacity. Normal levels at this time of year are approximately 78.1% 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.

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.

Since 1997, the FAD has required that the City 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 August 26, 2010, title to or conservation easements on approximately 112,000 acres of land in the Catskill and Delaware watersheds at a cost of approximately \$386 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. DEP has applied for a new permit in order to continue acquiring watershed land during the second five years of the 2007 FAD. DEP is actively negotiating with other stakeholders about the terms of a successor permit. All 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 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. Additional funding will be required in the CIP for Fiscal Year 2013 through 2017 to support the FAD Program for the second five years once the program is negotiated.

There has been increased interest in natural gas drilling in southeastern New York State, including the watershed. DEP hired a geological consultant and has been monitoring the situation to understand what impact such exploration may have on the System, including any potential impact on water quality. NYSDEC issued a Draft Supplemental Generic Environmental Impact Statement (“dSGEIS”) relating to natural gas drilling on September 30, 2009. On December 23, 2009, DEP released its final impact assessment of natural gas drilling within the watershed and submitted detailed comments on the dSGEIS. The City believes the dSGEIS is seriously flawed in many respects and requested that NYSDEC withdraw the document to correct its many deficiencies and errors. The City also called for a prohibition on drilling in the watershed due to the potential for natural gas drilling as currently practiced to harm water quality and jeopardize the City’s FAD and damage the City’s water supply infrastructure. USEPA also submitted comments on the dSGEIS in which it expressed concerns about the failure of the analysis to fully consider the impacts of natural gas drilling and that such concerns be addressed prior to the completion of the environmental review process. In April 2010, NYSDEC announced that the Supplemental Generic Environmental Impact Statement would not cover gas drilling activities in the watershed of unfiltered water supplies, including the City’s watershed. To date, no permits have been filed to drill for natural gas in the watershed.

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. 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") to filter water from the Croton System. 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 relating to commencement of construction and certain construction milestones. Those milestones have now been met and DEP has paid the corresponding penalties related to such missed milestones. The delay in commencing construction will result in DEP missing future milestones as the project progresses, which could result in the imposition of additional penalties. When it can better estimate the final schedule for commencing operations of the facility, DEP will ask USEPA and NYSDOH to forbear imposing penalties for delays resulting from the late start in beginning construction. It is anticipated that the total remaining cost to complete the Croton filtration plant will be \$200 million, all of which is included in the CIP. Construction of a permanent golf club house, the costs of which are not yet known, but which DEP is mandated to fund, is not funded in the CIP.

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 has entered into an Administrative Order with USEPA which mandates that the City begin work on a cover by December 31, 2018. See "*— Hillview Reservoir.*"

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 levels of disinfection byproducts set forth by DBP2 may be exceeded in certain parts of the System under certain conditions. DEP hired a consultant to study the matter and issue a report recommending steps to be taken by DEP. The final report was issued in October 2008. The report does not suggest switching to chloramination (an alternative form of disinfectant) at this time, but does recommend that DEP leave space available at its facilities to accommodate the use of chloramination in the event that a change in disinfection is necessary in the future. The report also makes certain recommendations regarding DEP's operation of the water supply system, which will improve DEP's ability to achieve compliance with DBP2. There are no significant capital issues related to the recommendations set forth in the report.

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. The cost to complete the UV Facility is fully funded in the CIP.

Hillview Reservoir. In March 1996, DEP entered into an Administrative Order with NYSDOH which, as modified in 1997 and 1999 (the “State Hillview Administrative Order”), 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 State Hillview Administrative Order. On February 22, 2008, DEP entered into a revised State 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. In 2009, USEPA informed the City that the State Hillview Administrative Order did not satisfy the requirements of LT2 and proposed that the City enter into an Administrative Order with USEPA to cover the Hillview Reservoir (the “Federal Hillview Administrative Order”). The Federal Hillview Administrative Order, which was signed in May 2010, requires the City to begin constructing the cover by December 31, 2018, and to complete construction by May 31, 2028. The Federal Hillview Administrative Order also allows the City to seek a schedule modification based on DEP’s on-going assessment of water supply facility construction priorities, although there is no assurance that any such modification would be granted. NYSDOH has told the City that the State Hillview Administrative Order will be modified to mirror the Federal Hillview Administrative Order schedule. Currently, the cost of constructing a concrete cover over the Hillview Reservoir, as DEP originally proposed, is expected to be approximately \$1.6 billion, \$250 million of which is included in the CIP. Under the schedule set forth in the Federal Hillview Administrative order most of the costs related to the cover would be incurred in the years beyond the CIP. DEP is continuing to investigate less costly alternatives to a concrete cover, including a floating cover, which would require the consent of NYSDOH and USEPA. See “— *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 2009, the most recent such report, demonstrates that the quality of New York City’s drinking water remains high.

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.

Shandaken Tunnel SPDES Permit. 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. As a result of state court litigation challenging the terms of the SPDES permit, DEP must apply for variances under that permit in October 2010. This could impact the type of work, and the costs of such work, DEP is required to do to achieve compliance with the permit’s temperature and turbidity limits.

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 F.

Sewage Collection and Treatment

The Sewer System’s plants treat approximately 1,260 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, four 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 awarded contracts for the beneficial use of its biosolids, which commenced in July 1998. Current contracts include: composting in Pennsylvania and lime stabilization in Pennsylvania and Ohio. DEP has recently awarded two contracts to landfill a portion of its biosolids, which will diversify disposal options and reduce costs.

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/Newtown 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, as recently modified. The modified Newtown Creek Consent Judgment requires the plant to meet secondary treatment levels by May 1, 2013. It requires the City to, among other things, (i) pay approximately \$29 million into an escrow account, some or all of which may be recovered by the City if DEP meets certain future milestone dates, (ii) fund a \$10 million Environmental Benefits Project, and (iii) conduct environmental audits of DEP's in-City wastewater treatment plants and four combined sewer overflow ("CSO") facilities. The modified Newtown Creek Consent Judgment requires DEP to remedy any legal deficiencies uncovered during the environmental audits but shields DEP from penalties for any such deficiencies. The current estimated cost to complete the work at Newtown Creek is \$633 million, the full cost of which is included in the CIP.

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 for the construction of nine combined sewer overflow projects, which may include storage tanks. The CSO Consent Order was modified in January 2005, April 2008 and August 2009. 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 \$1.3 billion, \$1.04 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.

All of the City's 14 in-City water pollution control plants are capable of accepting and treating two times dry weather flow, as required by the City's SPDES permits. However, NYSDEC has allowed DEP temporarily to operate the Newtown Creek and Wards Island Plants at less than two times dry weather flow in order to facilitate capital upgrades at these plants. 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 were challenged by several environmental groups, who sought additional permit provisions relating to the control of CSOs and/or modification of the terms of the revised CSO Consent Order. On June 10, 2010, NYSDEC rejected the environmental groups' challenges and directed that the draft permits be issued. On August 16, 2010, the environmental groups brought a lawsuit in state court to challenge NYSDEC's decision. For information relating to these permits, see "LITIGATION."

In December 2007, NYSDEC issued an NOV alleging that DEP was not in compliance with certain requirements related to CSOs as set forth in DEP's SPDES permits. DEP has disputed these claims. In August 2008, NYSDEC served DEP with a draft of a new Consent Order (the "CSO SPDES Consent Order") seeking to resolve the NOV's. In August 2010, DEP and NYSDEC reached agreement on a settlement that will require DEP to pay a penalty of \$240,000, to undertake various studies, and to institute a program of regular inspection and cleaning of interceptor sewers and interceptor sewer tidegates. The agreement is subject to approval by the NYC Comptroller.

Water Pollution Control Plants The System includes six City-owned upstate surface discharging water pollution control plants to prevent untreated sewage from being released into the watersheds. To enhance watershed protection, DEP completed upgrades to these facilities. The system also includes one subsurface

discharging water pollution control plant that has not been upgraded. The CIP includes funds to upgrade the facility.

NYSDEC issued an NOV on July 31, 2009 resulting from the collapse of the roof of a regulator chamber at the 26th Ward water pollution control plant and the resulting bypass of sewage through the treatment plant on October 12, 2008. The bypass of sewage through the plant ended on the morning of October 13, 2008 and DEP has secured the site of the collapse and is proceeding with a contract to repair the regulator. NYSDEC referred the NOV to USEPA and on October 23, 2009, USEPA issued a unilateral Administrative Compliance Order to DEP for the repair of the regulator roof and requiring certain interim steps including final repair of regulator within 2 years of receipt of Order. DEP has requested a modification of the construction completion date under the Administrative Compliance Order. Although the order does not contain any penalties, violations of USEPA orders generally are subject to penalties of up to \$37,500 per day.

In April 2010, NYSDEC and DEP began negotiations to establish a process to facilitate better communication between the NYSDEC and DEP in order to resolve certain outstanding SPDES permit and other violations at the water pollution control plants identified as significant noncompliance violations under the Clean Water Act, and to resolve any such future violations in a more efficient and timely fashion. The NYSDEC proposal included development of a draft generic template for a consent order for settlement of NOV's ("Generic Omnibus Order"), and quarterly NYSDEC/DEP technical meetings. In July 2010, NYSDEC served DEP with a site specific draft Omnibus Order addressing alleged violations at six water treatment plants. Negotiations concerning the July 2010 draft Order are ongoing.

Separate Sewers. In addition to the combined sewers, which are subject to the CSO control program, portions of the City are served by separate sewers designed to carry only stormwater, and not sanitary waste. Such municipal separate storm sewer systems ("MS4s") are also subject to regulation under the Clean Water Act, and therefore require SPDES permits. Currently, the SPDES requirements for the City's separate sewers are incorporated into the SPDES permits for the 14 water pollution control plants. Recently, however, NYSDEC has indicated its intention to issue a separate, Citywide MS4 permit which is likely to impose significant new requirements. The City does not yet have an estimate of the costs associated with those new requirements, nor are such costs included in the CIP.

Superfund Designation. On March 2, 2010, following up on an earlier notice of proposed listing, the USEPA listed the Gowanus Canal, a waterway located in Brooklyn, New York, as a federal Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). While it was evaluating listing the Gowanus Canal, on November 5, 2009, USEPA notified the City that it considers the City a potential responsible party ("PRP") under CERCLA for hazardous wastes in the Gowanus Canal. In its PRP notice letter, USEPA identified current and formerly City-owned and operated properties, including an asphalt plant, an inactive incinerator, and waterfront properties historically leased to private entities. At USEPA's request, the City agreed to sample groundwater on three City-owned properties, including the site of a DEP pump station, under an administrative consent order with USEPA. USEPA is currently investigating whether and if so, to what extent, discharges from DEP's CSOs may have contributed hazardous substances to the Canal. DEP is currently undertaking a \$160 million capital project which will modernize a flushing tunnel to directly improve water quality and circulation within the canal. This work also includes up-sizing a pump station at the head of the canal to reduce the discharge of CSOs and dredging of a portion of the canal. Based on prior communications between DEP and USEPA, these projects should not be impacted by the listing of the Gowanus Canal as a federal Superfund site.

In September 2009, USEPA also proposed to list Newtown Creek, the waterway on the border between Brooklyn and Queens, New York, as a Superfund site. USEPA has not yet listed the Newtown Creek as a Superfund site. On April 6, 2010, USEPA notified the City that it considers the City a PRP under CERCLA for hazardous wastes in the Newtown Creek. In its Newtown Creek PRP notice letter, EPA identified historical City activities that filled former wetlands and low lying areas in and around the Newtown Creek and releases from formerly City-owned and operated facilities, including municipal incinerators, as well as discharges from sewers and combined sewer overflow outfalls as potential sources

of hazardous substances in the Newtown Creek. At USEPA's urging, the City is discussing actively participating in the investigation of conditions in Newtown Creek and the evaluation of feasible remedies.

Under CERCLA, a responsible party may be held responsible for monies expended for response actions at a Superfund site, including investigative, planning, removal, remedial and EPA enforcement actions. A responsible party may also be ordered by USEPA to take response actions themselves. Responsible parties include, among others, past or current owners or operators of a facility from which there is a release of a hazardous substance that causes the incurrence of response costs. The nature, extent, and cost of response actions at either Gowanus Canal or Newtown Creek, and the contribution, if any, of discharges from the System to hazardous substances in the Creek, and the extent of DEP's liability, if any, for monies expended for such response actions, will likely not be determined for several years.

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 57 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.

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. Contracts related to Phase 1 of the facilities plan pursuant to the Nitrogen Consent Judgment have been let, all of which are fully funded. DEP submitted a draft of Phase 2 of the facilities plan in December 2009. The costs related to Phase 2 of the plan have not yet been determined. Pursuant to a Stipulation and Order Modifying the Nitrogen Consent Judgment entered in October 2009, DEP has agreed to upgrade a sixth plant, the Jamaica Water Pollution Control Plant, to reduce nitrogen discharges. DEP and NYSDEC are currently negotiating a further commitment by DEP to construct additional nitrogen upgrades at the plants that discharge into Jamaica Bay. 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 but, in many cases, do not reflect the economic downturn that has impacted the City commencing in 2007. Sources of information are indicated in the text or immediately following the 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 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 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. Subsequently, Wall Street activity, tourism and the real estate market drove a broad-based economic recovery until the second half of 2007. The Mayor's most recent financial plan for the City's fiscal years 2010 through 2014 (the "Financial Plan") assumes that a decrease in economic activity which began in the second half of calendar year 2007 persisted through the first half of 2010 and that a gradual pick up in economic activity will occur in the second half of 2010 and in 2011.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1998 to 2008 (the most recent year for which City personal income data are available). From 1998 to 2008, personal income in the City averaged 5.3% while the nation averaged 5.2% growth. After increasing by 8.9% in 2008, total personal income increased by 3.0% in 2008. The following table sets forth information regarding personal income in the City from 1998 to 2008.

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>
1998.....	260.5	33,146	27,258	121.6
1999.....	273.6	34,422	28,333	121.5
2000.....	293.2	36,576	30,318	120.6
2001.....	298.9	37,076	31,145	119.0
2002.....	299.7	37,035	31,462	117.7
2003.....	305.8	37,627	32,271	116.6
2004.....	327.7	40,105	33,881	118.4
2005.....	351.8	42,826	35,424	120.9
2006.....	387.0	46,901	37,698	124.4
2007.....	421.5	50,725	39,392	128.8
2008.....	434.1	52,013	40,166	129.5

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 452,600 new private sector jobs (an average growth rate of approximately 2%). Between 2000 and 2003 the City lost 174,300 private sector jobs. From 2003 to 2008, the City fully recovered those jobs adding a total of 255,000 private sector jobs. In 2009, the City lost 107,800 private sector jobs. As of July 2010, total employment in the City was 3,686,100 compared to 3,701,700 in July 2009, a decrease of approximately 0.4%.

The table below shows the distribution of employment from 1999 to 2009.

Employment Distribution											
Average Annual Employment (In thousands)											
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Goods Producing Sectors											
Construction	112	121	122	116	113	112	113	118	127	133	121
Manufacturing	187	177	156	139	127	121	114	106	101	96	83
Service Producing Sectors											
Trade Transportation and Utilities	556	570	557	536	534	539	547	558	570	574	549
Information	173	187	200	177	164	160	163	165	165	167	161
Financial Activities	481	489	474	445	434	435	445	458	468	465	435
Professional and Business Services	553	587	582	550	537	542	556	572	593	605	573
Education and Health Services	604	615	627	646	658	665	679	695	705	719	734
Leisure and Hospitality	244	257	260	255	260	270	277	285	298	310	308
Other Services	142	147	149	150	149	151	153	154	158	161	160
Total Private	3,052	3,149	3,127	3,015	2,975	2,995	3,047	3,111	3,185	3,230	3,122
Government	567	569	562	566	557	554	556	555	559	564	565
Total	3,619	3,718	3,689	3,581	3,531	3,549	3,603	3,667	3,744	3,794	3,687

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 2008, the City's service producing sectors provided approximately 3.0 million jobs and accounted for approximately 79% 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 2008, 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 50%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 25% of earnings in 2008. 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 2008 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2008(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%	0.6%	0.2%	1.2%
Construction	3.5	5.2	3.0	6.2
Manufacturing	<u>2.5</u>	<u>9.8</u>	<u>1.9</u>	<u>11.0</u>
Total Goods Producing	6.0	15.6	5.1	18.3
Service Producing Sectors				
Trade, Transportation and Utilities	15.1	19.2	8.4	15.9
Information	4.4	2.2	7.1	3.4
Financial Activities	12.3	6.0	30.2	9.3
Professional and Business Services	16.0	13.0	19.9	16.1
Education and Health Services	19.0	13.8	10.4	11.6
Leisure & Hospitality	8.2	9.8	4.4	4.2
Other Services	<u>4.2</u>	<u>4.0</u>	<u>3.0</u>	<u>3.8</u>
Total Service Producing	79.1	68.0	83.5	64.3
Total Private Sector	85.1	83.5	89.8	82.9
Government(3)	14.9	16.5	10.2	17.1

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 2008 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

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 larger than the combined population of Los Angeles and Chicago, the two 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
2009	8,391,881(1)

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

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

- (1) Estimate

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 2011 AA Bonds, or in any way contesting or affecting the validity of the Fiscal 2011 AA Bonds, or any proceedings of the Authority, the Board or the City taken with respect to the issuance or sale of the Fiscal 2011 AA Bonds, or with respect to the First Resolution, the Second Resolution or the pledge or application of any money or security provided for the payment of the Fiscal 2011 AA 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 2003 through 2008, respectively, the City recognized \$15.1 million, \$27.9 million, \$6.1 million, \$8.2 million, \$31.2 million and \$68.1 million for 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 over \$26 million, a second seeks damages of approximately \$47 million, a third seeks damages and indemnification in excess of \$160 million and a fourth seeks damages in excess of \$13 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.

In August 2010, several environmental groups which had previously administratively challenged draft SPDES permits issued by NYSDEC for the City's 14 in-City water pollution control plants, filed a court challenge to NYSDEC's decision to issue the final SPDES permits. The petitioners claim that the decision to issue the permits was improper because the permits did not include a compliance schedule as an enforceable permit term. They seek an order requiring NYSDEC to modify the permits to include a compliance schedule, to name the City as a co-permittee with DEP, and to hold an administrative adjudicatory hearing on certain issues related to the permits. If successful, their challenge could result in additional permit provisions related to CSOs.

A complaint representing approximately 178 plaintiffs has been filed against the City due to flooding allegedly caused by the City's operation of the Neversink Dam in April 2005. The complaint seeks compensation of approximately \$9 million associated with alleged property damage. In April 2007, the 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 and plaintiffs have both moved for summary judgement.

The Coalition of Watershed Towns and two individual towns in the watershed have filed a proceeding in State Court against the City and NYSDOH challenging the environmental review of the 2007 FAD. That litigation has been suspended pending settlement discussion, which is focused primarily on terms for the continuation of the City's land acquisition program beyond January 2012, when the City's current land acquisition permit expires. On January 21, 2010, the City applied for a new land acquisition permit. The application reflects a number of terms that have been discussed in the ongoing settlement negotiations. See

“THE SYSTEM — The Water System — Governmental Regulation — Watershed Protection/Catskill, Delaware Filtration.”

On July 18, 2007 a Con Edison steam main located at Lexington Avenue and 41st Street in Manhattan ruptured resulting in one death, dozens of personal injuries, and substantial property damage. The City was served with 350 notices of claim. About 96 lawsuits with 209 plaintiffs have been commenced and the City is a defendant, or a third-party defendant, in each. The other defendants are Con Edison, owner and operator of the steam system, and Team Industrial Services, a company hired by Con Edison to seal leaks in the main. Con Edison’s investigation concluded that a sudden pressure surge known as a “waterhammer” caused the rupture, and two “steam traps” designed to drain water were clogged with an epoxy sealant injected by Team Industrial Services. Con Edison also claims the excessive water, or condensate, formed inside the main because it was submerged in cool water. The allegation against the City is that defective DEP infrastructure leaked water on the main. If plaintiffs and/or Con Edison prevail the City could incur substantial damages. The City denies the allegations and will vigorously contest liability.

On July 9, 2008 Mothers on the Move and other named plaintiffs filed a lawsuit in the Bronx County Supreme Court alleging that the Hunts Point Water Pollution Control Plant and the New York Organic Fertilizer Company (“NYOFCo.”) sludge facility, which are less than one half mile from each other, are generating odors which impair air quality and quality of life and constitute a health hazard and both a private and public nuisance. Plaintiffs seek a determination from the court that the facilities are a private and public nuisance, and an order directing the City and NYOFCo. to investigate and abate or eliminate the odors. If plaintiffs were ultimately to prevail, the City could incur substantial costs in connection with such abatement or elimination.

Several environmental groups served a Notice of Intent to Sue DEP and the City, dated August 27, 2009, under the Clean Water Act citizen suit provision. The letter alleges that DEP and the City are violating the SPDES permits for the four water pollution control plants that discharge to Jamaica Bay. Clean Water Act violations are subject to penalties in an amount up to \$37,500 per violation per day. The letter states that prospective plaintiffs would seek penalties from August 27, 2004 forward. The Clean Water Act allows citizens to file the suit 60 days after service of the notice letter, if regulators do not commence an action prior to the expiration of that period. DEP, NYSDEC and the environmental groups have reached an agreement in principle that, if approved, will resolve the issues raised in the Notice of Intent to Sue. Under the agreement in principle, DEP will construct approximately \$100 million in new capital improvements to treat nitrogen at the four water pollution control plants that discharge to Jamaica Bay, and will provide between \$12 and \$15 million in funding for marsh restoration projects in the Bay. The agreement in principle includes an agreement between DEP and NYSDEC resolving DEP’s outstanding liability for delays under the Nitrogen Consent Judgment. The agreement in principle is subject to approval by the City Comptroller.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the Fiscal 2011 AA 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 MFR Securities, Inc. have served as financial advisors to the Authority with respect to the sale of the Fiscal 2011 AA 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 First 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 First 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 2011 AA 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 2011 AA 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 2011 AA Bonds (“Bondholders”) that it will:

(1) within 270 days after the end of the 2010 Fiscal Year and each Fiscal Year, to the Electronic Municipal Market Access System (“EMMA”) (<http://emma.msrb.org>) established by the Municipal Securities Rulemaking Board (the “MSRB”), 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 EMMA, notice of any of the following events with respect to the Fiscal 2011 AA 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 2011 AA 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 2011 AA 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 MSRB, and to any New York State information depository, notice of any failure by the Authority to comply with clause (1), above.

With respect to event (c) the Authority does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the securities, unless the Authority applies for or participates in obtaining the enhancement.

Event (d) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (d) may not be applicable, since no “debt service reserves” will be established for the Fiscal 2011 AA Bonds.

Event (e) is relevant only to the extent interest on the Fiscal 2011 AA Bonds is tax-exempt.

With respect to event (g) the Authority does not undertake to provide the above-described event notice of a mandatory redemption through sinking fund installments, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in the final official statement (as defined in the Rule), (ii) the only open issue, which securities will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the securities and (iv) public notice of redemption is given pursuant to Exchange Act Release No. 23856 of the SEC, even if the originally scheduled amounts are reduced prior to optional redemptions or security purchases.

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.

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 for the holders of a majority in aggregate principal amount of the Fiscal 2011 AA 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 2011 AA Bonds to the Underwriters of such bonds, 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 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. Authority does not make leveraged investments.

RATINGS

Standard & Poor's Rating Services has rated the Fiscal 2011 AA Bonds "AA+," Fitch, Inc. has rated the Fiscal 2011 AA Bonds "AA+," and Moody's Investors Service, Inc. has rated the Fiscal 2011 AA Bonds "Aa2."

Such ratings reflect only the views of the respective rating agencies, from which an explanation of the significance of such ratings may be obtained. There is no assurance that any 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 2011 AA Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Fiscal 2011 AA Bonds from the Authority at an aggregate price which is \$4,826,866 less than the initial offering price thereof. The obligations of the Underwriters are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Fiscal 2011 AA Bonds if any of the Fiscal 2011 AA Bonds are purchased. The Fiscal 2011 AA Bonds may be offered and sold to certain dealers (including dealers depositing the Fiscal 2011 AA Bonds into investment trusts) and others at prices lower than such public offering price and such public offering price may be changed, from time to time, by the Underwriters. The Underwriters have designated Barclays Capital Inc. as their Representative.

In addition, certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the Authority as Underwriters) for the distribution of the Fiscal 2011 AA Bonds at the original issue prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the Act, the Fiscal 2011 AA 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 2011 AA Bonds or obligations of the State, may properly and legally invest funds including capital in their control or belonging to them in such Fiscal 2011 AA Bonds. The Act further provides that the Fiscal 2011 AA 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, 2009 and June 30, 2008 (the “Audited System Financial Statements”) included in Appendix D to this Official Statement have been audited by Deloitte & Touche LLP, independent certified public accountants, as stated in their report appearing therein. Deloitte & Touche LLP, the Authority’s independent auditor has not reviewed, commented on or approved, and is not associated with, this Official Statement. The report of Deloitte & Touche LLP relating to the Authority’s financial statements for the fiscal years ended June 30, 2009 and 2008, which is a matter of public record, is included in this Official Statement. However, Deloitte & Touche LLP has not performed any procedures on any financial statements or other financial information of the Authority, including without limitation any of the information contained in this Official Statement, since the date of such report and has not been asked to consent to the inclusion of its report in this Official Statement.

ENGINEERING FEASIBILITY REPORT AND FORECASTED CASH FLOWS

Certain information contained in this Official Statement under the captions “CAPITAL IMPROVEMENT AND FINANCING PROGRAM — Ten Year Capital Strategy, Current Capital Plan and the Capital Improvement Program,” “THE SYSTEM — The Water System,” “THE SYSTEM — The Sewer System” has been reviewed and independently evaluated by AECOM which has provided the opinion letter set forth in Appendix A confirming such information. AECOM 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, AECOM 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

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Fiscal 2011 AA Bonds that acquire their Fiscal 2011 AA Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Fiscal 2011 AA Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Fiscal 2011 AA Bonds pursuant to this offering for the issue price that is applicable to such Fiscal 2011 AA Bonds (*i.e.*, the price at which a substantial amount of the Fiscal 2011 AA Bonds are sold to the public) and who will hold their Fiscal 2011 AA Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Fiscal 2011 AA Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Fiscal 2011 AA Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Fiscal 2011 AA Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Fiscal 2011 AA Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Fiscal 2011 AA Bonds (including their status as U.S. Holders or Non-U.S. Holders).

For U.S. Holders

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, interest on the Fiscal 2011 AA 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). Interest on the Fiscal 2011 AA Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Fiscal 2011 AA Bonds.

In the event that the stated redemption price at maturity of the Fiscal 2011 AA Bonds exceeds the issue price of the Fiscal 2011 AA Bonds by more than a de minimis amount (as determined for tax purposes), such excess will constitute original issue discount (“OID”) for U.S. federal income tax purposes. The stated redemption price at maturity of a Fiscal 2011 AA Bond is the sum of all scheduled amounts payable on the Fiscal 2011 AA Bond (other than qualified stated interest). U.S. Holders of Fiscal 2011 AA Bonds will be required to include any OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash

payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Fiscal 2011 AA Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Fiscal 2011 AA Bonds.

Disposition of the Fiscal 2011 AA Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement (including pursuant to an offer by the Authority) or other disposition of a Fiscal 2011 AA Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Fiscal 2011 AA Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Fiscal 2011 AA Bond which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted tax basis in the Fiscal 2011 AA Bond (generally, the purchase price paid by the U.S. Holder for the Fiscal 2011 AA Bond, increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Fiscal 2011 AA Bond, if any, decreased by any payments previously made on such Fiscal 2011 AA Bond (other than payments of qualified stated interest), and decreased by any amortized premium, if any. Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Fiscal 2011 AA Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Fiscal 2011 AA Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

For Non-U.S. Holders

Interest. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," payments of principal of, and interest on, any Fiscal 2011 AA Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the Authority through stock ownership and (2) a bank which acquires such Fiscal 2011 AA Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Fiscal 2011 AA Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Bonds. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition of a Fiscal 2011 AA Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Fiscal 2011 AA Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Fiscal 2011 AA Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. U.S. information reporting and "backup withholding" requirements apply to certain payments of principal of, and interest on the Fiscal 2011 AA Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition of a Fiscal 2011 AA Bond, to certain noncorporate holders of Fiscal 2011 AA Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any Fiscal 2011 AA Bonds to a holder that is not a United States person will not be subject to any backup

withholding tax requirements if the beneficial owner of the Fiscal 2011 AA Bond or a financial institution holding the Fiscal 2011 AA Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Fiscal 2011 AA Bonds that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Bond to the seller of the Fiscal 2011 AA Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Fiscal 2011 AA Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a Fiscal 2011 AA Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

Circular 230

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the Authority and its tax advisors are (or may be) required to inform prospective investors that:

- i. any advice contained herein is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;
- ii. any such advice is written to support the promotion or marketing of the Fiscal 2011 AA Bonds and the transactions described herein; and
- iii. each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

ERISA CONSIDERATIONS

The Employees Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between employee benefit plans under ERISA or tax qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Fiscal 2011 Series AA Bonds.

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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APPENDIX A

LETTER OF AECOM USA, INC., CONSULTING ENGINEERS

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**LETTER OF
AECOM USA, INC.
CONSULTING ENGINEERS**

September 23, 2010

Mr. Thomas G. Paolicelli
Executive Director
New York City Municipal Water Finance Authority

Subject: New York City Municipal Water Finance Authority Water and Sewer System Second Resolution
Revenue Bonds, Fiscal 2011 Series AA (Taxable Build America Bonds)

Dear Mr. Paolicelli,

We hereby submit the opinion of AECOM USA, Inc. (“AECOM”) on the condition 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 reliance and assumptions made throughout this letter, AECOM concludes that overall the Water and Sewer system (the “System”) serving the City continues to be operated in a professional and prudent manner. Further, AECOM 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 2011 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.
- Current staffing levels of the System are sufficient for proper operation and maintenance. Additional staffing needs have been identified for future facilities, ongoing and future compliance programs and organizational strengthening.

AECOM 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 AECOM in connection with the issuance by the New York City Municipal Water Finance Authority (the “Authority”) of the Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2011 Series AA (Taxable Build America Bonds). 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 — Ten Year Capital Strategy, Current Capital Plan and the Capital Improvement Program,” “THE SYSTEM — The Water System,” and “THE SYSTEM — The Sewer System.” The following identifies the major investigations undertaken:

- 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 2010-2019 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, AECOM has provided engineering services related to the City's Water and Wastewater Operations Evaluation Study. During this period AECOM 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"). The following topics were addressed in this effort:

- 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 document 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 System was rated by AECOM. A uniform rating system, similar to those used by consulting firms providing similar services was established consisting of three rating categories; Adequate, Marginal, and Inadequate as described:

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

The Consulting Engineer

AECOM has served the City as consulting engineers for over 90 years in capacities dealing with water supply, water distribution, sewage collection, and wastewater treatment. AECOM 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,



William P. Pfrang, P.E.
Vice President
AECOM USA, Inc.

APPENDIX B

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

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Amawalk Consulting Group LLC

26 BROADWAY, SUITE 950, NEW YORK, NY 10004 • TEL: 212.361.0050 • FAX: 212.361.0055

September 23, 2010

Mr. Thomas G. Paolicelli
Executive Director
New York City Municipal Water Finance Authority

Subject: New York City Municipal Water Finance Authority
Water and Sewer System Second General Resolution Revenue Bonds,
Fiscal 2011 Series AA (Taxable Build America Bonds)

Dear Mr. Paolicelli:

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 2011 through 2015 (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 \$750,000,000 Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2011 Series AA (Taxable Build America Bonds) (the “Fiscal 2011 AA Bonds”). Proceeds from the Fiscal 2011 AA Bonds are expected to be used (i) to pay principal and interest on a portion of the Authority’s outstanding Commercial Paper Notes, (ii) to make a deposit to the Construction Fund and (iii) 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 “First 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, 2015 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 First Resolution. The term “Revenues,” as defined by the First 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 First 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 AECOM USA, Inc. ("AECOM"). The forecasted cash flows rely upon the conclusions of AECOM 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 First 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;

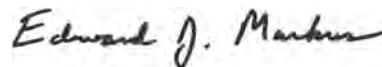
d. One hundred percent (100%) of other Required Deposits as required by the First Resolution. In addition, revenues are adequate to make all payments to the City.

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, slightly slanted style.

Edward J. Markus
Amawalk Consulting Group LLC

APPENDIX C

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 First Resolution and the Resolutions and not otherwise defined in this Official Statement.

Definition of Certain Terms Used in the First Resolution

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

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

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

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

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

Consulting Engineer: AECOM 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 First 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 First 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 First 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 First 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 (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 First 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 First 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 First 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 First 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 First 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 First 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 First Resolution.

Reimbursement Obligation: The obligation of the Authority described in the First 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 First 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 First 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.

Definition of Certain Terms Used in the Second Resolution

“Account” shall mean one of the special accounts created and established pursuant to Article V of the Second Resolution.

“Adjusted Aggregate Debt Service” for any Fiscal Year, as of any date of calculation, unless used in relation to First Resolution Bonds, shall mean the sum of the Adjusted Debt Service payable during such Fiscal Year for all Outstanding Bonds of a Series, Parity Bond Anticipation Notes and Parity Reimbursement Obligations, and, when used in relation to First Resolution Bonds, shall have the meaning ascribed thereto in the First Resolution.

“Adjusted Debt Service” for any Fiscal Year, as of any date of calculation, unless used in relation to First Resolution Bonds, shall mean the sum of (a) the Debt Service for such Fiscal Year with respect to the Bonds of a 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 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, (b) the Debt Service for such Fiscal Year with respect to Outstanding Parity Bond Anticipation Notes and (c) the Debt Service for such Fiscal Year with respect to Parity Reimbursement Obligations; and, when used in relation to First Resolution Bonds, shall have the meaning ascribed thereto in the First Resolution. 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 on all Bonds of such Series (using the actuarial method of calculation).

“Aggregate Debt Service” for any Fiscal Year, as of any date of calculation, unless used in relation to First Resolution Bonds, shall mean the sum of (a) the Debt Service for all Bonds Outstanding during such Fiscal Year, (b) the interest payable during such Fiscal Year on all Parity Bond Anticipation Notes Outstanding during such Fiscal Year and (c) the Debt Service payable during such Fiscal Year on all Parity Reimbursement Obligations Outstanding during such Fiscal Year; and, when used in relation to First Resolution Bonds, shall have the meaning ascribed thereto in the First Resolution.

“Arbitrage Rebate Fund” shall mean the fund by that name established pursuant to the Second Resolution.

“Authority Budget” shall mean the annual budget of the Authority, as amended or supplemented, adopted or in effect for a particular Fiscal Year, as provided in the Second Resolution.

“Authority Expense Fund” shall mean the fund by that name established pursuant to the Second Resolution.

“Authorized Representative” shall mean (i) 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 (i) in the case of the City, the Mayor, unless a different City official is designated in the Second Resolution or in a Supplemental Resolution to perform the act or sign the document in question.

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

“Bond” or **“Bonds”** shall mean any of the bonds authenticated and delivered pursuant to the Second Resolution.

“Bond Anticipation Note” shall mean any note authorized to be issued under a resolution adopted pursuant to the Second Resolution.

“Bond Counsel’s Opinion” or **“Opinion of Bond Counsel”** shall mean an opinion signed by Orrick, Herrington & Sutcliffe LLP or by any other 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” shall mean each date on which interest or both a Principal Installment and interest shall be due and payable on any of the Outstanding Bonds, Parity Bond Anticipation Notes or Parity Reimbursement Obligations according to their respective terms.

“Bondholder,” “Owner” or **“Holder”** or words of similar import shall mean, when used with reference to a Bond, the person in whose name the Bond is registered.

“Capitalized Interest” shall mean (i) for any particular Series, that portion of the proceeds of the Bonds of such Series, if any, required by the Supplemental Resolution authorizing such Series to be deposited in a sub-account established for such Series in the Capitalized Interest Account of the Debt Service Fund, for the purpose of funding the payment of a portion of the interest on the Bonds of such Series and (ii) for any Parity Bond Anticipation Notes, that portion of the proceeds of such Parity Bond Anticipation Notes, if any, required by the resolution authorizing such Bond Anticipation Notes to be deposited in a sub-account established for such Parity Bond Anticipation Notes in the Capitalized Interest Account of the Debt Service Fund, for the purpose of funding the payment of interest on such Bond Anticipation Notes.

“Capitalized Interest Account” shall mean the account by that name established in the Debt Service Fund pursuant to the Second Resolution.

“Cash Flow Requirement” shall mean, for each Fiscal Year and as of any date of certification, the amount, certified by the Authority to the Trustee and the Board as provided in the Agreement, equal to the difference between (a) the sum of (i) the estimated Aggregate Debt Service for such Fiscal Year on First Resolution Bonds, (ii) the Projected Debt Service for such Fiscal Year on First Resolution Bonds, (iii) the SGR Cash Flow Requirement for such Fiscal Year, (iv) the estimated Authority Expenses for such Fiscal Year and (v) the other Required Deposits estimated for such Fiscal Year and (b) (i) if such certification is made prior to the commencement of such Fiscal Year, the amount anticipated by the Authority as of such date of certification to be held as of the first day of such Fiscal Year, in the FGR Revenue Fund and (ii) if such certification is made after the commencement of such Fiscal Year, the amount described in sub-clause (i) of this clause (b).

“City” shall mean The City of New York.

“Code” shall mean the Internal Revenue Code of 1986, as amended, or any successor thereto, as the same may be in effect from time to time.

“Common Account” shall mean the account by that name established in the Debt Service Reserve Fund pursuant to the Second Resolution.

“Construction Account” shall mean the account by that name established in the FGR Subordinated Indebtedness Fund pursuant to the Second Resolution.

“Construction Fund” shall mean the fund by that name established pursuant to the Second Resolution.

“Consulting Engineer” shall mean AECOM USA, Inc. or such other independent engineer or firm of engineers of recognized standing selected by the Authority and satisfactory to the Board and may include an independent engineer or firm of engineers retained by the City in one or more other capacities.

“Costs” or **“Costs of a Water Project”** shall mean the cost of “construction”, as such term is defined in the Act including, without limiting the generality of the foregoing, the erection, building, alteration, improvement, increase, enlargement, extension, reconstruction, renovation 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, surveys, designs, plans, working drawings, 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, apparatus and equipment, financing charges, interest prior to, during and after construction to the extent 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 Second Resolution to be paid into any reserve or other special fund from the proceeds of Bonds and the financing of the placing of any Water Project in operation, including reimbursement to any municipality, any state agency, the State, the United States of America, or any other person for expenditures that would be costs of such Water Project under the Second Resolution and all claims arising from any of the foregoing.

“Costs of Issuance” shall mean all items of expense directly or indirectly payable or reimbursable and related to the authorization, sale and issuance of Bonds, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of the Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

“Counterparty” shall mean an entity (i) whose senior long term debt obligations are rated (at the time the subject Interest Rate Exchange Agreement is entered into) in either of the two highest rating categories from a recognized statistical rating organization or (ii) whose obligations under an Interest Rate Exchange Agreement are guaranteed by a financial institution whose senior long term debt obligations are rated (at the time the subject Interest Rate Exchange Agreement is entered into) in either of the two highest rating categories from a nationally recognized statistical rating organization or (iii) whose obligation, if any, to make payment to the Authority upon termination of the Interest Rate Exchange Agreement is fully collateralized by Investment Securities of the type described in clause (ii) of the definition of Investment Securities, provided however, that such obligation shall be deemed to be fully collateralized if the Investment Securities shall have a market value, determined periodically in accordance with the Interest Rate Exchange Agreement, that is not less than the termination payment by any amount not greater than .1% of the Revenues for the preceding Fiscal Year.

“Credit Facility” shall mean a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy or similar obligations, arrangement or instrument issued by a bank, insurance company or other financial institution which (i) provides for payment of all or a portion of the Principal Installments or interest due on any Series of Bonds or on Parity Bond Anticipation Notes, (ii) provides funds for the purchase of such Bonds or portions thereof or (iii) secures the payment by the Authority of its obligations under an Interest Rate Exchange Agreement relating to Bonds.

“Debt Service” for any Fiscal Year or part thereof shall mean, as of any date of calculation (i) with respect to the Outstanding Bonds of any Series, an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on such Bonds, except to the extent that such interest is to be paid from amounts representing Capitalized Interest and (b) the Principal Installments of such Bonds payable during such Fiscal Year or part thereof; (ii) with respect to Outstanding Parity Bond Anticipation Notes, interest payable thereon during such Fiscal Year or part thereof, except to the extent that such interest is to be paid from amounts representing Capitalized Interest; and (iii) with respect to a Parity Reimbursement Obligation, an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on such Parity Reimbursement Obligation and (b) the Principal Installments of such Parity Reimbursement Obligation payable during such Fiscal Year or part thereof. Such interest and Principal Installment shall be calculated on the assumption that (x) no such Bonds, Parity Bond Anticipation Notes or Parity

Reimbursement Obligations 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 greatest 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 average rate or rates borne during such Fiscal Year on Variable Rate Bonds Outstanding during the twelve calendar months preceding the date of calculation; provided, however, that if the Authority has in connection with any Variable Rate Bonds entered into an Interest Rate Exchange Agreement which provides that the Authority is to pay to the Counterparty an amount determined based upon a fixed rate of interest on the Outstanding principal amount of such Variable Rate Bonds or that the Counterparty is to pay to the Authority an amount determined based upon the amount by which the rate at which such Variable Rate Bonds bear interest exceeds a stated rate of interest on all or any portion of such Variable Rate Bonds, it will be assumed that such Variable Rate Bond bears interest at the fixed rate of interest to be paid by the Authority or the rate in excess of which the Counterparty is to make payment to the Authority in accordance with such agreement.

“Debt Service Fund” shall mean the fund by that name established pursuant to the Second Resolution.

“Debt Service Reserve Fund” shall mean the fund by that name established pursuant to the Second Resolution.

“Debt Service Reserve Requirement” shall mean, as of any date of calculation, and for any Fiscal Year, the amount equal to the maximum Adjusted Aggregate Debt Service on Bonds in the current or any future Fiscal Year on all Bonds Outstanding; *provided, however*, that if, upon the issuance of a Series of Bonds, such amount would require moneys, in an amount in excess of the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, to be deposited therein, the Debt Service Reserve Requirement shall mean an amount equal to the sum of the Debt Service Reserve Requirement immediately preceding issuance of such Bonds and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, as certified by an Authorized Representative of the Authority; *provided, further*, 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; *provided, further*, that if, as a result of the expiration or termination of a Financial Guaranty, a deficiency shall be created in the Debt Service Reserve Fund, the Debt Service Reserve Requirement shall be calculated so as to exclude the amount of such deficiency and the Debt Service Reserve Requirement shall be increased in each of the five Fiscal Years after the date such deficiency was created by an amount equal twenty per centum (20%) of the aforesaid deficiency.

For the purpose of calculating the Debt Service Reserve Requirement for any Variable Rate Bonds of a Series, the maximum Adjusted Debt Service on such Series shall be determined by reference to the Pro Forma Bond Issue for the Variable Rate Bonds of such Series set forth in the Supplemental Resolution authorizing such Series.

“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); (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 Second 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.

“Depository” shall mean any bank or trust company selected by the Board or the Authority, as the case may be, as a depository of moneys to be held under the provisions of the Agreement or the Second Resolution, and may include the Trustee.

“Event of Default” shall mean any event specified as an event of default in the Second Resolution.

“FGR Authority Expense Fund” shall mean the Authority Expense Fund established pursuant to the First Resolution.

“FGR Construction Fund” shall mean the Construction Fund established pursuant to the First Resolution.

“FGR Debt Service Reserve Fund” shall mean the Debt Service Reserve Fund established pursuant to the First Resolution.

“FGR Debt Service Fund” shall mean the Debt Service Fund established pursuant to the First Resolution.

“FGR Revenue Fund” shall mean the Revenue Fund established pursuant to the First Resolution.

“FGR Subordinated Indebtedness Fund” shall mean the Subordinated Indebtedness Fund established pursuant to the First Resolution.

“Fiduciary” shall mean the Trustee or any Paying Agent or Depository.

“Financial Guaranty” shall mean a surety bond, insurance policy or letter of credit which constitutes any part of the Debt Service Reserve Requirement and which is authorized to be delivered to the Trustee pursuant to the Second Resolution.

“Financial Guaranty Provider” shall mean the issuer of any Financial Guaranty.

“First Resolution” shall mean the Water and Sewer System General Revenue Bond Resolution adopted by the Authority on November 14, 1985 as amended and supplemented in accordance therewith and as the same may be amended or supplemented in accordance therewith and the Second Resolution.

“First Resolution Bond” shall mean a bond, note or other evidence of indebtedness issued pursuant to the First Resolution, including a “Parity Bond Anticipation Note” and a “Parity Reimbursement Obligation,” as such terms are defined in the First Resolution.

“Fiscal Year” shall have the meaning ascribed to such term in the Agreement.

“Fund” shall mean any fund established pursuant to the Second Resolution.

“Interest Rate Exchange Agreement” means an agreement entered into by the Authority relating to Bonds or First Resolution Bonds which provides that during the term of such agreement the Authority is to pay to the Counterparty an amount based on the interest accruing at a fixed or variable rate per annum on an amount equal to all or a portion of the principal amount of such Bonds or First Resolution Bonds and that the Counterparty is to pay to the Authority either (i) an amount based on the interest accruing on such principal amount at a fixed or variable rate per annum, in each case computed according to a formula set forth in such agreement, or that one shall pay to the other any net amount due under such agreement or (ii) an amount based on the amount by which the rate at which such Bonds or First General Resolution Bonds bear interest exceeds a rate stated in such agreement.

“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 clause (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 (a) a specific written repurchase agreement governs the transaction, (b) 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 either a Federal Reserve Bank or 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, (c) 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, (d) 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 (e) 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 prior 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 or 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.

Obligations of the Trustee or an affiliate thereof may be Investment Securities, provided that they otherwise qualify.

“Local Water Fund” shall mean the special fund by that name established by the Act in the custody of the Board.

“Mayor” shall mean the Mayor of the City or such other person duly appointed and authorized to act on behalf of the Mayor.

“Monthly Balance” shall mean the amount, calculated as of the first day of each month, equal to the sum of:

(i) For the Bonds of a Series and Parity Reimbursement Obligations which are Outstanding during the Fiscal Year in which such month falls, 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 or prior to the later of the next Succeeding Bond Payment Date for such Bonds and the 15th day of the next succeeding month and (2) the amount, if any, held in the sub-account for such Bonds in the Capitalized Interest Account 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 Bonds (or, with respect to the first Bond Payment Date for such Bonds, the number of full months since the last day of the month preceding the date of issuance of such Bonds) and the denominator of which is the number of months between Bond Payment Dates for such Bonds minus one (or, with respect to the first Bond Payment Date therefor, the number of months between the last day of the month preceding the date of issuance of such Bonds and the first Bond Payment Date therefor 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 equal one; plus

(ii) For the Bonds of a Series and Parity Reimbursement Obligations which are Outstanding during the Fiscal Year in which such month falls, an amount equal to the Principal Installment due on the next Succeeding Bond Payment Date, which falls within twelve months or less, on which a Principal Installment on such Bonds 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 on such Bonds 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 on such Bonds 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; plus

(iii) For Parity Bond Anticipation Notes which are outstanding during the Fiscal Year in which such month falls, an amount equal to the product obtained by multiplying (a) the difference between (1) the amount of interest due or projected to be due during such Fiscal Year on such Parity Bond Anticipation Notes and (2) the amount, if any, held in the sub-account for such Parity Bond Anticipation Notes in the Capitalized Interest Account, by (b) a fraction, the numerator of which is the number of full months since the end of the month preceding the last interest payment date for such Parity Bond Anticipation Notes (or, with respect to the first interest payment date for such Parity Bond Anticipation Notes, the number of full months since the last day of the month preceding the date of issuance of such Parity Bond Anticipation Notes) and the denominator of which is the number of months between interest payment dates for such Parity Bond Anticipation Notes minus one (or, with respect to the first interest payment date for such Parity Bond Anticipation Notes, the number of months between the last day of the month preceding the date of issuance of such Parity Bond Anticipation Notes and the first interest payment date therefor 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 equal one.

“Operating Expenses” shall have the meaning ascribed thereto in the Agreement.

“Option Bonds” shall mean Bonds which by their terms may be tendered by and at the option of the owner whereof for purchase or payment by the Authority prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the owner thereof.

“Other Moneys” shall mean moneys which do not constitute Revenues and which are derived from payments to be made to or upon the order of the Authority (i) by a Counterparty pursuant to an Interest Rate Exchange Agreement relating to First Resolution Bonds, (ii) by the New York State Environmental Facilities Corporation pursuant to any agreement by and between the Authority and such corporation heretofore or hereafter entered into in connection with the issuance of Bonds or First Resolution Bonds, including the Loan Agreement, dated as of May 1, 1990, by and between the New York State Environmental Facilities Corporation and the Authority, as amended, the Loan Agreement, dated as of January 1, 1991, by and between the New York State Environmental Facilities Corporation and the Authority, as amended and the Loan Agreement, dated as of December 1, 1991, by and between the New York State Environmental Facilities Corporation and the Authority, as amended, (iii) as Subsidy Payments and (iv) of any other moneys and securities pledged by the Authority to the payment of the Bonds pursuant to Article V of the Second Resolution and a Supplemental Resolution.

“Outstanding” when used with reference to First Resolution Bonds or Parity Bond Anticipation Notes, shall have the meaning given to such term in the First Resolution or the resolution pursuant to which such Parity Bond Anticipation Notes were issued, respectively; when used with reference to Parity Reimbursement Obligations, shall have the meaning given to such term in the agreement creating such Parity Reimbursement Obligations; and, when used with reference to Bonds, shall mean, as of any date, all Bonds theretofore 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 Second 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, or the applicable Supplemental 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 Second Resolution.

“Parity Bond Anticipation Note” shall mean a Bond Anticipation Note the interest on which is payable from and secured by a pledge of, and lien on, Revenues, Other Moneys and amounts on deposit in the FGR Subordinated Indebtedness Fund on a parity with the lien created by Section 501 of the Second Resolution.

“Parity Reimbursement Obligation” shall mean a Reimbursement Obligation, the payment of which is secured by a pledge of, and a lien on, Revenues, Other Moneys and amounts on deposit in the FGR Subordinated Indebtedness Fund on a parity with the lien created by Section 501 of the Second Resolution.

“Principal Installment” shall mean, as of any date of calculation and with respect to any Series, so long 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 to the Authority 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 Obligation) of such Series due (or so tendered for purchase or 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.

“Projected Debt Service” for any Fiscal Year or part thereof shall mean, unless used in relation to First Resolution Bonds, an amount with respect to a Projected Series, 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 or part thereof on such Projected Series, and, when used in relation to First Resolution Bonds, shall have the meaning ascribed thereto in the First Resolution.

“Projected Series of Bonds” or **“Projected Series”** shall mean any Series of Bonds or Parity Bond Anticipation Notes described in an Authority Budget as anticipated to be issued in the Fiscal Year to which such Authority Budget relates.

“Rating Agency” shall mean each of Moody’s Investors Service and Standard & Poor’s Ratings Services and its respective successors and assigns.

“Redemption Price” shall mean, 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 Second Resolution.

“Refunding Bond” shall mean any Bond authenticated and delivered on original issuance pursuant to the Second Resolution for the purpose of refunding any Outstanding Bonds, or thereafter authenticated and delivered pursuant to the Second Resolution in lieu of or substitution for such Bond.

“Reimbursement Obligation” shall mean the obligation of the Authority described in the Second Resolution (i) to reimburse directly the issuer of a Credit Facility for amounts paid by such issuer thereunder or (ii) make payment to a Counterparty of amounts payable thereto by the Authority pursuant to an Interest Rate Exchange Agreement relating to Bonds, in either case.

“Required Deposits” shall mean, for any Fiscal Year during which First Resolution Bonds are Outstanding, the amount, if any, payable into the FGR Authority Expense Fund, the FGR Debt Service

Reserve Fund and the FGR Subordinated Indebtedness Fund, and for any Fiscal Year during which no First Resolution Bonds are Outstanding, the amount, if any, payable into the Authority Expense Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund, but in each case only to the extent such payments are required to be made from Revenues.

“Revenue Fund” shall mean the fund by that name established pursuant to the Second Resolution.

“Revenues” shall have the meaning given to it in the Agreement as the same may be amended from time to time in accordance therewith and the Second Resolution.

“Second Resolution” shall mean the Water and Sewer System Second General Revenue Bond Resolution, adopted by the Authority on March 30, 1994, as the same may be amended or supplemented by a Supplemental Resolution.

“Series” or **“Series of Bonds”** shall mean all of the Bonds authenticated and delivered on original issuance identified pursuant to the Supplemental Resolution authorizing such Bonds as a separate Series of Bonds and any Bonds thereafter authenticated and delivered in lieu of or in substitution therefor pursuant to the Second Resolution regardless of variations in maturity, interest rate or other provisions.

“SGR Cash Flow Requirement” shall mean, for each Fiscal Year and as of any date of certification, the amount of Revenues, certified by the Authority to the Trustee and the Board as provided in the Agreement and the Second Resolution, to be required to be deposited into the Subordinated Indebtedness Fund in such Fiscal Year, which amount shall be equal to the difference between (a) the sum of (i) the Aggregate Debt Service for such Fiscal Year, (ii) the Projected Debt Service for such Fiscal Year, (iii) the amount of Parity Reimbursement Obligations payable in such Fiscal Year, (iv) the amount, if any, required to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement and (v) the amount, if any, withdrawn from the Construction Account pursuant to the First Resolution during such or any prior Fiscal Year and (b) the sum of (i) if such certification is made prior to the commencement of such Fiscal Year, the amount anticipated by the Authority as of such date of certification to be held, as of the first day of such Fiscal Year, in the Revenue Fund or (ii) if such certification is made after the commencement of such Fiscal Year, the amount held, as of the first day of such Fiscal Year, in the Revenue Fund and (iii) the amount of Other Moneys paid or projected to be paid to the Authority during such Fiscal Year.

“Sinking Fund Installment” shall mean, as of any particular date of calculation, the amount required, as of such date of calculation, to be paid by the Authority on a future date for the retirement of Outstanding Bonds which are stated to mature subsequent to such future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond.

“Special Account” shall mean one or more of the Special Accounts established in the Debt Service Reserve Fund by a Supplemental Resolution pursuant to the Second Resolution.

“Special Credit Facility” shall mean, 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 A (i) requires the Authority to reimburse the issuer of such Credit Facility directly for amounts paid thereunder and (ii) provides that such obligation is a Parity Reimbursement Obligation.

“State” shall mean the State of New York.

“Subordinated Indebtedness” shall mean any bond, note or other evidence of indebtedness issued by the Authority in furtherance of its corporate purposes under the Act and secured by a pledge of moneys in the Subordinated Indebtedness Fund or Other Moneys, or both, which is subordinate to the pledge thereof made under the Second Resolution.

“Subordinated Indebtedness Fund” shall mean the fund by that name established pursuant to the Second Resolution.

“Subsidy Payments” shall mean amounts payable to the Authority by the United States of America or by the State or by any agency or instrumentality of either in connection with Bonds of the Authority which amounts do not constitute Other Moneys described in the paragraph (ii) of the definition of Other Moneys.

“Supplemental Resolution” shall mean a resolution of the Authority authorizing the issuance of a Series Bonds or otherwise amending or supplementing the Second Resolution, adopted in accordance with Article VIII of the Second Resolution.

“Surplus Fund” shall mean the fund by that name established pursuant to the Second Resolution.

“System” shall mean the “Water System” and the “Sewer System” as such quoted terms are defined in Sections 1045-b(14) and (21) of the Act.

“Tender Option Price” shall mean, with respect to any Option Bond tendered for purchase or payment in accordance with the Supplemental Resolution authorizing such Option Bond, an amount equal to the principal amount of such Option Bond plus the interest accrued and unpaid thereon to the date of such tender.

“Trustee” shall mean United States Trust Company of New York, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the Second Resolution.

“Variable Rate Bond” shall mean, 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” shall have the meaning ascribed thereto in Section 1045-b(20) of the Act, including any sewerage facility, water facility or water and sewerage facility as described therein and constituting a part of the System.

Summary of Certain Documents

The following are brief summaries of certain provisions of the Agreement, the Lease, the First Resolution and the Second 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 First 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, First 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 First 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 First Resolution.

The Authority shall authorize payment of such Costs in the manner set forth in the First 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 First 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 $\frac{1}{2}$ 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 First 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 First 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 First 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 First 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 First 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 First 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 First Resolution or the respective provisions of the Act pursuant to which the First 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 First 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 First 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 First 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 First Resolution. (*Section 10.1*)

Conflicts. The Agreement provides that its provisions shall not change or in any manner alter the terms of the First 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 First Resolution or any Bond, the provisions of the First 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, ground-water 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 First Resolution

Terms used in this Summary of the First 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 First Resolution: (i) all Revenues, (ii) all moneys or securities in any of the Funds and Accounts created under the First 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 First 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 First Resolution; subject only to the provisions of the First 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 First 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 First 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 First 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 First 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 First 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 First 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 First 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 First 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 First Resolution establishes a Debt Service Reserve Fund and a Common Account therein. In addition, the First 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 First 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 the First 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

First Resolution and shall be secured by a pledge subordinate in all respects to the pledge created by the First Resolution as security for the bonds. (*Section 511*)

Depositories. 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 Depositories. All moneys or securities held by the Authority in the Authority Expense Fund shall be deposited with one or more Depositories. All moneys or securities deposited under the provisions of the First Resolution with the Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of the First Resolution, and each of the Funds established by the First Resolution shall be a trust fund for the purposes thereof.

Each Depository holding moneys or securities in trust for the Trustee shall be a bank or trust company organized under the laws of the State or a national banking association (having its principal office within the State), having capital stock, surplus and undivided earnings aggregating at least \$100,000,000 and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the First Resolution. (*Section 512*)

Investment of Certain Funds. Moneys held in the Debt Service Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund (subject to the terms of any resolutions or other instruments securing any issue of Subordinated Indebtedness) shall be invested and reinvested to the fullest practicable extent in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed to make payments required from such Funds; provided that in the case of the Debt Service Reserve Fund maturation may not occur later than fifteen years from the date of such investment, and in the case of the Debt Service Fund, investments shall be of the type described in clauses (ii), (iii) and (vi), and in the case of the Debt Service Reserve Fund, clauses (ii) and (iii), of the definition of "Investment Securities" (in either case, to the fullest extent practicable). Moneys in the Authority Expense Fund, the Revenue Fund, the Construction Fund, the Arbitrage Rebate Fund and the Surplus Fund may be invested in Investment Securities which mature no later than such times as shall be necessary to provide moneys when needed to make payments from such Funds. The Trustee shall make all investments in accordance with written instructions from any Authorized Representative of the Authority. Moneys in any Fund or Account may be combined with moneys in any other Fund or Account for the purpose of making such investments in Investment Securities.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in such Funds and Accounts, other than the Construction Fund, the Arbitrage Rebate Fund and the Debt Service Reserve Fund, shall be paid into the Revenue Fund as and when received. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in (i) the Debt Service Reserve Fund shall be paid into the Arbitrage Rebate Fund or the Surplus Fund, (ii) the Construction Fund shall be paid to the Board for deposit in the Local Water Fund quarterly, on the 15th day of each July, October, January and April of each Fiscal Year upon receipt of a written request and a certificate of the Authority relating to the satisfaction of the Cash Flow Requirement and (iii) the Arbitrage Rebate Fund shall remain in such fund.

All Investment Securities acquired with moneys in any Fund or Account, including any Fund or Account held by the Authority, shall be held by the Trustee in pledge or by a Depository as agent in pledge in favor of the Trustee. (*Section 514*)

Additional Bonds. The Authority may issue Bonds from time to time without limitation as to amount except as provided in the First 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 First 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 First 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 First Resolution and any Series of Refunding Bonds issued pursuant to Section 207 of the First 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 First 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 First 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 First 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 First Resolution. The Authority may also pledge the Revenues to the payment of the interest on, and subject to Section 707 of the First Resolution, the principal of such notes. A copy of the First 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 First 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 First 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 First 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 First 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 First 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 First 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 First Resolution. (*Section 714*)

Supplemental Resolutions. The First 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 First 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 First Resolution; to confirm any pledge under the First 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 First 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 First Resolution or to insert such provisions clarifying matters or questions arising under the First Resolution as are necessary or desirable, and are not contrary to or inconsistent with the First 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 First 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 First 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 First 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 First 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 First 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 First 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 First 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 First Resolution if (i) in the case of any Bonds to be redeemed prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to publish on such date the notice of redemption therefor (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption), (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Obligations the principal of and/or the interest on which, when due, without reinvestment, will, as verified by the report of a firm of nationally recognized independent certified public accountants, provide moneys which, together with the moneys deposited shall be sufficient, to pay when due the principal or Redemption Price (if applicable) and interest due and to become due on said Bonds and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Bonds that the deposit required above has been made with the Trustee and that said Bonds are deemed paid in accordance with the First 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 First Resolution. (*Section 1201*)

Defeasance of Option Bonds. Under the First Resolution, Option Bonds shall be deemed paid in accordance with the First 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*)

Summary of the Second Resolution

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

Pledge of Revenues and Funds. The Authority pledges for the payment of the Bonds in accordance with their terms and the provisions of the Second Resolution, subject only to the provisions of the Second Resolution, the First Resolution, the Act and the Agreement permitting the application thereof for or to the purposes and on the terms and conditions of the Second Resolution and therein set forth: (i) all moneys or securities in any of the Funds and Accounts, other than the Arbitrage Rebate Fund, (ii) all Other Moneys, (iii) in moneys or securities on deposit in the FGR Subordinated Indebtedness Fund, 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 Second Resolution, (iv) all other moneys and securities to be received, held or set aside by the Authority or by any Fiduciary pursuant to the Second Resolution and (v) from and after the time that the pledge of Revenues made in the First Resolution shall be discharged and satisfied in accordance with the First Resolution, all Revenues; *provided, however*, that such pledge shall be in all respects subordinate to the provisions of the First Resolution and the lien and pledge created by the First Resolution. This pledge shall, to the fullest extent permitted by law, be valid and binding from the time when it is made and 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 the obligation to perform the contractual provisions contained in the Second Resolution 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.

The Act provides that (i) the pledges made by the Second Resolution are valid, binding and perfected from the time when they are made and property so pledged shall immediately be subject to the lien of such pledges without any physical delivery thereof or further act, (ii) the lien of such pledges shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof and (iii) no instrument by which such pledges are created nor any financing statement need be recorded or filed. Accordingly, no financial statements have been or will be filed. Based upon the foregoing, the Authority represents that under the laws of the State (i) the Second Resolution creates valid and binding pledges in favor of the holders from time to time of the Bonds, enforceable in accordance with the terms set forth in the Second Resolution, (ii) the pledges made by the Second Resolution and each pledge made to secure obligations of the Authority which, by the terms set forth in the Second Resolution, are prior to or of equal rank with such pledge are and shall be prior to any judicial lien hereafter imposed on the property pledged by the Second Resolution to enforce a judgment against the Authority on a simple contract and (iii) no instrument by which such pledges are created nor any financing statement need be recorded or filed in order to establish or maintain such priority. The Authority further

represents that the Authority has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the Revenues or any other property pledged by the Second Resolution that is prior to or of equal rank with the pledge made by the Second Resolution and neither the Revenues nor any other property pledged by the Second Resolution have been described in any financing statement. Except as expressly permitted by the Second Resolution, the Authority shall not hereafter make or suffer to exist any pledge or assignment of, lien on or security interest in the Revenues or other property pledged by the Second Resolution that is prior to or of equal rank with the pledge made by the Second Resolution, or file any financing statement describing any such pledge, assignment, lien or security interest, except in connection with pledges, assignments, liens or security interests expressly permitted by the Second Resolution.

As further security for the payment of the principal or Redemption Price of and interest on the Bonds, the Authority 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 rights 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 make claim for, collect or cause to be collected, receive or cause to be received, from the Board all Revenues thereunder, (ii) to bring actions and proceedings thereunder for the enforcement thereof, and (iii) to do any and all things which the Authority is or may become entitled to do under the Agreement; *provided, however* that such assignment, transfer and pledge are and shall be in all respects subject and subordinate to the assignment, transfer and pledge made by the First Resolution; *provided, further*, that the assignment made by the Second Resolution 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 special funds provided for such payment pursuant to the Act, the First Resolution and the Second 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 Second 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) Arbitrage Rebate Fund; and
- (8) Surplus Fund.

The Second 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 (i) Special Credit Facility to secure the payment of the Principal Installments of and interest on the Bonds authorized thereby, (ii) which provides for a Special Credit Facility to secure the payment of the Tender Option Price of any Option Bonds authorized thereby, or (iii) wherein the Authority has determined that the Series of Bonds authorized thereby will not be secured by the Common Account in the Debt Service Reserve Fund, may establish one or more Special Accounts in the Debt Service Reserve Fund. The Second Resolution also establishes in the Debt Service Fund a separate account to be known as the “Capitalized Interest Account”

The Trustee shall hold all of the Funds and Accounts.

The Trustee is directed to make withdrawals and transfers from the Funds and Accounts established by the Second Resolution in order to rebate certain arbitrage earnings to the United States. (*Section 502*)

Construction Fund. From and after the date on which no First Resolution Bonds are Outstanding, 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 Second 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. In addition, all moneys on deposit in the Construction Account shall be deposited in the Construction Fund as soon as practicable after the date on which there are no First Resolution Bonds Outstanding. From and after the date on which no First Resolution Bonds are Outstanding and 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, and subject to the provisions of the First Resolution, the Construction Account may only be expended to pay Costs of Water Projects (including Costs of Issuance). The Trustee shall, subject to certain exceptions contained in the First Resolution and the Second Resolution, 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 and Construction Account shall be applied to the payment of principal of and interest on Bonds and of the interest on Parity Bond Anticipation Notes when due. The Authority will cause moneys in the Construction Account to be transferred to the Debt Service Fund at such time and in such amount as may be required for such purpose. (*Section 504*)

Allocation of Revenues — Revenue Fund. The Authority shall cause all Other Moneys and, from and after the date on which no First Resolution Bonds are Outstanding, all Revenues received from the Board pursuant to the Agreement 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 Second Resolution or the Agreement to be so deposited.

In addition to the payments to be made from the Subordinated Indebtedness Fund, as soon as practicable in each month the amount in the Subordinated Indebtedness Fund (other than in the Construction Account) shall be transferred to the Revenue Fund until the amount on deposit therein is equal to the sum of:

- (i) together with the amount in the Debt Service Fund, the Monthly Balance for such month and the amount necessary to pay the purchase price or Redemption Price of Bonds purchased or called for redemption; plus
- (ii) the amount, if any, necessary to make the total on deposit in the Debt Service Reserve Fund and credited to the Common Account equal to the Debt Service Reserve Requirement for the Bonds to which such Common Account relates, and to make the total on deposit in each Special Account equal to the Debt Service Reserve Requirement for the Bonds to which each such Special Account relates; plus
- (iii) the amount, if any, then required to be in the Subordinated Indebtedness Fund. (*Section 505*)

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

- (i) to the Debt Service Fund, all such amounts until the total on deposit therein equals the sum of (A) the Monthly Balance for such month for all Series of Bonds Outstanding and (B) the amount necessary to pay the purchase price or Redemption Price of Bonds purchased or called for redemption;
- (ii) if no First Resolution Bonds are then Outstanding, from the balance, if any, remaining in such month after making the deposits required by paragraph (i) 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 (i) the Authority Expenses for the then current Fiscal Year as set forth in the Authority Budget, plus (ii) if included in the Authority Budget for the then current Fiscal Year, an amount ("the Reserve for Expenses") equal to one-sixth of such Authority Expenses by (B) a fraction, the numerator of which is twelve (12) minus the number of full months (excluding the month of calculation) remaining in the Fiscal Year and the denominator of which is twelve (12);

(iii) from the balance, if any remaining after making the deposits required by paragraphs (i) and (ii), to the Debt Service Reserve Fund, first, to the credit of the Common Account therein the amount, if any, necessary to make the total on deposit in such Fund and credited to the Common Account equal to the Debt Service Reserve Requirement for the Bonds to which such Common Account relates, or, the entire balance if less than sufficient and, then, from the balance of such deposit, if any, remaining after crediting the Common Account as aforesaid, to the credit of each Special Account an amount equal to the Debt Service Reserve Requirement for the Bonds to which each such Special Account relates; *provided, however*, that 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 each Special Account bears to the sum of the Debt Service Reserve Requirements for all the Bonds related to Special Accounts:

(iv) from the balance, if any, remaining after making the deposits required by paragraphs (i), (ii) and (iii) to the Arbitrage Rebate Fund, the amount, if any, equal to the earnings in investments in the Debt Service Reserve Fund which were transferred to the Revenue Fund in the preceding month; and

(v) from the balance, if any, remaining after making the deposits required by paragraphs (i), (ii), (iii) and (iv) and if no First Resolution Bonds are then Outstanding, to the Subordinated Indebtedness Fund the amount required to be deposited in such Fund for such month in accordance with the Authority Budget to the entire balance if less than sufficient.

Beginning with the first day of each Fiscal Year, the Authority shall cause to be calculated the amounts deposited in the Revenue Fund on a daily basis until it is determined that the total of all amounts deposited therein during such Fiscal Year is at least equal to the SGR Cash Flow Requirement. Thereafter, during such Fiscal Year, no further amounts on deposit in the FGR Subordinated Indebtedness Fund shall be required to be deposited in the Revenue Fund; *provided, however*, if the Authority shall thereafter certify an amended Authority Budget for such Fiscal Year showing an SGR Cash Flow Requirement in excess of the SGR Cash Flow Requirement last certified for such Fiscal Year, calculation of the amounts deposited in the Revenue Fund on a daily basis shall be resumed until it is determined that the total of all amounts deposited therein during such Fiscal Year is at least equal to the SGR Cash Flow Requirement, as amended. Thereafter, during such Fiscal Year, no further amounts on deposit in the FGR Subordinated Indebtedness Fund shall be required to be deposited in the Revenue Fund, unless the Authority thereafter, in such Fiscal Year, again certifies an amended Authority Budget showing an SGR Cash Flow Requirement in excess of the SGR Cash Flow Requirement theretofore certified in such Fiscal Year. (*Section 506*)

Debt Service Fund. The Trustee shall for the Outstanding Bonds of a Series, Parity Bond Anticipation Notes and Parity Reimbursement Obligations, pay (i) on each Bond Payment Date, (1) from the moneys on deposit in the Debt Service Fund the amounts required for the payment of the Principal Installments, if any, due on such Bond Payment Date and (2) from the moneys on deposit in the Debt Service Fund, including the moneys credited to the subaccount, if any, established for such Series in the Capitalized Interest Account in such Fund, the interest due on such Bond Payment Date, (ii) on any 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 and (iii) on each Bond Payment Date for Parity Bond Anticipation Notes, the interest due thereon on such Bond Payment Date, including from moneys credited to the sub-account, if any, established for such Parity Bond Anticipation Notes in the Capitalized Interest.

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 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.

In the event of the refunding of any Bonds, the Trustee shall, upon the written direction of the Authority, withdraw from the Debt Service Fund and the Capitalized Interest Account related to the Bonds to be refunded all or any portion of amounts accumulated therein with respect to the Bonds to be refunded and deposit such amounts as provided in such written direction; *provided, however*, that such withdrawal shall not be made unless (i) immediately thereafter the Bonds being refunded shall be deemed to have been paid, and (ii) after giving effect to any amounts being simultaneously deposited therein the amount remaining in the Debt Service Fund after such withdrawal shall not be less than the Monthly Balance at the date of such withdrawal with respect to Bonds then Outstanding, after the Bonds to be refunded have been deemed paid. (*Section 507*)

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 508*)

Debt Service Reserve Fund. The Second Resolution establishes a Debt Service Reserve Fund and a Common Account therein. In addition, the Second Resolution provides that any Supplemental Resolution which provides (i) for a Special Credit Facility to secure the payment of the Principal Installments of and interest on the Bonds authorized thereby, (ii) which provides for a Special Credit Facility to secure the payment of the Tender Option Price of any option Bonds authorized thereby, or (iii) wherein the Authority has determined that the Series of Bonds authorized thereby will not be secured by the Common Account in the Debt Service Reserve Fund, 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 of and interest on, or Tender Option Price of or interest on, Bonds for which such payments are secured by a Special Credit Facility, or to pay Principal Installments of and interest on Bonds that the Authority has determined will not be secured by amounts in the Common Account; these Bonds will be secured by amounts, if any, on deposit in the 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 pursuant to the Second Resolution 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 then from draws and demands on Financial Guaranties; *provided, however*, that if more than one Financial Guaranty is held in an Account at the time moneys are to be withdrawn therefrom the Trustee shall obtain payment under each such Financial Guaranty pro rata based upon the respective amounts then available to be paid thereunder.

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, and (ii) the Reserve Fund, the amount of any excess then remaining in the Debt Service Reserve Fund over the applicable Debt Service Reserve Requirement. If, as of February 1 of each year the amount in any Account in the Debt Service Reserve Fund is less than the applicable Debt Service Reserve Requirement and, to the extent that such deficiency has not been made up by May 1 of such year by either (i) deposits pursuant to Sections 506, 511 or 512 of the Second Resolution or (ii) an increase in the market value of the securities therein or (iii) a combination of (i) and (ii), the Authority shall, in its Authority Budget for the ensuing Fiscal Year, include the amount necessary to make up such deficiency as a Required Deposit.

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 or in substitution for moneys or Investment Securities otherwise required to be deposited in the Common Account of the Debt Service Reserve Fund, the Authority may deposit or cause to be deposited with the Trustee a Financial Guaranty for the benefit of the Holders of the Bonds for all or any part of the Debt Service Reserve Requirement; *provided, however*, (i) that any such surety bond or insurance policy shall be issued by an insurance company or association duly authorized to do business in the State and either (A) the claims paying ability of which is rated the highest rating accorded by a nationally recognized rating agency, or (B) obligations insured by a surety bond or an insurance policy issued by such company or association and rated at the time such surety bond or insurance policy is delivered, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, in the highest rating category by each Rating Agency or, if Outstanding Bonds are not rated by both Rating Agencies, by whichever Rating Agency that then rates Outstanding Bonds and (ii) that any such letter of credit shall be issued by a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provision of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provision of law or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, the unsecured or uncollateralized long term debt obligations of which, or long term obligations secured or supported by a letter of credit issued by such person, are rated at the time such letter of credit is delivered, without regard to qualification of such rating by symbols such as “+”, or “-” or numerical notation, in at least the second highest rating category by each Rating Agency or, if Outstanding Bonds are not rated by both Rating Agencies, by whichever Rating Agency that then rates Outstanding Bonds.

In addition to the conditions and requirements set forth above, no Financial Guaranty shall be deposited in full or partial satisfaction of the Debt Service Reserve Requirement unless the Trustee shall have received prior to such deposit (i) an opinion of counsel to the effect that such Financial Guaranty has been duly authorized, executed and delivered by the Financial Guaranty Provider thereof and is valid,

binding and enforceable in accordance with its terms, (ii) in the event such Financial Guaranty Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Trustee and (iii) in the event such Financial Guaranty is a letter of credit, an opinion of counsel acceptable to the Trustee and to each Financial Guaranty Provider substantially to the effect that payments under such letter of credit will not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in a case commenced by or against the Authority thereunder or under any applicable provisions of the Debtor and Creditor Law of the State.

Notwithstanding the foregoing, if at any time after a Financial Guaranty has been deposited with the Trustee the ratings on any Outstanding Bonds are less than in the second highest rating category by each Rating Agency, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, and the unsecured or uncollateralized long term debt of the Financial Guaranty Provider or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of a Financial Guaranty Provider is reduced below the third highest rating category by each Rating Agency, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, the Authority shall either (i) replace or cause to be replaced said Financial Guaranty with another Financial Guaranty which satisfies the requirements of the two preceding paragraphs or (ii) deposit or cause to be deposited in the Debt Service Reserve Fund an amount of moneys equal to the value of the Financial Guaranty of such Financial Guaranty Provider, such deposits to be, as nearly as practicable, in ten equal semi-annual installments commencing on the earlier of the December 15 or June 15 next succeeding the reduction in said ratings.

Each Financial Guaranty shall be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Debt Service Reserve Fund and such withdrawal cannot be made without drawing upon such letter of credit or obtaining payment under such surety bond or insurance policy.

For the purposes of the above provisions under the heading “Debt Service Reserve Fund,” and the provisions under the heading “Investment of Certain Funds” below, in computing the amount on deposit in the Debt Service Reserve Fund, a letter of credit, a surety bond or an insurance policy shall be valued at the amount available to be drawn or payable thereunder on the date of computation: *provided, however*, that, if the unsecured or uncollateralized long term debt of the Financial Guaranty Provider thereof, or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of said Financial Guaranty Provider has been reduced below the ratings required by the third paragraph under the heading “Debt Service Reserve Fund,” said Financial Guaranty shall be valued at the lesser of (i) the amount available to be paid thereunder on the date of calculation and (ii) the difference between the amount available to be paid thereunder on the date of issue thereof and an amount equal to a fraction of such available amount the numerator of which is the aggregate number of December 15th’s and June 15th’s which has elapsed since such ratings were reduced and the denominator of which is ten.

With respect to any demand for payment under any Financial Guaranty, the Trustee shall make such demand for payment in accordance with the terms of such Financial Guaranty in a timely manner to assure the availability of moneys on the Bond Payment Date for which such moneys are required.

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 Second 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 509*)

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 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 or the purposes of such Fund may be transferred and paid by the Trustee to the Revenue Fund. (*Section 511*)

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 the Second 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 512*)

Depositaries. All moneys or securities held by the Trustee under the provisions of the Second Resolution shall constitute trust funds and the Trustee may, and shall, if directed in writing by an Authorized Representative of the Authority deposit such moneys or securities with one or more Depositaries in trust for the Trustee. All moneys or securities deposited under the provisions of the Second Resolution with the Trustee or any Depositary shall be held in trust and applied only in accordance with the provisions of the Second Resolution and the applicable provisions of the First Resolution, and each of the Funds and the Accounts shall be a trust fund for the purposes thereof. The Authority and the Trustee shall instruct each Depositary that any moneys or securities credited to a Fund or an Account under the Second Resolution which are deposited with such Depositary shall be identified to be part of such Fund or Account and subject to the pledge in favor of the Trustee created under the Second Resolution. Prior to the first deposit of any moneys or securities with each Depositary, the Authority and the Trustee shall obtain from such Depositary its agreement to serve as agent of the Trustee in holding such moneys or securities in pledge in favor of the Trustee and the contract or other written instrument between the Authority and such Depositary governing the establishment and operation of such account shall provide the moneys or securities from time to time deposited with such Depositary shall be held by such Depositary as such agent in pledge in favor of the Trustee; *provided, however*, that, except as otherwise expressly provided in the Second Resolution, the Authority shall be permitted at any time to make withdrawals from and write checks or other drafts against any account held by the Authority and established with such Depositary and apply the same for the purposes specified in the Second Resolution and, subject to Section 515 of the Second Resolution, the Authority shall be permitted to invest amounts in any such account in Investment Securities.

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 (or such greater amount as set forth in a Supplemental Resolution) 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 Second Resolution. (*Section 513*)

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 instrument

securing any issue of Subordinated Indebtedness) shall be invested and reinvested to the fullest practical 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 Fund, investments shall be of the type described in clauses (ii), (iii) or (iv) of the definition of "Investment Securities." Moneys in the Authority Expense Fund, the Revenue Fund, the Construction Fund, the Arbitrage Rebate Fund and the Surplus Fund may be invested and reinvested in Investment Securities which mature 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 the direction of an Authorized Representative of the Authority, given either in writing, which may be sent by electronic transmission of a facsimile, or by telephonic communication subsequently confirmed in writing. 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) and other investment earnings on any moneys or investments in the Funds and Accounts, other than the Construction Fund, the Debt Service Reserve Fund and the Arbitrage Rebate Fund, shall be paid into the Revenue Fund as and when received. Interest (net of that which represents a return of accrued interest paid connection with the purchase of any investment) and other investment earnings on any moneys or investments in (i) the Debt Service Reserve Fund shall be paid into the Arbitrage Rebate Fund, the Surplus Fund or the Revenue Fund; (ii) the Arbitrage Rebate Fund shall remain in such Fund; and (iii) the Construction Fund shall be paid quarterly, on the fifteenth day of each July, October, January and April of each Fiscal Year, to the Board deposit in the Local Water Fund; *provided, however*, that no such payment shall be made unless the Trustee shall receive (A) the written direction of an Authorized Representative of the Authority to make such payment and (B) a Certificate of an Authorized Representative of the Authority stating that, as of the date thereof, there has been deposited in the Revenue Fund during such Fiscal Year an amount equal to the Cash Flow Requirement.

All Investment Securities acquired with moneys in any Fund or Account shall be held by the Trustee in pledge or by a Depositary as agent in pledge in favor of the Trustee. (*Section 515*)

Additional Bonds. In order to provide sufficient funds for the Costs of Water Projects or for the purpose refunding any Bonds, First Resolution Bonds or any other bonds, notes or other obligations issued either by the Authority or the City to pay the capital costs of the System, Bonds of the Authority are authorized to be issued from time to time without limitations as to amount except as provided in the Second Resolution or as may be limited by law and such Bonds shall be issued subject to the terms, conditions and limitations established in the Second 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 Bond Counsel's Opinion as to validity and certain other matters required by the Second Resolution;

(b) a certified copy of the Supplemental Resolution authorizing such Series;

(c) an executed copy of an amendment or supplement to the Agreement or the Lease not theretofore delivered to the Trustee;

(d) except in the case of any Series of Refunding Bonds issued pursuant to Section 207 of the Second 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 on First Resolution Bonds, Outstanding Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations during such Fiscal Year for which Revenues are set forth pursuant to clause (i), excluding from Aggregate Debt Service the amount thereof which was paid from sources other than Revenues, and (iii) the sum of the Operating Expenses and the Required Deposits for such Fiscal Year (exclusive of Required Deposits for the payment of Outstanding Bonds, Parity Bond Anticipation Notes and Parity Reimbursement

Obligations), and showing that the amount set forth in (i) is at least equal to the sum of (x) 110% of the amount set forth in (ii) and (y) 100% of the amount set forth in (iii);

(e) except in the case of Refunding Bonds issued pursuant to Section 207 of the Second Resolution, a Certificate of each of the respective Authorized Representatives of the Authority, the Board and City, each dated as of the date of such delivery, stating that (i) the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Second Resolution, (ii) the Board is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Agreement or the Lease and (iii) the City is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Agreement or the Lease;

(f) a Certificate signed by an Authorized Representative of the Authority setting forth the Cash Flow Requirement as of such date; and

(g) in the case of any Series for which Capitalized Interest has been provided by the Supplemental Resolution authorizing such Series, (i) the written direction of an Authorized Representative of the Authority to establish the sub-account for such Series in the Capitalized Interest Account in the Debt Service Fund and (ii) the amount of the proceeds of such Series to be deposited in the Subordinated Indebtedness Fund for payment to such sub-account. (*Sections 204 and 206*)

Refunding Bonds. One or more Series of Refunding Bonds may be issued pursuant to Section 207 of the Second Resolution at any time to refund any Outstanding Bonds only upon the Trustee's receipt of, among other things, a Certificate signed by an Authorized Representative of the Authority stating that (a) the average annual Debt Service on the Refunding Bonds of such Series does not exceed the average annual Debt Service on the Bonds be refunded and (b) the maximum Debt Service in any Fiscal Year on the Refunding Bonds of such Series shall not exceed the maximum Debt Service in any Fiscal Year on the Bonds to be refunded. (*Section 207*)

Bond Anticipation Notes. The Authority may, by resolution, authorize the issuance of notes (and renewals thereof in anticipation of the issuance of a 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 issued to provide for the payment of such notes. 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 Second Resolution. The Authority may also pledge (i) the Funds and Accounts, other than the Arbitrage Rebate Fund, and (ii) the Revenues to the payment of the interest on, and subject to Section 706 of the Second Resolution, the principal of such notes. A copy of the Second 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 and Interest Rate Exchange Agreements. In connection with the issuance of any Series of Bonds or Parity Bond Anticipation Notes, 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, Redemption Price or interest due or to become due on such Bonds or the principal or interest due or to become due on such Parity Bond Anticipation Notes, providing for the purchase of such Bonds by the issuer of such Credit Facility or Revolving funds for the purchase of such Bonds by the Authority. In connection therewith the Authority may enter into such agreements with the issuer of such Credit Facility providing for, among other things: (i) reimbursement of the issuer of the Credit Facility for amounts paid under the terms thereof; *provided, however*, that no obligation to reimburse such issuer shall be created, for purposes of the Second Resolution, until amounts are paid under such Credit Facility; (ii) the payment of fees and expenses to such issuer for the issuance of such Credit Facility; (iii) the terms and conditions of such Credit Facility and the Series of Bonds or the Parity Bond Anticipation Notes affected thereby; and (iv) the security, if any, to be provided for the issuance of such Credit Facility. 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. 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.

In connection with the Bonds of any Series or Parity Bond Anticipation Notes, the Authority may enter into one or more Interest Rate Exchange Agreements providing for, inter alia: (i) the payment of fees, expenses and other amounts to the Counterparty; (ii) the terms and conditions of such Interest Rate Exchange Agreements; (iii) the Bonds of the Series or Parity Bond Anticipation Notes to which such Interest Rate Exchange Agreement relate; and (iv) the security, if any, to be provided by the Authority or the Counterparty for performance of their respective obligations under the Interest Rate Exchange Agreement.

The Authority may also in an agreement with the issuer of a Credit Facility agree to reimburse such issuer directly for amounts paid under the terms of such Credit Facility, together with accrued interest thereon; *provided, however*, that no obligation to reimburse an issuer of a Credit Facility shall be created, for purposes of the Second Resolution, until amounts are paid under such Credit Facility. Such payments to reimburse the issuer of a Credit Facility and the obligations of the Authority to make payments to a Counterparty, are referred to in the Second Resolution as a “Reimbursement Obligation.” Any Reimbursement Obligation (a “Parity Reimbursement Obligation”) may be secured by a pledge of and a lien on, the Revenues, Other Moneys, the Funds and Accounts (other than the Arbitrage Rebate Fund) and amounts in the FGR Subordinated Indebtedness Fund on a parity with the lien created thereon by Section 501 of the Second Resolution; *provided, however*, that with respect to Parity Bond Anticipation Notes, such pledge and lien may secure only the Authority’s Reimbursement Obligation incurred on account of amounts advanced for the payment of the interest on such Parity Bond Anticipation Notes unless the principal amount of such Reimbursement Obligation which was advanced on account of the principal of such Parity Bond Anticipation Notes is payable to the provider of the Credit Facility in substantially equal installments payable over not less than eight calendar quarters. Any such Parity Reimbursement Obligation shall be deemed to be a part of the Series or Parity Bond Anticipation Notes to which the Credit Facility or Interest Rate Exchange Agreement, as the case may be, which gave rise to such Parity Reimbursement Obligation relates. (*Section 209*)

Indebtedness and Liens. The Second Resolution provides that the Authority shall not issue any bonds, notes, or other evidences of indebtedness or otherwise incur any indebtedness, other than the First General Resolution Bonds, Bonds, Parity Bond Anticipation Notes or Parity Reimbursement Obligations, secured by a pledge of or other lien or charge on the Revenues or any of the assets pledged which is prior to or of equal rank or priority with the pledge made and shall not create or cause to be created any lien or charge on the Revenues or on any of the assets pledged which is prior to or of equal rank or priority with the pledge made; *provided, however*, that, with respect to Bond Anticipation Notes, such lien or pledge shall secure payment of the interest thereon, unless the principal thereof shall be secured by a lien on the Revenues as hereinafter provided in this paragraph. This paragraph shall not prevent the Authority from issuing bonds, other notes or other obligations for the corporate purposes of the Authority payable out of, or secured by a pledge of, Revenues to be derived on and after such date as the pledge of the Revenues provided in the Second Resolution shall be discharged and satisfied as provided in Section 1201 of the Second Resolution, or from issuing bonds or notes or other obligations for the corporate purposes of the Authority which are payable out of or secured by the pledge of amounts available therefor in the Local Water Fund after satisfaction, in each Fiscal Year, of the Cash Flow Requirement for such 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 Second Resolution and the lien and pledge created by the Second Resolution.

The Authority will not issue any bonds, notes or other evidences of indebtedness or otherwise incur any indebtedness, other than Bonds or First Resolution Bonds, payable from, or secured by a pledge of or other lien or charge on the Construction Account of the FGR Subordinated Indebtedness Fund. (*Section 706*)

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 shall the terms of any agreement made with or for the benefit of the Bondholders, or in any way impair the right, 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 709*)

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 copy of the Authority Budget, duly certified by an Authorized Representative of the Authority, showing the estimated Cash Flow Requirement (including the amount of each item constituting a component thereof, on a monthly basis) for the ensuing Fiscal Year, together with the estimated Revenues, other than Revenues to be received from the Board pursuant to the Agreement, expected to be received by the Authority in the ensuing Fiscal Year, and any other information required to be set forth therein by the Second 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 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 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. (*Section 710*)

Cash Flow Requirement. On the first day of each month after the adoption of the Authority Budget for any Fiscal Year, the Authority shall recalculate the Cash Flow Requirement for such Fiscal Year. If any such recalculation results in the determination of a Cash Flow Requirement in excess of the Cash Flow Requirement set forth in the then current Authority Budget, the Authority shall adopt and file an amended Authority Budget in accordance with Section 711(c) of the Second Resolution.

At any time on or after May 1 of a Fiscal Year, but not later than June 15 of such Fiscal Year, the Authority shall recalculate the Cash Flow Requirement for such Fiscal Year and include therein, in addition to all other amounts required by the Second Resolution or by the Agreement or First Resolution to be included therein, an amount equal to the lesser of (i) the amount estimated to be in the Local Water Fund on June 30 of such Fiscal Year after the Board has made the payments and deposits required by paragraphs FIRST through SEVENTH of Section 4.2(c) of the Agreement and (ii) an amount equal to the difference between (x) the Aggregate Debt Service on Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations payable during the next succeeding Fiscal Year, less (y) the Other Moneys projected to be received during such next succeeding Fiscal Year. Upon such recalculation the Authority shall adopt and file an amended Authority Budget in accordance with Section 711(c) of the Second Resolution.

If a Financial Guaranty is to expire or terminate during a Fiscal Year and as a result thereof the amount in the Debt Service Reserve Fund would be less than the Debt Service Reserve Requirement, the Authority shall include in the Authority Budget and the Cash Flow Requirement for such Fiscal Year and for each of the four Fiscal Years next succeeding such Fiscal Year an amount equal to twenty percent (20%) of the deficit in the Debt Service Reserve Fund created by such expiration or termination, unless prior to adoption of the Authority Budget for any such Fiscal Year the Authority has obtained an extension of or substitute for such Financial Guaranty or a commitment for the issuance of such extension or substitute. (*Section 711*)

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 or the Agreement and Section 714 of the Second Resolution. (*Section 713*)

Amendments to First Resolution, Agreement and Lease. Except as otherwise provided in the Second Resolution, the First Resolution, the Agreement or the Lease may not be amended, changed, modified or terminated, nor may any provision thereof be waived, without the consent of the Holders of

Outstanding Bonds as provided in the Second Resolution, if such amendment, change, modification, termination or waiver:

(i) amends subsection (c)(ii), (c)(iii), (g), (h), (i), (j), (k) or (l) of Section 206 of the First Resolution:

(ii) amends Section 207 or Section 209 of the First Resolution in any manner which would permit First Resolution Bonds or Parity Reimbursement Obligations to be issued or incurred which, except for such amendment, could not be issued or incurred; or

(iii) amends Article V of the First Resolution in any manner which reduces the amount or delays the time at which moneys are to be deposited in the FGR Subordinated Indebtedness Fund or modifies the order in which payments to the FGR Subordinated Indebtedness Fund are to be made or the purposes for which moneys in the FGR Subordinated Indebtedness Fund may be applied; or

(iv) modifies the events which constitute "Events of Default" under Section 1001 of the First Resolution, or

(v) amends the First Resolution, the Agreement or the Lease in any manner which would indirectly modify the provisions of any of the Sections of the First Resolution referred to in clauses (i), (ii), (iii) or (iv) of Section 714(a) of the Second Resolution in a manner proscribed thereby; or

(vi) adversely affects the interest of the Holders of Outstanding Bonds in any material respect.

No such amendment, change, modification, termination or waiver shall take effect unless the prior written consent of (a) the Holders of at least a majority in principal amount of the Bonds then Outstanding, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the amendment, change, modification, termination or waiver, the Holders of not less than a majority in principal amount of the Bonds of the Series so affected and then Outstanding; *provided, however*, that if such amendment, change modification, termination or waiver will, by its terms, not take effect so long as any Bonds of any specified 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 any calculation of Outstanding Bonds under the provisions contained under this "Amendments to First Resolution and Agreement."

Notwithstanding the provisions of the preceding paragraph, the amendments to the First Resolution made be the resolution of the Authority entitled "Twenty-second Supplemental Resolution to the Water and Sewer System General Revenue Bond Resolution adopted November 14, 1985," which resolution was adopted by the Authority on November 10, 1993, and any amendments to the Agreement necessary or appropriate to implement or conform the provisions of the Agreement to the First Resolution as so amended may take effect without the prior written consent of Holders of any of the Bonds.

For the purposes of the provisions under this heading "Amendments to First Resolution, Agreement and Lease" the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to an amendment, change, modification, termination or waiver permitted by the paragraphs under this heading "Amendments to First Resolution, Agreement and Lease" with the same effect as a consent given by the Holder of such Bonds.

For the purposes of the provisions under this heading, "Amendments to First Resolution, Agreement and Lease," Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the First Resolution or the Agreement if the same adversely affects or diminishes the rights of the Holders of the Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series would be adversely affected in any material respect by any amendment, change, modification or alteration, and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds.

For the purposes of the provisions under this heading "Amendments to First Resolution, Agreement and Lease," the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be

satisfactory to the Trustee with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds then Outstanding in any material respect. (*Section 714*)

Supplemental Resolutions. The Second 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 a majority 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 Second 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 Second Resolution; to confirm any pledge under the Second 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 Second 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 Second Resolution or to insert such provisions clarifying matters or questions arising under the Second Resolution as are necessary or desirable, and are not contrary to or inconsistent with the Second Resolution as theretofore in effect; or to modify any provision of the Second Resolution or of any previously adopted Supplemental Resolution in any respect, provided that such modification shall not adversely affect the interests of the Bondholders in any material respect: or to provide for additional duties of the Trustee (provided that the Trustee shall consent thereto).

For the purposes of Article IX of the Second Resolution, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to a modification or amendment permitted by Sections 803 or 902 of the Second Resolution in the manner provided in the Second Resolution, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds; *provided, however*, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering of the Bonds of such Series by the Authority. (*Arts. VIII and IX*)

Defaults and Remedies. The Second 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 Second 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; (v) a filing of a petition for relief under any federal or State bankruptcy or similar law by the Authority; or (vi) a default by the Authority on any indebtedness payable out of the FGR Subordinated Indebtedness Fund has occurred as a result of which the principal thereof has been declared to be immediately due and payable, which declaration has not been annulled; then, upon the happening and continuance of any Event of Default, the Trustee, if no First Resolution Bonds are then Outstanding under the First Resolution or if the principal of all First Resolution Bonds then Outstanding has been declared to be due and payable immediately pursuant to Section 803 of the First Resolution, 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 be 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 Second 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 Second 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 Second 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 thereof shall have been declared payable) to the payment of all unpaid interest ratably, and then to unpaid principal or Redemption Price of any Bond or Parity Reimbursement Obligations, ratably; if the principal of all of the Bonds shall be due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds and Parity Reimbursement Obligations and of the interest then due and unpaid on Parity Bond Anticipation Notes without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond, Parity Reimbursement Obligation or Parity Bond Anticipation Note over any other Bond, Parity Reimbursement Obligation or Parity Bond Anticipation Note, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference. No Bondholder has any right to institute a suit to enforce any provision of the Second 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 then Outstanding 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 Second 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 Second 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 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 Second 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

⁽¹⁾ Supplemental Resolution No. 73 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.

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 Second 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 Second Resolution. (*Section 1201*)

Defeasance of Option Bonds. Under the Second Resolution, Option Bonds shall be deemed paid in accordance with the Second Resolution only if, in addition to satisfying several of the requirements applicable to Bonds other than Variable Rate or Option Bonds, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay the maximum amount of principal of and premium due, if any; and interest on such Bonds which could become payable to the holders of such Bonds upon the exercise of any options provided to the holders of such Bonds; *provided, however*, that if the options originally exercisable by the holder of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond. (*Section 1201*)

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APPENDIX D

FINANCIAL STATEMENTS

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NEW YORK CITY WATER AND SEWER SYSTEM

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	D-1
MANAGEMENT'S DISCUSSION AND ANALYSIS	D-2–D-8
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008:	
Combining Balance Sheets	D-9–D-12
Combining Statements of Revenues, Expenses and Changes in Net Assets	D-13–D-14
Combining Statements of Cash Flows	D-15–D-18
Notes to Financial Statements	D-19–D-42

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INDEPENDENT AUDITORS' REPORT

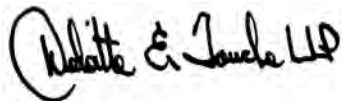
To the Audit Committees of
New York City Municipal Water Finance Authority
And the New York City Water Board

We have audited the accompanying combining balance sheets 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 June 30, 2009 and 2008, and the related combining statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements 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. 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 opinion.

In our opinion, such financial statements 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, 2009 and 2008, and the respective changes in their net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 2 to the financial statements, in 2009 the System changed its method of accounting for pollution remediation obligations to conform to Governmental Accounting Standards Board ("GASB") Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

The accompanying management's discussion and analysis (MD&A) on pages 2-8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.



October 9, 2009

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, 2009 and 2008. 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 System is a component unit of The City of New York (the "City").

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 fiscal years 2009, 2008 and 2007 (in thousands):

	2009	2008	2007	Variance	
				2009 v 2008	2008 v 2007
REVENUES:					
Water supply and distribution	\$ 920,033	\$ 784,856	\$ 796,404	\$ 135,177	\$ (11,548)
Sewer collection and treatment	1,430,588	1,220,653	1,238,612	209,935	(17,959)
Other operating revenues	97,946	97,778	98,061	168	(283)
Total operating revenues	2,448,567	2,103,287	2,133,077	345,280	(29,790)
Subsidy income	108,708	104,234	90,601	4,474	13,633
Investment income	99,122	108,892	98,132	(9,770)	10,760
Total revenues	2,656,397	2,316,413	2,321,810	339,984	(5,397)
EXPENSES:					
Operations and maintenance	1,448,268	1,320,439	1,147,157	127,829	173,282
Bad debt expense	36,060	-	226,028	36,060	(226,028)
Administration and general	50,581	44,027	35,493	6,554	8,534
Depreciation and amortization	696,345	646,377	579,860	49,968	66,517
Capital distribution	51,921	24,619	33,133	27,302	(8,514)
Loss on retirement of capital assets	299,450	14,598	23,257	284,852	(8,659)
Interest expense	929,333	834,085	771,656	95,248	62,429
Total expenses	3,511,958	2,884,145	2,816,584	627,813	67,561
Net loss before capital contributions	(855,561)	(567,732)	(494,774)	(287,829)	(72,958)
CAPITAL CONTRIBUTIONS	11,529	7,340	12,357	4,189	(5,017)
CHANGE IN NET ASSETS	(844,032)	(560,392)	(482,417)	(283,640)	(77,975)
NET ASSETS — Beginning	1,165,891	1,726,283	2,899,381	(560,392)	(1,173,098)
Restatement of beginning net assets (note 2)	(61,608)	-	(690,681)	(61,608)	690,681
NET ASSETS — Ending	\$ 260,251	\$ 1,165,891	\$ 1,726,283	\$ (905,640)	\$ (560,392)

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Revenue

2009–2008

Operating revenues increased by 16.4% primarily due to a rate increase of 14.5%

2008–2007

Operating revenues decreased by 1.4% on a rate increase of 11.5%. The System changed the method for the recognition of bad debt expense and the allowance for doubtful accounts in Fiscal 2008. This change resulted in a decrease in revenue although there was an increase in cash receipts in Fiscal 2008 compared to Fiscal 2007.

The following summarizes other operating revenues for Fiscal 2009, 2008, and 2007 (in thousands):

	2009	2008	2007	Variance	
				2009 v 2008	2008 v 2007
Upstate water fees	\$ 42,197	\$ 45,978	\$ 42,197	\$ (3,781)	\$ 3,781
Late payment fees	18,708	24,261	43,286	(5,553)	(19,025)
Change in residual interest in sold liens	21,681	16,896	-	4,785	16,896
Connection fees and permits	<u>15,360</u>	<u>10,643</u>	<u>12,578</u>	<u>4,717</u>	<u>(1,935)</u>
Total other operating revenues	<u>\$ 97,946</u>	<u>\$ 97,778</u>	<u>\$ 98,061</u>	<u>\$ 168</u>	<u>\$ (283)</u>

2009–2008

Overall, other operating revenues remained level for Fiscal 2009. Late payments fees decreased by \$5.5 million or 23%. The residual interest in sold liens increased because as of June 30, 2009 the tax lien trust which received water and sewer liens from the Board in Fiscal 2009 had not yet issued bonds or made payment to the Board for those liens.

2008–2007

Other operating revenues remained relatively level for Fiscal 2008. Late payments fees decreased by \$19 million or 44% due to forgiveness of these charges related to leaks and due to a payment incentive program which allowed reduced fees for payment of outstanding receivables.

The System implemented Government Accounting Standards Board (“GASB”) Statement No. 48 (“GASB 48”) *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* in Fiscal 2008, which resulted in the recording of a miscellaneous revenue and an asset, residual interest in sold liens, of \$16.9 million. This represents the estimated amount, as of June 30, 2008, to be received by the Board for tax liens secured by water and sewer rents and surcharges which have been sold by the City to one or more trusts, if and when liens held by the trusts generate cash flows to the trusts above the amounts needed by the trusts to pay their bondholders and satisfy reserve requirements.

Investment Income

2009–2008

Investment income decreased by \$9.8 million or 9%. The decrease was due to lower interest rates on invested assets.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2008–2007

Investment income increased by \$10.7 million or 11%. The increase was due to the recognition of \$18 million of unrealized gains in the fair value of forward purchase agreements offset by decreases in income earned on escrow balances of \$6 million.

Operating Expenses

2009–2008

The System has implemented GASB Statement 49, (GASB 49) *Accounting and Financial Reporting for Pollution Remediation Obligations* requiring the reporting of pollution remediation obligations (“PROs”). As of June 30, 2009, the System reported \$119 million of liabilities for known PROs and has restated its fiscal year 2009 beginning net assets (as disclosed in note 2) to reflect a June 30, 2008 liability of \$61.6 million for known PROs.

Total operations and maintenance expenses increased by \$127.8 million or 10%. An expense of \$132.7 million for pollution remediation, recognized for the first time in Fiscal 2009 due to the implementation of GASB 49, was partially offset by a decrease in judgments and claims. Fringe benefits increased by \$27 million, reflecting the increased cost of employee benefits for City workers which is a component of the operations and maintenance cost paid by the System.

Bad debt expense increased by \$36 million due to increased estimated customer delinquencies.

2008–2007

Total operation and maintenance expenses increased by \$173.3 million or 15%. Fringe benefits increased by \$37 million reflecting the increased cost of employee benefits for City workers which is a component of the operations and maintenance cost paid by the System.

Bad debt expense decreased by \$226 million. As discussed above, the System changed the method by which it recognized bad debts expense in Fiscal 2008.

Non-operating Expenses

2009–2008

The System recognized \$299 million of losses on retirement of fixed assets that were disposed of or taken out of service as of June 30, 2009.

Interest expense increased by \$95 million or 11% due primarily to an increase in bonds outstanding of \$2.6 billion or 14%.

2008–2007

Interest expense increased by \$62.4 million or 8% due primarily to an increase in bonds outstanding of \$1.9 billion or 11%.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Following is a summary of the System's assets, liabilities and net assets as of June 30, (in thousands):

	2009	2008	2007	Variance	
				2009 v 2008	2008 v 2007
Current Assets	\$ 2,388,478	\$ 2,091,480	\$ 2,075,754	\$ 296,998	\$ 15,726
Residual Interest in Sold Liens	38,578	16,896	-	21,682	16,896
Deferred Bond and Financing Expenses	152,516	137,508	134,673	15,008	2,835
Capital Assets	<u>21,139,238</u>	<u>19,347,150</u>	<u>17,745,015</u>	<u>1,792,088</u>	<u>1,602,135</u>
Total Assets	<u>\$23,718,810</u>	<u>\$21,593,034</u>	<u>\$19,955,442</u>	<u>\$ 2,125,776</u>	<u>\$1,637,592</u>
Long-Term Liabilities	\$21,421,197	\$18,668,449	\$16,691,440	\$ 2,752,748	\$1,977,009
Current Liabilities	<u>2,037,362</u>	<u>1,758,694</u>	<u>1,537,719</u>	<u>278,668</u>	<u>220,975</u>
Total liabilities	<u>23,458,559</u>	<u>20,427,143</u>	<u>18,229,159</u>	<u>3,031,416</u>	<u>2,197,984</u>
Net Assets:					
Invested in capital assets — net of related debt	1,253,882	1,737,181	2,056,879	(483,299)	(319,698)
Restricted for debt service	285,348	209,130	161,661	76,218	47,469
Restricted for operations and maintenance	195,844	200,438	175,161	(4,594)	25,277
Unrestricted (deficit)	<u>(1,474,823)</u>	<u>(980,858)</u>	<u>(667,418)</u>	<u>(493,965)</u>	<u>(313,440)</u>
Total net assets	<u>260,251</u>	<u>1,165,891</u>	<u>1,726,283</u>	<u>(905,640)</u>	<u>(560,392)</u>
Total Liabilities and Net Assets	<u>\$23,718,810</u>	<u>\$21,593,034</u>	<u>\$19,955,442</u>	<u>\$ 2,125,776</u>	<u>\$1,637,592</u>

2009–2008

Current assets increased by \$297 million or 14%. Investments including cash equivalents increased by \$253 million primarily in the construction and revenue funds, due to the timing of bond issuances and payments to the City for capital costs. Net receivables increased by \$51.5 million.

The residual interest in sold liens increased by \$22 million, as discussed above.

Long term liabilities increased by \$2.7 billion due to the increase in bonds payable of \$2.6 billion and the pollution remediation obligation of \$119 million, as discussed above.

Current liabilities increased by \$279 million or 16% primarily due to an increase in the amount payable to the City for capital costs.

2008–2007

Current assets have remained relatively level.

As discussed above, the implementation of GASB 48 in Fiscal 2008 resulted in the recording of a residual interest in sold liens of \$16.9 million.

Long term liabilities increased by \$2 billion primarily due to the increase in bonds payable of \$1.9 billion.

Current liabilities increased by \$221 million or 14% primarily due to an increase in the amount payable to the City for capital costs.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

The System's capital assets include buildings, equipment, water treatment systems and water collection systems. Capital assets as of June 30, are detailed as follows (in thousands):

	2009	2008	2007	Variance	
				2009 v 2008	2008 v 2007
Utility plant under construction	\$ 5,072,496	\$ 4,011,216	\$ 4,338,126	\$ 1,061,280	\$ (326,910)
Buildings	24,193	23,493	23,493	700	-
Equipment	1,362,215	953,311	629,384	408,904	323,927
Water supply and wastewater treatment systems	14,382,431	13,629,051	11,865,211	753,380	1,763,840
Water distribution and sewage collection systems	8,334,620	8,408,040	8,014,647	(73,420)	393,393
Total utility plant in service	24,103,459	23,013,895	20,532,735	1,089,564	2,481,160
Less accumulated depreciation	8,036,717	7,677,961	7,125,846	358,756	552,115
Total — net utility plant in service	16,066,742	15,335,934	13,406,889	730,808	1,929,045
Total capital assets	\$21,139,238	\$ 19,347,150	\$17,745,015	\$ 1,792,088	\$1,602,135
	<u>Buildings</u>	<u>Equipment</u>	<u>Water Supply</u>	<u>Water Distribution</u>	<u>Total</u>
Accumulated depreciation	16,138	592,785	4,701,459	2,726,335	8,036,717

The net increase in the System's capital assets during Fiscal 2009 was \$1.8 billion or 9%. Net capital asset additions for Fiscal 2009 were \$2.1 billion.

The net increase in the System's capital assets during Fiscal 2008 was \$ 1.6 billion or 9%. Net capital asset additions for Fiscal 2008 were \$2.2 billion.

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, 2009, the total outstanding debt of the System was \$22.5 billion, of which \$700 million was commercial paper. The remaining \$21.8 billion consisted of variable and fixed-rate bonds and notes maturing in varying installments through 2040. The total outstanding long-term debt at June 30, 2009 was as follows (in thousands):

Issue Date

2009	\$ 3,503,375
2008	2,900,689
2007	2,167,547
2006	2,532,130
2005	2,749,742
2004 and prior	7,981,314
Total long-term debt	<u>\$ 21,834,797</u>

In the summary above, bonds retired through refundings in Fiscal 2009 are removed from the year in which the refunded bonds were issued and the refunding bonds are included in the Fiscal 2009 amount.

In Fiscal 2009, the Authority issued \$3.1 billion of water and sewer revenue bonds directly to the public, including \$612.3 million of refunding bonds and \$2.4 billion of new money bonds. The Authority also issued

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

\$448.4 million of Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC which were issued for new money purposes. The new money bond proceeds were used to finance capital improvements to the water and sewer system as well as to provide long-term financing of commercial paper notes which had previously financed capital improvements to the system.

On July 23, 2008, the Authority issued \$334.1 million of tax-exempt fixed-rate Water and Sewer System Second General Resolution Bonds, Fiscal 2009 Series AA bonds to refund its Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2008 Series CC-1, Fiscal 2008 Series CC-2, Fiscal 2008 Series CC-3 and Fiscal 2008 Series CC-4. The 2008 Series CC bonds were issued as adjustable rate bonds in the auction rate mode and were insured by MBIA Insurance Corporation at the time of their initial offering. The Authority executed this transaction in response to constrained liquidity in the auction rate market, precipitated by credit downgrades of several financial guarantors, including MBIA, which led to a substantial rise in interest rates for these bonds. The Fiscal 2009 Series AA bonds included serial bonds maturing 2013 through 2022.

On August 7, 2008, the Authority closed its first new money offerings of Fiscal 2009. The Authority issued \$200.9 million of tax-exempt, adjustable rate Water and Sewer System Second General Resolution Bonds, Fiscal 2009 Series BB-1 and BB-2 bonds. Bond proceeds were used to defease the Authority's commercial paper notes Series 1 notes and to pay the costs of issuance of the bonds. Liquidity support for the Fiscal 2009 Series BB-1 and BB-2 bonds is provided through a standby bond purchase agreement with Landesbank Hessen-Thüringen Girozentrale. The Series BB-1 and BB-2 adjustable rate bonds are remarketed by Citi and Morgan Stanley, respectively.

The Authority also issued \$150 million of tax-exempt, fixed rate Fiscal 2009 Series CC bonds under the Authority's second general resolution on August 7, 2008. The Fiscal 2009 Series CC bonds included term bonds maturing 2029, 2030 and 2034. Bond proceeds were used to defease a portion of the Authority's commercial paper notes Series 7 and to pay the costs of issuance of the bonds.

On October 29, 2008, the Authority issued \$536 million of tax-exempt, fixed rate Water and Sewer System Revenue Bonds Fiscal 2009 Series A bonds under the Authority's general (first) resolution. This bond issue included serial bonds maturing 2017 through 2024 and term bonds maturing 2040. Bond proceeds were used to pay costs for improvements to the water and sewer system, pay for cost of issuance of the bonds and fund certain reserves.

On December 11, 2008, the Authority issued \$325.6 million of tax-exempt, fixed rate Water and Sewer System Second General Resolution Bonds Fiscal 2009 Series DD bonds. This bond issue included serial bonds maturing 2023 through 2028 and term bonds maturing in 2035 and 2040. Bond proceeds were used to defease a portion of the Authority's commercial paper notes Series 7, pay costs for improvements to the water and sewer system and to pay the costs of issuance of the bonds.

On January 29, 2009, the Authority issued \$645.5 million of tax-exempt, fixed rate Water and Sewer Second General Resolution Bonds Fiscal 2009 Series EE bonds. The purpose of the issue was to fund costs of improvements to the water and sewer system and pay costs of issuance of the bonds. A portion of the issue was also used to refund the Authority's outstanding Adjustable Rate Fiscal 2003 Series C-1 and C-2 adjustable rate bonds. The refunding was undertaken in response to the deteriorating credit quality of the bank providing liquidity support on the 2003 C bonds, which caused a substantial rise in interest rates on the bonds. The structure of the issue included serial bonds maturing 2014 through 2018 and term bonds maturing 2039 and 2040.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

On February 26, 2009, the Authority issued \$362.8 million of tax-exempt, fixed rate Water and Sewer System Second General Resolution Bonds Fiscal 2009 Series FF-1 and FF-2 bonds. The Series FF-1 bonds were issued to refund the Authority's Adjustable Rate Fiscal 2003 Series C-3 bonds in response to the deteriorating credit quality of the bank providing liquidity support on the bonds. The purpose of the Series FF-2 issue was to fund costs of improvements to the water and sewer system, defease the Authority's outstanding commercial paper notes Series 6 and pay costs of issuance of the bonds. The Series FF-1 issue included serial bonds maturing 2014 through 2018. The Series FF-2 issue included term bonds maturing 2040.

On June 17, 2009, the Authority issued \$500 million of tax-exempt, fixed rate Water and Sewer System Second General Resolution Bonds Fiscal 2009 Series GG-1 and GG-2. The Series GG-1 bonds were issued to defease the Authority's outstanding commercial paper notes Series 1 and a portion of its Series 7 notes and to pay for certain costs of issuance. This issue included serial bonds maturing 2024 through 2032 and term bonds maturing 2039. The Series GG-2 bonds included term bonds maturing 2035 and 2040 and were issued to pay costs of improvements to the water and sewer system and to pay certain costs of issuance.

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 14.5% for Fiscal 2009 based on projected revenues and costs, became effective July 1, 2008.

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, Director of Media and Investor 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

COMBINING BALANCE SHEET

June 30, 2009

(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 109,990	\$ 1,060,452	\$ -	\$ 1,170,442
Investments	91,746	675,875	-	767,621
Accrued interest receivable	360	3,296	-	3,656
Accounts receivable:				
Billed — less allowance for uncollectible water and sewer receivables of \$219,445	218,246	-	-	218,246
Unbilled	215,185	-	-	215,185
Receivable from the City of New York	13,328	-	-	13,328
Total current assets	648,855	1,739,623	-	2,388,478
UTILITY PLANT IN SERVICE — Less accumulated depreciation of \$8,036,717	16,066,742	-	-	16,066,742
UTILITY PLANT CONSTRUCTION	5,072,496	-	-	5,072,496
Total capital assets	21,139,238	-	-	21,139,238
REVENUE REQUIREMENT TO BE BILLED BY AND RECEIVED FROM THE BOARD	-	12,763,380	(12,763,380)	-
RESIDUAL INTEREST IN SOLD LIENS	38,578	-	-	38,578
LONG-TERM DEFERRED BOND AND FINANCING EXPENSES	-	152,516	-	152,516
Total non current assets	21,177,816	12,915,896	(12,763,380)	21,330,332
TOTAL	\$ 21,826,671	\$ 14,655,519	\$ (12,763,380)	\$ 23,718,810

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET

JUNE 30, 2009

(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
LIABILITIES AND NET ASSETS				
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	\$ -	\$ 21,568,771	\$ -	\$ 21,568,771
Net discount on bonds and notes payable	-	50,699	-	50,699
Unamortized deferred bond refunding costs	-	(317,628)	-	(317,628)
Pollution remediation obligation	118,960	-	-	118,960
OPEB Liability	-	395	-	395
Revenue requirements payable to the Authority	12,763,380	-	(12,763,380)	-
Total long-term liabilities	12,882,340	21,302,237	(12,763,380)	21,421,197
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	46,946	50,109	-	97,055
Revenues received in advance	77,672	-	-	77,672
Commercial paper payable	-	700,000	-	700,000
Current portion of bonds and notes payable	-	266,026	-	266,026
Payable to The City of New York	-	880,664	-	880,664
Refunds payable to customers	15,945	-	-	15,945
Total current liabilities	140,563	1,896,799	-	2,037,362
Total liabilities	13,022,903	23,199,036	(12,763,380)	23,458,559
NET ASSETS:				
Invested in capital assets — net of related debt	21,139,238	(19,885,356)	-	1,253,882
Restricted for debt service	-	285,348	-	285,348
Restricted for operations and maintenance	195,844	-	-	195,844
Unrestricted (deficit)	(12,531,314)	11,056,491	-	(1,474,823)
Total net assets	8,803,768	(8,543,517)	-	260,251
TOTAL	\$ 21,826,671	\$ 14,655,519	\$ (12,763,380)	\$ 23,718,810

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET

JUNE 30, 2008

(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 125,984	\$ 1,123,417	\$ -	\$ 1,249,401
Investments	90,225	354,475	-	444,700
Accrued interest receivable	126	2,028	-	2,154
Accounts receivable:				
Billed — less allowance for uncollectible water and sewer receivables of \$183,884	184,366	-	-	184,366
Unbilled	187,934	-	-	187,934
Receivable from The City of New York	<u>22,925</u>	<u>-</u>	<u>-</u>	<u>22,925</u>
Total current assets	<u>611,560</u>	<u>1,479,920</u>	<u>-</u>	<u>2,091,480</u>
UTILITY PLANT IN SERVICE — Less accumulated depreciation of \$7,677,961	15,335,934	-	-	15,335,934
UTILITY PLANT CONSTRUCTION	<u>4,011,216</u>	<u>-</u>	<u>-</u>	<u>4,011,216</u>
Total capital assets	19,347,150	-	-	19,347,150
REVENUE REQUIREMENT TO BE BILLED BY AND RECEIVED FROM THE BOARD	-	10,880,165	(10,880,165)	-
RESIDUAL INTEREST IN SOLD LIENS	16,896	-	-	16,896
LONG-TERM DEFERRED BOND AND FINANCING EXPENSES	<u>-</u>	<u>137,508</u>	<u>-</u>	<u>137,508</u>
Total non current assets	<u>19,364,046</u>	<u>11,017,673</u>	<u>(10,880,165)</u>	<u>19,501,554</u>
TOTAL	<u>\$ 19,975,606</u>	<u>\$ 12,497,593</u>	<u>\$ (10,880,165)</u>	<u>\$ 21,593,034</u>

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET

JUNE 30, 2008

(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
LIABILITIES AND NET ASSETS				
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	\$ -	\$ 18,983,922	\$ -	\$ 18,983,922
Net discount on bonds and notes payable	-	26,377	-	26,377
Unamortized deferred bond refunding costs	-	(342,166)	-	(342,166)
OPEB liability		316		316
Revenue requirements payable to the Authority	10,880,165	-	(10,880,165)	-
Total long-term liabilities	10,880,165	18,668,449	(10,880,165)	18,668,449
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	79,032	34,141	-	113,173
Revenues received in advance	74,676	-	-	74,676
Commercial paper payable	-	800,000	-	800,000
Current portion of bonds and notes payable	-	235,015	-	235,015
Payable to The City of New York	-	518,467	-	518,467
Refunds payable to customers	17,363	-	-	17,363
Total current liabilities	171,071	1,587,623	-	1,758,694
Total liabilities	11,051,236	20,256,072	(10,880,165)	20,427,143
NET ASSETS:				
Invested in capital assets — net of related debt	19,347,150	(17,609,969)	-	1,737,181
Restricted for debt service	-	209,130	-	209,130
Restricted for operations and maintenance	200,438	-	-	200,438
Unrestricted (deficit)	(10,623,218)	9,642,360	-	(980,858)
Total net assets	8,924,370	(7,758,479)	-	1,165,891
TOTAL	\$ 19,975,606	\$ 12,497,593	\$ (10,880,165)	\$ 21,593,034

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2009

(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
OPERATING REVENUES:			
Water supply and distribution	\$ 920,033	\$ -	\$ 920,033
Sewer collection and treatment	1,430,588	-	1,430,588
Other operating revenues	97,946	-	97,946
Total operating revenues	2,448,567	-	2,448,567
OPERATING EXPENSES:			
Operation and maintenance	1,448,268	-	1,448,268
Bad debt expense	36,060	-	36,060
Administration and general	26,858	23,723	50,581
Total operating expenses	1,511,186	23,723	1,534,909
DEPRECIATION AND AMORTIZATION	659,733	36,612	696,345
OPERATING INCOME	277,648	(60,335)	217,313
NONOPERATING REVENUE (EXPENSES):			
Interest expense	-	(929,333)	(929,333)
Loss on retirement of capital assets	(299,450)	-	(299,450)
Subsidy income	-	108,708	108,708
Capital distribution	(51,921)	-	(51,921)
Investment income	3,200	95,922	99,122
NET (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(70,523)	(785,038)	(855,561)
CAPITAL CONTRIBUTION	11,529	-	11,529
CHANGE IN NET ASSETS	(58,994)	(785,038)	(844,032)
NET ASSETS (DEFICIT) — Beginning of year	8,924,370	(7,758,479)	1,165,891
Restatement of beginning net assets (note 2)	(61,608)	-	(61,608)
NET ASSETS (DEFICIT) — End of year	\$ 8,803,768	\$ (8,543,517)	\$ 260,251

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2008

(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
OPERATING REVENUES:			
Water supply and distribution	\$ 784,856	\$ -	\$ 784,856
Sewer collection and treatment	1,220,653	-	1,220,653
Other operating revenues	97,778	-	97,778
Total operating revenues	2,103,287	-	2,103,287
OPERATING EXPENSES:			
Operation and maintenance	1,320,439	-	1,320,439
Administration and general	22,351	21,676	44,027
Total operating expenses	1,342,790	21,676	1,364,466
DEPRECIATION AND AMORTIZATION	604,437	41,940	646,377
OPERATING INCOME	156,060	(63,616)	92,444
NONOPERATING REVENUE (EXPENSES):			
Interest expense	-	(834,085)	(834,085)
Loss on retirement of fixed assets	(14,598)	-	(14,598)
Subsidy income	-	104,234	104,234
Capital distribution	(24,619)	-	(24,619)
Investment income	4,169	104,723	108,892
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	121,012	(688,744)	(567,732)
CAPITAL CONTRIBUTION	7,340	-	7,340
CHANGE IN NET ASSETS	128,352	(688,744)	(560,392)
NET ASSETS (DEFICIT) — Beginning of year	8,796,018	(7,069,735)	1,726,283
NET ASSETS (DEFICIT) — End of year	\$ 8,924,370	\$ (7,758,479)	\$ 1,165,891

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 2,331,041	\$ -	\$ 2,331,041
Payments for operations and maintenance	(1,273,908)	-	(1,273,908)
Payments for administration	(24,952)	(22,737)	(47,689)
Net cash provided by (used in) operating activities	<u>1,032,181</u>	<u>(22,737)</u>	<u>1,009,444</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings — net of issuance costs	-	4,448,758	4,448,758
Acquisition and construction of capital assets	-	(2,570,868)	(2,570,868)
Payments by the Board to the Authority	(1,049,850)	1,049,850	-
Repayments of bonds, notes and other borrowings	-	(1,943,379)	(1,943,379)
Interest paid on bonds, notes and other borrowings	-	(805,667)	(805,667)
Net cash (used in) provided by capital and related financing activities	<u>(1,049,850)</u>	<u>178,694</u>	<u>(871,156)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	-	398,074	398,074
Purchases of investments	-	(683,935)	(683,935)
Interest on investments	<u>1,675</u>	<u>66,939</u>	<u>68,614</u>
Net cash provided by (used in) investing activities	<u>1,675</u>	<u>(218,922)</u>	<u>(217,247)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,994)	(62,965)	(78,959)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>125,984</u>	<u>1,123,417</u>	<u>1,249,401</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 109,990</u>	<u>\$ 1,060,452</u>	<u>\$ 1,170,442</u>

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 277,648	\$ (60,335)	\$ 217,313
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	659,733	36,612	696,345
Operations and maintenance expense paid for with bond proceeds	141,405	-	141,405
Changes in assets and liabilities (net):			
Pollution remediation liability	57,352	-	57,352
Receivables — net	(60,473)	-	(60,473)
Receivable from the City	9,597	-	9,597
Residual interest in sold liens	(21,681)	-	(21,681)
Accounts payable	(32,086)	986	(31,100)
Revenues received in advance	2,428	-	2,428
Accrued interest receivable	(234)	-	(234)
Refunds payable	(1,508)	-	(1,508)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 1,032,181</u>	<u>\$ (22,737)</u>	<u>\$ 1,009,444</u>

The following are the noncash capital and related financing activities:

Interest expense includes the amortization of net (premium) and discount in the amount of (\$3,423) in 2009.

Capital expenditures in the amount of \$739,435 had been incurred but not paid at June 30, 2009.

The Board received capital assets of \$11,279 in 2009 which represented capital contributed by the City.

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008

(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 2,166,236	\$ -	\$ 2,166,236
Payments for operations and maintenance	(1,209,396)	-	(1,209,396)
Payments for administration and general	(28,429)	(21,798)	(50,227)
Net cash provided by (used in) operating activities	928,411	(21,798)	906,613
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings — net of issuance costs	-	5,328,294	5,328,294
Acquisition and construction of capital assets	-	(2,149,092)	(2,149,092)
Payments by the Board to the Authority	(904,726)	904,726	-
Repayments of bonds, notes and other borrowings	-	(3,381,124)	(3,381,124)
Interest paid on bonds, notes and other borrowings	-	(726,864)	(726,864)
Net cash used in capital and related financing activities	(904,726)	(24,060)	(928,786)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	83,405	17,746	101,151
Purchases of investments	(89,421)	-	(89,421)
Interest on investments	3,203	81,375	84,578
Net cash (used in) provided by investing activities	(2,633)	99,121	96,488
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,052	53,263	74,315
CASH AND CASH EQUIVALENTS — Beginning of year	104,932	1,070,154	1,175,086
CASH AND CASH EQUIVALENTS — End of year	\$ 125,984	\$ 1,123,417	\$ 1,249,401

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008

(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$156,060	\$ (63,616)	\$ 92,444
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	604,437	41,940	646,377
Operations and maintenance expense paid for with bond proceeds	67,249	-	67,249
Changes in assets and liabilities (net):			
Receivables — net	75,189	-	75,189
Receivable from the City	(7,207)	-	(7,207)
Residual interest in sold liens	(16,896)	-	(16,896)
Accounts payable	44,922	(122)	44,800
Revenues received in advance	948	-	948
Refunds payable	3,709	-	3,709
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$928,411</u>	<u>\$ (21,798)</u>	<u>\$906,613</u>

The following are the noncash capital and related financing activities:

Interest expense includes the amortization of net (premium) and discount in the amount of (\$1,029) in 2008.

Capital expenditures in the amount of \$518,467 had been incurred but not paid at June 30, 2008.

The Board received capital assets of \$7,340 in 2008 which represented capital contributed by the City.

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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 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 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.

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. Private sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (“FASB”) prior to December 1, 1989 are followed by the System to the extent that those standards do not conflict with or contradict guidance of GASB. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, provides the option to follow subsequent FASB standards, subject to the same limitation. The System has elected to follow GASB pronouncements exclusively after that date. Other significant accounting policies are:

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 fair

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

value. Investments with maturities less than one year are carried at cost plus accrued interest, 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.

Restricted Assets — Proceeds from the issuance of debt and monies set aside for the operation and maintenance of the System are classified as restricted based on the requirements of the applicable bond indentures.

Bond Discount and Bond Issuance Costs — Bond discount and bond issuance costs are amortized over the life of the related bond issue, using the effective yield method of amortization for bond discount and bond issuance costs.

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 with a cost of \$35,000 or more and a useful life of five years or longer. 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:

	Years
Buildings	40–50
Water supply and wastewater treatment systems	15–50
Water distribution and sewage collection systems	15–75
Equipment	5–35

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are recorded as additions to utility plant. The System pays for some improvements for assets that are not owned by the City or the System, as well as certain pollution remediation activities, through bond proceeds. These costs are shown as operations and maintenance expenses in the statements.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or, in some cases, characteristics of customer properties. 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.

Deferred Revenues — Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned.

Deferred Bond Refunding Costs — Deferred bond refunding costs represent the accounting gains or losses 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.

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.

Newly Adopted Standards and Standards Issued But Not Yet Effective

In September 2006 GASB issued Statement No. 48, (GASB 48), *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The Statement established criteria to ascertain whether certain transactions should be regarded as sales or collateralized borrowings, and provides guidance for the reporting and disclosures required when governmental entities have such transactions. The System implemented GASB 48 in Fiscal 2008, which resulted in the recording of a residual interest in sold liens of \$16.9 million as of June 30, 2008 and \$38.6 million as of June 30, 2009. These amounts represent the estimated amount to be received by the Board for tax liens secured by water and sewer rents and surcharges which have been sold by the City to one or more trusts, if and when liens held by the trusts generate cash flows to the trusts above the amounts needed by the trusts to pay their bondholders and satisfy reserve requirements.

In November 2006 GASB issued Statement No. 49, (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement established accounting and financial reporting standards for obligations to address current or potential detrimental effects of existing pollution. GASB 49 is effective for financial statements for periods beginning after December 15, 2007, and was implemented by the System for its Fiscal 2009. The implementation of GASB 49 resulted in a restatement (discussed further below) of the Fiscal 2009 beginning net asset balance of \$61.6 million, reflecting the pollution remediation obligation as of June 30, 2008. For further information pertaining to pollution remediation obligations also see note 13.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2007 GASB issued Statement No. 50, (GASB 50), *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*. The Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The City and the City's pension plans in which System employees may participate implemented GASB 50 for Fiscal 2008. As discussed in Note 11, the System has very few direct employees who participate in a pension plan and the thus the pension disclosures are not material to the System's financial statements.

In June 2007 GASB issued Statement No. 51, (GASB 51) *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that intangible assets generally be classified as capital assets.

Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. GASB 51 is effective for financial statements for periods beginning after June 15, 2009. The System had not completed the process of evaluating GASB 51, but does not expect GASB 51 to have a material impact on its financial statements.

In November 2007 GASB issued Statement No. 52, (GASB 52), *Land and Other Real Estate Held as Investments by Endowments*. This Standard requires endowments to report their land and other real estate investments at fair value. GASB 52 is effective for financial statements for periods beginning after June 15, 2008. The System has no endowments and therefore GASB 52 will not impact the System's financial statements.

In June 2008 GASB issued Statement No. 53, (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*. This Standard established guidance on the recognition, measurement, and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred whereas for others the changes in fair value are recognized in the current period. GASB 53 is effective for financial statements for periods beginning after June 15, 2009. The System has not completed the process of evaluating the impact of GASB 53 on its financial statements.

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement affects the display of fund balances and refines the definitions of each of the governmental fund types. The requirements for GASB 54 are effective for periods beginning after June 15, 2010. The System does not use fund accounting and therefore GASB 54 will not impact the System's financial statements.

Restatement of Beginning Net Assets — The implementation of GASB 49 (discussed above) has resulted in a restatement to reduce the Fiscal 2009 beginning net asset balance by \$61.6 million, reflecting the pollution remediation obligation as of June 30, 2008. The System has not restated its Fiscal 2008 financial statements to reflect GASB 49, as sufficient information to apply the provisions of the standard in the prior period was not readily available. For further information pertaining to the pollution remediation obligations see note 13.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

3. UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2009 and 2008, as adjusted as per note 13 (in thousands):

	Balance at June 30, 2007	Additions	Deletions	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009
Nondepreciable assets — utility construction	<u>\$ 4,338,126</u>	<u>\$2,313,039</u>	<u>\$2,639,949</u>	<u>\$ 4,011,216</u>	<u>\$ 2,758,716</u>	<u>\$1,697,436</u>	<u>\$ 5,072,496</u>
Depreciable assets:							
Buildings	\$ 23,493	\$ -	\$ -	\$ 23,493	\$ 700	\$ -	\$ 24,193
Equipment	629,384	326,405	2,478	953,311	412,069	3,165	1,362,215
Water supply and wastewater treatment systems	11,865,211	1,787,249	23,409	13,629,051	754,824	1,444	14,382,431
Water distribution and sewage collection systems	<u>8,014,647</u>	<u>434,426</u>	<u>41,033</u>	<u>8,408,040</u>	<u>337,964</u>	<u>411,384</u>	<u>8,334,620</u>
Total depreciable assets	20,532,735	2,548,080	66,920	23,013,895	1,505,557	415,993	24,103,459
Less accumulated depreciation (1)	<u>7,125,846</u>	<u>604,437</u>	<u>52,322</u>	<u>7,677,961</u>	<u>659,732</u>	<u>300,976</u>	<u>8,036,717</u>
Total utility plant	<u>\$13,406,889</u>	<u>\$1,943,643</u>	<u>\$ 14,598</u>	<u>\$15,335,934</u>	<u>\$ 845,825</u>	<u>\$ 115,017</u>	<u>\$16,066,742</u>

(1) At June 30, 2009 accumulated depreciation was comprised of the following:

Buildings	Equipment	Water Supply	Water Distributio	Total
<u>\$ 16,138</u>	<u>\$ 592,785</u>	<u>\$4,701,459</u>	<u>\$2,726,335</u>	<u>\$ 8,036,717</u>

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

4. INVESTMENTS AND CASH DEPOSITS

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.

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 \$7.2 million and \$574 thousand, respectively, on deposit at June 30, 2009 and 2008, which was covered by Federal depository insurance. The remaining balance at June 30, 2008 was uncollateralized and uninsured.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

4. INVESTMENTS AND CASH DEPOSITS (Continued)

Cash and cash equivalents were comprised of the following at June 30, 2009 and 2008 (in thousands):

	2009	2008
Cash	\$ 7,167	\$ 16,002
Cash equivalents	<u>1,163,275</u>	<u>1,233,399</u>
Cash and cash equivalents	<u>\$ 1,170,442</u>	<u>\$ 1,249,401</u>

The System had the following investments at June 30, 2009 and 2008 (in thousands):

Investments	Fair Value	
	2009	2008
U.S. Government Sponsored Entities	\$ 1,356,684	\$ 1,366,063
New York State instrumentality	339,380	78,466
New York City authority securities	64,635	-
Repurchase agreements	-	3,000
Dreyfus Government Money Market	8,942	-
Guaranteed investment contracts	132,171	215,480
Forward Purchase Agreements Market Value Adjustment	<u>29,084</u>	<u>15,090</u>
Total investments including cash equivalents	1,930,896	1,678,099
Less amounts reported as cash equivalents	<u>1,163,275</u>	<u>1,233,399</u>
Investments	<u>\$ 767,621</u>	<u>\$ 444,700</u>

The System's management invests funds which are not immediately required for operations, debt service or capital project expenses and funds that are held for debt service and operations and maintenance reserves. Each account of the Authority is held pursuant to the Resolution and may be invested in securities or categories in investments that are specifically enumerated as permitted investments for such account pursuant to the Resolution. The Board invests the reserves for operations and maintenance as permitted by the Board's investment guidelines.

Credit Risk — All investments held by the System at June 30, 2009 and 2008 are obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Federal Farm Credit System, or are shares of money market funds, and are rated "AAA" or "A-1+" by S&P and "Aaa" or "P-1" by Moody's.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

4. INVESTMENTS AND CASH DEPOSITS (Continued)

Interest Rate Risk — Approximately 35% of the System's investments at June 30, 2009 are Forward Purchase Agreements or Guaranteed Investment Contracts with guaranteed fixed rates of return. The fair value of the Forward Purchase Agreements is highly susceptible to changes in market interest rates; however the System does not expect these Agreements to terminate. Approximately 15% of the System's investments are in investments that are expected to be held to maturity. The remainder of the System's investments will mature within a year after June 30, 2009; for these investments the System's risk that changes in interest rates will adversely affect the fair value of investments is very limited.

Custodial Credit Risk — For an investment, custodial credit risk is the risk that, in the event of the failure of the custodian, 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 its custodian bank.

5. LEASE AGREEMENT

The Board is party to a long-term lease (the "Lease") with the City, which transfers the water and sewer related 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 provision 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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

5. LEASE AGREEMENT (Continued)

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. A summary of operation and maintenance and rental expenses for the years ended June 30 is as follows (in thousands):

	2009	2008
Water transmission and distribution	\$ 414,646	\$ 381,011
Sewer collection systems	438,512	458,021
City agency support cost	61,832	58,692
Fringe benefits	174,113	147,593
Pollution remediation	132,682	
Payments for watershed improvements	66,072	67,249
Judgments and claims	<u>8,975</u>	<u>68,088</u>
Operations and maintenance	1,296,832	1,180,654
Rental payments to the City	<u>151,436</u>	<u>139,785</u>
Total operations maintenance and rental payments	<u>\$1,448,268</u>	<u>\$1,320,439</u>

6. PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2009 and 2008, 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, 2009 and 2008, the System had a net payable of \$867.3 million and \$495.5 million, respectively, from the City for payments of utility construction and for overpayment of operations and maintenance expense.

7. SHORT TERM DEBT

In Fiscal 2009 and 2008, the changes in short-term debt were as follows (in thousands):

	Balance at June 30, 2007	Additions	Deletions	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009
Commercial paper (1)	<u>\$800,000</u>	<u>\$2,040,000</u>	<u>\$2,040,000</u>	<u>\$800,000</u>	<u>\$950,000</u>	<u>\$1,050,000</u>	<u>\$700,000</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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

7. SHORT TERM DEBT (Continued)

Commercial paper activity comprises the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired	Balance at June 30, 2009
Commercial Paper Series 1 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	\$200,000	\$200,000	\$ 400,000	\$ -
Commercial Paper Series 5 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	200,000	-	-	200,000
Commercial Paper Series 6 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	200,000	200,000	200,000	200,000
Commercial Paper Series 7 — Variable Rate, Short-term Rolling Maturity	200,000	250,000	350,000	100,000
Commercial Paper Series 8 — Variable Rate, Short-term Rolling Maturity	-	300,000	100,000	200,000
Total commercial paper payable	<u>\$800,000</u>	<u>\$950,000</u>	<u>\$1,050,000</u>	<u>\$700,000</u>

8. LONG-TERM DEBT

In Fiscal 2009 and 2008, the changes in long-term liabilities were as follows (in thousands):

Bonds Payable	June 30, 2007	Additions	Deletions	June 30, 2008	Additions	Deletions	June 30, 2009
First resolution	\$10,933,460	\$1,126,190	\$1,067,753	\$10,991,897	\$ 536,030	\$353,437	\$11,174,490
Second resolution	6,337,724	2,153,715	264,399	8,227,040	2,967,345	534,078	10,660,307
Total bonds payable	<u>17,271,184</u>	<u>3,279,905</u>	<u>1,332,152</u>	<u>19,218,937</u>	<u>3,503,375</u>	<u>887,515</u>	<u>21,834,797</u>
Due within one year	<u>(210,971)</u>			<u>(235,015)</u>			<u>(266,026)</u>
Less discounts (net)	13,838	(31,934)	8,281	(26,377)	(20,920)	3,402	(50,699)
Less deferred refunding costs	<u>354,935</u>	<u>17,791</u>	<u>30,559</u>	<u>342,167</u>	<u>1,748</u>	<u>26,286</u>	<u>317,629</u>
Total long-term debt	<u>\$16,902,411</u>	<u>\$3,294,048</u>	<u>\$1,293,312</u>	<u>\$19,299,712</u>	<u>\$3,522,547</u>	<u>\$857,827</u>	<u>\$21,964,432</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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

8. LONG-TERM DEBT (Continued)

During Fiscal 2008, the Authority issued \$448.1 million of bonds to refund \$436.7 million of outstanding bonds. These refundings resulted in an accounting loss of \$17.8 million. The Authority in effect reduced its aggregate debt service by \$18.0 million, and obtained an economic benefit of \$14.5 million.

In addition, in Fiscal 2009 and Fiscal 2008, the Authority issued \$612.3 million and \$679.9 million, respectively of bonds to refund \$652.5 million and \$683.7 million, respectively, of adjustable rate bonds.

The Authority has defeased cumulatively \$11.0 billion and \$10.4 billion of outstanding bonds as of June 30, 2009 and 2008, respectively, by placing proceeds of refunding bonds issued or Authority cash in an irrevocable escrow account 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. Additionally, the Authority has economically defeased an additional \$19.5 million of bonds from its cash. The escrow account assets and the liabilities for these economically defeased bonds are included in the assets and liabilities of the Authority's financial statements until their respective maturity dates.

As of June 30, 2009 and 2008, \$10.1 billion and \$8.9 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, 2009 are as follows (in thousands):

June 30	Principal (1)	Interest (2)	Total
2010	\$ 966,026	\$ 874,641	\$ 1,840,667
2011	354,407	857,282	1,211,689
2012	350,422	844,966	1,195,388
2013	341,460	829,693	1,171,153
2014	432,323	820,850	1,253,173
2015–2019	2,500,309	3,879,241	6,379,550
2020–2024	2,962,730	3,393,218	6,355,948
2025–2029	3,493,585	2,813,571	6,307,156
2030–2034	4,456,020	2,049,629	6,505,649
2035–2039	5,440,975	1,088,216	6,529,191
2040–2040	1,236,540	68,387	1,304,927
	<u>\$ 22,534,797</u>	<u>\$ 17,519,694</u>	<u>\$ 40,054,491</u>

(1) Includes \$700 million of commercial paper due in 2010.

(2) Includes interest for variable rate bonds estimated at 1.69%, 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 of sale.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
1991 Fiscal Series B — 6.00% to 7.25% Serial and Term Bonds maturing in varying installments through 2012	\$ 5,350	\$-	\$ 1,990	\$ 3,360
1992 Fiscal Series B — 6.66% to 6.86% Serial and Term Bonds maturing in varying installments through 2014	6,192	-	2,107	4,085
1993 Fiscal Series A — 5.875% to 6.0% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2013	49,985	-	30,485	19,500
1994 Fiscal Series 1 — 3.00% to 6.00% Serial Bonds maturing in varying installments through 2013	30,840	-	360	30,480
1995 Fiscal Series 1 — 5.25% to 6.875% Serial Bonds maturing in varying installments through 2016	21,160	-	2,930	18,230
1997 Fiscal Series A — 4.85% to 6.0% Serial Bonds maturing in varying installments through 2026	25,000	-	-	25,000
1998 Fiscal Series D — 4.25% to 5.00% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	350,965	-	-	350,965
1998 Fiscal Series 1 — 4.00% to 5.35% Serial Bonds maturing in varying installments through 2017	26,155	-	2,315	23,840
1998 Fiscal Series 3 — 4.30% to 6.00% Serial Bonds maturing in varying installments through 2016	120,135	-	-	120,135
1998 Fiscal Series 4 — 3.60% to 5.20% Serial Bonds maturing in varying installments through 2018	8,850	-	790	8,060
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	8,495	-	585	7,910
2001 Fiscal Series B — 4.5% to 5.125% Serial and Term Bonds maturing in varying installments through 2031	67,225	-	-	67,225
2001 Fiscal Series C — 5.125% Term Bonds maturing in varying installments through 2033	112,040	-	-	112,040

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
2001 Fiscal Series D — 4.5% to 5.5% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	\$232,940	\$-	\$ 880	\$232,060
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	116,305	-	-	116,305
2002 Fiscal Series B — 3.625% to 5.00% Serial and Term Bonds maturing in varying installments through 2026	170,975	-	255	170,720
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	41,405	-	95	41,310
2002 Fiscal Series E — 3.4% to 5.0% Serial and Term Bonds maturing in varying installments through 2026	213,635	-	115	213,520
2002 Fiscal Series F — 3.6% to 5.0% Serial and Term Bonds maturing in varying installments through 2029	105,480	-	165	105,315
2002 Fiscal Series G — 5.00% to 5.125% Term Bonds maturing in varying installments through 2034	216,375	-	-	216,375
2002 Fiscal Series 1 — 4.82% to 5.25% Serial Bonds maturing in varying installments through 2031	169,167	-	5,896	163,271
2002 Fiscal Series 2 — 4.22% to 5.00% Serial Bonds maturing in varying installments through 2031	56,768	-	2,626	54,142
2002 Fiscal Series 3 — 4.65% to 5.00% Serial Bonds maturing in varying installments through 2031	433,688	-	15,028	418,660
2002 Fiscal Series 4 — 5.13% to 6.74% Serial Bonds maturing in varying installments through 2023	183,794	-	12,678	171,116
2002 Fiscal Series 5 — 3.82% to 5.21% Serial Bonds maturing in varying installments through 2031	152,935	-	1,476	151,459
2002 Fiscal Series 6 — 3.82% to 5.21% Serial Bonds maturing in varying installments through 2019	71,351	-	6,481	64,870

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
2002 Fiscal Series 7 — 7.4% to 7.5% Serial Bonds maturing in varying installments through 2012	\$ 3,100	\$-	\$ -	\$ 3,100
2003 Fiscal Series A — 4.0% to 6.0% Serial, Term and Muni-CP1 Bonds maturing in varying installments through 2034	681,645	-	4,415	677,230
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	214,525	-	-	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	127,840	-	4,986	122,854
2003 Fiscal Series 2 — 5.27% Serial Bonds maturing in varying installments through 2028	538,140	-	13,027	525,113
2003 Fiscal Series 3 — 5.15% Serial Bonds maturing in varying installments through 2025	18,410	-	745	17,665
2003 Fiscal Series 4 — 5.18% Serial Bonds maturing in varying installments through 2025	29,285	-	1,190	28,095
2003 Fiscal Series 5 — 4.23% to 4.45% Serial Bonds maturing in varying installments through 2032	259,706	-	9,221	250,485
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	336,720	-	-	336,720
2004 Fiscal Series C — 2.00%–5.00% Serial and Term Bonds maturing in varying installments through 2035	594,585	-	600	593,985
2004 Fiscal Series 1 — 4.12%–4.45% Serial Bonds maturing in varying installments through 2033	269,719	-	9,147	260,572
2004 Fiscal Series 2 — 4.46% Serial Bonds maturing in varying installments through 2026	233,496	-	7,959	225,537
2005 Fiscal Series A — 5.00% Serial Bonds maturing in varying installments through 2039	150,000	-	-	150,000

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
2005 Fiscal Series B — 2.125%–5.00% Serial Bonds maturing in varying installments through 2036	\$918,890	\$-	\$ 1,095	\$917,795
2005 Fiscal Series C — 3.00%–5.00% Serial Bonds maturing in varying installments through 2036	574,255	-	775	573,480
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	210,374	-	6,818	203,556
2005 Fiscal Series 2 — 2.567%–5.00% Bonds maturing in varying installments through 2026	357,712	-	12,006	345,706
2006 Series A — 3.50%–5.00% Serial Bonds maturing in varying installments through 2039	518,525	-	380	518,145
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
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	80,000	-	10,000	70,000
2006 Fiscal Series 1 — Adjustable rate bonds maturing in varying installments through 2036	213,458	-	6,938	206,520
2006 Fiscal Series 2 — Adjustable rate bonds maturing in varying installments through 2036	194,790	-	5,438	189,352
2006 Fiscal Series 3 — Adjustable rate bonds maturing in varying installments through 2036	248,288	-	6,725	241,563
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	131,745	-	-	131,745

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
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	222,652	-	5,788	216,864
2007 Fiscal Series 2 — 4.45%–4.50% Serial Bonds maturing in varying installments through 2036	283,457	-	7,235	276,222
2007 Fiscal Series 3 — 4.90% Serial Bonds maturing in varying installments through 2024	162,405	-	13,075	149,330
2008 Fiscal Series A — 5.00% Serial Bonds maturing in varying installments through 2038	446,245	-	-	446,245
2008 Fiscal Series B — Adjustable Rate Bonds maturing in varying installments through 2025	535,000	-	-	535,000
2008 Fiscal Series C — 3.00%–5.25% Serial Bonds maturing in varying installments through 2021	138,125	-	9,780	128,345
2008 Fiscal Series AA — 4.50%–5.00% Serial Bonds maturing in varying installments through 2039	400,000	-	-	400,000
2008 Fiscal Series BB — Adjustable Rate Bonds maturing in varying installments through 2036	401,000	-	-	401,000
2008 Fiscal Series CC — Auction Rate Bonds maturing in varying installments through 2022	352,200	-	352,200	-
2008 Fiscal Series DD — 4.50%–5.00% Serial Bonds maturing in varying installments through 2039	504,905	-	-	504,905
2008 Fiscal Series 1 — 3.69%–4.64% Serial Bonds maturing in varying installments through 2037	270,907	-	8,282	262,625
2008 Fiscal Series 2 — 4.67%–4.73% Serial Bonds maturing in varying installments through 2037	224,703	-	2,133	222,570
2009 Fiscal Series A — 4.50%–5.00% Serial Bonds maturing in varying installments through 2039	-	536,030	-	536,030
2009 Fiscal Series AA — 4.50%–5.00% Serial Bonds maturing in varying installments through 2037	-	334,075	-	334,075

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
2009 Fiscal Series BB — 3.75%–5.00% Serial Bonds maturing in varying installments through 2021	\$ -	\$ 200,870	\$ -	\$ 200,870
2009 Fiscal Series CC — Adjustable rate bonds maturing in varying installments through 2038	-	150,100	-	150,100
2009 Fiscal Series DD — 4.75%–5.00% Serial Bonds maturing in varying installments through 2039	-	325,580	-	325,580
2009 Fiscal Series EE — 4.75%–5.00% Serial Bonds maturing in varying installments through 2039	-	645,455	-	645,455
2009 Fiscal Series FF — 4.75%–5.00% Serial Bonds maturing in varying installments through 2039	-	362,830	-	362,830
2009 Fiscal Series 1 — 3.69%–4.64% Serial Bonds maturing in varying installments through 2037	-	368,451	-	368,451
2009 Fiscal Series 2 — 4.67%–4.73% Serial Bonds maturing in varying installments through 2037	-	79,984	-	79,984
2009 Fiscal Series GG — 4.13%–5.25% Serial Bonds maturing in varying installments through 2040	-	500,000	-	500,000
Total bonds payable	19,218,937	3,503,375	887,515	21,834,797
Current portion of bonds and notes payable	235,015			266,026
Bonds and notes payable — less current portion	<u>\$18,983,922</u>			<u>\$21,568,771</u>

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

8. LONG-TERM DEBT (Continued)

Derivatives — In October 2007, the Authority entered into two interest rate exchange agreements for a combined notional amount of \$401 million in conjunction with its sale of Adjustable Rate Fiscal 2008 Series BB Second General Resolution Bonds. Under the terms of these agreements, the Authority pays a fixed rate of 3.439% in exchange for a floating rate based on 67% of one-month LIBOR. These agreements effectively converted the Adjustable Rate Fiscal 2008 Series BB Second General Resolution Bonds to a fixed rate; however a mismatch between the rate paid on the bonds and the rate received under the interest rate exchange agreements can occur.

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 counterparties may terminate the agreement only upon certain events, which are unlikely given the Authority's high credit ratings. 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 also exposed to counterparty credit risk; the risk that the counterparty's credit deteriorates or that the counterparty defaults under the agreement. To mitigate counterparty credit risk, the agreement requires the counterparty to post collateral for the Authority's benefit if it is downgraded below a designated threshold, and if the fair value is in the authority's favor, as defined in the agreement.

The appropriate measurement of these risks at the reporting date is the fair value of the swap. The fair value of the swaps at June 30, 2009 and 2008 was approximately \$36.8 million and \$7.7 million in favor of the counterparty, respectively.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

9. RESTRICTED ASSETS

As of June 30, 2009 and 2008, certain cash, investments, and accrued interest of the System are restricted as follows (in thousands):

	2009	2008
The Board:		
Operation and maintenance reserve account	\$ 195,834	\$ 200,428
Operation and maintenance reserve general account	<u>10</u>	<u>10</u>
Total Board	<u>195,844</u>	<u>200,438</u>
 The Authority:		
Revenue fund	285,348	209,130
Debt service reserve fund	878,121	836,028
Debt service fund	11,061	7,766
Construction fund	397,946	247,730
Escrow fund	158,171	179,243
Operating fund	<u>8,967</u>	<u>-</u>
Total Authority	<u>1,739,614</u>	<u>1,479,897</u>
Total restricted assets	<u>\$ 1,935,458</u>	<u>\$ 1,680,335</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 expenses, 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.

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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

10. COMMITMENTS AND CONTINGENCIES

- a. **Construction** — The System has contractual commitments of approximately \$7.2 billion and \$7.8 billion at June 30, 2009 and 2008, respectively, for water and sewer projects.
- b. **Risk financing activities** — The System is self insured and carries no commercial or insurance policies other than Directors and Officers insurance for the Water Authority. Any claims made against the System are resolved through the City's legal support and the amounts of the maximum liability for such judgments are described in (c) below. The System is subject to claims for construction delays, property damage, personal injury and judgments related to delays in construction deadlines under consent agreements.
- c. **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. In addition, the System is required to reimburse the City, to the extent requested by the City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements. In addition, the City has agreed, subject to certain conditions, to indemnify the Authority, the Board and their staffs against any and all liability in connection with any act done or omitted in the exercise of their powers which is taken or omitted in good faith in pursuance of their purposes under the Act. Currently, the 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, 2009, the potential future liability attributable to the System for claims outstanding against the City was estimated to be \$200 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.
- d. **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 Fiscal 2009 and 2008, the System paid \$2.46 million and \$7.16 million, respectively, in rebates. At June 30, 2009 and 2008, the Authority had a liability of \$6.3 million and \$2.80 million, respectively.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

11. PENSION PLANS

During Fiscal 2009, the System was billed and contributed \$52 thousand for 8 employees who participate in the defined benefit pension plan. 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 is included principally within operations and maintenance expenses in the accompanying financial statements.

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 constitutes another postemployment benefit ("OPEB") plan (the "Plan") in accordance with GASB Statement No. 45, (GASB 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 premium reimbursements, and employee welfare fund contributions.

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 years ended June 30, 2009 and 2008, the Authority had two retirees and made a contribution of \$7.4 thousand. Members are not required to contribute, although retirees may elect basic health insurance programs and/or optional coverage that require 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 45. The frozen entry age cost method was used in the actuarial valuation prepared as of June 30, 2009, which was the basis for the Fiscal 2009 ARC calculation.

The following table shows the elements of the Authority's annual OPEB cost, the amounts actually contributed, and changes in the Authority's net OPEB obligation for the fiscal year ended June 30, 2009:

Annual required contribution	\$ 402
Interest on net OPEB obligations	13
Adjustment to annual required contribution	<u>(329)</u>
Annual OPEB cost	86
Payments	(7)
Net OPEB obligation — beginning of year	<u>316</u>
Net OPEB obligation — end of year	<u>\$ 395</u>

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

12. OTHER POST-EMPLOYMENT BENEFITS (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, 2009, June 30, 2008 and June 30, 2007 were as follows:

Fiscal Years	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 86	8.6 %	\$ 395
June 30, 2008	88	-	316
June 30, 2007	(168)	-	229
June 30, 2006	398	-	398

The OPEB cost for Fiscal 2007 was negative, reflecting 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, 2009, the most recent actuarial valuation date, the cost was 0% funded. The actuarial accrued liability for benefits was \$317 thousand, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$317 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was \$729 thousand, and the ratio of the UAAL to the covered payroll was 43.5%.

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.

The schedule of funding progress, shown as required supplementary information below, presents the results of OPEB valuations as of June 30, 2008, 2007, 2006 and 2005 to 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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

12. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Required Supplementary Information (unaudited)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) — Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2008	\$ -	\$ 317	\$ 317	- %	\$ 729	43.5 %
June 30, 2007	-	242	242	-	486	50.0
June 30, 2006	-	173	173	-	306	56.0
June 30, 2005	-	308	308	-	1,041	29.6

13. POLLUTION REMEDIATION OBLIGATIONS

As previously discussed, the System has implemented GASB 49, requiring the reporting of pollution remediation obligations (“PROs”). The System’s PROs arise as a result of: (1) federal, state and local laws and regulations, (2) violations of pollution-related permits or licenses, (3) because the System has determined that there is an imminent endangerment to public health and safety as a result of an existing pollution condition, (4) because the System has been named in a lawsuit to compel remediation or has been identified by a regulator as a party responsible or potentially responsible for remediation and/or (5) because the System has voluntarily commenced remediation. As of June 30, 2009, the System reported \$119.0 million of liabilities for known PROs and has restated its fiscal year 2009 beginning net assets (as disclosed in note 2) to reflect a June 30, 2008 liability of \$61.6 million for known PROs, in accordance with GASB 49.

The System has estimated these amounts based on the current value of outlays expected to be incurred for pollution remediation which it is currently obligated to perform. Actual future outlays will differ from the estimated amounts if the prices or techniques for remediation measures change or differ from estimates, if and when additional information about existing pollution conditions becomes known to the System in the future and/or if applicable laws or regulations change.

Remediation outlays for certain pollution conditions currently known to the System are not included in the reported liabilities because they are not yet reasonably estimable. These include certain locations that the System has been informed may be designated, under federal law, as Superfund sites, to address hazardous substances, pollutants, or contaminants at these sites and for which the System may be named as a potentially responsible party for the remediation because there are System facilities operated at these locations.

14. RELATED PARTY TRANSACTIONS

During Fiscal 2009 the Authority bought \$ 189.9 million of New York City Transitional Finance Authority (“TFA”) bonds. At June 30, 2009, the Authority held \$64.6 million in TFA bonds.

15. SUBSEQUENT EVENTS

On August 11 2009 the Authority issued \$200 million of commercial paper notes, Series 1 to pay for construction costs of the System.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (CONTINUED)

On September 3, 2009 the Authority issued \$100 million of commercial paper notes, Series 7 to pay for construction costs of the System.

* * * * *

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

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**FORM OF OPINION OF BOND COUNSEL
(Fiscal 2011 Series AA Bonds)**

September , 2010

New York City Municipal
Water Finance Authority

**New York City Municipal Water Finance Authority
Water and Sewer System Second General Resolution Revenue Bonds,
Fiscal 2011 Series AA
(Final Opinion)**

Ladies and Gentlemen:

We have acted as bond counsel to 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), in connection with the issuance of \$750,000,000 aggregate principal amount of Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2011 Series AA (the “2011 Series AA 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 March 30, 1994 entitled “Water and Sewer System Second General Revenue Bond Resolution,” as amended and supplemented to the date hereof (the “Second Resolution”), including with respect to the 2011 Series AA Bonds by a supplemental resolution adopted September 13, 2010 entitled “Supplemental Resolution No. 73 Authorizing the Issuance of up to \$750,000,000 Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2011 Series AA” (“Supplemental Resolution No. 73”) authorizing the 2011 Series AA Bonds. The 2011 Series AA Bonds are part of an issue of bonds of the Authority (the “Bonds”) which the Authority has created under the terms of the Second Resolution and is authorized to issue from time to time for the purposes authorized by the Act and the Second Resolution, as then in effect, and without limitation as to amount except as provided in the Second Resolution or as may be limited by law. The 2011 Series AA Bonds are being issued for the purposes of the Second Resolution. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Second 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 Second Resolution, Supplemental Resolution No. 73, the Authority’s Water and Sewer System General Revenue Bond Resolution, adopted November 14, 1985 (the “First Resolution”), the Lease, the Financing Agreement, the 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 Second Resolution, Supplemental Resolution No. 73, the First Resolution, the Lease and the Financing Agreement. We call attention to the fact that the rights and obligations under the 2011 Series AA Bonds, the Second Resolution, Supplemental Resolution No. 73, the First Resolution, the Lease and the Financing Agreement 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 Second Resolution, Supplemental Resolution No. 73, the First 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 2011 Series AA 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 Second Resolution and Supplemental Resolution No. 73 and to issue the 2011 Series AA Bonds.

2. The Second Resolution and Supplemental Resolution No. 73 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 Second Resolution and Supplemental Resolution No. 73 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 Second Resolution, Supplemental Resolution No. 73 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 2011 Series AA Bonds have been duly and validly authorized and issued. The 2011 Series AA Bonds are valid and binding special obligations of the Authority payable as provided in the Second Resolution, are enforceable in accordance with their terms and the terms of the Second Resolution and are entitled, together with all other Bonds issued under the Second Resolution, to the benefits of the Second Resolution and the Act.

4. The 2011 Series AA Bonds are payable solely from the Revenues and other amounts pledged to such payment under the Second Resolution. The 2011 Series AA 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 Second 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 2011 Series AA Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2011 Series AA 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 2011 Series AA 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. With respect to the opinion set forth in paragraph 8 above, under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), we are (or may be) required to inform purchasers of the 2011 Series AA Bonds that: (i) any advice contained herein is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer; (ii) any such advice is written to support the promotion or marketing of the 2011 Series AA Bonds and the transactions described herein; and (iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Faithfully yours,

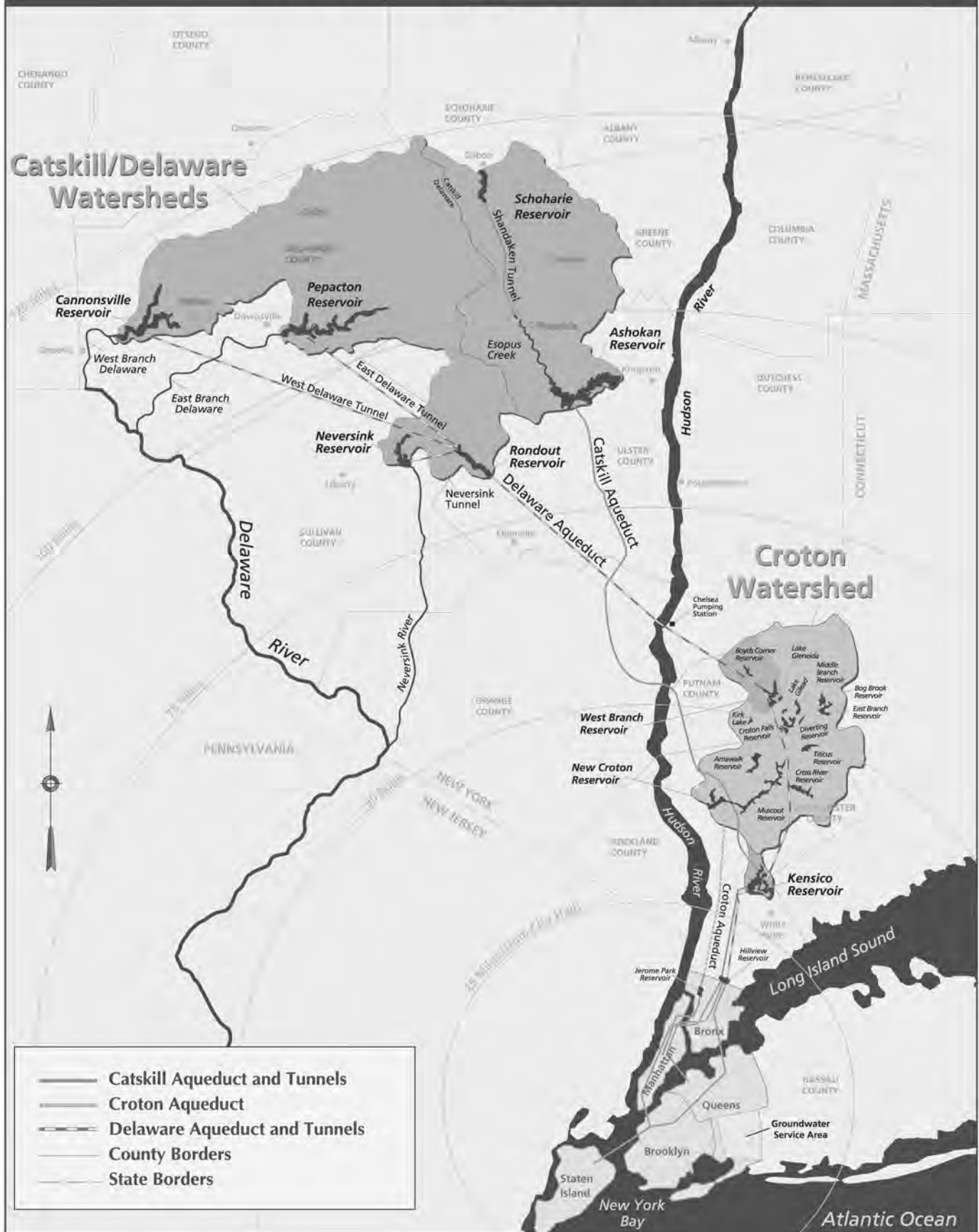
ORRICK, HERRINGTON & SUTCLIFFE LLP

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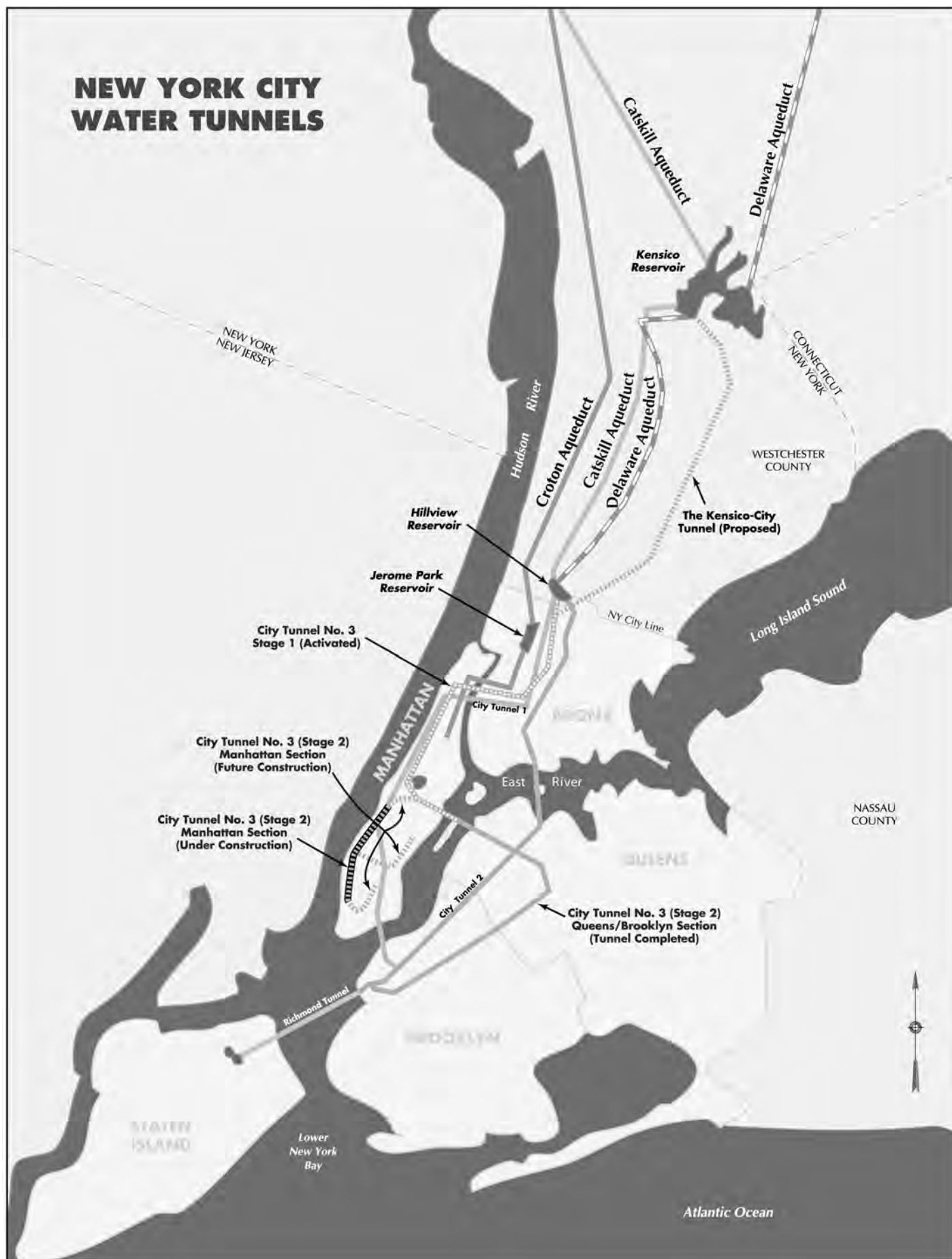
SYSTEM MAPS

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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)
----------------	----------------

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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