

NEW ISSUE

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

\$753,200,000
New York City
Municipal Water Finance Authority
Water and Sewer System Second General Resolution Revenue Bonds,
consisting of
\$401,000,000 Adjustable Rate Fiscal 2008 Series BB
and
\$352,200,000 Adjustable Rate Fiscal 2008 Series CC

Dated: Date of Delivery

Due: June 15, as shown in the inside cover

The Fiscal 2008 BB and CC 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 2008 BB and CC Bonds. Purchases of beneficial interests in such Fiscal 2008 BB and CC Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing the ownership interest in the Fiscal 2008 BB and CC Bonds purchased by them. See "APPENDIX F—BOOK-ENTRY-ONLY FORM."

The Fiscal 2008 BB Bonds will be issued in five Subseries in the respective aggregate principal amounts, bearing interest in the respective Rate Modes and maturing on the respective dates as set forth on the inside cover. Interest is payable on the Fiscal 2008 BB Bonds bearing interest at a Daily Rate or a Weekly Rate on the 15th day of each month, commencing November 15, 2007. The Fiscal 2008 BB Bonds bearing interest at a Daily Rate or a Weekly Rate may be tendered to the Tender Agent for purchase at the option of the Bondholder thereof under the circumstances described herein. The Fiscal 2008 BB Bonds are also subject to mandatory tender and to redemption prior to maturity, as described herein. Liquidity support for the payment of the Purchase Price of tendered but unremarketed Fiscal 2008 BB-1, BB-3 and BB-4 Bonds is provided by Fortis Bank S.A./N.V. under a Standby Bond Purchase Agreement with the Authority. Liquidity support for the payment of the Purchase Price of tendered but unremarketed Fiscal 2008 BB-2 and Fiscal 2008 BB-5 Bonds is provided by Bank of America, N.A., under a Standby Bond Purchase Agreement with the Authority. The obligations of such Liquidity Providers are subject to immediate termination or suspension without notice upon the occurrence of certain events described herein. The interest rate applicable to all or a portion of the Fiscal 2008 BB Bonds may be converted to a Daily Rate, Commercial Paper Rate, Weekly Rate, Auction Rate, Flexible Rate or a Fixed Rate. See "THE FISCAL 2008 BB AND CC BONDS—Conversion to an Alternate Rate Period."

The Fiscal 2008 CC Bonds will be issued in four Subseries in the respective aggregate principal amounts and will mature on the respective dates as set forth on the inside cover. The Fiscal 2008 CC Bonds will be Auction Rate Securities in seven-day Auction Periods, unless and until converted to bear interest in a different Auction Period or a different Rate Mode. For the period from and including October 24, 2007 to and including the last day of the respective Initial Period listed on the inside cover page, the interest rate on the applicable Subseries of the Fiscal 2008 CC Bonds will be determined on or about October 22, 2007 and thereafter will be determined pursuant to the Auction Procedures. The first Auction Date for the applicable Subseries of Fiscal 2008 CC Bonds is listed on the inside cover page. Interest on the Fiscal 2008 CC Bonds will be payable as set forth on the inside cover page. The Fiscal 2008 CC Bonds bearing interest at the Auction Rate are subject to mandatory tender and to redemption prior to maturity, as described herein. Prospective purchasers of the Fiscal 2008 CC Bonds should carefully review the Auction Procedures set forth in Appendix H hereto and should note that such procedures provide that beneficial interests in the Fiscal 2008 CC Bonds may be transferred or disposed of only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer. The interest rate on a Subseries of the Fiscal 2008 CC Bonds may be converted to a Daily Rate, a Commercial Paper Rate, a Weekly Rate, a Flexible Rate, a Fixed Rate or a subsequent Auction Rate Mode. See "THE FISCAL 2008 BB AND CC BONDS—Conversion to an Alternate Rate Period."

The proceeds of the Fiscal 2008 BB Bonds are expected to be applied (i) to pay principal of and interest on a portion of the Authority's outstanding Commercial Paper Notes, (ii) to fund a portion of the CIP, and (iii) to pay certain costs of issuance. The proceeds of the Fiscal 2008 CC Bonds are expected to be applied (i) to pay principal, interest and redemption premium on certain of the Authority's Outstanding Water and Sewer System Revenue Bonds and (ii) to pay certain costs of issuance.

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

The Fiscal 2008 BB and CC 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. Certain legal matters will be passed upon for Fortis Bank S.A./N.V. by King & Spalding LLP. Certain legal matters will be passed upon for Bank of America, N.A. by their in-house counsel. It is anticipated that the Fiscal 2008 BB and CC Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about October 24, 2007.

UBS Investment Bank

(Remarketing Agent for the 2008 BB-1 Bonds
and Broker-Dealer for the 2008 CC-1
and CC-4 Bonds)

Goldman, Sachs & Co.

(Remarketing Agent for the 2008 BB-3 Bonds and
Broker-Dealer for the 2008 CC-1
and CC-3 Bonds)

Merrill Lynch & Co.

(Remarketing Agent for the 2008 BB-2 Bonds
and Broker-Dealer for the 2008 CC-2
and CC-4 Bonds)

A.G. Edwards & Sons, Inc.

(Remarketing Agent for the 2008 BB-5 Bonds and Broker-Dealer
for the 2008 CC-2 Bonds)

Banc of America Securities LLC

(Remarketing Agent for the 2008 BB-4 Bonds and Broker-Dealer
for the 2008 CC-3 Bonds)

New York City Municipal Water Finance Authority
\$401,000,000
Water and Sewer System Second General Resolution Revenue Bonds,
Adjustable Rate Fiscal 2008 Series BB
Price: 100%

\$100,000,000 Fiscal 2008 BB-1 Bonds

Maturity Date: June 15, 2036
Rate Mode: Daily Rate
Remarketing Agent: UBS Securities LLC
Facility Provider: Fortis Bank S.A./N.V.
CUSIP⁽¹⁾: 64972F PK6

\$101,000,000 Fiscal 2008 BB-2 Bonds

Maturity Date: June 15, 2035
Rate Mode: Weekly Rate
Remarketing Agent: Merrill Lynch, Pierce, Fenner & Smith Inc.
Facility Provider: Bank of America, N.A.
CUSIP⁽¹⁾: 64972F PL4

\$100,000,000 Fiscal 2008 BB-3 Bonds

Maturity Date: June 15, 2034
Rate Mode: Daily Rate
Remarketing Agent: Goldman, Sachs & Co.
Facility Provider: Fortis Bank S.A./N.V.
CUSIP⁽¹⁾: 64972F PM2

\$50,000,000 Fiscal 2008 BB-4 Bonds

Maturity Date: June 15, 2033
Rate Mode: Weekly Rate
Remarketing Agent: Banc of America Securities LLC
Facility Provider: Fortis Bank S.A./N.V.
CUSIP⁽¹⁾: 64972F PN0

\$50,000,000 Fiscal 2008 BB-5 Bonds

Maturity Date: June 15, 2033
Rate Mode: Daily Rate
Remarketing Agent: A.G. Edwards & Sons, Inc.
Facility Provider: Bank of America, N.A.
CUSIP⁽¹⁾: 64972F PP5

\$352,200,000
Water and Sewer System Second General Resolution Revenue Bonds,
Adjustable Rate Fiscal 2008 Series CC†
Price: 100%
Maturing June 15, 2022

Subseries	Principal Amount	Initial Broker-Dealers	Last Day of Initial Period	First Auction Date	Auction Day	Initial Interest Payment Date	Interest Payment Day	CUSIP ⁽¹⁾
2008 CC-1	\$85,000,000	Goldman, Sachs & Co. and UBS Securities LLC	October 31	October 31	Wednesday	November 1	Thursday	64972F PQ3
2008 CC-2	85,000,000	Merrill Lynch, Pierce, Fenner & Smith Inc. and A.G. Edwards & Sons, Inc.	November 5	November 5	Monday	November 6	Tuesday	64972F PR1
2008 CC-3	85,000,000	Banc of America Securities LLC and Goldman, Sachs & Co.	November 1	November 1	Thursday	November 2	Friday	64972F PS9
2008 CC-4	97,200,000	UBS Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Inc.	November 6	November 6	Tuesday	November 7	Wednesday	64972F PT7

† Insured by MBIA Insurance Corporation.

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

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

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

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

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

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

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

Authority Consultants

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the Fiscal 2008 BB and CC Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesperson or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of any of the Fiscal 2008 BB and CC Bonds and if given or made, such information or representation must not be relied upon. Information contained on the Authority's web page, on the City's web site, or on any other web page is not a part of this Official Statement. Neither the delivery of this Official Statement nor the sale of any of the Fiscal 2008 BB and CC Bonds implies that there has been no change in the affairs of the Authority, the Board or the City or the other matters described herein since the date hereof.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE FISCAL 2008 BB AND CC BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
SUMMARY STATEMENT	iv	Membership	34
INTRODUCTORY STATEMENT	1	THE DEPARTMENT OF ENVIRONMENTAL	
General	1	PROTECTION	36
Financial Projection Assumptions	2	Organization	36
PLAN OF REFUNDING	2	Labor Relations	37
USE OF PROCEEDS	3	CAPITAL IMPROVEMENT AND FINANCING	
THE FISCAL 2008 BB AND CC BONDS	3	PROGRAM	38
General	3	Ten Year Capital Strategy, Current Capital Plan	
Record Dates and Interest Payment Dates	4	and the Capital Improvement Program	38
Conversion to an Alternate Rate Period	5	Historical Capital Program	41
Interest Rates and Reset Dates for Fiscal 2008 BB		Financing Program	43
and CC Bonds other than Auction Rate		Sources and Uses of Capital Funds	44
Securities	6	Debt Service Requirements	46
Certain Considerations Affecting Variable Rate		FINANCIAL OPERATIONS	48
Bonds	8	Revenues	48
Auction Rate Securities	9	Expenses	48
Certain Considerations Affecting Auction Rate		Projected Revenues	50
Securities	10	Projected Operating and Maintenance Expenses	51
Optional Tender for Purchase	14	Projected Financial Operations	53
Mandatory Tender for Purchase	15	RATES AND BILLINGS	54
Fiscal 2008 BB and CC Bonds Deemed Purchased	15	Rates	54
Purchase Price and Payment	15	Accounts, Billing and Collection	56
Remarketing of Fiscal 2008 BB or CC Bonds Upon		THE SYSTEM	59
Tender	16	Overview	59
Redemption	16	The Water System	59
Selection of Bonds to be Redeemed	17	Water Collection and Distribution	59
Notice of Redemption	17	Drought Response Measures	64
SECURITY FOR THE BONDS	20	Governmental Regulation	64
Revenues	20	The Sewer System	70
Debt Service Reserve Fund	22	Sewage Collection and Treatment	70
Rate Covenant	22	Governmental Regulation	71
Additional Second Resolution Bonds	23	ECONOMIC AND DEMOGRAPHIC	
Authority Debt	24	INFORMATION	74
Other Authority Indebtedness	24	New York City Economy	74
Derivatives	25	Personal Income	75
Covenant of the State	25	Employment Trends	75
STANDBY BOND PURCHASE AGREEMENTS		Sectoral Distribution of Employment	
FOR THE FISCAL 2008 BB BONDS	25	and Earnings	76
Standby Bond Purchase Agreements	25	Population	78
Substitution of a Credit Facility	27	LITIGATION	79
MBIA INSURANCE FOR THE FISCAL 2008		APPROVAL OF LEGAL PROCEEDINGS	80
SERIES CC BONDS	28	FINANCIAL ADVISORS	81
The MBIA Insurance Corporation Insurance		FURTHER INFORMATION	81
Policy	28	CONTINUING DISCLOSURE UNDER SEC	
MBIA Insurance Corporation	29	RULE 15c2-12	81
Regulation	29	INVESTMENTS	83
Financial Strength Ratings of MBIA	29	RATINGS	83
MBIA Financial Information	30	UNDERWRITING	83
Incorporation of Certain Documents by Reference	30	LEGALITY FOR INVESTMENT AND DEPOSIT	83
Supplemental Resolution No. 49 Provisions Relating		FINANCIAL STATEMENTS AND	
to MBIA Insured Bonds	30	INDEPENDENT AUDITORS	84
THE AUTHORITY	32	ENGINEERING FEASIBILITY REPORT AND	
Purpose and Powers	32	FORECASTED CASH FLOWS	84
Membership	32	TAX MATTERS	84
THE BOARD	34	CERTAIN LEGAL OPINIONS	86
Purpose and Powers	34		

	<u>Page</u>		<u>Page</u>
APPENDICES		Summary of the First Resolution	C-27
Appendix A — LETTER OF METCALF & EDDY OF NEW YORK, INC., CONSULTING ENGINEERS	A-1	Summary of the Second Resolution	C-36
Appendix B — LETTER OF AMAWALK CONSULTING GROUP LLC, RATE CONSULTANTS	B-1	Appendix D — FINANCIAL STATEMENTS	D-1
Appendix C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS	C-1	Appendix E — FORMS OF OPINION OF BOND COUNSEL	E-1
GLOSSARY	C-1	Appendix F — BOOK-ENTRY-ONLY FORM	F-1
Definition of Certain Terms Used in Authority First Resolution.	C-1	Appendix G — DESCRIPTION OF FACILITY PROVIDERS	G-1
Definition of Certain Terms Used in Authority Second Resolution.	C-8	Appendix H — AUCTION PROCEDURES.	H-1
Summary of Certain Documents	C-18	Appendix I — SPECIMEN BOND INSURANCE POLICY.	I-1
Summary of the Agreement	C-18	Appendix J — TABLE OF REFUNDED BONDS . .	J-1
Summary of the Lease	C-24	Appendix K — SYSTEM MAPS	K-1

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, Adjustable Rate Fiscal 2008 BB Bonds (the “Fiscal 2008 BB 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 fund a portion of the CIP (defined below), and (iii) to pay certain costs of issuance.

The proceeds of the Authority Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2008 CC Bonds (the “Fiscal 2008 CC Bonds” and, together with the Fiscal 2008 BB Bonds, the “Fiscal 2008 BB and CC Bonds”) are expected to be applied (i) to pay principal, interest and redemption premium on certain of the Authority’s Outstanding Water and Sewer System Revenue Bonds and (ii) to pay certain costs of issuance.

Description of the Bonds:

The Fiscal 2008 BB Bonds are being issued by the Authority in the principal amount of \$401,000,000 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. 48.

The Fiscal 2008 CC Bonds are being issued by the Authority in the principal amount of \$352,200,000 pursuant to its Second Resolution and its Supplemental Resolution No. 49.

The System:

The Water System provides approximately 1,185 million gallons per day (mgd) of water to approximately 830,000 accounts. It supplies water to approximately 9,000,000 people, of which approximately 8,000,000 are in the City and the balance are in Westchester, Putnam, Orange and Ulster Counties. The Sewer System is comprised of an extensive network of sewage collection and treatment facilities that treat over 1,300 mgd of wastewater. Under the Act, the Lease and the Agreement, the Board is obligated to pay the operating expenses of the System. The City is obligated to operate and maintain the System regardless of payment by the Board.

Summary Financial Information:

	Historical			Projected (1)	
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
	(Millions of Dollars)				
Revenues Available for Debt Service (2) . .	\$1,759.3	\$1,829.8	\$1,931.9	\$2,000.8	\$2,301.0
Other Revenues (2)	30.6	—	—	—	—
Net Operating Expenses (2)	777.5	834.2	864.5	986.2	1,057.8
Other Expenses (including Rental Payments to New York City) (2)	332.1	325.5	253.8	177.4	245.3
Total Expenses (2)	1,109.6	1,159.7	1,118.3	1,163.6	1,303.1
Total First Resolution Bond Debt Service .	490.3	467.9	513.8	533.3	551.4
Net Debt Service on Subordinated Indebtedness (3)	—	43.2	123.7	188.8	362.0
Net Surplus	190.0	159.0	176.2	115.1	84.5
First Resolution Debt Service Coverage . .	3.59x	3.91x	3.76x	3.75x	4.17x
First and Second Resolution Debt Service Coverage (3)	3.59x	3.58x	3.03x	2.77x	2.52x
Rate Increase	5.5%	5.5%	3.0%	9.4%(4)	11.5%(4)

Totals may not add due to rounding.

- (1) Projections are as of April 30, 2007.
- (2) Historical figures, which are derived from the accounting records used to prepare the statements of cash flows contained in the annual financial statements, are shown on a cash basis.
- (3) Includes Debt Service on Second Resolution Bonds and interest on Commercial Paper Notes and reflects offset of carryforward revenues.
- (4) Actual rate increase.

Projected Revenues:

For Fiscal Year 2007 and to date in Fiscal Year 2008, water and sewer payments collected have been lower than amounts projected to be received. If this trend continues, a mid-year rate increase would be required unless offsetting developments occur. See “FINANCIAL OPERATIONS — Projected Revenues.”

Total Authority Debt Outstanding:

As of the date of this Official Statement, the Authority has approximately \$10.7 billion of First Resolution Bonds (defined below) and \$6.7 billion of Second Resolution Bonds (defined below) Outstanding. See “CAPITAL IMPROVEMENT AND FINANCING PROGRAM—Debt Service Requirements.” In addition, the Authority currently has an \$800 million commercial paper program.

Expected Ratings on Insured Fiscal 2008 CC Bonds:

	Insured Fiscal 2008 CC Bonds
Fitch Ratings:	AAA
Moody's:	Aaa
Standard & Poor's:	AAA

Capital Program:

The City's Ten Year Capital Strategy released in April 2007 (the “Ten Year Capital Strategy”), which is updated every two years, includes the projected capital improvements to the System for Fiscal Years 2008 through 2017. The City's Current Capital Plan (the “Current Capital Plan”), which covers Fiscal Years 2007 through 2011, was published in April 2007, is updated three times each Fiscal Year and is consistent with the Ten Year Capital Strategy for Fiscal Years 2008 through 2011. The Ten Year Capital Strategy as modified by

the Current Capital Plan comprises the Capital Improvement Program (the “CIP”). The CIP is designed to maintain a satisfactory level of service, to improve operation of the System and to address future System requirements.

Bond Financing Program:

The following table shows, as of April 30, 2007, total Authority indebtedness expected to be issued for capital purposes, excluding refunding bonds, from Fiscal Year 2008 to Fiscal Year 2011.

<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Period Total</u>
(Millions of Dollars)				
\$1,870.8	\$2,428.5	\$2,385.1	\$2,393.8	\$9,078.2

Security for the Second Resolution 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 2008 BB and CC 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 Subordinated Indebtedness) to the extent required to be paid from Revenues for such Fiscal Year.

Additional Bonds Test:

Additional Second Resolution Bonds may be issued 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. 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 2% 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.
Financial Statements and Independent Auditors:	The financial statements of the System as of and for the years ended June 30, 2006 and June 30, 2005 included in Appendix D to this Official Statement have been audited by Grant Thornton LLP, independent certified public accountants, as stated in their report appearing therein.

OFFICIAL STATEMENT

\$753,200,000

**NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY
WATER AND SEWER SYSTEM SECOND GENERAL RESOLUTION REVENUE BONDS,
CONSISTING OF
\$401,000,000 ADJUSTABLE RATE FISCAL 2008 SERIES BB
AND \$352,200,000 ADJUSTABLE RATE FISCAL 2008 SERIES CC**

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”); the Authority’s \$401,000,000 Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2008 Series BB (the “Fiscal 2008 BB Bonds”) and the Authority’s \$352,200,000 Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2008 Series CC (the “Fiscal 2008 CC Bonds” and, together with the Fiscal 2008 BB Bonds, the “Fiscal 2008 BB and CC 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 2008 BB 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. 48 (the “Supplemental Resolution No. 48”). The Fiscal 2008 CC Bonds will be issued by the Authority pursuant to this Second Resolution and its Supplemental Resolution No. 49 (the “Supplemental Resolution No. 49” and, together with Supplemental Resolution No. 48, the “Supplemental Resolutions”). All bonds issued under the Second Resolution, are referred to herein as “Second Resolution Bonds.” The Second Resolution and the Supplemental Resolutions are collectively referred to herein as the “Second Resolutions.” The Bank of New York serves as trustee under the Second Resolutions (in such capacity, the “Trustee”) and will continue to serve as Trustee unless a successor is appointed in accordance with the Second Resolutions.

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 2% of Revenues. See "RATES AND BILLINGS."

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

Financial Projection Assumptions

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

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

For Fiscal Year 2007 and to date in Fiscal Year 2008, water and sewer payments collected have been lower than amounts projected to be received. If this trend continues, a mid-year rate increase would be required unless offsetting developments occur. See "FINANCIAL OPERATIONS—Projected Revenues."

PLAN OF REFUNDING

A portion of the proceeds of the Fiscal 2008 CC Bonds is expected to be applied to redeem the Authority's Water and Sewer System Revenue Bonds of the Series and maturing on the dates and in the aggregate principal amounts set forth in "APPENDIX J—TABLE OF REFUNDED BONDS" (the "Refunded Bonds"). Pursuant to an Escrow Agreement between the Authority and The Bank of New York (the "Escrow Trustee"), the Authority will deposit Defeasance Securities in trust with the Escrow Trustee. The Defeasance Securities will bear interest at such rates and will mature at such times and in such amounts so that, together with any uninvested cash held by the Escrow Trustee, sufficient moneys will be available to make full and timely payment on the principal of, and interest on, the Refunded Bonds to November 26, 2007. Upon such irrevocable deposit, the Refunded Bonds will no longer be deemed to be Outstanding and will no longer be entitled to the benefit of the pledge and lien established by the First Resolution, or to payment from Revenues of the Systems. The Authority will direct the Trustee to pay the principal of, and interest and redemption premium on, the Refunded Bonds on November 26, 2007. See "APPENDIX J—TABLE OF REFUNDED BONDS."

USE OF PROCEEDS

It is anticipated that the proceeds of the Fiscal 2008 BB Bonds, will be applied in the following manner:

Payment of Commercial Paper Notes	\$399,899,475
Deposit to Construction Fund	463,597
Underwriters' Discount	108,928
Costs of Issuance	<u>528,000</u>
Total Uses of Proceeds of the Fiscal 2008 BB Bonds	<u>\$401,000,000</u>

It is anticipated that the proceeds of the Fiscal 2008 CC Bonds, will be applied in the following manner:

Deposit to Escrow Account for Refunded Bonds	\$350,137,238
Underwriters' Discount	915,169
Costs of Issuance*	<u>1,147,593</u>
Total Uses of Proceeds of the Fiscal 2008 CC Bonds	<u>\$352,200,000</u>

* Includes bond insurance premium.

THE FISCAL 2008 BB AND CC BONDS

General

The Fiscal 2008 BB Bonds will be issued in five Subseries, in the respective aggregate principal amounts and will mature on the dates as set forth on the inside cover. Interest is payable on the Fiscal 2008 BB Bonds bearing interest at a Daily Rate or a Weekly Rate on the 15th day of each month, commencing November 15, 2007. The Fiscal 2008 BB Bonds are subject to optional and mandatory redemption prior to maturity as described under "Redemption of Fiscal 2008 BB and CC Bonds" and to optional and mandatory tender for purchase as described under "Optional Tender for Purchase" and "Mandatory Tender for Purchase."

The Fiscal 2008 CC Bonds will be issued in four Subseries, in the respective aggregate principal amounts shown on the inside cover of this Official Statement and will bear interest in the Auction Rate Mode unless and until converted to bear interest in a different Rate Mode. The Fiscal 2008 CC Bonds are subject to optional and mandatory redemption prior to maturity as described under "Redemption of the Fiscal 2008 BB and CC Bonds" and to mandatory tender for purchase as described under "Mandatory Tender for Purchase." For so long as any purchaser is the Beneficial Owner of a Fiscal 2008 CC Bond, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined in Appendix H) to receive payment of the principal or Tender Price of or interest on such Fiscal 2008 CC Bonds. Fiscal 2008 BB and CC Bonds bearing interest in the Auction Rate Mode are referred to herein as "Auction Rate Securities" or "ARS."

Each Subseries of the Fiscal 2008 BB and CC Bonds will continue in its initial Rate Period unless and until such Subseries is converted to another Rate Period and will bear interest at a rate determined in accordance with the procedures for determining the interest rate during such Rate Period. The interest rate applicable to all or any portion of the Fiscal 2008 BB or CC Bonds may be converted to a Daily Rate, Commercial Paper Rate, Weekly Rate, Auction Rate, Flexible Rate, or Fixed Rate. See "Conversion to an Alternate Rate Period" and "Interest Rates and Reset Dates" below.

Principal and Purchase Price of, and redemption premium, if any, and interest on, the Fiscal 2008 BB and CC Bonds will be payable in lawful money of the United States of America. The Fiscal 2008 BB and CC Bonds will be issued only as fully registered bonds without coupons in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof when the Rate Period is the Initial Period, a Daily Rate Period, a Commercial Paper Rate Period, or a Weekly Rate Period, in denominations of \$25,000 and integral multiples thereof when the Rate Period is an Auction Rate Period, and in denominations of

\$5,000 and integral multiples thereof when the Rate Period is a Flexible Rate Period or the Fixed Rate. During the Initial Period, a Daily Rate Period, a Commercial Paper Rate Period or a Weekly Rate Period, interest will be computed on the basis of a 365-day or 366-day year for the actual number of days elapsed and during a Flexible Rate Period and the Fixed Rate Period, interest will be computed on the basis of a 360-day year of twelve 30-day months. For so long as Fiscal 2008 BB or CC Bonds are Auction Rate Securities, interest will be computed on the basis of actual days over 360 if the Auction Rate Securities are in an Auction Period which is less than 180 days and on the basis of 360-day year of twelve 30-day months if the Auction Rate Securities are in an Auction Period which is 180 days or greater.

The Bank of New York has been appointed as Tender Agent for the Fiscal 2008 BB and CC Bonds. UBS Securities LLC has been appointed as the Remarketing Agent for the Fiscal 2008 BB-1 Bonds (the “2008 BB-1 Remarketing Agent”). Merrill Lynch, Pierce, Fenner & Smith Inc. has been appointed as the Remarketing Agent for the Fiscal 2008 BB-2 Bonds (the “2008 BB-2 Remarketing Agent”). Goldman, Sachs & Co. has been appointed as the Remarketing Agent for the Fiscal 2008 BB-3 Bonds (the “2008 BB-3 Remarketing Agent”). Banc of America Securities LLC has been appointed as the Remarketing Agent for the Fiscal 2008 BB-4 Bonds (the “2008 BB-4 Remarketing Agent”) and A.G. Edwards & Sons, Inc. has been appointed as the Remarketing Agent for the Fiscal 2008 BB-5 Bonds (the “2008 BB-5 Remarketing Agent and, together with the 2008 BB-1 Remarketing Agent, the 2008 BB-2 Remarketing Agent, the 2008 BB-3 Remarketing Agent and the 2008 BB-4 Remarketing Agent, the “Remarketing Agents”).

Record Dates and Interest Payment Dates

Record Dates. Interest on the Fiscal 2008 BB and CC Bonds will be payable to the registered owner thereof as shown on the registration books kept by the Trustee at the close of business on the Record Date which will be (i) the immediately preceding Business Day prior to a Bond Payment Date for Fiscal 2008 BB or CC Bonds in the Initial Period, a Daily Rate Period, a Weekly Rate Period or a Commercial Paper Rate Period, (ii) the first day (whether or not a Business Day) of the calendar month during which interest thereon is payable for Flexible Rate Periods and the Fixed Rate Period and (iii) the Business Day immediately preceding an ARS Interest Payment Date (as defined below) for Fiscal 2008 BB or CC Bonds which are Auction Rate Securities.

Bond Payment Dates. Interest on the Fiscal 2008 BB or CC Bonds will be payable on the 15th day of each calendar month when such Fiscal 2008 BB or CC Bonds bear interest at the Initial Rate, a Daily Rate or a Weekly Rate and on June 15 and December 15 of each year when such Fiscal 2008 BB or CC Bonds are in a Flexible Rate Period or the Fixed Rate Period. Interest on the Fiscal 2008 BB or CC Bonds in a Commercial Paper Rate Period comprised of 270 days or less shall be paid on the next succeeding Reset Date or Conversion Date and interest on the Fiscal 2008 BB or CC Bonds in a Commercial Paper Rate Period comprised of more than 270 days shall be paid (i) on the next succeeding Reset Date or Conversion Date and (ii) the date which is 180 calendar days prior to such Reset Date or Conversion Date. If any such day is not a Business Day, then the Bond Payment Date will be the next succeeding Business Day. Interest payable on each Bond Payment Date for Fiscal 2008 BB or CC Bonds bearing interest in the Initial Rate Period, Daily Rate Mode, Commercial Paper Rate Mode or the Weekly Rate Mode shall be the interest accruing and unpaid through and including the day preceding such Bond Payment Date. Interest payable on each Bond Payment Date bearing interest in the Flexible Rate Mode or the Fixed Rate Mode shall be the interest accruing and unpaid through and including the respective June 14th or December 14th preceding such Bond Payment Date.

Interest on Auction Rate Securities will be payable on each of the following dates (each, an “ARS Interest Payment Date”):

- (a) with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, on the Business Day immediately following such Auction Period,
- (b) with respect to a daily Auction Period, the first Business Day of the month immediately succeeding the first day of such Auction Period,

- (c) with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each June 15 and December 15 and on the Business Day immediately following such Flexible Auction Period, and
- (d) the date when the final payment of principal of such Auction Rate Securities becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

Conversion to an Alternate Rate Period

At the election of the Authority, a Subseries of the Fiscal 2008 BB or CC Bonds may be converted to a different Rate Period by delivering a notice (the “Conversion Notice”) to the applicable Remarketing Agent or Broker-Dealer for such Subseries, the Auction Agent for such Subseries, if any, the Facility Provider for such Subseries, if any, the Insurer for such Subseries, if any, DTC and the Tender Agent specifying, among other things, the new Rate Mode or Modes to which such Fiscal 2008 BB or CC Bonds are then subject and the conversion date (which shall be a Reset Date, a Bond Payment Date or, in the case of Auction Rate Securities, an ARS Interest Payment Date) (each a “Conversion Date”). In the case of Auction Rate Securities, the Authority must deliver such Conversion Notice not less than seven Business Days prior to the date on which the Trustee is required to notify Bondholders of the Conversion Date. In all other cases, the Authority must deliver such Conversion Notice at least fifteen days prior to the Conversion Date (or if the Fiscal 2008 BB or CC Bonds to be converted are Book Entry Bonds, such shorter period as DTC will permit). The Tender Agent is to give written notice to the registered owner of each Fiscal 2008 BB or CC Bond of the Authority’s election to convert to another Rate Period and the Conversion Date. Such notice is to be given, by first class mail, not later than three calendar days after receipt by the Tender Agent of the Conversion Notice; provided, however in the case of Auction Rate Securities, such notice is to be provided to Holders (i) in the case of conversions to the Auction Rate Mode, not less than 15 days prior to the ARS Conversion Date and (ii) in the case of conversions from the Auction Rate Mode, not less than 20 days prior to the Conversion Date. See “Mandatory Tender for Purchase—*Mandatory Tender on Conversion Dates.*”

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

Except as provided in the following paragraph, if the Fiscal 2008 BB or CC Bonds are bearing interest at other than the Auction Rate and the election to convert was withdrawn by the Authority, or if the Remarketing Agent for such Subseries has notified the Tender Agent that it has been unable to remarket the Fiscal 2008 BB or CC Bonds on the Conversion Date, the Subseries of Fiscal 2008 BB or CC Bonds will bear interest in a Daily Rate Period or, at the option of the Authority and in compliance with the provisions of the Second Resolutions regarding conversion of Rate Modes, any other Rate Period, which Rate Period will be in effect from and after the date on which the Rate Period was to be converted; *provided, however*, unless on or prior to the Conversion Date an Opinion of Bond Counsel is delivered, the Rate Mode for the Subseries of Fiscal 2008 BB or CC Bonds not converted shall be the existing Rate Mode.

On or prior to 10:00 a.m. New York City time on the Business Day immediately preceding the Conversion Date for Fiscal 2008 BB or CC Bonds in the Auction Rate Mode, the Authority may rescind its election to make such conversion and the Auction for the applicable Auction Rate Securities shall be held on such Auction Date as if no conversion notice had been given. In the event that any condition to the conversion of Auction Rate Securities shall not have been satisfied as provided in the Second Resolutions, the Trustee is required to give notice by Electronic Means as soon as practicable and in no event later than the next succeeding Business Day to the Holders, the Authority, the Insurer, the Auction Agent and the applicable Broker-Dealers that such conversion has not occurred, that such Auction Rate Securities will not be purchased on the failed Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to such Auction Rate Securities which otherwise would have been converted excluding, however, the Auction Date falling on the Business Day next preceding the failed Conversion Date, and that the interest rate shall continue to be the Auction

Period Rate; provided, however, that the interest rate borne by such Auction Rate Securities which otherwise would have been converted during the Auction Period commencing on such failed Conversion Date shall be the Maximum Rate, and the Auction Period shall be the seven-day Auction Period.

Interest Rates and Reset Dates for Fiscal 2008 BB and CC Bonds other than Auction Rate Securities

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

The Fiscal 2008 BB and CC Bonds when not in the Auction Rate Mode (other than Purchased Bonds) may not bear interest at a rate greater than 9% per annum.

The following paragraphs apply to the Fiscal 2008 BB or CC Bonds bearing interest at other than an Auction Rate or the Fixed Rate.

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

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

Weekly Rate Period. Except as described below, the Weekly Rate is to be determined by the Remarketing Agent for the related Subseries and announced by 10 a.m., New York City time, on Thursday of each week or, if Thursday is not a Business Day, on the next succeeding Business Day. Each Weekly Rate will be in effect for a seven-day period commencing on Thursday and continuing through the next succeeding Wednesday. However, if the Conversion Date upon which a Rate Period has been converted to a Weekly Rate Period is not a Thursday, the initial Weekly Rate will commence on the Conversion Date and will continue through the next succeeding Wednesday which may be less than seven days. The Weekly Rate for such Weekly Rate Period will be determined by the Remarketing Agent for the related Subseries and announced by 4:00 p.m., New York City time, on the Business Day before the Conversion Date. In addition, the interest rate for Fiscal 2008 BB Bonds which begin in the Weekly Mode will be established by the applicable Remarketing Agent on October 23, 2007 and will remain in effect through October 31, 2007.

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

Commercial Paper Rate Period. Except as described below, the Commercial Paper Rate is to be determined by the applicable Remarketing Agent and announced by 1:30 p.m., New York City time, on the first day of each Commercial Paper Rate Period. Unless the Remarketing Agent specifies otherwise, each Commercial Paper Rate Period will be the shorter of (i) seven days, or (ii) the period remaining to

and including the final maturity date of the Fiscal 2008 BB Bonds. A Fiscal 2008 BB Bond can have a Commercial Paper Rate Period, and bear interest at a Commercial Paper Rate, different from other Fiscal 2008 BB Bonds in the Commercial Paper Rate Mode.

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

Flexible Rate Period. Except as described below, the Flexible Rate for any Flexible Rate Period is to be determined by the applicable Remarketing Agent and announced by not later than one (1) day prior to the Flexible Rate Period and will be in effect from the first day of such Flexible Rate Period through the day prior to the commencement of the next Rate Period. If the applicable Remarketing Agent is unable to remarket all of the Fiscal 2008 BB or CC Bonds of a Subseries at the interest rate determined by the Remarketing Agent pursuant to the previous sentence, the Remarketing Agent may at any time prior to the Conversion Date or Reset Date increase the interest rate to that rate which would enable the Fiscal 2008 BB or CC Bonds to be sold on such Conversion Date or Reset Date at a price of par plus accrued interest. No less than twenty (20) Business Days prior to the commencement of each Flexible Rate Period, the Authority shall deliver to the Trustee and the Remarketing Agent written notice of the Authority's determination of the next succeeding Flexible Rate Period, which Flexible Rate Period shall end on a Business Day and shall not be the maturity date of such Fiscal 2008 BB or CC Bonds; provided, however, that if the Authority fails to specify the next succeeding Flexible Rate Period, such Flexible Rate Period shall be the shorter of (i) the same period as the immediately preceding Flexible Rate Period, or (ii) the period remaining to and including the final maturity date of the Fiscal 2008 BB or CC Bonds.

If for any reason the interest rate for the Fiscal 2008 BB or CC Bonds in the Flexible Rate Mode is not or cannot be a Flexible Rate determined by the applicable Remarketing Agent, the Flexible Rate will be equal to Municipal Market Data General Obligation Yield on bonds with the same long term ratings that mature on the same date as the date on which the new Flexible Rate Period for such Fiscal 2008 BB or CC Bonds will end. Such interest rate shall be based upon the Municipal Market Data General Obligation yield for the most recent period for which information is available on the date the interest rate is to be determined. If such index or its equivalent is no longer published, the interest rate or such Fiscal 2008 BB or CC Bonds shall be the interest rate then currently in effect for such Fiscal 2008 BB or CC Bonds.

Fixed Rate Period. The Fixed Rate is to be determined by the Authority and the applicable Remarketing Agent or other investment banking firm or firms with which the Authority has entered into an agreement for the purchase, as underwriter, of the Fiscal 2008 BB or CC Bonds on the Conversion Date. If a Fixed Rate has not been determined as aforesaid for any reason, then the Rate Period shall convert to a Daily Rate Mode unless (i) the Authority elects another Rate Mode for such Fiscal 2008 BB or CC Bonds and on or prior to the Conversion Date, an Opinion of Counsel is delivered to the Trustee and the applicable Facility Provider, if any; *provided, however*, unless on or prior to the Conversion Date an Opinion of Bond Counsel is delivered to the Trustee and the Facility Provider, the Rate Mode for the Fiscal 2008 BB or CC Bonds not converted to the Fixed Rate shall be the existing Rate Mode.

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

Certain Considerations Affecting Variable Rate Bonds

The following paragraphs apply to the Fiscal 2008 BB and CC Bonds bearing interest at other than an Auction Rate or the Fixed Rate.

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

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

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

The Remarketing Agents may also make a secondary market in the Fiscal 2008 BB and CC Bonds by routinely purchasing and selling Fiscal 2008 BB and CC Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at, above, or below par. However, the Remarketing Agents are not required to make a secondary market in the Fiscal 2008 BB and CC Bonds. Thus, investors who purchase Fiscal 2008 BB and CC Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Fiscal 2008 BB and CC Bonds other than by tendering the Fiscal 2008 BB and CC Bonds in accordance with the tender process.

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

Fiscal 2008 BB Bonds May be Offered at Prices Other Than Par. Pursuant to each Remarketing Agreement, on each rate determination date, the applicable Remarketing Agent is required to determine the interest rate that will be effective with respect to the Fiscal 2008 BB and CC Bonds on the effective date. That rate is required by the Second Resolutions to be the lowest rate necessary in the judgment of the applicable Remarketing Agent to remarket the Fiscal 2008 BB and CC Bonds at par, plus accrued interest, if any, on the effective date. At the time the new rate becomes effective, the applicable Remarketing Agent shall use its best efforts to remarket the Fiscal 2008 BB and CC Bonds at par. The interest rate will reflect, among other factors, the level of market demand for the Fiscal 2008 BB and CC

Bonds (including whether the applicable Remarketing Agent is willing to purchase Fiscal 2008 BB and CC Bonds for its own account). There may or may not be Fiscal 2008 BB and CC Bonds tendered and remarketed on an effective date, and the applicable Remarketing Agent may or may not be able to remarket any Fiscal 2008 BB and CC Bonds tendered for purchase on such date at par. No Remarketing Agent is obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the Fiscal 2008 BB and CC Bonds at the remarketing price.

Under Certain Circumstances, a Remarketing Agent May Be Removed, Resign or Cease Remarketing the Fiscal 2008 BB and CC Bonds, Without a Successor Being Named. Under certain circumstances a Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreements. In this case, tendering Bondholders will be paid from draws on applicable Credit Facility.

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

Auction Rate Securities

Interest. Each Subseries of the Fiscal 2008 CC Bonds will bear interest during the applicable Initial Period beginning on October 24, 2007 (the “Issue Date”) at the rate the applicable Broker-Dealers determine is necessary to sell such Fiscal 2008 CC Bonds at par (each an “Initial Rate”). Thereafter the Auction Period Rate to be applicable to each Subseries of the Fiscal 2008 CC Bonds during each Auction Period shall be determined, and notice thereof shall be given, as provided in APPENDIX H—“AUCTION PROCEDURES.” The Auction Period Rate will not exceed the Maximum Rate, which is 12% per annum.

Payments. While the Auction Rate Securities are book-entry bonds subject to the procedures described in APPENDIX F, payment of the principal and Tender Price of and interest on any Auction Rate Securities will be made by wire transfer to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC.

Auction Procedures. The procedures for submitting Orders on an Auction Date, determining the Auction Period Rate for the related Auction Period, and allocating the applicable Subseries of the Auction Rate Securities as a result of each Auction are set forth in APPENDIX H—“AUCTION PROCEDURES” attached hereto.

Amendment of Auction Procedures. During an ARS Rate Period, the Auction Procedures and other provisions relating to Auction Rate Securities set forth in APPENDIX H—“AUCTION PROCEDURES” attached hereto, including, without limitation, the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended by obtaining the consent of the owners of all affected Outstanding Auction Rate Securities as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Auction Rate Securities as required by the Resolutions, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Authority and the Trustee an opinion of Bond Counsel to the effect that such amendment will not adversely affect the validity of the Auction Rate Securities or any exemption from federal income taxation to which interest on the Auction Rate Securities would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Auction Rate Securities bearing interest at the Auction Period Rate.

Changes in Auction Period. During an ARS Rate Period, the Authority may, from time to time, on the Interest Payment Date immediately following the end of any Auction Period for a Subseries of the Auction Rate Securities, change the length of the Auction Period with respect to all such Subseries of the Auction Rate Securities among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Auction Rate Securities. The Authority shall initiate the change in the length of the Auction Period by giving written notice to the Trustee, the Auction Agent, the applicable Broker-Dealers, the Insurer and the Securities Depository that

the Auction Period shall change, at least 10 Business Days prior to the Auction Date for such Auction Period. The change in the length of the Auction Period shall take effect only if Sufficient Clearing Bids (as defined in APPENDIX H attached hereto) for such Subseries of Auction Rate Securities exist at the Auction on the Auction Date for the new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to any such Auction Rate Securities, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Auction Rate Securities if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for such Subseries of Auction Rate Securities for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

Changes in Auction Date. During any ARS Rate Period for a Subseries of Auction Rate Securities, the Auction Agent, at the direction of the Authority may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of “Auction Date” in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by such Auction Rate Securities. The Auction Agent will provide notice of the Authority’s direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Insurer, the Authority and the applicable Broker-Dealers, with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date for a particular Series or Subseries of the Auction Rate Securities, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction Period begins and ends and the Interest Payment Dates relating to any Auction Period will be adjusted accordingly.

Auction Agent; Auction Agreement. The Trustee, at the written direction of the Authority, will appoint Wells Fargo Bank, N.A. as the initial Auction Agent. The Trustee and the Auction Agent will enter into an Auction Agreement (the “Auction Agreement”), pursuant to which the Auction Agent will agree to perform certain duties, including determining the Auction Period Rate for the related Auction Period in accordance with the Auction Procedures set forth in APPENDIX H—“AUCTION PROCEDURES” attached hereto.

Broker-Dealers; Broker-Dealer Agreements. The Authority has appointed the respective Broker-Dealers for the Fiscal 2008 CC Bonds as set forth on the inside cover page of this Official Statement (each, a “Broker-Dealer”). The Authority may appoint one or more other persons to serve as a Broker-Dealer. The Auction Agent, each initial Broker-Dealer and the Authority will enter into a Broker-Dealer Agreement (a “Broker-Dealer Agreement”), pursuant to which such Broker-Dealer will agree to perform certain duties, including following the Auction Procedures set forth in APPENDIX H—“AUCTION PROCEDURES” attached hereto.

Certain Considerations Affecting Auction Rate Securities

Role of Broker-Dealers. Each Broker-Dealer has been appointed by the issuers or obligors of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers or obligors for its services. Each Broker-Dealer receives broker-dealer fees from such issuers or obligors at agreed-upon annual rates that are applied to the principal amount of securities sold or successfully placed through such Broker-Dealer in such auctions.

Each Broker-Dealer is designated in its Broker-Dealer Agreement as a Broker-Dealer with respect to a particular Subseries of the Auction Rate Securities and is authorized to contact Existing Owners and Potential Owners and solicit Bids for such Auction Rate Securities. Each Broker-Dealer will receive Broker-Dealer fees from the Authority with respect to the Auction Rate Securities sold or successfully placed through it in Auctions for the Auction Rate Securities. Each Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the Auction Rate Securities.

Bidding by Broker-Dealers. Each Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the Auction Rate Securities for its own account either as a buyer or seller and routinely

does so in the auction rate securities market in its sole discretion. If a Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because such Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Auction Rate Securities and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction for the Auction Rate Securities and (ii) the Auction for the Auction Rate Securities will clear at a particular rate. For this reason, and because each Broker-Dealer is appointed and paid by the Authority to serve as a Broker-Dealer in the Auctions for the Auction Rate Securities, the Broker-Dealer's interests in serving as Broker-Dealer in an Auction for the Auction Rate Securities may differ from those of Existing Owners and Potential Owners who participate in Auctions for such Auction Rate Securities. See "*Role of Broker-Dealers.*" A Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to submit Orders pursuant to a Broker-Dealer Agreement.

Each Broker-Dealer routinely places bids in auctions generally for its own account to acquire securities for its inventory, to prevent an "Auction Failure" (which occurs if there are insufficient clearing bids and results in the auction rate being set at the Maximum Rate) or to prevent an auction from clearing at a rate that such Broker-Dealer believes does not reflect the market for such securities. Each Broker-Dealer may place one or more Bids in an Auction for Auction Rate Securities for its own account to acquire such Auction Rate Securities for its inventory, to prevent an Auction Failure or to prevent Auctions for the Auction Rate Securities from clearing at a rate that the Broker-Dealer believes does not reflect the market for such Auction Rate Securities. Each Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the Auction Rate Securities for its own account, each Broker-Dealer also may Bid inside or outside the range of rates that it posts in its Price Talk. See "*Price Talk.*"

Each Broker-Dealer routinely encourages bidding by others in auctions generally for which it serves as broker-dealer, including auctions for securities other than the Auction Rate Securities. Each Broker-Dealer also may encourage Bidding by others in Auctions for the Auction Rate Securities, including to prevent an Auction Failure or to prevent an Auction for the Auction Rate Securities from clearing at a rate that such Broker-Dealer believes does not reflect the market for the Auction Rate Securities. Each Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by a Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had such Broker-Dealer not Bid or not encouraged others to Bid and (ii) the allocation of the Auction Rate Securities being auctioned including displacing some Bidders who may have their Bids rejected or receive fewer Auction Rate Securities than they would have received if such Broker-Dealer had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction for the Auction Rate Securities clears successfully does not mean that an investment in such Auction Rate Securities involves no significant liquidity or credit risk. A Broker-Dealer is not obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the Auction Rate Securities to prevent an Auction Failure or an Auction for such Auction Rate Securities from clearing at a rate such Broker-Dealer believes does not reflect the market for such Auction Rate Securities. Investors should not assume that a Broker-Dealer will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by a Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding Bidding by a Broker-Dealer apply only to such Broker-Dealer's auction desk and any other business units of such Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for a Subseries of the Auction Rate Securities, if all such outstanding Auction Rate Securities are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If any Broker-Dealer holds any Auction Rate Securities for its own account on an Auction Date, it is the

practice of such Broker-Dealer to submit a Sell Order into the Auction for such Auction Rate Securities, which would prevent that Auction from being an All Hold Auction. Each Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Auction Rate Securities, as set forth above.

Price Talk. Before the start of an Auction for a Subseries of the Auction Rate Securities, each applicable Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners such Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction for such Auction Rate Securities based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. Each Broker-Dealer occasionally may update and change the Price Talk based on changes in credit quality of the Authority or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Each Broker-Dealer will use its best efforts to communicate this information in a manner reasonably designed to make it available to all Existing Owners and Potential Owners that were given the original Price Talk. Existing Owners and Potential Owners should confirm with the Broker-Dealer the manner by which the Broker-Dealer will communicate Price Talk and any changes to Price Talk.

"All-or-Nothing" Bids. The Broker-Dealers will not accept "all-or-nothing" Bids (i.e., Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Auction Rate Securities where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealers provide no assurance as to the outcome of any Auction. The Broker-Dealers also do not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the Auction Rate Securities will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on the Auction Rate Securities purchased or retained in the Auction may be lower than the market rate for similar investments.

The Broker-Dealers will not agree before an Auction to buy Auction Rate Securities from or sell Auction Rate Securities to a customer after the Auction.

Deadlines. Each particular Auction for the Auction Rate Securities has a formal deadline by which all Bids must be submitted by the Broker-Dealers to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, each Broker-Dealer imposes an earlier deadline for all of its customers — called the "Broker-Dealer Deadline" — by which Bidders must submit Bids to such Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealer. Each Broker-Dealer will use its best efforts to make this information available by means reasonably expected to reach Existing Owners and Potential Owners. Existing Owners and Potential Owners should consult with the Broker-Dealer as to its Broker-Dealer Deadline. Each Broker-Dealer may allow for correction of clerical errors after its Broker-Dealer Deadline and prior to the Submission Deadline. Each Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by a Broker-Dealer or generated by a Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if such Broker-Dealer determines that such Order contained a clerical error. In the event of such a submission, modification or withdrawal, the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Owner's Ability to Resell Auction Rate Securities May Be Limited. An Existing Owner may sell, transfer or dispose of an Auction Rate Security (i) in an Auction for the Auction Rate Securities, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Auction Rate Securities, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the Auction Rate Securities that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Auction Rate Securities in the Auction for the Auction Rate Securities. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the Auction Rate Securities all, and may not be able to sell any, of such Auction Rate Securities subject to such Submitted Sell Orders. As discussed above (see “*Bidding by Broker-Dealers*”), each Broker-Dealer may submit a Bid in an Auction for the Auction Rate Securities to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of a Broker-Dealer bidding in the Auction for the Auction Rate Securities for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Authority’s or the Insurer’s credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealers were unable or unwilling to Bid.

Between Auctions for the Auction Rate Securities, there can be no assurance that a secondary market for the Auction Rate Securities will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Auction Rate Securities on the terms or at the times desired by an Existing Owner. Each Broker-Dealer, in its own discretion, may decide to buy or sell the Auction Rate Securities in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for such Auction Rate Securities. However, the Broker-Dealers are not obligated to make a market in the Auction Rate Securities and may discontinue trading in the Auction Rate Securities without notice for any reason at any time. Existing Owners who resell between Auctions for the Auction Rate Securities may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased an Auction Rate Security through a dealer that is not a Broker-Dealer for the Auction Rate Securities, such Existing Owner’s ability to sell its Auction Rate Securities may be affected by the continued ability of its dealer to transact trades for the Auction Rate Securities through a Broker-Dealer.

The ability to resell the Auction Rate Securities will depend on various factors affecting the market for the Auction Rate Securities, including news relating to the Authority or the Insurer, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Auction Rate Securities (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Auction Rate Securities (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in “*Securities and Exchange Commission Settlements*” below) or press reports, financial reporting cycles and market conditions generally. Demand for the Auction Rate Securities may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions. The Auction Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days’ notice to the Trustee and the Authority, provided a replacement Auction Agent has been appointed. However, it does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if Auction Agent’s fee has not been paid, in which case only 30 days’ notice of such resignation is required. The Broker-Dealer Agreements provide that each Broker-Dealer may resign upon 30 days’ notice, provided that at least one Broker-Dealer Agreement is in effect with respect to each Subseries of the Auction Rate Securities immediately following such resignation. In addition, a Broker-Dealer may suspend Auctions in certain circumstances. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Auction Rate Securities, with the result that the interest on such Auction Rate Securities will be determined set forth in the Auction Procedures. See “APPENDIX H—AUCTION PROCEDURES” attached hereto.

See the Auction Procedures in Appendix H for a more extensive discussion of the provisions applicable to the Auction Rate Securities while bearing interest at the Auction Rate.

The information in this caption (“*Certain Considerations Relating to the Auction Rate Securities*”) was provided by the Broker-Dealers and is not the responsibility of the Authority.

The preceding and the related appendices summarize provisions expected to be included in the proceedings under which the Auction Rate Securities are to be issued as Auction Rate Bonds registered to DTC, and are subject in all respects to the underlying documents, copies of which will be available for inspection during business hours at the office of the Trustee.

Securities and Exchange Commission Settlements. On May 31, 2006, the U.S. Securities and Exchange Commission (the “SEC”) announced that it had settled its investigation of fifteen firms, including each of the Broker-Dealers set forth on the cover page with the exception of UBS Securities LLC (the “Settling Broker-Dealers”), that participate in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Settling Broker-Dealers agreed to pay civil penalties. In addition, each Settling Broker-Dealer, without admitting or denying the SEC’s allegations, agreed to provide to customers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Broker-Dealer to conduct the auction process in accordance with disclosed procedures. No action was taken by the SEC against UBS Securities LLC and no such firm is aware of any ongoing inquiries on this matter related to them.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, not including the Auction Agent (the “Settling Auction Agents”), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC’s allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Fiscal 2008 BB or CC Bonds. Wells Fargo Bank, N.A. was not one of the Settling Auction Agents.

Optional Tender for Purchase

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

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

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

A DTC Participant or the registered owner of a Fiscal 2008 BB or CC Bond must give written notice of its irrevocable election to tender such Fiscal 2008 BB or CC Bond or a portion thereof for purchase at

its option to the Tender Agent, at its Delivery Office, and to the applicable Remarketing Agent, in the case of Fiscal 2008 BB or CC Bonds bearing interest in a Daily Rate Mode, by no later than 11:00 a.m. on the Optional Tender Date and in the case of Fiscal 2008 BB or CC Bonds bearing interest in a Weekly Rate Mode by no later than 5:00 p.m., New York City time, on any Business Day which is at least seven (7) days prior to the Business Day on which such Fiscal 2008 BB or CC Bond or portion thereof is to be purchased.

Mandatory Tender for Purchase

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

- (a) on each Conversion Date for Fiscal 2008 BB or CC Bonds being converted to a different Rate Mode;
- (b) on each Reset Date for so long as the Fiscal 2008 BB or CC Bonds bear interest in the Commercial Paper Rate Mode or the Flexible Rate Mode;
- (c) on the last Business Day of the Daily Rate Period, the Weekly Rate Period, the Commercial Paper Rate Mode or Flexible Rate Mode, as the case may be, next preceding the effective date of any expiration or earlier termination of the applicable Credit Facility then in effect, if at least thirty days prior to such termination date such Credit Facility has not been extended or a substitute Credit Facility has not been obtained;
- (d) on the substitution of a Credit Facility; and
- (e) on the Business Day immediately preceding the date specified in the Notice of Default delivered by the applicable Facility Provider in accordance with the provisions of the applicable Credit Facility.

Auction Rate securities are subject to mandatory tender only on a Conversion Date and then only if the proceeds of the remarketing are sufficient to pay the Purchase Price.

Fiscal 2008 BB and CC Bonds Deemed Purchased

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

Purchase Price and Payment

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

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

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

The Purchase Price is payable solely from, and in the following order of priority, the proceeds of the remarketing of Fiscal 2008 BB or CC Bonds tendered for purchase, moneys made available by the applicable Facility Provider under the applicable Credit Facility, if any, and other Available Moneys furnished by or on behalf of the Authority for the purchase of Fiscal 2008 BB or CC Bonds.

Remarketing of Fiscal 2008 BB or CC Bonds Upon Tender

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

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

Redemption

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

Optional Redemption—Flexible Rate Period and Fixed Rate Period. Unless, at the time the Fiscal 2008 BB or CC Bonds are converted to the Flexible Rate Mode or the Fixed Rate Mode, the Authority establishes other dates and Redemption Prices at which such Fiscal 2008 BB or CC Bonds may be redeemed at the option of the Authority, the Fiscal 2008 BB or CC Bonds in the Flexible Rate Mode or the Fixed Rate Mode shall be subject to redemption prior to maturity at the election of the Authority: (A) in whole or in part on any Reset Date in the case of Fiscal 2008 BB or CC Bonds in the Flexible Rate Mode, at a Redemption Price equal to 100% of the principal amount of each Fiscal 2008 BB or CC Bonds or portion thereof to be redeemed, plus accrued interest, if any, to the day of redemption, or (B) in whole or in part at any time beginning on the tenth anniversary of the Conversion Date, at a Redemption Price of 100% of the principal amount of each Fiscal 2008 BB or CC Bonds or portion thereof to be redeemed plus accrued interest, if any, to the date of redemption.

Optional Redemption—Auction Rate Securities. Auction Rate Securities are subject to redemption by the Authority, on the ARS Interest Payment Date immediately following an Auction Period, as a whole or in part, in an Authorized Denomination, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued but unpaid interest to the redemption date, without premium; provided, however, that after giving effect to any redemption, in part, not less than \$10,000,000 in aggregate principal amount of Auction Rate Securities shall remain Outstanding, unless otherwise consented to by all applicable Broker-Dealers.

Fiscal 2008 CC Bonds—Sinking Fund Redemption. The Fiscal 2008 CC Bonds are subject to mandatory redemption prior to maturity in part, by lot, in such manner as the Trustee may reasonably determine, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date, on June 15 (or if the Fiscal 2008 CC Bonds are Auction Rate Securities and if such June 15 is not an Interest Payment Date, the Fiscal 2008 CC Bonds will be redeemed on the Interest Payment Date immediately preceding such June 15) in each of the years and in the respective principal amounts, as follows:

<u>Year</u>	<u>Fiscal 2008 CC-1 Bonds Amount</u>	<u>Fiscal 2008 CC-2 Bonds Amount</u>	<u>Fiscal 2008 CC-3 Bonds Amount</u>	<u>Fiscal 2008 CC-4 Bonds Amounts</u>
2013	\$ 925,000	\$ 925,000	\$ 925,000	\$ 1,075,000
2014	975,000	975,000	975,000	1,100,000
2015	450,000	475,000	450,000	525,000
2016	5,275,000	5,200,000	5,275,000	5,950,000
2017	5,450,000	5,500,000	5,500,000	6,300,000
2018	4,250,000	4,250,000	4,175,000	4,850,000
2019	10,400,000	10,400,000	10,400,000	11,900,000
2020	13,175,000	13,175,000	13,175,000	15,050,000
2021	28,200,000	28,200,000	28,225,000	32,275,000
2022 [†]	15,900,000	15,900,000	15,900,000	18,175,000

[†] Final Maturity

There shall be credited against and in satisfaction of the Sinking Fund Installment payable on any date the principal amount of Fiscal 2008 CC Bonds entitled to such Sinking Fund Installment (i) purchased with moneys in the Debt Service Fund, (ii) redeemed at the option of the Authority, (iii) purchased by the Authority and delivered to the Trustee for cancellation and (iv) deemed to have been paid in accordance the Second Resolution. Fiscal 2008 CC Bonds purchased with moneys in the Debt Service Fund will be credited toward the next Sinking Fund Installment thereafter to become due. Fiscal 2008 CC Bonds redeemed at the option of the Authority, purchased by the Authority (with moneys other than those on deposit in the Debt Service Fund) or deemed to have been paid in accordance with the Resolution shall be applied in satisfaction, in whole or in part, of one or more Sinking Fund Installments payable on such dates as the Authority shall specify in a written direction of the Authority delivered to the Trustee at least 15 days prior to the earliest date on which notice of redemption of the Fiscal 2008 CC Bonds entitled to such Sinking Fund Installment may be given by the Trustee and the Sinking Fund Installment payable on each date specified in such direction shall be reduced by the principal amount of the Fiscal 2008 CC Bonds so purchased, redeemed or deemed to have been paid in accordance with the Second Resolution to be applied in satisfaction of such Sinking Fund Installment as set forth in such direction.

Selection of Bonds to be Redeemed

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

Notice of Redemption

Notice of redemption is to be given by first class mail, postage prepaid, at least 30 days prior to the date fixed for redemption, to the registered owners of Fiscal 2008 BB and CC Bonds to be redeemed at their addresses shown on the books of registry. So long as Cede & Co., as nominee of DTC, is the registered owner of the Fiscal 2008 BB and CC Bonds, notice of redemption is to be sent to DTC. No assurance can be given by the Authority that DTC and DTC participants will promptly transmit notices of redemption to Beneficial Owners.

If, on any redemption date, moneys for the redemption of the Fiscal 2008 BB and CC Bonds to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available therefor on such date, and if notice of redemption has been mailed, then interest on the Fiscal 2008 BB and CC Bonds to be redeemed will cease to accrue from and after the redemption date and such Fiscal 2008 BB and CC Bonds will no longer be considered to be Outstanding under the Second Resolution.

The notice of redemption may provide that the Fiscal 2008 BB and CC 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.

RATE PERIOD TABLE
FOR FISCAL 2008 BB AND CC BONDS (OTHER THAN AUCTION RATE SECURITIES)

For a description of the Auction Rate Securities, see “APPENDIX H—AUCTION PROCEDURES.”

	DAILY RATE	WEEKLY RATE	COMMERCIAL PAPER RATE	FLEXIBLE RATE	FIXED RATE
Bond Payment Date	15th day of each calendar month	15th day of each calendar month	If Rate Period is 270 days or less, the next succeeding Reset Date or Conversion Date, and if Rate Period is more than 270 days (i) next succeeding Reset Date or Conversion Date and (ii) 180 days prior to such Reset Date or Conversion Date	June 15th and December 15th	June 15th and December 15th
Record Date	Business Day prior to each Bond Payment Date	Business Day prior to each Bond Payment Date	Business Day prior to each Bond Payment Date	First day of the calendar month during which interest is payable	First day of the calendar month during which interest is payable
Reset Date	Not later than 10:00 a.m. on each Business Day	Not later than 10:00 a.m. on each Thursday	Not later than 12:30 p.m. on the first day of each Commercial Paper Rate Period	Not later than 15 days prior to the first day of the Flexible Rate Period	Conversion Date
Commencement of Rate Period	Reset Date or Conversion Date	Each Thursday	Reset Date or Conversion Date	Conversion Date	Conversion Date
Optional Tender Date	Any Business Day	Any Business Day	Not subject to optional tender	Not subject to optional tender	Not subject to optional tender
Notice Period for Optional Tenders	Written notice not later than 11:00 a.m. on any Business Day	Written notice not later than 5:00 p.m. on any Business Day not less than seven days prior to the Tender Date	Not subject to optional tender	Not subject to optional tender	Not subject to optional tender
Tender Date for Tendered Bonds (optional tender)	Not later than 12:00 p.m. on the Optional Tender Date	Not later than 1:00 p.m. on the Optional Tender Date	Not subject to optional tender	Not subject to optional tender	Not subject to optional tender
Payment Date for Tendered Bonds (optional tender)	Not later than 3:00 p.m. on the Tender Date	Not later than 3:00 p.m. on the Tender Date	Not subject to optional tender	Not subject to optional tender	Not subject to optional tender
Payment Date for Tendered Bonds (mandatory tender)	Not later than 3:00 p.m. on the Tender Date	Not later than 3:00 p.m. on the Tender Date	Not later than 3:00 p.m. on the Tender Date	Not later than 3:00 p.m. on the Tender Date	Not subject to mandatory tender

SECURITY FOR THE BONDS

Revenues

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

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

Beginning on the first day of each month the Board is required to pay to the Trustee under the Resolution the Revenues in the Local Water Fund, for deposit in the Revenue Fund established under the Resolution until the amount so deposited equals the Minimum Monthly Balance and the Required Deposits for such month. The Minimum Monthly Balance is the amount required to accumulate the funds necessary for timely payment of all debt service on Outstanding Bonds. Required Deposits are the amounts required to be paid from Revenues for deposit to the Authority Expense Fund (including both periodic and termination payments under Interest Rate Exchange Agreements (see “APPENDIX D—FINANCIAL STATEMENTS—Note 10”)), the Debt Service Reserve Fund and the Subordinated Indebtedness Fund, including amounts required for payment of the Second Resolution Bonds and other subordinate debt. See “APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Summary of the Agreement—Minimum Monthly Balance.”

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 $\frac{1}{12}$ 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—Definition of Certain Terms Used in Second Resolution—Monthly Balance.”

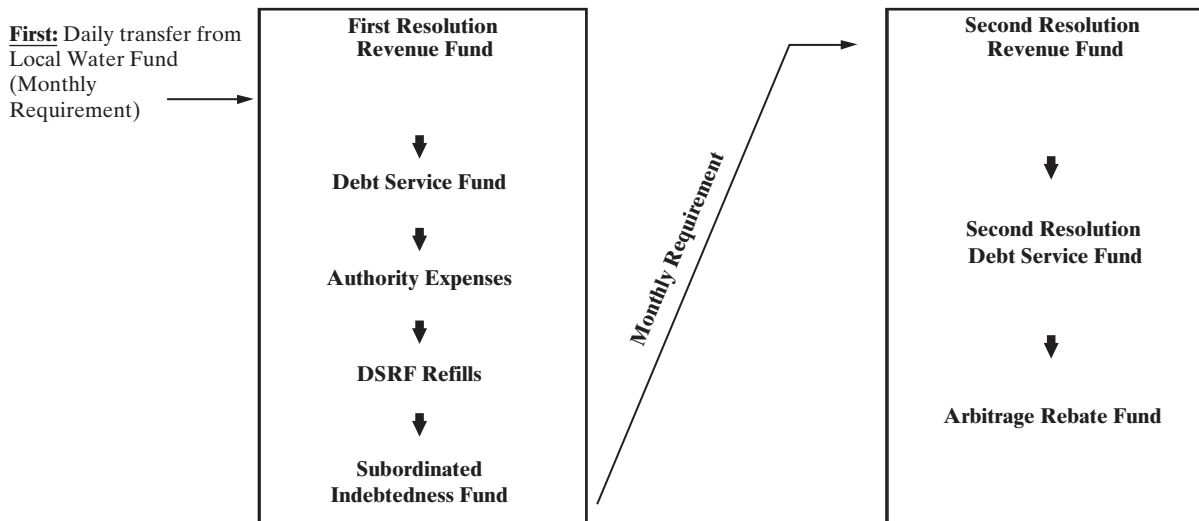
In addition, beginning on the day when no First Resolution Bonds are Outstanding, Revenues are to be deposited from the Local Water Fund into the Revenue Fund established under the Second Resolution. As described below, such Revenues will be used to make payments to the Authority Expense Fund, the Arbitrage 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 2008 BB and CC Bonds will be on a parity with all other outstanding Second Resolution Bonds heretofore and hereafter issued. The Fiscal 2008 BB and CC 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



Second: Daily transfer from Local Water Fund (Monthly Requirement)

• Water Board Expenses

Third: Daily transfer from Local Water Fund (Monthly Requirement)

• System Operations and Maintenance

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

Pro rata to:
• First Resolution Revenue Fund: for annual Debt Service, Authority expenses, DSRF, Subordinate Indebtedness (Second Resolution)
• System Operations and Maintenance

Fifth - Seventh: Daily transfer from Local Water Fund (After Debt Service is set aside; typically funded during the last few months of the fiscal year)

• City lease payment, operating and maintenance reserve replenishment, surplus including pay as you go capital

Debt Service Reserve Fund

No deposit will be made to the Debt Service Reserve Fund established under the Second Resolution upon the issuance of the Fiscal 2008 BB and CC Bonds, and the Fiscal 2008 BB and CC 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 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").

The Adjusted Aggregate Debt Service on the Second Resolution Bonds, any Parity Bond Anticipation Notes and Parity Reimbursement Obligations constitutes Required Deposits within the meaning of the Rate Covenant. The Second Resolution requires that Revenues derived in any Fiscal Year not required to meet any of the payments to be made by the Board during such Fiscal Year be paid by June 30 of such Fiscal Year, for deposit to the Revenue Fund under the First Resolution. Amounts on deposit in the Revenue Fund under the First Resolution on July 1 of a Fiscal Year will reduce the amount of Revenues required to be raised to meet the Required Deposits for such Fiscal Year. A failure to generate Revenues as set forth in this paragraph will not constitute an "event of default" under the Agreement if the Board takes timely action to correct any such deficiency as described in the following paragraph.

Under the 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, 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 First Resolution Bonds, Outstanding 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 Resolution.”

Authority Debt

At the date of this Official Statement, the Authority has approximately \$10.7 billion aggregate principal amount of Outstanding First Resolution Bonds (Capital Appreciation Bonds are included at their accreted value as of October 15, 2007). In addition, at the date of this Official Statement, the Authority has approximately \$6.7 billion aggregate principal amount of outstanding Second Resolution Bonds. The Authority is authorized to have outstanding up to \$800 million of commercial paper notes (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 secured by standby line of credit agreements which provide liquidity for such Commercial Paper Notes. In March 2003, the Authority authorized its Extendable Municipal Commercial Paper Notes, Series Seven (the “Series Seven Notes”). Principal of and interest on the Series Seven Notes are not secured by any liquidity or credit facility and are payable from remarketing proceeds and the proceeds of additional Series Seven Notes, 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 Resolution for the benefit of the holders of First Resolution Bonds.

The Authority’s obligations to the banks providing standby lines of credit, including the Authority’s obligation to pay interest on moneys advanced, are secured by a pledge of the moneys and investments on deposit in the Subordinated Indebtedness Fund on a parity with the pledge to secure the Second Resolution Bonds. Interest on such advances is also secured by a pledge of Revenues which is subordinate to the pledge securing the First Resolution Bonds.

Other Authority Indebtedness

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

Derivatives

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

In addition, the Authority intends, subject to market conditions, to enter into an interest rate exchange agreement in connection with the issuance of the Fiscal 2008 BB Bonds, pursuant to which the Authority will pay a fixed rate of interest and receive a floating rate of interest.

Covenant of the State

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

STANDBY BOND PURCHASE AGREEMENTS FOR THE FISCAL 2008 BB BONDS

Standby Bond Purchase Agreements

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

The Authority has entered into a Standby Bond Purchase Agreement with respect to the Fiscal 2008 BB-1, BB-3 and BB-4 Bonds (the "BB-1, BB-3 and BB-4 Standby Bond Purchase Agreement") with FortisBank S.A./N.V. (collectively, the "BB-1, BB-3 and BB-4 Facility Provider"). The Authority has entered into a Standby Bond Purchase Agreement with respect to the Fiscal BB-2 and BB-5 Bonds (the "BB-2 and BB-5 Standby Bond Purchase Agreement" and, together with the BB-1, BB-3 and BB-4 Standby Bond Purchase Agreement, the "Standby Bond Purchase Agreements") with Bank of America, N.A. (the "BB-2 and BB-5 Facility Provider" and, together with the BB-1, BB-3 and BB-4 Facility Providers, the "Facility Providers"). Each of the Standby Bond Purchase Agreements is a Credit Facility as defined in the Second Resolutions. Each registered owner of a Fiscal 2008 BB Bond will be entitled to the benefits of the Standby Bond Purchase Agreement applicable thereto under which the applicable Facility Provider has agreed to make available to the Tender Agent, upon receipt of an appropriate demand for payment, the Purchase Price for Fiscal 2008 BB Bonds tendered for purchase and not remarketed. The commitments of the Facility Providers under the Standby Bond Purchase Agreements are sufficient to pay a Purchase Price equal to the Outstanding principal of and up to 35 days' interest on the Fiscal 2008 BB Bonds at an assumed interest rate of nine percent (9%) per annum. The scheduled Termination Date of the Standby Bond Purchase Agreements is October 24, 2012.

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

Each Standby Bond Purchase Agreement terminates immediately and without notice upon the occurrence of certain events of default (each a "Termination Event"). Termination Events include (i) failure of the Authority to pay when due any principal of or premium, if any, or interest on the Fiscal 2008 BB Bonds (regardless of any waiver thereof by the holders of the Fiscal 2008 BB Bonds) or a default by the Authority in the payment of principal of or premium or interest on any other bond, note or other evidence of indebtedness issued, assumed or guaranteed by the Authority (provided, however, that no

such failure to pay shall constitute a Termination Event if (A) such failure to pay was caused solely by an error or omission of an administrative or operational nature, (B) funds were available to enable the Authority to make such payment when due and (C) such payment is made within two business days after the Authority's receipt of written notice of such failure to pay); (ii) the occurrence and continuance of an "Event of Default" under the Second Resolution described under clause (v) of "Summary of the Second Resolution—Defaults and Remedies" in Appendix C hereto, consisting of the Authority's filing of a petition or otherwise seeking of relief under any federal or State bankruptcy or similar law; (iii) each of Moody's Investors Service ("Moody's"), Standard & Poor's Rating Service ("S&P") and Fitch Inc. ("Fitch") shall (x) assign a rating to any debt of the Authority which is secured on a parity with the Fiscal 2008 BB Bonds below "Baa3" in the case of Moody's and below "BBB-" in the case of S&P and Fitch or (y) withdraw or suspend any such rating for a credit-related reason; (iv) (x) the State or any other governmental authority having jurisdiction over the Authority imposes a debt moratorium, debt restructuring, debt adjustment or comparable restriction on repayment when due and payable of the principal of or interest on any debt obligation of the Authority secured by a lien on Revenues or (y) the Authority (A) applies for or consents to the appointment of, or there shall have occurred the taking or possession by, a receiver, custodian, trustee, liquidator or sequestrator (or other similar official) of itself or of all or of a substantial part of its property or assets, (B) admits in writing its inability, or is generally unable, to pay its debts as they become due, (C) makes a general assignment for the benefit of creditors, (D) files a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, winding-up or composition or adjustment of debts, or (E) takes any action for the purpose of effecting any of the acts set forth in clauses (A) through (D) above; (v) a final, non appealable judgment shall be issued by a court of competent jurisdiction that the Fiscal 2008 BB Bonds or any other material provision of the Standby Bond Purchase Agreement or the Second Resolution shall cease for any reason to be valid and binding, or the Authority shall initiate legal proceedings or assert in legal proceedings that the Fiscal 2008 BB Bonds or any material provision of the Standby Bond Purchase Agreement or of the Second Resolution is invalid or that the Authority has no liability thereon.

Additionally, each Standby Bond Purchase Agreement provides that the Facility Providers' respective obligations to purchase Fiscal 2008 BB Bonds shall be suspended immediately and without notice upon the occurrence of certain events (each a "Suspension Event"). Suspension Events include (x) the issuance of a judgment that is appealable or non-final but is otherwise described in the Termination Event set forth in clause (v) above (such judgment a "Nonfinal Invalidity Judgment") and the passage of 30 days after the issuance thereof during which such Nonfinal Invalidity Judgment has not been overturned or stayed upon appeal (provided that the Facility Providers' obligations to purchase Fiscal 2008 BB Bonds following the stay of any Nonfinal Invalidity Judgment shall be suspended immediately (without the lapse of another 30 day time period) if such stay is lifted pursuant to a subsequent Nonfinal Invalidity Judgment) and (y) the occurrence of an event described as a Termination Event set forth in clause (i) above, but without regard to the proviso thereof.

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

Following the occurrence of any Suspension Event, the obligation of the Facility Providers under the applicable Standby Bond Purchase Agreement immediately shall be reinstated and the terms of the applicable Standby Bond Purchase Agreement will continue in full force and effect (unless it shall otherwise have terminated by its terms) as if there had been no such suspension on the date on which (i) in the case of a Suspension Event described in clause (x) above, on the date on which a court of competent jurisdiction shall issue a judgment that the Fiscal 2008 BB Bonds or any material provision of the applicable Standby Bond Purchase Agreement or Second Resolution, as applicable, is valid and binding,

and (ii) in the case of a Suspension Event described in clause (y) above, the relevant payment is made (so long as such payment is made within two business days after the Authority's receipt of a written notice of such failure to pay).

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

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

The preceding is a summary of certain provisions expected to be included in the Standby Bond Purchase Agreements and the proceedings under which the Fiscal 2008 BB Bonds are to be issued, and is subject in all respects to the underlying documents, copies of which will be available for inspection during business hours at the office of the Tender Agent. Information regarding the Facility Providers is included herein as "APPENDIX G—DESCRIPTION OF THE FACILITY PROVIDERS." Neither the Authority nor the Underwriters make any representation with respect to the information in "APPENDIX G—DESCRIPTION OF THE FACILITY PROVIDERS."

Substitution of a Credit Facility

The Authority may replace a Credit Facility with a substitute Credit Facility; *provided, however*, that the Subseries of the Fiscal 2008 BB Bonds which are secured by such Credit Facility will be subject to mandatory tender on the substitution date. The substitute Credit Facility shall be delivered upon the satisfaction of certain requirements set forth in the Resolutions and the Credit Facility, including but not limited to receipt by the Trustee of: (i) written advice from each of Moody's, S&P and Fitch that upon such substitution the rating assigned thereby to the Fiscal 2008 BB Bonds will not be reduced, suspended or withdrawn as a result of such substitution; (ii) an opinion of counsel to the new Facility Provider to the effect that such substitute Credit Facility constitutes a legal, valid and binding obligation of such Facility Provider enforceable in accordance with its terms, subject only to bankruptcy, insolvency, moratorium and other laws affecting creditors' rights insofar as the same may be applicable in the event of a bankruptcy, insolvency, moratorium or other similar proceeding or occurrence with respect to such Facility Provider

and to equitable principles; (iii) an Opinion of Bond Counsel with respect to the substitution or replacement of the current Credit Facility; and (iv) the written consent of an Authorized Officer of the Authority.

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

MBIA INSURANCE FOR THE FISCAL 2008 SERIES CC BONDS

MBIA HAS SUPPLIED THE FOLLOWING INFORMATION FOR INCLUSION IN THIS OFFICIAL STATEMENT. NO REPRESENTATION IS MADE BY THE AUTHORITY OR THE UNDERWRITERS AS TO THE ACCURACY OR COMPLETENESS OF THIS INFORMATION.

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (“MBIA”) for use in this Official Statement. Reference is made to Appendix I for a specimen of MBIA’s policy (the “Policy”).

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading “MBIA Insurance for the Fiscal 2008 Series CC Bonds.” Additionally, MBIA makes no representation regarding the Fiscal 2008 CC Bonds or the advisability of investing in the Fiscal 2008 CC Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Fiscal 2008 CC Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Fiscal 2008 Series CC Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA’s Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Fiscal 2008 CC Bonds. MBIA’s Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Fiscal 2008 CC Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA’s Policy also does not insure against nonpayment of principal of or interest on the Fiscal 2008 CC Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Fiscal 2008 CC Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA

from the Paying Agent or any owner of a Fiscal 2008 CC Bonds the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Fiscal 2008 CC Bonds or presentment of such other proof of ownership of the Fiscal 2008 CC Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Fiscal 2008 CC Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Fiscal 2008 CC Bonds in any legal proceeding related to payment of insured amounts on the Fiscal 2008 CC Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Fiscal 2008 CC Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. (“MBIA Mexico”), through which it intends to write financial guarantee insurance in Mexico beginning in 2007. To date, MBIA Mexico has had no operating activity.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., rates the financial strength of MBIA “AAA.”

Fitch Ratings rates the financial strength of MBIA “AAA.”

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Fiscal 2008 CC Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward

revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Fiscal 2008 CC Bonds. MBIA does not guaranty the market price of the Fiscal 2008 CC Bonds nor does it guaranty that the ratings on the Fiscal 2008 CC Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of \$10.9 billion (audited), total liabilities of \$6.9 billion (audited), and total capital and surplus of \$4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2007, MBIA had admitted assets of \$10.8 billion (unaudited), total liabilities of \$6.8 billion (unaudited), and total capital and surplus of \$4.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2007 and for the six month periods ended June 30, 2007 and June 30, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Fiscal 2008 Series CC Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

Supplemental Resolution No. 49 Provisions Relating to MBIA Insured Bonds

The Supplemental Resolution No. 49 provides that (a) MBIA must be given notice of any amendments to the Second Resolutions not requiring the consent of the holders of the Fiscal 2008 CC

Bonds and MBIA's consent must be obtained for any amendment requiring the consent of the holders of the Fiscal 2008 CC Bonds; and (b) MBIA shall be recognized as the registered owner of the MBIA Insured Bonds for the purpose of exercising all rights and privileges available to holders of the MBIA Insured Bonds.

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

The current members of the Board of Directors are:

<u>Member</u>	<u>Occupation</u>
Mark Page(1).....	Director of Management and Budget of the City
Alexander B. Grannis(1).....	Commissioner of Environmental Conservation of the State
Martha E. Stark(1).....	Commissioner of Finance of the City
Emily Lloyd(1)	Commissioner of Environmental Protection of the City
Charles E. Dorkey III(2).....	Partner, Torys
Arthur B. Hill(3).....	Retired, United Parcel Service
Peter J. Kenny(2)	Retired Partner, Willkie Farr & Gallagher

(1) *Ex officio*.

(2) Appointed by the Mayor.

(3) Appointed by the Governor.

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

Alan L. Anders, Chief Executive Officer

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

Patrick J. McCoy, Executive Director

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

Marjorie E. Henning, Secretary

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

Lawrence R. Glantz, Comptroller

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

Michele Mark Levine, Assistant Comptroller

Ms. Levine was appointed Assistant Comptroller in 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.

Olga Chernat, Deputy Treasurer

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

Prescott D. Ulrey, Assistant Secretary

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

Jeffrey M. Werner, Assistant Secretary

Mr. Werner was appointed Assistant Secretary in March 2004. Mr. Werner also serves as Deputy Counsel to the Office of Management and Budget of the City. He is a graduate of Bowdoin College and Columbia Law School.

Raymond Orlando, Manager of Investor Relations

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

THE BOARD

Purpose and Powers

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

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

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

Membership

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

The current members of the Board are:

<u>Member</u>	<u>Occupation</u>
James T.B. Tripp, Chair	General Counsel, Environmental Defense Fund
Donald Capoccia	Principal, BFC Partners, L.P.
Dawn S. Davis	Bronx Pro Real Estate Management
Marilyn Gelber	Executive Director, Independence Community Foundation
Amaziah Howell	President, Howell Petroleum Products, Inc.
Alan Moss	Retired
Maria Santos Valentin	Senior Associate General Counsel, Open Society Institute

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

Steven Lawitts, Executive Director

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

William Kusterbeck, Treasurer

Mr. Kusterbeck was appointed Treasurer in November 1985. Mr. Kusterbeck has worked for DEP since 1979. He has served in various positions in DEP including Director of Rates and Revenue, and Director of the Office of Planning. Mr. Kusterbeck is a graduate of Hunter College of the City University of New York and Columbia University Graduate School of Business.

Carmelo Emilio, Deputy Treasurer

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

Albert F. Moncure, Jr., Secretary

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

THE DEPARTMENT OF ENVIRONMENTAL PROTECTION

Organization

Over 5,700 DEP staff members are assigned to the System. Approximately 800 people within the System staff are assigned to the design and construction of ongoing capital projects, including projects within the CIP, as hereinafter defined, and approximately 500 provide administrative and support services to both System and non-System staff. There are approximately 300 additional employees within the DEP staff whose duties are not related to water and sewer service and whose cost is not included as a System cost.

The New York City Department of Design and Construction (the “DDC”) has responsibility for the construction and reconstruction of water and sewer mains in the City. Based upon current workloads, a proportion of DDC’s staff equivalent to 350 full-time positions is devoted to System construction projects.

DEP is managed by a Commissioner, who is appointed by the Mayor. It is organized into nine bureaus: Customer Services; Water and Sewer Operations; Water Supply; Engineering Design and Construction; Wastewater Treatment; Environmental Planning; Human Resources, Administration and Legal Affairs; and Executive.

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

Emily Lloyd, Commissioner

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

Steven Lawitts, First Deputy Commissioner

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

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

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

Angela Licata, Deputy Commissioner

Ms. Licata was appointed Deputy Commissioner of the Bureau of Environmental Planning in December 2005. She has been with DEP since 1988 and has served in numerous positions within the

Office of Environmental Planning and Assessment, including Project Manager, Director of Program Management and most recently as Deputy Director. Ms. Licata is a graduate of Harpur College, Binghamton University.

James Roberts, Deputy Commissioner

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

Paul Rush, P.E., Deputy Commissioner

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

Joseph Singleton, Deputy Commissioner

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

Labor Relations

During the last decade, there have been no strikes or major work stoppages of DEP employees affecting the System. Approximately 95% of DEP's employees are members of labor unions which represent such employees in collective bargaining with the City. The majority of DEP employees who are members of unions are members of District Council 37 of the American Federation of State, County and Municipal Employees ("DC 37"). An agreement with DC 37, covering the period from July 1, 2005 through March 2, 2008, was reached on July 12, 2006 and ratified on August 25, 2006.

CAPITAL IMPROVEMENT AND FINANCING PROGRAM

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

The City's Ten Year Capital Strategy, which is updated every two years, was released in April 2007 (the "Ten Year Capital Strategy") and includes the projected capital improvements to the System for Fiscal Years 2008 through 2017. The City's Current Capital Plan (the "Current Capital Plan"), which covers Fiscal Years 2007 through 2011, was published in April 2007, is updated three times each Fiscal Year and is consistent with the Ten Year Capital Strategy for Fiscal Years 2008 through 2011. The next update to the Current Capital Plan is expected to be released in October 2007. Funds shown in the first year of the Ten Year Capital Strategy but not committed in that year are generally added to the following year in the Current Capital Plan.

The Ten Year Capital Strategy as modified by the Current Capital Plan comprises the Capital Improvement Program (the "CIP"). The CIP establishes long range programmatic goals for the System and reflects a review of the present condition and long-term needs of the plant and equipment constituting the System. The CIP incorporates the present replacement cycle for System facilities, extensions to the present service area, and programs to enhance and optimize the operation of the System. Allowances are included in the CIP for emergency repair and replacement. The value of the actual work done in any given year will differ from that outlined in the CIP. Expected capital commitments for the years beyond the Current Capital Plan will differ from those shown in the CIP due to the addition of new projects, as well as due to changes in project schedules and costs. The capital program projected in the CIP substantially exceeds levels required in order to maintain the current condition of the System.

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

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

Although Amawalk Consulting, the Authority's rate consultant, has not performed a detailed independent review of the capital program elements and has not made an engineering evaluation of the System, Amawalk Consulting has concluded that the gross level of anticipated commitments through Fiscal Year 2017 as reflected in the CIP appears to be reasonable compared to other large water and wastewater utilities.

The CIP is presented in the following table.

CAPITAL IMPROVEMENT PROGRAM
(Thousands of Dollars)

CITY FUNDS	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
WATER SUPPLY AND TRANSMISSION												
Conveyance	\$ 7,095	\$ 2,500	\$ 10,000	\$ —	\$ 118,800	\$ —	\$ 105,690	\$ 115,000	\$ 130,000	\$ 26,000	\$ 159,713	\$ 674,798
Kensico-City Tunnel	—	—	—	—	30,000	—	—	30,000	55,000	—	137,500	252,500
City Tunnel No. 3, Stage 1	24,313	282	81,765	32,000	39,000	9,000	45,000	45,000	—	—	—	276,360
City Tunnel No. 3, Stage 2	34,110	15,254	117,990	75,280	153,812	10,310	5,325	340	4,544	370	385	417,720
City Tunnel No. 1 Reconstruction	—	—	44,500	—	7,500	—	—	—	30,000	—	—	82,000
Miscellaneous Programs	—	—	10,103	—	—	—	—	—	—	—	—	10,103
Subtotal	65,518	18,036	264,358	107,280	349,112	19,310	156,015	190,340	219,544	26,370	297,598	1,713,481
WATER DISTRIBUTION												
Brooklyn—Queens Aquifer	—	21,670	16,200	4,410	4,631	4,862	5,105	5,360	5,628	5,910	6,205	79,981
Croton Filtration Project	1,463,452	267,131	115,763	86,750	25,000	—	10,000	—	—	—	—	1,968,096
Dam Safety Program	145,930	53,305	364,062	89,000	57,650	195,500	55,000	12,500	—	—	—	972,947
Trunk Distribution and Main Extension	12,401	26,409	18,798	38,574	44,131	32,941	48,992	34,000	46,090	34,000	49,000	385,336
Trunk Distribution and Main Replacement	76,555	110,758	144,534	175,194	231,296	191,158	190,249	37,442	210,933	130,515	78,700	1,577,334
Water Quality Preservation	438,500	927,094	252,660	229,264	318,484	180,091	33,205	32,639	112,165	236,955	8,485	2,769,542
Extensions	—	2,583	785	2,000	—	—	—	—	—	—	—	5,368
Other System Improvements	63	2,986	1,418	8,302	—	13,639	—	—	—	—	—	26,408
Subtotal	2,136,901	1,411,936	914,220	633,494	681,192	618,191	342,551	121,941	374,816	407,380	142,390	7,785,012
WATER POLLUTION CONTROL												
Consent Decree Upgrading & Construction	370,252	1,055,243	570,833	176,000	3,518	—	—	—	32,087	—	—	2,207,933
Plant Upgrading & Reconstruction	115,796	242,621	364,876	259,466	294,101	138,793	186,219	123,524	177,602	103,028	98,183	2,104,209
Sludge Disposal	6,547	424	6,500	—	30,000	25,000	—	250,000	—	—	—	318,471
Plant Component Stabilization (1)	604,990	35,240	262,097	431,080	651,000	335,340	392,500	210,000	205,000	10,000	250,000	3,387,247
Water Quality Mandates	85,027	152,416	142,364	146,611	181,691	87,000	24,000	—	89,000	474,000	15,000	1,397,109
Subtotal	1,182,612	1,485,944	1,346,670	1,013,157	1,160,310	586,133	602,719	583,524	503,689	587,028	363,183	9,414,969
SEWERS												
Replacement or Augmentation	55,370	22,047	91,712	99,332	151,478	142,142	141,273	120,352	153,966	130,528	126,345	1,234,545
Extensions to Accommodate New Development	90,412	88,829	110,664	94,823	17,512	52,979	53,484	30,000	30,000	40,000	48,455	657,158
Programmatic Response to Regulatory Mandates	—	—	—	—	9,900	—	—	—	—	—	—	9,900
Programmatic Replacement and Reconstruction	367	—	—	630	16,573	—	19,292	—	—	—	—	36,862
Replacement of Chronically Failing Components	90,648	63,136	85,490	79,764	91,716	74,283	69,274	72,327	73,586	74,656	79,547	854,427
Trunks	1,185	12,932	3,257	8,585	—	1,284	—	—	—	—	—	27,243
Subtotal	237,982	186,944	291,123	283,134	287,179	270,688	283,323	222,679	257,552	245,184	254,347	2,820,135
EQUIPMENT												
Conservation	3,322	128,937	155,000	22,361	12,000	12,000	12,000	12,000	12,000	12,000	12,000	393,620
Management Information Systems	9,232	30,359	22,561	9,675	6,480	12,044	5,738	5,938	6,146	5,000	5,000	118,173
Facility Purchases & Reconstruction	34,629	57,789	44,928	3,640	48,400	100	61,000	—	—	—	—	250,486
Utility Relocation	29,930	32,544	38,409	38,980	37,769	41,168	42,680	40,101	44,760	42,629	44,425	433,395
Vehicles and Equipment	11,897	28,518	6,000	8,500	6,000	8,500	6,000	9,095	12,928	8,000	5,000	110,438
Subtotal	89,010	278,147	266,898	83,156	110,649	73,812	127,418	67,134	75,834	67,629	66,425	1,306,112
TOTAL CITY FUNDS	3,712,023	3,381,007	3,083,269	2,120,221	2,588,442	1,568,134	1,512,026	1,185,618	1,431,435	1,333,591	1,123,943	23,039,709
STATE, FEDERAL, AND PRIVATE FUNDS												
Water Quality Preservation	2,700	—	—	—	—	—	—	—	—	—	—	2,700
Management Information Systems	6,000	4,170	3,000	—	—	—	—	—	—	—	—	13,170
Plant Upgrading & Reconstruction	2,563	—	—	—	—	—	—	—	—	—	—	2,563
Plant Component Stabilization (1)	32,129	—	—	—	—	—	—	—	—	—	—	32,129
Water Quality Mandates	50	—	—	—	—	—	—	—	—	—	—	50
Other System Improvements	1,624	40	—	—	—	—	—	—	—	—	—	1,664
TOTAL NON-CITY FUNDS	45,066	4,210	3,000	—	—	—	—	—	—	—	—	52,276
TOTAL FUNDS	\$3,757,089	\$3,385,217	\$3,086,269	\$2,120,221	\$2,588,442	\$1,568,134	\$1,512,026	\$1,185,618	\$1,431,435	\$1,333,591	\$1,123,943	\$23,091,985

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

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

Water Supply and Transmission

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

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

Tunnel 3. Stages I and II of Tunnel 3 include completion of the Brooklyn/Queens and Manhattan segments. Stage I became operational in July 1998 and has improved the reliability of the transmission system. Stage I amounts also relate to facility improvements at Hillview Reservoir. Completion of the Brooklyn/Queens segment of Stage II will improve services to Staten Island, Brooklyn and Queens. Activation of the Manhattan segment of Stage II will follow activation of the Brooklyn and Queens segment of Stage II which is expected to be completed in 2012. The entire Stage II is scheduled to be completed in 2015. See "THE SYSTEM—The Water System—Water Collection and Distribution."

Water Distribution

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

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

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

Water Quality Preservation. The City provides for improvements to the upstate watersheds including projects undertaken pursuant to the FADs (as hereinafter defined) in the Catskill and Delaware watersheds such as the acquisition of environmentally sensitive property, the upgrade of non-City owned water pollution control facilities and the construction of an ultraviolet water treatment facility. Other projects in the upstate watersheds include enhanced security systems and 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 construction of an intercepting sewer for one of the fourteen plants, and the upgrading of six plants. The plant upgrades include the retrofitting of five plants to achieve additional nitrogen treatment and upgrades at the Newtown Creek plant to achieve secondary treatment and improve plant operations. In addition, during periods of heavy rainfall, a combination of stormwater and sewage bypasses treatment and is released into the City's waterways through the City's combined sewer overflow ("CSO") outfalls. Pursuant to a consent order between DEP and the New York State Department of Environmental Conservation ("NYSDEC"), DEP is implementing projects necessary to control the polluting effects of such releases. See "THE SYSTEM—The Sewer System—Government Regulation."

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

Plant Component Stabilization. This program includes the replacement and reconstruction of failing components within the fourteen plants and their related facilities necessary to maintain process reliability and the retrofit of five water pollution control plants to decrease the amount of nitrogen discharged into the surrounding water.

Sewers

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

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

Equipment

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

Historical Capital Program

The following table presents capital commitments and capital expenditures of the System for Fiscal Years 2002 through 2006. 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 2002		FY 2003		FY 2004		FY 2005		FY 2006	
Commitments	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)
Water Supply and Transmission (3)	\$ 135	\$ 135	\$ 63	\$ 63	\$ 39	\$ 39	\$ 746	\$ 746	\$ 26	\$ 26
Water Distribution	492	492	337	337	480	481	499	498(4)	568	568
Water Pollution Control	806	806	681	687	877	935	838	839	843	848
Sewers	199	199	201	202	216	216	186	187	192	192
Equipment	37	37	84	84	41	41	63	64	73	107
Total	<u>\$1,669</u>	<u>\$1,669</u>	<u>\$1,366</u>	<u>\$1,373</u>	<u>\$1,653</u>	<u>\$1,711</u>	<u>\$2,332</u>	<u>\$2,334</u>	<u>\$1,702</u>	<u>\$1,741</u>

	FY 2002		FY 2003		FY 2004		FY 2005		FY 2006	
Expenditures (5)	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)
Water Supply and Transmission (3)	\$ 84	\$ 84	\$ 87	\$ 87	\$ 124	\$ 133	\$ 147	\$ 167	\$ 245	\$ 261
Water Distribution	325	325	269	270	273	371	390	401	445	451
Water Pollution Control	327	328	568	575	742	810	846	804	778	812
Sewers	184	185	187	187	221	219	213	223	215	216
Equipment	50	50	47	47	44	98	40	85	68	101
Total	<u>\$970</u>	<u>\$972</u>	<u>\$1,158</u>	<u>\$1,166</u>	<u>\$1,404</u>	<u>\$1,631</u>	<u>\$1,636</u>	<u>\$1,680</u>	<u>\$1,751</u>	<u>\$1,841</u>

Totals may not add due to rounding.

- (1) System Funds include the proceeds of Authority bonds sold directly to the public and those privately placed with the EFC (as defined below) under the revolving fund program and System revenues.
- (2) All Funds include federal and State capital grants.
- (3) Includes capital costs for improvements to upstate water pollution control plants which were paid for with the proceeds of Authority bonds but which are reported as operating expenses in the System's financial statements because such plants are owned by municipalities outside the City.
- (4) A prior year, non-City contract, which was subsequently cancelled, caused the All-Funds commitment level for FY 2005 to fall below the System Funds Level.
- (5) System Funds are shown on a cash basis. All Funds are shown on an accrual basis.

Financing Program

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

Future Financing. The Authority estimates that approximately 99% of the System’s capital costs will be paid from: (1) proceeds of bonds and other forms of indebtedness sold to the public and privately placed with EFC and (2) System revenues. Implementation of the CIP is dependent upon the Authority’s ability to market its securities successfully in the public credit markets. For purposes of forecasting revenue requirements for the System, the principal amount of bonds estimated to be issued for capital purposes as of April 30, 2007, excluding refunding bonds, in each of the Fiscal Years 2007 through 2011 averages approximately \$2.1 billion per year. See the table entitled “Sources and Uses of Capital Funds” below.

Historically, federal grant funds were provided pursuant to the federal Water Pollution Control Act, as amended by the Clean Water Act of 1977 and by the Water Quality Act of 1987 (the “Clean Water Act”), in a program administered by the states, for construction and reconstruction of water pollution control facilities. The City has used these grant funds for five water pollution control plants: Oakwood Beach, Coney Island, Owls Head, Red Hook and North River. The Clean Water Act currently requires states to use federal funds in revolving loan programs in lieu of a federal grant program for water pollution control facilities. To this end, a revolving loan program has been established by the State and administered by EFC in order to use federal financial assistance together with State matching grants in a program to assist municipalities to construct eligible sewage facilities by providing subsidized loans. In addition, pursuant to the Safe Drinking Water Act Amendments of 1996, the State has also initiated a revolving loan program, also administered by EFC, to provide loans for drinking water projects. The Authority has participated in loans under both of the revolving loan programs and anticipates further borrowing under the programs. These revolving loan programs have routinely featured the public sale of bonds by EFC to finance the purchase by EFC of Second Resolution Bonds.

Sources and Uses of Capital Funds

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

Sources and Uses of Capital Funds (Millions of Dollars)

Line No.	Description	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Period Total
Sources of Funds							
1	Proceeds from Sale of Bonds (1)(2)	\$ 2,178.3	\$ 1,870.8	\$ 2,428.5	\$ 2,517.8	\$ 2,393.8	\$ 11,389.2
2	Proceeds from Commercial Paper Notes	2,061.4	1,739.0	2,253.0	2,213.0	2,221.0	10,487.4
3	Total Sources of Funds	4,239.7	3,609.8	4,681.5	4,730.8	4,614.8	21,876.6
Uses of Funds							
4	Refunding of Prior Bonds (2)	517.5	—	—	132.7	—	650.2
5	Retirement of Commercial Paper Notes	1,613.0	1,739.0	2,253.0	2,213.0	2,221.0	10,039.0
6	Deposit to Construction Fund	2,061.4	1,739.0	2,253.0	2,213.0	2,221.0	10,487.4
7	Other (3).	47.8	131.8	175.5	172.1	172.8	700.0
8	Total Uses of Funds	4,239.7	3,609.8	4,681.5	4,730.8	4,614.8	21,876.6
Construction Fund							
9	Beginning Balance	59.2	369.6	359.6	349.6	349.6	
10	Transfer from Proceeds from Commercial Paper Notes	2,061.4	1,739.0	2,253.0	2,213.0	2,221.0	10,487.4
11	Cash Financed Capital Construction (4)	50.0	90.0	90.0	100.0	80.0	410.0
12	Total Available Construction Funds (5).	2,170.6	2,198.6	2,702.6	2,662.6	2,650.6	10,956.6
13	Less: Total Capital Spending (6)	(1,801.0)	(1,839.0)	(2,353.0)	(2,313.0)	(2,321.0)	(10,627.0)
14	Ending Balance	\$ 369.6	\$ 359.6	\$ 349.6	\$ 349.6	\$ 329.6	

- (1) Includes proceeds from sale of First and Second Resolution Bonds.
- (2) For Fiscal Years 2007 and 2010, includes Bonds to be issued to refund Crossover Bonds.
- (3) Includes issuance costs, Debt Service Reserve Fund requirements and capitalized interest.
- (4) Funds projected for Cash Financed Capital Construction may be used for the defeasance of bonds.
- (5) Based on the results of previous defeasances of bonds, the Authority expects to receive the following amounts in 2008, 2009 and 2011, respectively: \$20.4 million, \$30.5 million and \$19.5 million. These amounts are not included in the above table but will be added to the Construction Fund as the funds become available in each year.
- (6) Capital spending reflects commitments from current and prior years.

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

Projected Future Debt Service Requirements
(Millions of Dollars)

<u>Description</u>	<u>Bonds Projected to be Issued</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
First Resolution Bonds (1)						
Debt Service on Outstanding Bonds	\$ —	\$ 533.3	\$ 551.4	\$ 556.7	\$ 546.9	\$ 610.5
Projected First Resolution Bonds						
Fiscal Year 2008 Bonds	810.7 ⁽¹⁾	—	—	84.5	50.7	50.7
Fiscal Year 2009 Bonds	1,098.6 ⁽¹⁾	—	—	—	123.7	74.2
Fiscal Year 2010 Bonds	1,076.2 ⁽¹⁾	—	—	—	—	121.2
Fiscal Year 2011 Bonds	1,080.7	—	—	—	—	—
Total First Resolution Debt Service	—	533.3	551.4	641.3	721.3	856.5
Subordinated Obligations						
Second Resolution Bonds						
Debt Service on Outstanding Second Resolution Bonds . .	—	443.1	483.1	487.3	490.8	490.1
Projected Second Resolution Bonds						
Fiscal Year 2007 Bonds	421.5	—	35.5	22.1	22.1	22.1
Fiscal Year 2008 Bonds	1,060.1 ⁽²⁾	—	34.3	70.1	62.5	62.5
Fiscal Year 2009 Bonds	1,329.9 ⁽²⁾	—	—	46.2	89.1	81.1
Fiscal Year 2010 Bonds	1,308.9 ⁽²⁾	—	—	—	47.4	90.9
Fiscal Year 2011 Bonds	1,313.1 ⁽²⁾	—	—	—	—	47.6
Interest Payments on Commercial Paper Notes	—	23.0	34.0	34.0	34.0	34.0
Less: Current EFC Subsidy (3)	—	(93.4)	(101.1)	(102.4)	(98.3)	(93.4)
Less: Future EFC Subsidy (4)	—	—	(1.9)	(10.1)	(16.7)	(23.2)
Less: EFC Payments (5)	—	(7.7)	(6.8)	(5.9)	(4.9)	(3.8)
Actual Debt Service on Subordinated Indebtedness	—	365.0	477.2	541.3	625.9	707.8
Less: Carryforward Revenues	—	(176.2)	(115.1)	(84.5)	(90.4)	(95.6)
Net Debt Service on Subordinated Indebtedness	—	188.8	362.0	456.8	535.6	612.2
Total Debt Service Payable from Current Revenues (6)	—	\$ 722.1	\$ 913.4	\$1,098.1	\$1,256.9	\$1,468.7

(1) For Fiscal Years 2007 and 2010, includes First Resolution Bonds expected to be issued in exchange for Crossover Bonds. See “SECURITY FOR THE SECOND RESOLUTION BONDS — Other Authority Indebtedness.”

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

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

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

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

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

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

Debt Service Requirements

The following schedule sets forth the amount required during each Fiscal Year (ending June 30) shown below for the payment of the principal of and the interest (including the Accreted Value of all Capital Appreciation Bonds) on Outstanding First Resolution Bonds and Second Resolution Bonds assuming that variable rate bonds bear interest at a rate of 4.25% per annum through maturity. The schedule does not include debt service on any Outstanding Commercial Paper Notes.

Debt Service Requirements

Fiscal Year Ending June 30	Debt Service on Outstanding First Resolution Bonds(1)(2)(3)	Debt Service on Outstanding Second Resolution Bonds(2)	Debt Service on Fiscal 2008 BB Bonds		Debt Service on Fiscal 2008 CC Bonds		Debt Service on Second Resolution Bonds including Fiscal 2008 BB and CC Bonds(2)	Total Debt Service(1)(2)(3)
			Principal	Interest	Principal	Interest		
2008	\$ 534,024,195	\$ 382,469,837	—	\$ 10,935,604	—	\$ 9,624,857	\$ 403,030,298	\$ 937,054,493
2009	539,374,190	389,029,183	—	17,042,500	—	15,134,817	421,206,500	960,580,690
2010	529,527,495	413,585,796	—	17,042,500	—	15,205,060	445,833,357	975,360,852
2011	593,113,230	425,908,805	—	17,042,500	—	15,215,142	458,166,447	1,051,279,677
2012	571,009,682	425,494,966	—	17,042,500	—	15,275,303	457,812,770	1,028,822,452
2013	563,120,222	407,273,341	—	17,042,500	\$ 3,850,000	15,135,963	443,301,804	1,006,422,026
2014	662,767,799	392,613,015	—	17,042,500	4,025,000	14,971,045	428,651,560	1,091,419,359
2015	681,169,885	390,065,598	—	17,042,500	1,900,000	14,797,429	423,805,527	1,104,975,412
2016	652,005,863	389,602,890	—	17,042,500	21,700,000	14,868,601	443,213,991	1,095,219,853
2017	655,190,306	407,315,187	—	17,042,500	22,750,000	13,852,146	460,959,833	1,116,150,139
2018	698,623,556	374,349,670	—	17,042,500	17,525,000	12,867,197	421,784,367	1,120,407,923
2019	631,819,566	414,810,150	—	17,042,500	43,100,000	12,064,369	487,017,019	1,118,836,585
2020	622,787,643	409,051,619	—	17,042,500	54,575,000	10,228,560	490,897,679	1,113,685,323
2021	604,845,065	348,782,277	—	17,042,500	116,900,000	7,943,527	490,668,304	1,095,513,369
2022	669,745,290	330,946,984	—	17,042,500	65,875,000	2,868,339	416,732,823	1,086,478,113
2023	738,482,934	326,085,899	—	17,042,500	—	—	343,128,399	1,081,611,333
2024	744,394,615	287,725,385	—	17,042,500	—	—	304,767,885	1,049,162,500
2025	743,207,003	281,852,148	—	17,042,500	—	—	298,894,648	1,042,101,650
2026	745,860,625	319,489,339	—	17,042,500	—	—	336,531,839	1,082,392,464
2027	751,109,388	316,112,394	—	17,042,500	—	—	333,154,894	1,084,264,282
2028	730,484,375	331,853,134	—	17,042,500	—	—	348,895,634	1,079,380,009
2029	708,207,969	317,635,446	—	17,042,500	—	—	334,677,946	1,042,885,915
2030	686,988,213	297,967,321	—	17,042,500	—	—	315,009,821	1,001,998,033
2031	730,411,650	290,055,635	—	17,042,500	—	—	307,098,135	1,037,509,785
2032	741,460,956	259,931,340	—	17,042,500	—	—	276,973,840	1,018,434,796
2033	720,869,825	257,043,091	\$100,000,000	17,042,500	—	—	374,085,591	1,094,955,416
2034	697,934,425	169,589,051	100,000,000	12,792,500	—	—	282,381,551	980,315,976
2035	697,933,225	174,022,250	101,000,000	8,542,500	—	—	283,564,750	981,497,975
2036	750,592,638	184,479,406	100,000,000	4,250,000	—	—	288,729,406	1,039,322,044
2037	473,253,938	326,393,950	—	—	—	—	326,393,950	799,647,888
2038	576,950,188	283,146,250	—	—	—	—	283,146,250	860,096,438
2039	687,369,188	246,200,000	—	—	—	—	246,200,000	933,569,188
Total	<u>\$21,134,635,140</u>	<u>\$10,570,881,357</u>	<u>\$401,000,000</u>	<u>\$462,583,104</u>	<u>\$352,200,000</u>	<u>\$190,052,357</u>	<u>\$11,976,716,818</u>	<u>\$33,111,351,958</u>

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

- (1) Assumes that on the respective tender dates, the Crossover Bonds will be exchanged for the First Resolution Bonds and the proceeds of the respective series of Crossover Bonds will be applied to redeem certain Outstanding First Resolution Bonds.
- (2) Net of projected subsidy, surplus, and capitalized interest payments from EFC.
- (3) Does not include debt service on the First Resolution Bonds to be refunded with the proceeds of the Fiscal 2008 CC Bonds.

FINANCIAL OPERATIONS

The following tables present certain historical data relating to the System which have been derived from the books and records of the City, the Authority and the Board. For more information, see “INTRODUCTORY STATEMENT—Financial Projection Assumptions.”

Revenues

The following table presents, on a cash basis, the System revenues received during Fiscal Years 2002 through 2006, 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 2002 through 2006.

System Revenues (Thousands of Dollars)

Revenue Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Flat Rate—Water and Sewer Charges(1)...	\$ 513,894	\$ 530,200	\$ 516,655	\$ 534,904	\$ 528,327
Metered—Water and Sewer Charges(1) ...	946,922	1,009,677	1,117,797	1,139,487	1,217,580
Meter—Upstate Customers	21,102	22,790	22,225	27,291	42,693
Miscellaneous Revenues(2)	70,482	73,633	77,216	89,193	100,542
Interest Penalty—Late Charges.....	24,930	38,235	41,766	47,810	45,519
Interest Income	95,201	97,351	93,567	97,195	110,913
Tax Lien Sale(3).....	20,152	—	7,783	10,581	20,026
Total.....	<u>\$1,692,683</u>	<u>\$1,771,886</u>	<u>\$1,877,009</u>	<u>\$1,946,461</u>	<u>\$2,065,600</u>

(1) Includes both current payments and payments relating to accounts in arrears.

(2) Miscellaneous Revenues are primarily comprised of water and sewer connection and disconnection fees, repair fees, meter installation fees, water usage permits, special meter reading fees and subsidy payments from EFC.

(3) In connection with sales of liens on real property securing delinquent property taxes, the City Department of Finance also sold liens on such property securing delinquent water and sewer charges.

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

Expenses

The following table presents System expenses for Fiscal Years 2002 through 2006 on an accrual basis which have been derived from the accounting records utilized in preparation of the annual financial statements for Fiscal Years 2002 through 2006. These expenses represent operation, maintenance and general expenses excluding the lease rental payment to the City, bad debt expense and capital costs for improvements to upstate water pollution control plants that are reported as operating expenses in the System’s financial statements because such plants are owned by municipalities outside the City.

System Expenses
(Thousands of Dollars)

<u>Expense Category</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Water Operations(1)					
Personal Service(2)	\$129,292	\$135,627	\$141,927	\$137,174	\$152,262
Other Than Personal Service(3)	<u>181,034</u>	<u>176,913</u>	<u>171,821</u>	<u>188,801</u>	<u>211,821</u>
Total Water Operations	310,326	312,540	313,748	325,975	364,083
Wastewater Operations(1)					
Personal Service(2)	197,522	196,851	199,568	199,244	222,918
Other Than Personal Service(3)	<u>169,548</u>	<u>183,200</u>	<u>190,269</u>	<u>205,272</u>	<u>220,456</u>
Total Wastewater Operations.	<u>367,070</u>	<u>380,051</u>	<u>389,837</u>	<u>404,516</u>	<u>443,374</u>
Administrative and General(4)	14,171	15,181	19,853	23,368	26,727
Indirect Expenses(5)	<u>53,361</u>	<u>51,613</u>	<u>70,217</u>	<u>59,643</u>	<u>62,628</u>
Total System	<u>\$744,928</u>	<u>\$759,385</u>	<u>\$793,655</u>	<u>\$813,502</u>	<u>\$896,812</u>

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- (1) Certain historical, administrative and overhead costs of DEP were allocated to the water and sewer functions based upon the proportion of applicable personnel within DEP.
- (2) Personal Service costs include salaries, fringe benefits and pension costs.
- (3) Other Than Personal Service costs include real estate taxes paid to upstate communities for watershed properties, land-based sludge disposal costs and for electricity, chemicals and supply costs.
- (4) Administrative and General costs include Authority and Board expenses, excluding Authority expenses for the defeasance of debt.
- (5) Indirect Expenses include City agency support, customer accounting, and judgments and claims costs.

Projected Revenues

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

City-wide water consumption has declined each year from Fiscal Year 2001 through Fiscal Year 2006. The average rate of decline in Fiscal Years 2004 through 2006 was 0.8% annually. In Fiscal Year 2007, City-wide water use increased slightly compared to water use in Fiscal Year 2006. The projected revenues assume that water consumption by metered customers will decline by 1.0% annually for Fiscal Year 2008 through Fiscal Year 2011.

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

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

For the first three months of Fiscal Year 2008, water and sewer payments were approximately \$71 million lower than projected in April 2007 for this three-month period. If this trend continues and water and sewer payments do not increase as a result of the actions described below or other developments, water and sewer payments for Fiscal Year 2008 would be approximately \$200 million, or approximately 9%, lower than projected, which would necessitate a mid-year increase in water and sewer rates of approximately 18% applying to the second half of Fiscal Year 2008.

A portion of the reduction in revenues is believed to be attributable to the absence of lien sales due to the expiration in Fiscal Year 2006 of the authorization of the City Commissioner of Finance to sell, on behalf of the Board and in conjunction with tax lien sales, liens securing unpaid water and sewer charges on certain properties. Successful realization of the revenue projections contained herein without a mid-year rate increase assumes the timely re-authorization of the lien sale program with the expansion of authorization to include water and sewer liens on all properties and water and sewer liens apart from tax liens. In addition to the lien sale program, 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 addition, the Board will be considering changes to the regulations governing service termination.

**Projected Revenues
(Millions of Dollars)**

Line No.	Description	2007	2008	2009	2010	2011
Operating Revenues						
1	User Payments (1)	\$1,886.9	\$2,178.7	\$2,391.6	\$2,636.8	\$2,907.2
2	Upstate Revenues	36.5	39.4	42.5	47.1	51.2
3	Subtotal Service Revenue	1,923.4	2,218.1	2,434.2	2,683.9	2,958.4
4	Miscellaneous Revenues	6.4	6.8	7.1	7.4	7.8
5	Subtotal Operating Revenue	1,929.8	2,224.9	2,441.3	2,691.4	2,966.2
Nonoperating Revenues						
6	Interest Income on System Funds (2)	71.1	76.1	85.9	95.7	107.1
7	Total Revenues	<u>\$2,000.8</u>	<u>\$2,301.0</u>	<u>\$2,527.1</u>	<u>\$2,787.1</u>	<u>\$3,073.3</u>

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

(1) Includes late payment charges.

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

Projected Operating and Maintenance Expenses

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

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

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

Line No.	Description	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
1	Authority/Board Operations (1)	\$ 26.6	\$ 39.6	\$ 35.5	\$ 37.8	\$ 39.2
Water Operations						
2	Personal Services	162.1	183.6	188.8	193.4	199.0
3	Other Than Personal Services	248.3	271.1	275.9	298.2	310.2
4	Total Water Operations	410.5	454.6	464.7	491.6	509.2
Wastewater Operations						
5	Personal Services	271.6	290.0	292.4	300.2	308.8
6	Other Than Personal Services	253.3	294.3	293.6	290.2	296.2
7	Total Wastewater Operations	524.9	584.3	586.0	590.3	605.0
8	Indirect Expenses	16.2	16.2	16.2	16.2	16.2
9	Judgments and Claims	8.0	8.0	8.0	8.0	8.0
10	Total Operating Expenses	986.2	1,102.8	1,110.4	1,144.0	1,177.6
11	Less: Trust Account Withdrawals	0.0	(45.0)	(40.0)	(12.2)	—
12	Net Operating Expenses	986.2	1,057.8	1,070.4	1,131.8	1,177.6
13	Less: Credit for Prior Year Excess O&M Payment.	(8.5)	—	—	—	—
14	Net Operating Expense Payments	<u>\$977.7</u>	<u>\$1,057.8</u>	<u>\$1,070.4</u>	<u>\$1,131.8</u>	<u>\$1,177.6</u>

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

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

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

The Authority/Board Operations. Administrative expenses of the Authority and the Board, shown on Line 1 of the table above, include annual fees required by EFC in connection with the Authority's participation in the State Revolving Fund Program. These fees are projected to be \$12.3 million in Fiscal Year 2008 and are expected to increase as the outstanding principal of bonds issued to EFC increases. The Authority also expects to make arbitrage rebate payments of \$6.5 million in Fiscal Year 2008. Other expenses of the Authority include but are not limited to payments under interest rate exchange agreements (net of receipts), fees related to adjustable rate bonds and commercial paper notes and the management of investments.

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

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

All but a small percentage of the Water System functions by gravity so that electricity costs necessary to maintain normal water transmission and distribution are relatively small. In drought conditions, additional pumping is necessary for optimal distribution of water available from the System, thereby causing increased electricity costs.

Personal services costs assume a 3% increase per year from Fiscal Years 2007 through 2011. Other than personal services costs, excluding property taxes, are assumed to increase at an estimated rate of 3% per year for the forecast period. Property tax payments for City-owned watershed lands are expected to be \$106 million in Fiscal Year 2007. It is assumed that such payments will increase at the rate of 6% annually reflecting both the addition of new watershed properties and increasing tax rates.

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

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

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

Other Expenses. Other expenses of the System include indirect expenses and judgments and claims. Indirect expenses, shown on Line 9 of the table, reflect costs allocated to the System for support provided by various City agencies and departments. Services provided include budget preparation and review, cost and revenue accounting, billing and collection, and legal support. The method of allocating these costs to

the System is based upon costs initially allocated to DEP and subsequently divided between those attributable to water and sewer and those costs associated with other activities of DEP. The costs allocated to DEP as a whole are derived from the total costs of City support agencies and departments and a formalized cost allocation plan which distributes the costs to affected departments and agencies. DEP's billing and collection expenses are included in the operation and maintenance costs of the Water System and the Wastewater System.

Credits Against Operation and Maintenance Expense. Pursuant to a consent decree (the "1989 Consent Decree") entered into in 1989 under the Marine Protection Research and Sanctuaries Act of 1972 ("MPRSA"), as amended by the Ocean Dumping Ban Act of 1988 (the "Ban Act"), DEP ceased the ocean disposal of sludge in June 1992. The Ban Act and the 1989 Consent Decree provide that 85% of the fees and penalties paid shall be deposited into a trust account and shall be available to reimburse the City for costs incurred for developing alternative biosolids management facilities. As of February 28, 2007, the value of the trust account was \$92.9 million. It is assumed that this value will increase with interest earnings at the rate of 4% per annum, until withdrawals are made. It is anticipated that \$45.0 million in Fiscal Year 2008, \$40.0 million in Fiscal Year 2009, and \$12.2 million in Fiscal Year 2010 will be available as an offset to operation and maintenance expenses. The funds in the trust account are administered by DEP.

Projected Financial Operations

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

Forecasted Cash Flows
(Millions of Dollars)

Line No.	Description	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Operating Revenues						
1	Water and Sewer User Payments	\$1,886.9	\$2,178.7	\$2,391.6	\$2,636.8	\$2,907.2
2	Upstate Revenue	36.5	39.4	42.5	47.1	51.2
3	Miscellaneous Revenue	6.4	6.8	7.1	7.4	7.8
Other Revenues						
4	Interest on Funds	71.1	76.1	85.9	95.7	107.1
5	Current Revenues Available for Debt Service	2,000.8	2,301.0	2,527.1	2,787.1	3,073.3
First Resolution Debt Service						
6	Outstanding Bonds	533.3	551.4	556.7	546.9	610.5
7	Anticipated Future Bonds	—	—	84.5	174.4	246.0
8	Total First Resolution Debt Service	533.3	551.4	641.3	721.3	856.5
Subordinated Obligations						
9	Outstanding Second Resolution Bonds issued to the public	47.2	55.1	54.7	54.4	54.0
10	Anticipated Future Second Resolution Bonds issued to the public	—	62.8	101.8	160.8	220.5
11	Interest Payments on Commercial Paper Notes	23.0	34.0	34.0	34.0	34.0
12	Outstanding Second Resolution Bonds issued to EFC	395.9	428.0	432.6	436.4	436.1
13	Anticipated Future Second Resolution Bonds	—	7.0	36.6	60.3	83.7
14	Less: EFC Subsidy and Capitalized Interest on Subordinated Bonds	(101.1)	(109.8)	(118.4)	(120.0)	(120.5)
15	Actual Debt Service on Subordinated Indebtedness	365.0	477.2	541.3	625.9	707.8
	Less: Carryforward Revenues	(176.2)	(115.1)	(84.5)	(90.4)	(95.6)
17	Net Debt Service on Subordinated Indebtedness	188.8	362.0	456.8	535.6	612.2
18	Total Debt Service Payable from Current Revenues. (line 8 + line 17)	722.1	913.4	1,098.1	1,256.9	1,468.7
Operating Expenses						
19	Authority/Board Operations	26.6	39.6	35.5	37.8	39.2
20	Water System	410.5	454.6	464.7	491.6	509.2
21	Wastewater System	524.9	584.3	586.0	590.3	605.0
22	Indirect Expense	16.2	16.2	16.2	16.2	16.2
23	Judgments and Claims	8.0	8.0	8.0	8.0	8.0
24	Total Operating Expenses	986.2	1,102.8	1,110.4	1,144.0	1,177.6
25	Less: Trust Account Withdrawals	—	(45.0)	(40.0)	(12.2)	—
26	Net Operating Expenses	986.2	1,057.8	1,070.4	1,131.8	1,177.6
27	Less: Credit for Prior Year Excess O&M Payment	(8.5)	—	—	—	—
28	Rental Payment to the City of New York	135.9	155.3	178.3	202.8	235.2
29	Cash Financed Capital Construction	50.0	90.0	90.0	100.0	80.0
30	Total Expenses	1,163.6	1,303.1	1,338.7	1,434.6	1,492.8
31	Net Surplus (line 5—line 18—line 30)	\$ 115.1	\$ 84.5	\$ 90.4	\$ 95.6	\$ 111.8
32	First Resolution Debt Service Coverage (line 5/line 8)	3.75x	4.17x	3.94x	3.86x	3.59x
33	First and Second Resolution Debt Service Coverage (line 5/line 18)	2.77x	2.52x	2.30x	2.22x	2.09x

Source: Amawalk Consulting.

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

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

RATES AND BILLINGS

Rates

The Board is responsible for setting rates in compliance with the Rate Covenant. See “SECURITY FOR THE FISCAL 2008 BB AND CC BONDS—Rate Covenant.” The Board retains the firm of Amawalk Consulting for the purpose of conducting a detailed review of the structure of water and sewer rates. The Board considers the results of Amawalk Consulting rate studies in establishing its rates and charges for service.

The System's rates and charges are largely exempt from federal and State regulation. Water rates, fees and charges for water supply are the responsibility of the Board and are not subject to further approval or regulation except for rates for upstate users. Currently approximately 12% of System Revenues are collected from such upstate users. Sewer charges are established by the Board as a percentage of water charges. Participation in the Construction Grants Program, however, requires the maintenance of sewer charges sufficient to defray costs of operation, maintenance and replacement. The Board, as a matter of policy, conforms with these requirements when setting sewer charges. The Board uses data compiled from meter readings for billings and to determine the effectiveness of City-mandated conservation measures.

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

History of Water and Sewer Rate Increases

Effective Date	Change in Flat-Rate Water	Change in Metered Water	Metered Water Rate (per ccf)(1)	Change in Sewer
July 1, 1986	Increased 9.9%	Increased 9.9%	72.5¢	Remained at 60% of watercharge
July 1, 1987	Increased 12%	Increased 12%	81¢	Increased to 70% of watercharge
July 1, 1988	Increased from \$14.06 to \$26.40 per year for each additional family above the single family assumed in an individual flat-rate account.	No change	81¢	Increased to 75% of watercharge
July 1, 1989	Increased from \$26.40 to \$41.86 per year for each additional family above the single family assumed in an individual flat-rate account. Remaining flat-rate charges increased by 7.8%.	Increased 7.8%	87¢	Increased to 88% of watercharge
Jan. 1, 1990	Increased 9%	Increased 9%	95¢	Increased to 112% of watercharge
July 1, 1991	Increased 6.4%	Increased 6.4%	\$1.01	Increased to 136% of watercharge
July 1, 1992	No change	No change	\$1.01	Increased to 159% of watercharge
July 1, 1993	No change	No change	\$1.01	No change
July 1, 1994	No change	No change	\$1.01	No change
July 1, 1995	Increased 5%	Increased 5%	\$1.06	No change
July 1, 1996	Increased 6.5%	Increased 6.5%	\$1.13	No change
July 1, 1997	Increased 6.5%	Increased 6.5%	\$1.20	No change
July 1, 1998	Increased 4%	Increased 4%	\$1.25	No change
July 1, 1999	Increased 4%	Increased 4%	\$1.30	No change
July 1, 2000	Increased 1%	Increased 1%	\$1.31	No change
July 1, 2001	Increased 3%	Increased 3%	\$1.35	No change
July 1, 2002	Increased 6.5%	Increased 6.5%	\$1.44	No change
July 1, 2003	Increased 5.5%	Increased 5.5%	\$1.52	No change
July 1, 2004	Increased 5.5%	Increased 5.5%	\$1.60	No change
July 1, 2005	Increased 3%	Increased 3%	\$1.65	No change
July 1, 2006	Increased 9.4%	Increased 9.4%	\$1.81	No change
July 1, 2007	Increased 11.5%	Increased 11.5%	\$2.02	No change

(1) ccf: 100 cubic feet.

Projected Rates. Although the Board sets rates for an annual period, it may increase rates during such period, as required. As of April 2007, forecasted debt service, operating and other costs for the System indicated that the anticipated future rate increases to be set by the Board for water and sewer services combined were 11.5% in Fiscal Year 2009, 11.4% in Fiscal Year 2010, 11.3% in Fiscal Year 2011 and 7.0% in Fiscal Year 2012. See "INTRODUCTORY STATEMENT—Financial Projection Assumptions" and "FINANCIAL OPERATIONS — Projected Revenues."

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, 2006, water taken from either the Croton or Catskill/Delaware systems is charged at a rate of \$691.91 per million gallons for daily per capita amounts not in excess of daily per capita consumption within the City.

Comparative Charges. The following table presents comparative annual water and sewer charges in 24 large cities based upon a survey conducted in March 2007. Using a ranking system where 1 represents the lowest rates, the City’s ranking relative to these cities is: for Single-Family Residential—9, for Commercial—11, and for Industrial—17.

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

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

(1) User Charges are based upon information provided by the identified cities and standardized assumptions regarding water consumption, wastewater discharge, stormwater drainage area and other factors. Actual charges in each city will vary in accordance with local usage patterns. Some cities bill for sewer use on the basis of winter water consumption which could affect sewer billings if a customer’s use was not uniform throughout the year. Sewer charges include stormwater charges in those cities where separate stormwater fees are assessed. Some cities use property tax revenue or other revenues to pay for part of the cost of water, wastewater or stormwater services. In such situations, the user charges do not reflect the full cost of water, wastewater or stormwater services.

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

Accounts, Billing and Collection

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

The System has approximately 828,000 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 57,000 accounts, representing 7% of total accounts, are billed annually through the flat-rate system. These accounts are charged for water either on a per unit charge or through a computation which incorporates, among other factors, the width of the front of the building (“frontage”), the number of stories, the number of dwelling units, and the number of water-using fixtures (such as bathtubs, showers and toilets) in the building. The frontage rate is computed when the building is first

constructed, and amended upon notice from the City Department of Buildings (“DOB”) of building alterations or when a DEP inspector determines that the basis for charges is incorrect. Flat-rate annual bills are normally sent to customers prior to the start of each Fiscal Year and are due at the end of the first month of the Fiscal Year.

Approximately 772,000 accounts, representing 93% of total accounts, are billed on a metered basis. Meters are read and billed on a quarterly basis except meters for some larger accounts which are read and billed more frequently. Most meter readings are captured electronically through the use of hand-held computers and a universal probe. Data from meter readings are relayed to computers in field offices and transmitted to a centralized computer billing system on a daily basis. Some older meters, however, must be read manually. Still other meters transmit consumption data to the billing system via telephone lines. Metered accounts are billed quarterly and bills are sent out regularly throughout the year. DEP is evaluating the installation of an automatic meter reading system in which meters would transmit usage information by radio signal to DEP. DEP expects to begin installing transmitters in mid-2008, with substantial completion of installation at all locations by mid-2011. The cost of implementing this program is expected to be \$210 million, of which \$200 million is in the CIP. Unlike flat-rate charges which were commonly paid through mortgage escrow accounts, metered charges are billed directly to customers which, among other factors, has required DEP to handle a substantially higher volume of customer account inquiries. Commercial accounts are required by the Board and the City to have meters installed for all water services. Substantially all of these accounts are in compliance with this requirement.

Since 1988, the basis for service charges for residential properties has been in a continuous process of transition from a frontage or flat-rate basis of annual billing to a meter-based billing system which relies on the actual measurement of usage. The Universal Metering Program is designed to improve water conservation, water supply system management, and rate equity. The City has issued contracts for the installation of meters for the remaining unmetered accounts and is testing and replacing meters where necessary. Approximately 97% of all water and sewer accounts have meters installed. Since July 2000, unmetered properties which have not taken steps to install a meter have been required to pay a surcharge doubling their annual water and sewer charge. A surcharge was levied on approximately 10,100 accounts in their July 2007 bills.

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

Billing based on actual usage has affected the level of charges to certain large multiple-family residential buildings, in particular, those buildings with above-average population density and those with improperly maintained plumbing fixtures. The result is often a significant increase in charges to such buildings. In response to the needs of this segment of the customer base, the Board has adopted a transitional program whereby owners of multiple-family buildings that have had meters installed under the Universal Metering Program will continue to be billed on a flat-rate basis during the transition period. The transitional program allows owners time to review their water usage, educate tenants regarding conservation, repair leaky plumbing, and install low-flow fixtures in order to reduce consumption and charges. There are approximately 31,000 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 500 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, certain educational and other charitable institutions as well as homes for the aged, hospitals and other non-profit or charitable corporations.

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

The Board and DEP have undertaken initiatives to enhance the collection of water and sewer billings. These initiatives include establishing a delinquent accounts unit for small to mid-size customers, outsourcing selected delinquency notification and collection functions to reputable collection or credit organizations, and hiring a consultant to assist in analyzing and improving collection of the accounts receivable balance. In addition, in 1999, the Board adopted a regulation authorizing DEP to terminate water and sewer services to customers because of nonpayment of assessed charges. Subject to certain notice requirements, service may be terminated if at least one delinquent charge has remained open and unpaid for at least two years, in the case of non-residential accounts and residential accounts with six or more units, or three years, in the case of residential accounts with one to five units. In May 2002, the Board approved modifications to the regulation to authorize the termination of service, subject to notice requirements, if at least one delinquent charge of at least \$1,000 has remained open and unpaid for at least one year or at least one delinquent charge of at least \$10,000 has remained open and unpaid for 90 days.

The Commissioner of Finance of the City has also been authorized by the City Council in conjunction with the sale of tax liens to sell liens on certain properties on behalf of the Board securing unpaid water and sewer charges. Such authorization expired on August 31, 2006, but its renewal is being sought along with the expansion of authorization to include water and sewer liens on all properties and water and sewer liens apart from tax liens. In addition, the Board will be considering changes to the regulations governing service terminations.

THE SYSTEM

Overview

DEP supplies water and sewer service to the Boroughs of the Bronx, Brooklyn, Manhattan, Queens, Staten Island, an area of over 300 square miles, and serves over eight million people. The City is also required by State law to sell water in counties where its water supply facilities are located and where it currently provides water to an additional approximately one million people. The Water System provides an average of approximately 1,185 mgd of water. Water consumption has decreased since 1990 when an average of approximately 1,500 mgd was provided by the Water System. The amount of water that can be safely drawn from a watershed during the worst period in the drought of record is the “Dependable Yield.” DEP has determined that the System could have furnished an average of 1,290 mgd during the drought of record in the mid-1960s. During periods of normal rainfall, watersheds supply more than the Dependable Yield. The Sewer System collects and treats an average of approximately 1,300 mgd of wastewater. Sewer service is provided to virtually the entire City, except for significant parts of the Borough of Staten Island, the Borough of Queens communities of Breezy Point and Douglaston, and the Borough of Brooklyn community of Seagate. Sewer service is also provided to certain upstate communities in System watershed areas. According to Metcalf & Eddy, the System is in adequate condition (the highest rating category; see “APPENDIX A—LETTER OF METCALF & EDDY, CONSULTING ENGINEERS.”)

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

The Water System

Water Collection and Distribution

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

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

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

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

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

Collecting Reservoirs

<u>Name</u>	<u>Available Capacity(1) (Billion Gallons)</u>	<u>Original In-Service Date</u>
Croton		
New Croton.....	19.0	1905
Croton Falls Main.....	14.2	1911
Cross River.....	10.3	1908
West Branch.....	10.1	1895
Titicus.....	7.2	1893
Amawalk.....	6.7	1897
East Branch.....	5.2	1891
Muscoot.....	4.9	1905
Bog Brook.....	4.4	1892
Middle Branch.....	4.0	1878
Boyd's Corner.....	1.7	1873
Croton Falls Diverting.....	<u>0.9</u>	1911
Total.....	88.6	
Catskill		
Ashokan.....	122.9	1915
Schoharie.....	<u>17.6</u>	1926
Total.....	140.5	
Delaware		
Pepacton.....	140.2	1955
Cannonsville.....	95.7	1964
Rondout.....	49.6	1950
Neversink.....	<u>34.9</u>	1954
Total.....	<u>320.4</u>	
Total Available Capacity.....	<u><u>547.5</u></u>	

(1) Capacity above minimum operating level.

Balancing Reservoirs and Distribution Facilities

<u>Name</u>	<u>Storage Capacity (billion gallons)</u>	<u>Original In-Service Date</u>
Balancing Reservoirs		
Kensico	30.6	1915
Hillview	<u>0.9</u>	1915
Total Balancing Reservoirs.....	31.5	
Distribution Facilities		
Jerome Park	0.8	1905
Silver Lake (tanks)	<u>0.1</u>	1970
Total Distribution Facilities	<u>0.9</u>	
Total Storage Capacity	<u><u>32.4</u></u>	

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

Water System Dependable Yield and Capacity

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

(1) Capacity above minimum operating level.

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

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

Gilboa Dam is comprised of an earthen dam and a concrete gravity dam, with the concrete portion also acting as the spillway. As part of DEP's plans to improve and upgrade its dams, Gilboa Dam was scheduled for rehabilitation commencing in 2010. However, a recent engineering analysis of the dam shows 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 to 2009. Site preparation work is scheduled to begin

in 2008, and full reconstruction, which is anticipated to bring the dam up to compliance with NYSDEC safety guidelines for new dams, will begin in October, 2009. The estimated cost to complete the rehabilitation is \$370 million, all 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 provide approximately 1% of the City's daily water supply. The wells could be used to provide more of the daily supply during drought conditions. Unlike the rest of the City's water supply, which is a surface and gravity-supplied system originating in a network of upstate reservoirs, well water is pumped from extensive underground aquifers. The acquisition of wells in Queens from Jamaica Water in 1996 represented the first new water supply source for the City since the 1960s when the Delaware surface water system initially came on line. DEP is currently planning improvements to the ground water system which will augment the supply of water from underground aquifers.

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

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

Rondout-West Branch Tunnel. The Rondout-West Branch Tunnel carries water 45 miles from the Delaware System under the Hudson River and into West Branch Reservoir. It has a capacity of 900 mgd and normally contributes 50% of the City's water supply. It has the highest pressures and the highest velocities in the Water System. In addition, a portion of the tunnel crosses a fractured rock formation, which is potentially subject to greater stress than the deep rock tunnels located in the City. DEP regularly assesses the condition and integrity of the System's tunnels and aqueducts to determine the extent and effect of water loss. In particular, since the early 1990s, DEP has monitored the condition of the Rondout-West Branch Tunnel, which comprises a portion of the Delaware Aqueduct. As a result of DEP's flow tests, visual observations and other analyses, it has been determined that approximately 15 mgd to 36 mgd of water is being lost from the tunnel and is surfacing in the form of springs or seeps in the area. This amounts to a loss of approximately 4% of the daily volume of water provided by the tunnel under peak flow conditions. DEP has initiated the engineering work to determine the nature and extent of repairs which may be necessary to remedy the water loss. DEP has also determined that the situation in the tunnel and amount of water loss is stable. In the opinion of the professional engineering firm retained by DEP in conjunction with that investigation, there is very little immediate risk of failure of the tunnel. DEP intends to make the necessary repairs. The costs to perform such repairs could be substantial depending on the nature of the required repair. To perform the repair work, the tunnel will probably have to be shut down and de-watered. During any such period, it will be necessary for the City to increase reliance on its other water supplies, and to implement more stringent measures to encourage conservation and decrease demand. Under an extended shutdown of this tunnel, water quality in the remaining reservoirs could potentially suffer as storage volumes are drawn down. In general, the Delaware System continues to demonstrate a high degree of reliability after 55 years of continuous service. Nevertheless, DEP considers it prudent to conduct regular tunnel and aqueduct inspections and surveys to detect any problems that might arise so that corrective actions can be taken if needed.

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

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

Tunnel 1. From Hillview Reservoir, water from the Catskill and Delaware Systems is delivered into the City by a circular, cement-lined, pressurized, bedrock tunnel that narrows in diameter from 15 to 11 feet. Tunnel 1 is 18 miles in length and extends south from Hillview Reservoir through the West Bronx to Manhattan and Brooklyn. Tunnel 1 is 200 to 750 feet underground and thus avoids interference with streets, buildings, subways, sewers, pipes and other underground infrastructure. These depths are necessary to ensure substantial rock covering necessary to withstand the bursting pressure of the water inside and to ensure watertightness. Tunnel 1 has a capacity of approximately 1,000 mgd. Shafts placed along the tunnel connect with surface mains which deliver water to the distribution system.

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

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

Tunnel 3. A new water tunnel, Tunnel 3, connecting the reservoir system to the City is presently under construction to increase capacity to meet a growing demand in the eastern and southern areas of the City, permit inspection and rehabilitation of Tunnels 1 and 2, and provide water delivery alternatives to the City in the event of disruption in Tunnel 1 or 2. Tunnel 3 is being built in four stages. Stage I commenced operation in July 1998. It follows a 13-mile route which extends south from Hillview Reservoir in Yonkers under Central Park Reservoir in Manhattan, and east under the East River and Roosevelt Island to Long Island City in Queens. Stage II is currently under construction and is expected to be completed in 2015. It will extend from the end of Stage I to supply Queens, Brooklyn and the Richmond Tunnel and from the valve chamber at Central Park into lower Manhattan. Upon completion, and with the installation of additional surface mains, Stage II will enable the system to maintain full service even if Tunnel 1 or 2 was shut down. The Stage III project is now referred to as the Kensico-City Tunnel. 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 and is expected to begin in Fiscal Year 2016. 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. \$253 million is currently in the CIP.

The water distribution system consists of a grid network of over 6,500 miles of pipe, as well as valves, fire hydrants, distribution facilities, gatehouses, pump stations, and maintenance and repair yards. Approximately 32% of the pipe in the System was laid before 1930, 37% between 1930 and 1969, and the remainder thereafter. The CIP provides for the programmatic replacement of water mains in accordance with certain established criteria. These criteria were reviewed and confirmed by the U.S. Army Corps of Engineers in its independent study of the City's distribution system completed in November 1988.

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

Drought Response Measures

From time to time the Water System experiences drought conditions caused by significantly below-normal precipitation in the watershed areas. The most recent drought was in 2002. As of October 12, 2007, the System's reservoirs were filled to 67.6% of capacity. Normal levels at this time of year are approximately 72.7% of capacity.

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

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

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

A Drought Emergency is declared when it becomes necessary to reduce consumption by imposing even more stringent measures. In addition to the imposition of restrictions, DEP may enhance existing System management and public awareness programs, expand its inspection force and perform additional leak and waste surveys in public and private buildings. DEP may also require communities outside of the City that are served by the System to adopt similar conservation measures.

Governmental Regulation

The System is subject to federal, State, interstate and municipal regulation. At the federal level regulatory jurisdiction is vested in USEPA; at the State level in NYSDEC and NYSDOH; at the interstate

level in the DRBC and the Interstate Environmental Commission and at the municipal level in DEP, the New York City Department of Health and Mental Hygiene (“NYCDOH”), DOB and the Department of Small Business Services and to a limited degree, in municipalities and districts located in eight counties north of the City. Water quality standards are enforced within the watershed areas north of the City through a network of overlapping governmental jurisdictions. Participating in that network, among others, are NYSDEC and NYSDOH, county, municipal and district police, engineers and inspectors; and City personnel from DEP. The various jurisdictions maintain physical security, take water samples, monitor construction activities and wastewater treatment in the watershed, and generally oversee the physical condition of, activity on and the operation of water supply lands and facilities. Portions of the overall legislative and regulatory framework governing the watersheds may be found in the City’s Administrative Code, Health Code and Water Supply Regulations. Regulatory enforcement within City limits is almost exclusively accomplished through City personnel. Provisions incorporating and augmenting the substance of the federal Safe Drinking Water Act (“SDWA”), related regulations and the Sanitary Code, are contained in the Health Code, Water Supply Regulations and the City’s Building and Building Construction Codes. These provisions are enforced by personnel from DEP, NYCDOH and DOB.

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

The purpose of LT2 is to reduce the incidence of waterborne disease by mandating certain levels of inactivation and/or the removal of certain microorganisms from water supply systems, including the Catskill and Delaware Systems. DEP anticipates achieving compliance with such levels through the construction and operation of its planned ultraviolet treatment facility (the “UV Facility”). See “—*Watershed Protection/Catskill, Delaware Filtration.*” LT2 also mandates that certain uncovered finished water storage facilities, which include the Hillview Reservoir, be covered or that water from such facilities be treated. DEP is already a party to an Administrative Order with NYSDOH (“Hillview Administrative Order”) which requires, among other things, that the City install or construct a cover for the Hillview Reservoir. DEP has been holding discussions with NYSDOH about other strategies to protect the Reservoir. See “—*Hillview Reservoir.*” In addition, DEP is evaluating its options on how to best address the requirements of LT2, as they pertain to Hillview Reservoir. These include, among others, ceasing or reducing use of Hillview Reservoir or seeking a variance from the requirement that Hillview Reservoir be covered as a finished water storage facility. DEP has also intervened as a petitioner in an action filed by the City of Portland, Oregon in the United States Court of Appeals for the District of Columbia Circuit, challenging LT2. It is anticipated that the issuance of LT2 and DEP’s evaluation will have an impact on its discussions with NYSDOH regarding the Hillview Reservoir. The cost of covering the Hillview Reservoir, which is not included in the CIP, is expected to be in excess of \$1.25 billion. The CIP includes \$15 million for design of the Hillview cover.

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

Croton Filtration. Because of the quality of the System’s water and the long periods of retention in the reservoirs, it has not been necessary to filter water from the System to reduce the bacterial content and the turbidity. The only treatment procedures routinely employed by DEP are screening, detention, disinfection, fluoridation, and the addition of caustic soda and phosphoric acid for corrosion control. Additions of copper sulfate for algae control and alum for turbidity control are made only when needed. This level of treatment proved to be more than sufficient to maintain water quality standards throughout the entire Water System. However, new water treatment standards led to a 1992 stipulation with NYSDOH, which has been superseded by a 1998 federal court consent decree, as supplemented in 2002 and 2005 (the “Croton Filter Consent Decree”). The Croton Filter Consent Decree mandates the construction of a full scale water treatment facility to filter Croton System water.

After an extensive study, DEP identified the Mosholu Golf Course in the Bronx as its preferred site for the treatment facility and began work at the site in late 2004. The Croton Filter Consent Decree sets forth milestones, including commencement of operations of the facility on October 31, 2011 which, if not met by the City, require the payment of penalties to the State and federal governments. Because of the withdrawal of the low bidder on one of the general construction contracts for the facility, DEP missed several milestones in February 2007 for the issuance of notices to proceed on that contract and certain others. On August 21, 2007 DEP issued the required notices to proceed in satisfaction of the milestones which had been missed in February. DEP paid \$4,785,000 in penalties for the missed milestones. It is anticipated that the remaining cost to complete the Croton filtration plant will be \$1.97 billion, \$1.66 billion of which is included in the CIP.

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

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

On January 21, 1997, the City and the State executed a Memorandum of Agreement with the communities in the Catskill, Delaware and Croton watersheds, USEPA and several environmental groups (the "Watershed Memorandum of Agreement"). The Watershed Memorandum of Agreement supplemented the City's existing watershed protection program with approximately \$400 million in additional funding for economic-environmental partnership programs with upstate communities. As provided under the Watershed Memorandum of Agreement, the State has issued a land acquisition permit to the City to acquire water quality sensitive land in the watershed and has approved the City's revised rules and regulations governing certain aspects of land use in the watershed.

Since 1993, USEPA has issued 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 \$4 billion and \$5 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 and to justify the continuation of filtration avoidance. These actions included the continuation and enhancement of certain environmental and economic partnership programs established under the Watershed Memorandum of Agreement, and the creation of new programs.

The 2007 FAD also requires that the City continue to solicit property from owners of land in the watershed and actually acquire (with certain limited exceptions) title to or conservation easements on any solicited land if the owner accepts the City's purchase price. The 2007 FAD requires the City to allocate a total of \$300 million for land acquisition during its ten year term, including approximately \$59 million of unspent funds remaining from moneys set aside for land acquisition under the Watershed Memorandum of Agreement and the previous FAD and \$241 million in new funding. In addition, the City is obligated to develop and implement a strategy to augment its land acquisition efforts through increased participation of land trusts and other non-governmental organizations in identifying and helping the City acquire eligible lands. As of August 17, 2007, title to or conservation easements on approximately 80,100

acres of land in the Catskill and Delaware watersheds with an aggregate value of approximately \$230 million have either been acquired or are under contract for acquisition. The current NYSDEC land acquisition permit allowing the City to continue its watershed land acquisition program expires in early 2012. It will be necessary for DEP to obtain a new permit in order to continue acquiring watershed land during the second five years of the 2007 FAD. Other stakeholders will have the opportunity, as part of the permitting process, to oppose the issuance of the permit or to request the inclusion of conditions or limitations on such permit. A failure to obtain such a permit or obtaining a permit with material conditions or limitations will impact DEP's ability to comply with the 2007 FAD.

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

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

An adverse determination on the first claim could invalidate the 2007 FAD and require that a new FAD be issued by NYSDOH. An adverse determination on the second claim could invalidate the 2007 FAD and prevent either USEPA or NYSDOH from issuing a new FAD. USEPA has not yet responded to the plaintiffs' petition. The City intends to actively participate in the defense of the 2007 FAD. See "LITIGATION."

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

At DEP's request, USEPA extended the milestone in the UV Order for issuance of a notice to proceed on such contract from October 31 to December 31, 2007. A postponement of bids on the general construction contract for the UV Facility and a delay in awarding the contract due to the receipt of only one bid will likely impact DEP's ability to meet the extended milestone for issuance of a notice to proceed and may also impact other UV Order milestones. DEP has advised USEPA that it anticipates a delay in meeting at least one of the milestones and intends to seek USEPA's consent to further modifications of the schedule in the UV Order, if necessary. While the UV Order does not provide for stipulated penalties, DEP can be assessed penalties of up to \$37,500 per day for each missed milestone under the SDWA. Violations of the UV Order could also affect DEP's standing under the terms of the FAD. If the bid on the general construction contract is accepted without a cost reduction, this would increase completion costs to \$1.4 billion. Currently, \$841.7 million is included in the CIP.

SPDES/Shandaken Tunnel. The City is also a party to litigation in which the United States District Court for the Northern District of New York ordered the City to obtain a State Pollutant Discharge Elimination System (“SPDES”) permit to operate the Shandaken Tunnel. On June 13, 2006, the U.S. Court of Appeals for the Second Circuit affirmed the District Court’s decision. On February 26, 2007, the U.S. Supreme Court denied the City’s petition for a writ of certiorari. On September 1, 2006, NYSDEC issued a final SPDES permit for the Shandaken Tunnel. This final SPDES permit is the subject of ongoing litigation. See “LITIGATION.”

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

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

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

In recognition of progress made by DEP in developing and implementing its compliance program, and based on an agreement reached among DEP, the United States Attorney’s Office and the federal monitor, the court issued an order releasing DEP’s Bureau of Water and Sewer Operations from the monitor’s day-to-day supervision. In October 2007, based on a second agreement among DEP, the United States Attorney’s Office and the federal monitor, the court issued an order releasing DEP’s Bureau of Water Supply from such supervision and DEP’s risk management and process safety management programs at the four DEP facilities where drinking water is chlorinated for disinfection from the monitor’s supervision.

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

Tap Water Testing Program. DEP has historically monitored key locations in its distribution system for over 40 individual water quality parameters, including lead. DEP data indicated that lead was absent

from or present in very low levels in both the water supply and distribution systems. Beginning in the early 1990s, USEPA and NYSDOH regulations require water suppliers to monitor for lead and copper that may have leached into the water from service lines or interior building plumbing. In compliance with these requirements, DEP began testing tap water for lead and copper. Sample results indicated the presence of lead in some of the tested residential taps, in excess of State lead action levels. To minimize these occurrences, the City began the addition of corrosion control chemicals to the Water System. This addition promotes the formation of a protective coating inside pipes and plumbing, thereby reducing the leaching of metals. The most recent test results for lead in tap water, for 2005 and 2006, show the City to be in compliance with State action levels for lead in the State Sanitary Code.

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

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

DEP has conducted studies and has held discussions with NYSDOH to evaluate other strategies, including more aggressive waterfowl control, to protect the Hillview Reservoir. Although DEP believes that certain other strategies hold promise, DEP has been advised by NYSDOH that the Hillview Administrative Order will not be modified in this respect and that the City must cover Hillview Reservoir in accordance with the terms of the Hillview Administrative Order.

The City has not commenced construction of a cover for the Hillview Reservoir and therefore did not meet the December 31, 2005 milestone date set out in the Hillview Administrative Order. On November 15, 2005, in anticipation of the City not meeting such milestone date, NYSDOH issued a letter to DEP advising DEP that it intended to initiate action to obtain the entire \$2.7 million balance in an escrow account, established under the Hillview Administrative Order, and to obtain stipulated penalties under the Hillview Administrative Order commencing on January 1, 2006 for failure to cover the Reservoir by the milestone date. DEP has initiated discussions with NYSDOH to modify the Hillview Administrative Order to establish a new schedule for installation of a cover at Hillview Reservoir while also allowing the City to pursue an evaluation of other strategies to protect the reservoir. Currently, the cost of a Hillview Reservoir cover is expected to be in excess of \$1.25 billion. This cost, except for \$15 million for design, is not included in the CIP. The LT2 rule promulgated by USEPA is expected to have an impact on DEP's discussions with NYSDOH. See "*Drinking Water Regulations.*"

Consumer Confidence Report. The SDWA requires that utilities prepare and distribute to their consumers a brief annual water quality report, referred to as the Consumer Confidence Report (the "CCR"). The CCR covering calendar year 2006, the most recent such report, demonstrates that the quality of New York City's drinking water remains high. The CCR notes several exceedences of standards for the naturally-occurring elements iron and manganese, as well as a treatment technique violation, violation of State monitoring requirements in the Groundwater System and pH exceedences in the Catskill/Delaware system. None of these exceedences is considered harmful to public health. DEP issued a public notification about the treatment technique violation and has taken steps to address the cause of the violation.

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

Decree is under the jurisdiction of a River Master appointed by the Supreme Court of the United States. The City and State, and the governments of New Jersey, Pennsylvania and Delaware are named parties to the 1954 Decree.

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 K.

Sewage Collection and Treatment

The Sewer System’s plants treat approximately 1,330 mgd of wastewater. The Sewer System is divided into 14 drainage areas corresponding to the 14 water pollution control plants and includes over 6,600 miles of sewer pipes of varying size which are classified as one of three types: sanitary, storm or combined. Sanitary sewers accommodate household and industrial waste. Storm sewers carry rainwater and surface water runoff. Combined sewers carry both types of waste. Approximately 70% of the City’s sewers are of the combined type. In addition to the sewage pipes, the Sewer System includes catch basins and seepage basins to prevent flooding and sewer backups.

The Sewer System is comprised of a number of sewer facilities built to varying standards. Different materials and methods of construction were used resulting in different life cycles. Approximately 4,000 miles or two-thirds of the City’s sewer pipe is made of vitreous clay. Significant mileage of sewer pipe is composed of other building materials including cement, reinforced concrete, iron and brick. Some pipe in the collection system was installed before 1870, and approximately 15% of all sewer pipe in the collection system is over 100 years old.

The facilities related to the treatment of sewage include water pollution control plants, a combined sewer overflow treatment plant, wastewater pump stations, laboratories, sludge dewatering facilities and inner-harbor vessels which transport sludge between facilities. Sludge is a by-product of the sewage treatment process. Sludge that is treated through the sewage treatment process (or “biosolids”) is acceptable for land-based beneficial use either directly or after additional provisions such as composting, lime stabilization or thermal pelletization.

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

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

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

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

DEP has awarded contracts for the beneficial use of 100% of its biosolids which commenced in July 1998. These current contracts include: thermally drying the biosolids into fertilizer pellets at a facility located in the Bronx; composting in Pennsylvania; direct land application in Colorado and Virginia; and lime stabilization in Colorado.

Governmental Regulation

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

Full Secondary Treatment Requirements/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, which requires that the plant meet secondary treatment levels by December 31, 2007 and that all other construction-related activities specified in the consent judgment be completed by July 4, 2013. DEP has determined that the amount of time required to take certain plant facilities out of service, upgrade them, and return them to service is in excess of prior estimates. As a result, DEP has advised NYSDEC that it will likely not be able to comply with the July 4, 2013 milestone for completion of construction. NYSDEC has requested that DEP investigate the possibility of accelerating the work. In response, DEP has proposed certain measures which DEP believes will shorten the overall time period for construction, but will also likely result in the plant not achieving full secondary treatment by December 31, 2007. DEP has requested that NYSDEC approve such measures and grant relief from the December 31, 2007 milestone by approving interim discharge limits for the plant and extending the date for attainment of secondary treatment until construction is completed. On November 7, 2006, a court-appointed referee issued a recommendation that the Newtown Creek Consent Judgment be modified to extend interim discharge limits at the plant and the milestone for attainment of secondary treatment to December 31, 2008. The referee also recommended that the City be required to determine if the overall construction schedule at the plant could be accelerated. DEP and NYSDEC are currently negotiating an accelerated construction completion schedule. In addition, on January 23, 2007, NYSDEC issued a notice of violation ("NOV") to DEP, seeking penalties for certain past construction milestones under the Newtown Creek Consent Judgment which NYSDEC alleges have been missed through January 22, 2007. On August 24, 2007, NYSDEC filed a judgment in New York State Supreme Court for approximately \$27 million in penalties with respect to such past missed construction milestones. DEP intends to move to vacate the judgment. In addition, NYSDEC issued a further NOV for additional accrued penalties in respect of such past missed construction milestones, in the amount of \$20,683,000 for the period from January 23, 2007 to August 27, 2007. NYSDEC contends that penalties are continuing to accrue at a rate of \$125,000 per day. DEP continues to seek a negotiated resolution of this matter, including a revised schedule for attainment of secondary treatment and for completion of all construction at the Newtown Creek WPCP. Due to higher than expected bids, the current estimated cost to complete the mandated work at Newtown Creek is \$279 million more than is reflected in the CIP. For additional information on the Newtown Creek Consent Judgment, see "LITIGATION."

Combined Sewer Overflows. The System is also required to develop programs to reduce pollution from combined sewer overflows and to eliminate excess infiltration and inflow into the Sewer System from ground and storm water. In June 1992, DEP entered into a consent order with the State (the "CSO Consent Order") establishing various deadlines through 2006 for the construction of nine combined sewer overflow projects, which may include storage tanks. The CSO Consent Order was modified in January 2005. This modification imposed penalties for missed deadlines and established revised milestones for those projects which suffered delays. Certain of these milestones extend beyond the end of the CIP. The estimated remaining cost of complying with the CSO Consent Order, through the end of the CIP, as revised, is \$1.25 billion, all of which is currently included in the CIP. Consistent with USEPA guidelines,

the City is exploring alternative approaches to combined sewer overflow problems that focus on cost-effective means of protecting water quality. NYSDEC has issued NOV's for two missed milestones, which are subject to stipulated penalties under the CSO Consent Order. DEP is continuing to negotiate with NYSDEC to resolve the NOV's. Under the CSO Consent Order, if DEP and NYSDEC are unable to resolve the NOV's through negotiation, DEP may challenge them, along with the underlying NYSDEC determinations.

DEP's SPDES permits for the City's 14 in-City water pollution control plants require those plants to be capable of accepting and treating two times dry weather flow. DEP has met this requirement at 12 plants. Design work has begun for the necessary upgrades at the Tallman Island plant and construction is expected to be completed in fiscal year 2014, the full cost of which is included in the CIP. DEP believes that the Rockaway plant currently meets the two times dry weather flow requirement and is monitoring the performance of the plant in order to gather data for submission to NYSDEC. In 2002, NYSDEC proposed modifications of the existing SPDES permits for the 14 in-City water pollution control plants operated and maintained by DEP. The proposed modifications included certain provisions relating to the control of CSOs. NYSDEC has issued draft SPDES permits which are acceptable to DEP. However, these permits have been challenged by several environmental groups. Such challenge could result in additional permit provisions relating to the control of CSOs and/or a request to modify the terms of the revised CSO Consent Order.

SPDES/Water Pollution Control Plants. Over the past several years, NYSDEC and DEP have resolved various alleged permit violations at the System's 14 in-City water pollution control plants by entering into "omnibus" consent orders. These administrative orders typically detail the alleged violations for a specified period of time and set forth remedial actions related to such violations. The most recent such consent order (the "Omnibus VI Consent Order") covers alleged violations from January 1, 2000 through December 31, 2001, including alleged effluent, operating and bypass violations at a number of plants.

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

The System also includes eight City-owned upstate water pollution control plants to prevent untreated sewage from being released into the watersheds. To enhance watershed protection, DEP completed upgrades to seven of these facilities. The CIP includes funds to upgrade the eighth facility.

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

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

The Long Island Sound Study ("LISS"), which began in 1985, is a joint federal-state-local (the states being New York and Connecticut) program to identify the Long Island Sound's major environmental problems and develop a plan to manage those problems. USEPA is the lead federal agency involved in LISS. Hypoxia, or low levels of dissolved oxygen, has emerged as the issue of greatest concern in Long

Island Sound. Hypoxia is the result of a chemical chain reaction that begins with high levels of nutrients, largely nitrogen. In addition to natural sources, other nutrient sources include effluent from water pollution control plants, stormwater run-off carrying lawn and agricultural fertilizer, organic materials, and air-deposited nitrate substances. In 2001, the LISS resulted in the issuance and approval of a Total Maximum Daily Load (“TMDL”) for nitrogen in Long Island Sound. The TMDL, as approved, would require point source dischargers into Long Island Sound, such as the operators of water pollution control plants, to reduce their nitrogen discharges in three phases over a period of fifteen years. In 2006, the City entered into a State Court Consent Judgment with NYSDEC (the “Nitrogen Consent Judgment”) which requires DEP to upgrade five water pollution control plants, four of which discharge into the Upper East River and one of which discharges into Jamaica Bay, in order to reduce nitrogen discharges and comply with draft SPDES nitrogen limits by January 1, 2017. The Nitrogen Consent Judgment also required DEP to pay a \$2.7 million penalty to the State Marine Resources Account and \$5.3 million for projects to benefit waters in and around the City. The Nitrogen Consent Judgment also establishes less stringent nitrogen limits during construction of the modified facility plan than those set out in the draft SPDES permits. The facilities plan pursuant to the Nitrogen Consent Judgment is estimated to cost approximately \$710 million, which is currently included in the CIP. The draft SPDES permit nitrogen levels have been challenged by several environmental groups. Such challenge could result in additional permit provisions relating to the control of nitrogen at certain plants and/or a request to modify the terms of the Nitrogen Consent Judgment.

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

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

New York City Economy

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

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

Economic activity in the City has experienced periods of growth and recession and can be expected to experience periods of growth and recession in the future. The City experienced a recession in the early 1970s through the middle of that decade, followed by a period of expansion in the late 1970s through the late 1980s. The City fell into recession again in the early 1990s which was followed by an expansion that lasted until 2001. The economic slowdown that began in 2001 as a result of the September 11 attack, a national recession, and a downturn in the securities industry came to an end in 2003. Since then, Wall Street activity, tourism and the real estate market have driven a broad-based economic recovery. The Financial Plan assumes slower growth in calendar year 2007, corresponding to a weakening economy.

Personal Income

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

Personal Income(1)

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

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

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

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, fashion design and retail fields. From 1989 to 1992, the City lost approximately 9% of its employment base. From 1992 through 2000, the City experienced significant private sector job growth with the addition of approximately 452,700 new private sector jobs (an average annual growth rate of approximately 2.0%). Between 2000 and 2003, the City lost 174,300 private sector jobs. The City recovered 134,500 private sector jobs by the end of 2006. As of August 2007, total employment in the City was approximately 3,704,800 compared to approximately 3,649,100 in August 2006, an increase of approximately 1.5%.

The table below shows the distribution of employment from 1996 to 2006.

Employment Distribution

	Average Annual Employment (in thousands)										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Goods Producing Sectors											
Construction	91	94	101	113	121	122	116	113	112	113	118
Manufacturing	201	201	196	187	177	156	139	127	121	114	106
Service Producing Sectors											
Trade Transportation and Utilities	533	538	542	556	570	557	537	534	539	547	557
Information	159	163	167	173	187	200	177	164	160	163	165
Financial Activities	464	468	477	481	489	474	445	434	435	445	458
Professional and Business Services	468	494	525	553	587	582	550	537	541	555	571
Education and Health Services	566	576	589	604	615	627	646	658	665	679	695
Leisure and Hospitality	217	228	236	244	257	260	255	260	270	277	283
Other Services	125	129	134	142	147	149	150	149	151	153	154
Total Private	2,822	2,889	2,967	3,052	3,149	3,127	3,015	2,975	2,995	3,047	3,109
Government	545	551	560	567	569	562	566	557	554	556	555
Total	3,367	3,440	3,527	3,619	3,718	3,689	3,581	3,531	3,549	3,602	3,664

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 2006, the City's service producing sectors provided approximately 2.8 million jobs and accounted for approximately 78% of total employment. Figures on the sectoral distribution of employment in the City from 1980 to 2000 reflect a significant shift to the service producing sectors and a shrinking manufacturing base relative to the nation.

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

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

Sectoral Distribution of Employment and Earnings in 2005(1)

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

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

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

- (1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.
- (2) Includes the sum of wage and salary disbursements, other labor income and proprietor's income. The latest information available is 2005 data.
- (3) Excludes military establishments.

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

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

Sectoral Distribution of Employment and Earnings(1)

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

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

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

- (1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.
- (2) Includes the sum of wage and salary disbursements, other labor income, and proprietors' income. The latest information available for the City is 2000 data.
- (3) Excludes military establishments.

Population

The City has been the most populous city in the United States since 1790. The City's population is almost as large as the combined population of Los Angeles, Chicago and Houston, the three next most populous cities in the nation.

The following table provides information concerning the City's population.

Year	Population Total
1970	7,895,563
1980	7,071,639
1990	7,322,564
2000	8,008,278

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

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

LITIGATION

There is no action, suit, proceeding or investigation, at law or in equity, before or by any court, public board or body pending or, to the best knowledge of the Authority, threatened against or affecting the Authority to restrain or enjoin the issuance, sale or delivery of the Fiscal 2008 BB and CC Bonds or in any way contesting or affecting the validity of the Fiscal 2008 BB and CC Bonds or any proceedings of the Authority, the Board or the City taken with respect to the issuance or sale of the Fiscal 2008 BB and CC Bonds or with respect to the Resolution, the Second Resolution or the pledge or application of any money or security provided for the payment of the Fiscal 2008 BB and CC Bonds or the existence or powers of the Authority or the Board.

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

There are numerous claims seeking damages and injunctive and other relief against the City related to the System. Except as noted below, these claims represent routine litigation incidental to the performance of the City's governmental functions in connection with the operation, maintenance and improvement of the System. In Fiscal Years 2002 through 2006, respectively, the City paid \$18.2, \$15.1, \$27.9, \$6.1 and \$8.2 million in satisfaction of tort claims relating to the operation of the System. Contract claims on water supply, sewer and water pollution control projects arise in varying amounts based on alleged change orders and related matters. While most seek under \$10 million in damages, one action seeks damages of approximately \$14 million, a second seeks damages of approximately \$18 million and a third seeks damages of \$20 million. While the probable outcome of these actions cannot be determined at this time, contract claims are expected to be funded through the CIP, which may be revised from time to time to accommodate such claims as well as other changes therein. The ultimate outcome of the proceedings described below is not currently predictable, and unfavorable determinations therein could result in substantial expenditures.

In March 2000, several fishing and sporting groups filed a lawsuit against the City and DEP in the United States District Court for the Northern District of New York, claiming that DEP's operation of the Shandaken Tunnel without a SPDES permit violated the Clean Water Act. Plaintiffs alleged that the discharge of turbid water from the tunnel into the Esopus Creek constitutes the addition of a pollutant from a point source, requiring a SPDES permit. Ultimately, both the District Court and the United States Court of Appeals for the Second Circuit held that a SPDES permit is required for water transfers such as the City's transfer of water through the Shandaken Tunnel. The United States Supreme Court denied the City's petition for a writ of certiorari requesting review of the lower courts' conclusions on February 23, 2007, concluding this litigation. The City has paid approximately \$5.5 million in statutory penalties to the U.S. government and will pay certain attorneys' fees.

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

On September 22, 2006, the plaintiffs in the March 2000 lawsuit against the City and DEP commenced a proceeding against NYSDEC and DEP under Article 78 of the Civil Practice Law and

Rules, in State Supreme Court in Ulster County, seeking to overturn the SPDES permit issued by NYSDEC on September 1, 2006. The motion of the State and the City to transfer the case to the Appellate Division was denied on May 18, 2007. The parties are currently briefing the merits; the matter will be fully submitted in November 2007. For additional information on SPDES permits, see “THE SYSTEM—The Water System—Governmental Regulation—SPDES/Shandaken Tunnel.”

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

In May 2006, a community group and several individuals brought an Article 78 proceeding challenging DEP’s environmental review of shaft 33B of the Manhattan leg of Tunnel 3, to be constructed at 59th Street and First Avenue, and the related water mains that will connect shaft 33B to the water distribution system. Petitioners sought a preliminary injunction barring further work in connection with construction of the shaft and a determination that the environmental review was insufficient under the State Environmental Quality Review Act. The court denied the petitioners’ request for a preliminary injunction in September 2006 and heard arguments on the merits of petitioners’ claims on October 13, 2006. On December 5, 2006, the petition was dismissed and the petitioners have appealed. The City believes that the environmental review of the shaft and associated water mains complied with all legal requirements. Any decision to enjoin or stay further construction in connection with Shaft 33B for an extended period of time could result in the City incurring substantial construction delay costs.

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

On September 12, 2007, the Coalition of Watershed Towns and three individual towns in the watershed filed a petition for review in the Federal Circuit Court of Appeals for the Second Circuit, challenging the USEPA’s issuance of the 2007 FAD on both procedural and substantive grounds. An adverse determination on the procedural claim could invalidate the 2007 FAD and require that a new FAD be issued by NYSDOH. An adverse determination on the substantive claim could invalidate the 2007 FAD and prevent either USEPA or NYSDOH from issuing a new FAD. USEPA has not yet responded to the plaintiffs’ petition. The City intends to actively participate in the defense of the 2007 FAD. See “THE SYSTEM—The Water System—Governmental Regulation—Watershed Protection/Catskill, Delaware Filtration.”

On September 26, 2007, the Delaware County Supreme Court ruled in *Worcester Creameries Corp. v. City of New York* that the City is responsible for all costs associated with equipment required solely by the City’s Watershed Regulations and not otherwise required under State or federal law at certain private wastewater treatment plants in the watershed. The court also held that Section 1105 of the Public Health Law entitles “any property owner to recover damages caused by the City’s enforcement of its Watershed Regulations.” The City believes that this broad reading of Section 1105 conflicts with three recent Second Department decisions. The City is appealing the *Worcester Creameries* decision. If the decision is ultimately affirmed upon appeal, the City could incur substantial costs in connection with the administration and enforcement of the City’s Watershed Regulations.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the Fiscal 2008 BB and CC 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. Certain legal matters will be passed upon for Fortis Bank S.A./N.V. by King & Spalding LLP. Certain legal matters will be passed upon for Bank of America, N.A. by their in-house counsel.

FINANCIAL ADVISORS

Lamont Financial Services Corporation and Ramirez & Co., Inc. have served as financial advisors to the Authority with respect to the sale of the Fiscal 2008 BB and CC 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 2008 BB and CC Bonds.

CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12

For so long as the Fiscal 2008 BB or CC Bonds bear interest in a Rate Period other than the Initial Rate Period, a Daily Rate Period, a Weekly Rate Period or a Commercial Paper Rate Period of 270 days or less or, and to the extent that Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission ("SEC") under the Securities and Exchange Act of 1934, as amended (the "1934 Act"), requires the respective Underwriters to determine, as a condition to purchasing the Fiscal 2008 BB and CC Bonds, that the Authority covenant to the effect of the provisions here summarized (the "Undertaking"), and the Rule as so applied is authorized by a federal law that as so construed is within the powers of Congress, the Authority agrees with the record and beneficial owners from time to time of the Fiscal 2008 BB and CC Bonds ("Bondholders") that it will:

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

(2) provide in a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to any New York State information depository, notice of any of the following events with respect to the Fiscal 2008 BB and CC Bonds, if material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;

(c) in the case of credit enhancement that is provided in connection with the issuance of the Fiscal 2008 BB and CC Bonds, unscheduled draws on such credit enhancement reflecting financial difficulties and substitution of credit providers, or their failure to perform;

- (d) unscheduled draws on debt service reserves reflecting financial difficulties;
- (e) adverse opinions or events affecting the exclusion from gross income for federal income tax purposes of interest on the Fiscal 2008 BB and CC Bonds;
- (f) modifications to rights of security holders;
- (g) bond calls;
- (h) defeasances;
- (i) release, substitution, or sale of property securing repayment of the securities;
- (j) rating changes; and

(3) provide in a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to any New York State information depository, notice of any failure by the Authority to comply with clause (1), above.

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

Currently, there is no New York State information depository and the nationally recognized municipal securities information repositories are: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041; FT Interactive Data, 100 William Street, New York, NY 10038, Attn: NRMSIR and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

No Bondholder may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the Undertaking or for any remedy for breach thereof, unless such Bondholder has filed with the Authority evidence of ownership and a written notice of and request to cure such breach, and the Authority has not complied within a reasonable time; provided, however, that any Proceeding challenging the adequacy of any information provided pursuant to paragraphs (1) and (2) above may be brought only by the Trustee or the holders of a majority in aggregate principal amount of the Fiscal 2008 BB and CC Bonds affected thereby which at the time are Outstanding. All Proceedings may be instituted only as specified herein, in the federal or State courts located in the Borough of Manhattan, State and City of New York, and for the equal benefit of all holders of the Outstanding Bonds benefited by the same or a substantially similar covenant. No remedy may be sought or granted other than specific performance of the covenant at issue.

Any amendment to the Undertaking will take effect only if:

(a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or the Board, or type of business conducted; the Undertaking, as amended, would have complied with the requirements of the Rule at the time of sale of the Fiscal 2008 BB and CC Bonds to the Underwriters, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the Authority (such as, but without limitation, the Authority's financial advisor or bond counsel) and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the "impact" (as that word is used in the letter from the staff of the SEC to the National Association of Bond Lawyers dated June 23, 1995) of the change in the type of operating data or financial information being provided; or

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

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

INVESTMENTS

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

RATINGS

S&P and Fitch are expected to rate the MBIA Insured Bonds "AAA." Moody's is expected to rate the MBIA Insured Bonds "Aaa."

Such ratings will reflect only the views of the respective rating agencies, from which an explanation of the significance of such ratings may be obtained. There is no assurance that any rating will continue for any given period of time or that any or all will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market price of the MBIA Insured Bonds.

UNDERWRITING

UBS Securities LLC has agreed, subject to certain conditions, to purchase the Fiscal 2008 BB-1 Bonds at an aggregate purchase price which is \$81,357.78 less than the initial offering price thereof. Merrill Lynch, Pierce, Fenner & Smith, Inc., has agreed, subject to certain conditions, to purchase the Fiscal 2008 BB-2 Bonds at an aggregate purchase price which is \$13,662.78 less than the initial offering price thereof. Goldman, Sachs & Co. has agreed, subject to certain conditions, to purchase the Fiscal 2008 BB-3 Bonds at an aggregate purchase price which is \$6,062.78 less than the initial offering price thereof. Banc of America Securities LLC has agreed, subject to certain conditions, to purchase the Fiscal 2008 BB-4 Bonds at an aggregate purchase price which is \$2,410.00 less than the initial offering price thereof. A.G. Edwards & Sons, Inc. has agreed, subject to certain conditions, to purchase the Fiscal 2008 BB-5 Bonds at an aggregate purchase price which is \$5,435.00 less than the initial offering price thereof.

Goldman, Sachs & Co., on behalf of itself and UBS Securities LLC, has agreed, subject to certain limitations, to purchase the Fiscal 2008 CC-1 Bonds at an aggregate purchase price which is \$217,696.11 less than the initial offering price thereof. Merrill Lynch, Pierce, Fenner & Smith Inc., on behalf of itself and A.G. Edwards & Sons, Inc., has agreed, subject to certain limitations, to purchase the Fiscal 2008 CC-2 Bonds at an aggregate purchase price which is \$224,201.11 less than the initial offering price thereof. Banc of America Securities LLC, on behalf of itself and Goldman, Sachs & Co., has agreed, subject to certain limitations, to purchase the Fiscal 2008 CC-3 Bonds at an aggregate purchase price which is \$216,394.84 less than the initial offering price thereof. UBS Securities LLC, on behalf of itself and Merrill Lynch, Pierce, Fenner & Smith Inc., has agreed, subject to certain limitations, to purchase the Fiscal 2008 CC-4 Bonds at an aggregate purchase price which is \$256,877.00 less than the initial offering price thereof.

The obligations of each of the Underwriters are subject to certain conditions precedent, and each of the Underwriters will be obligated to purchase all of the respective Subseries of the Fiscal 2008 BB and CC Bonds if any of the respective Subseries of the Fiscal 2008 BB and CC Bonds are purchased. The Fiscal 2008 BB and CC Bonds may be offered and sold to certain dealers (including dealers depositing the Fiscal 2008 BB and CC 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.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the Act, the Fiscal 2008 BB and CC Bonds are securities in which all public officials and bodies of the State and all municipalities, all insurance companies and associations and other persons carrying on

an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, investment companies and other persons carrying on a banking business, and administrators, guardians, executors, trustees and other fiduciaries and all others persons whatsoever, who are now and may hereafter be authorized to invest in the Fiscal 2008 BB and CC Bonds or obligations of the State, may properly and legally invest funds including capital in their control or belonging to them in such Fiscal 2008 BB and CC Bonds. The Act further provides that the Fiscal 2008 BB and CC 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, 2006 and June 30, 2005 (the “Audited System Financial Statements”) included in Appendix D to this Official Statement have been audited by Grant Thornton LLP, independent certified public accountants, as stated in their report appearing therein.

ENGINEERING FEASIBILITY REPORT AND FORECASTED CASH FLOWS

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

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

TAX MATTERS

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

Fiscal 2008 BB and CC Bonds purchased for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income

tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

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

Future legislative proposals, if enacted into law, clarification of the Code, such as regulations or rulings, or court decisions may cause interest on the Fiscal 2008 BB and CC Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, on May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky State court which ruled that the United States Constitution prohibited disparate state tax treatment of interest on bonds issued by the State of Kentucky and its political subdivisions and on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Fiscal 2008 BB and CC Bonds. Prospective purchasers of the Fiscal 2008 BB and CC Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

Bond Counsel's engagement with respect to the Fiscal 2008 BB and CC Bonds ends with the issuance of the Fiscal 2008 BB and CC Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Fiscal 2008 BB and CC Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS

positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Fiscal 2008 BB and CC Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Fiscal 2008 BB and CC Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

CERTAIN LEGAL OPINIONS

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

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

The Bankruptcy Code provides that in order for a municipality to be a Chapter 9 debtor it must be specifically authorized by State law to be a debtor under Chapter 9 of the Bankruptcy Code. Bond Counsel is of the opinion, subject to all the facts, assumptions and qualifications set forth therein, that under the Bankruptcy Code neither the Authority nor the Board could properly be a debtor in a voluntary or involuntary case under the Bankruptcy Code.

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

**NEW YORK CITY MUNICIPAL WATER
FINANCE AUTHORITY**

APPENDIX A

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

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

October 17, 2007

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

Subject: New York City Municipal Water Finance Authority
Water and Sewer System Second General Resolution Revenue Bonds,
Fiscal 2008 Series BB and Fiscal 2008 Series CC

Dear Mr. McCoy:

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

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

- The condition of the System continues to receive the highest rating of our three rating categories (adequate).
- The expense allocations for Fiscal Year 2008 are adequate for the continued reliable operation of the System.
- The Capital Improvement Program (the “CIP”) is responsive to the long-term operating requirements of the service area.
- Staffing levels of the System are adequate for proper operation and maintenance.

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

Purpose and Scope

This letter has been prepared to document the results of analyses carried out during the period of August 1983 to the present by personnel of Metcalf & Eddy in connection with the issuance by the New York City Municipal Water Finance Authority (the “Authority”) of the Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2008 BB and Fiscal 2008 CC. Certain studies and analyses were performed in anticipation of the creation of the Authority and were used in developing the information in the Official Statement under the captions: “CAPITAL IMPROVEMENT AND FINANCING PROGRAM—Capital Improvement Program,” “THE SYSTEM—The Water System” and “THE SYSTEM—The Sewer System.” The following sets forth a brief outline of the major tasks addressed:

- An overview of the System’s service area and major facilities, including a general assessment of the capacity and condition of existing water, wastewater and drainage facilities and a review of recently completed improvements.
- An analysis of the CIP for the period 2008-2017 and the funding needed to carry out the CIP and ongoing capital contracts commenced prior to the CIP.
- An analysis of the management of the System and its current and anticipated operating programs.

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

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

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

Methodology

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

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

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

The Consulting Engineer

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

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

Very truly yours,

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

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

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

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Amawalk Consulting Group LLC

**26 Broadway, Suite 761
New York, NY 10004**

**Telephone: (212) 361-0050
Fax: (212) 361-0055**

October 17, 2007

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

Subject: New York City Municipal Water Finance Authority
Water and Sewer System Second General Resolution Revenue Bonds,
Fiscal 2008 Series BB and Fiscal 2008 Series CC

Dear Mr. McCoy:

The purpose of this letter is to summarize the conclusions of the independent analysis of the financial forecast of the Authority (the "Forecasted Cash Flows") for Fiscal Years 2008 through 2012 (the "Reporting Period") prepared by the Amawalk Consulting Group LLC in connection with the issuance by the New York City Municipal Water Finance Authority (the "Authority") of the Authority's \$401,000,000 Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2008 Series BB (the "Fiscal 2008 Series BB Bonds") and \$352,200,000 Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2008 Series CC (the "Fiscal 2008 Series CC Bonds"). Proceeds from the Fiscal 2008 BB 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 fund a portion of the Capital Improvement Program (the "CIP") and (iii) to pay certain costs of issuance. Proceeds from the Fiscal 2008 CC Bonds are expected to be used: (i) to pay principal, interest and redemption premium on certain of the Authority's Outstanding Water and Sewer System Revenue Bonds and (ii) to pay certain costs of issuance. In conducting the analysis, the Amawalk Consulting Group LLC has prepared the following tables which are included in this Official Statement under the headings "Capital Improvement and Financing Program" and "Financial Operations."

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

The forecast includes provisions for the financing of improvements to the City of New York (the "City") Water and Sewer System (the "System") as reflected in the CIP for the Reporting Period. The Forecasted Cash Flows set forth the ability of the System to meet the operating costs, working capital needs and other financial requirements of the System, including the debt service requirements associated with the Outstanding Bonds issued under the Authority's General Bond Resolution (the "Resolution") and obligations issued under the Authority's Second General Resolution (the "Second Resolution") and additional Bonds and Second Resolution Bonds whose issuance by the Authority during the five years ending June 30, 2013 is anticipated.

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

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

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

Proposed improvements and additions to the System under the CIP for the Reporting Period were independently evaluated and confirmed by Metcalf & Eddy of New York, Inc. ("Metcalf & Eddy"). The forecasted cash flows rely upon the conclusions of Metcalf & Eddy regarding the capital and operating expenditures that are necessary during the Reporting Period to maintain the System in good working order.

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

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

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

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

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

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

2. In the analysis of the forecast of future operations summarized in this Official Statement, the Amawalk Consulting Group LLC has reviewed certain assumptions with respect to conditions, events and circumstances which may occur in the future. These assumptions are reasonable and attainable, although actual results may differ from those forecast as influenced by the conditions, events and circumstances which actually occur.

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

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

Very truly yours,

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

Edward J. Markus
Amawalk Consulting Group LLC

GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS

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GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS

GLOSSARY

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

Definition of Certain Terms Used in Authority 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 Resolution (and as used in this Official Statement unless the context otherwise requires), the bonds, notes or other evidences of indebtedness issued by the Authority under and pursuant to the Act and the Resolution, including Parity Bond Anticipation Notes and Parity Reimbursement Obligations; but shall not mean Subordinated Indebtedness or other Bond Anticipation Notes or Reimbursement Obligations; and for purposes of the Lease, means any bonds, notes or other evidences of indebtedness for borrowed money issued by the Authority.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) banker's acceptances or certificates of deposit issued by a commercial bank (A) whose long-term debt obligations are rated by each Rating Agency then maintaining a rating on the Outstanding Bonds at least equal to the rating on Outstanding Bonds that are not insured or

otherwise secured by a Credit Facility or a Special Credit Facility, (B) that has its principal place of business within the State and (C) that has capital and surplus of more than \$100,000,000;

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

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

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

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

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

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

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

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

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

Operating Expenses: All reasonable or necessary current expenses of maintaining, repairing, operating and managing the System net of governmental operating aid, including: all salaries; administrative, general, commercial, architectural, engineering, advertising, public notice, auditing, billing, collection, enforcement and legal expenses; insurance and surety bond premiums; consultants’ fees; payments to pension, retirement, health and hospitalization funds; taxes; payments in lieu of taxes; costs of public hearings; ordinary and current rentals of equipment or other property; hydrant rentals; lease

payments for real property or interests therein (excluding certain amounts paid by the Board to the City pursuant to the Lease); depository expenses; reasonable reserves for maintenance and repair and all other expenses necessary, incidental or convenient for the efficient operation of the System; but only to the extent properly attributable to the Board or the System and payable by the Board to the City pursuant to the Lease and, except for certain administrative expenses of the Board, payable by the Board to the City pursuant to the Lease.

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

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

- (a) any Bonds canceled by the Trustee at or prior to such date;
- (b) any Bond (or portion thereof) for the payment or redemption of which there shall be set aside and held in trust under the Resolution either:
 - (i) moneys in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest,
 - (ii) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as are necessary to provide moneys (whether as principal or interest) in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest, or
 - (iii) any combination of (i) and (ii) above,

and, if such Bond or portion thereof is to be redeemed, for which notice of redemption has been given as provided in Article VI of the Resolution or provision satisfactory to the Trustee has been made for the giving of such notice;

- (c) any Bond in lieu of or in substitution for which other Bonds have been authenticated and delivered; and
- (d) any Bond deemed to have been paid as provided in Section 1201(b) of the Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenues shall mean (a) all the rents, fees, charges, payments and other income and receipts derived by the Board from users of the System, together with all operating aid therefor from any governmental entity, federal, State or local, to the Board, (b) investment proceeds and proceeds of insurance received by the Board (other than the proceeds of insurance with respect to the damage or destruction of all or any portion of the System), (c) Subsidy Payments derived by the Authority, (d) amounts derived by the Authority from a Counterparty pursuant to an Interest Rate Exchange Agreement, and (e) investment proceeds derived from amounts on deposit in the Funds and Accounts established hereunder that are deposited or retained in the Revenue Fund or the Local Water Fund, and but shall not include (w) amounts required to be refunded because of billing or payment errors, (x) any amount attributable to any of the foregoing sources described in clause (a) which (i) is expressly excluded by the Agreement or the Lease, or (ii) is derived from a use of the System not directly related to the supply, treatment and

distribution of water to the consumers thereof or the collection, disposal or treatment of sewage, (y) any amount from any governmental entity, federal, State or local, in aid of or for or with respect to the Costs of Water Projects, other than Subsidy Payments, or (z)(i) fines (excluding interest on late payments which shall constitute Revenues), (ii) amounts from the use of water to generate electricity, (iii) amounts from the State as a result of mandatory water discharges from reservoirs or (iv) amounts from the granting of easements, licenses, rights-of-way or other interests in the real property constituting a part of the System.

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

State: The State of New York.

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

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

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

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

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

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

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

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

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

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

Definition of Certain Terms Used in Authority 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 General 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 General Resolution Bonds, shall have the meaning ascribed thereto in the First General Resolution.

“Adjusted Debt Service” for any Fiscal Year, as of any date of calculation, unless used in relation to First General 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 General Resolution Bonds, shall have the meaning ascribed thereto in the First General 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 General 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 General Resolution Bonds, shall have the meaning ascribed thereto in the First General Resolution.

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

“Authority Expense Fund” shall mean the fund by that name established pursuant to the 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 (ii) in the case of the City, the Mayor, unless a different City official is designated in the 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 Resolution.

“Bond Anticipation Note” shall mean any note authorized to be issued under a resolution adopted pursuant to the 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 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 General Resolution Bonds, (ii) the Projected Debt Service for such Fiscal Year on First General 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 subclause (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 Resolution.

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

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

“Consulting Engineer” shall mean Metcalf & Eddy of New York, 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 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 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 Resolution.

“Debt Service Reserve Fund” shall mean the fund by that name established pursuant to the 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 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 Resolution, and may include the Trustee.

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

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

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

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

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

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

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

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

“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 Resolution.

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

“First General 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 Resolution.

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

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

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

“Interest Rate Exchange Agreement” means an agreement entered into by the Authority relating to Bonds or First General 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 General 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 General 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 General 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 Resolution and a Supplemental Resolution.

“Outstanding” when used with reference to First General Resolution Bonds or Parity Bond Anticipation Notes, shall have the meaning given to such term in the First General 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 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 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 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 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 General 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 General Resolution Bonds, shall have the meaning ascribed thereto in the First General 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 Resolution.

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

“Reimbursement Obligation” shall mean the obligation of the Authority described in the 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 General 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 General 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.

“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.

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

“Subordinated Indebtedness Fund” shall mean the fund by that name established pursuant to the 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 Resolution, adopted in accordance with Article VIII of the Resolution.

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

Summary of Certain Documents

The following are brief summaries of certain provisions of the Agreement, the Lease, the Authority General 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 Resolution permitting the application of said Revenues to the purposes therein set forth. The Board itself incurs no indebtedness under the terms of the Agreement, Lease, Resolution or any other document executed in connection therewith. (*Sections 2.1, 2.2 and 2.4*)

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

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

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

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

Beginning on the first day of each month in each Fiscal Year, the Board is required to apply the Revenues in the Local Water Fund, *first*, to the Trustee for deposit in the Revenue Fund until the amount on deposit in the Revenue Fund equals the Minimum Monthly Balance for such month and the Trustee shall have received the amounts, if any, required to be deposited in the Authority Expense Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund for such month. Thereafter, in such month from the balance remaining in the Local Water Fund, the Board is required, after making provision for Board Expenses, to pay to the City $\frac{1}{12}$ th of the operating expenses for such Fiscal Year. After making such payments, any amounts remaining in the Local Water Fund in each month are applied daily (i) to satisfy the Cash Flow Requirement (if the required payments to the City for Operating Expenses have been made), (ii) to satisfy required payments to the City for Operating Expenses (if the Cash Flow Requirement has been satisfied) or (iii) proportionately, to the Trustee for deposit in the Revenue Fund and to the City for the payment of Operating Expenses, until the total of all amounts deposited in the Revenue Fund during such Fiscal Year equals the Cash Flow Requirement and all Operating Expenses required to be paid shall have been paid. Thereafter, as long as the amount on deposit in the Revenue Fund in each month is equal to the Minimum Monthly Balance and the Cash Flow Requirement continues to be met, all such amounts in the Local Water Fund shall be paid as follows: *first*, to the Authority until the total of the amounts so paid equals the principal of and interest on any bonds, notes or other obligations of the Authority (other than Bonds, Bond Anticipation Notes, and Subordinated Indebtedness) payable within the then current Fiscal Year, together with all other amounts necessary to make the required deposits to the reserve and other funds and amounts established for such bonds, notes or other obligations; *second*, to the City until the amounts so paid are equal to the rental payment for such Fiscal Year and the unsatisfied balance, if any, of the rental payment for any prior Fiscal Year; and, *third*, to the Operation and Maintenance Reserve Fund, until the amount therein on deposit is equal to the O&M Reserve Requirement for such Fiscal Year. Any amounts remaining in the Local Water Fund on the last day of each Fiscal Year shall be paid to the General Account in the Operation and Maintenance Reserve Fund. (*Section 4.2*)

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

- (i) For each Series of Bonds which is Outstanding during the current Fiscal Year, an amount equal to the product obtained by multiplying (a) the difference between (1) the amount of interest due or projected to be due on the next succeeding Bond Payment Date for such Series and (2) the amount, if any, held in the applicable subaccount for such Series in the Capitalized Interest Account in the Debt Service Fund by (b) a fraction, the numerator of which is the number of full months since the end of the month preceding the last Bond Payment Date for such Series (or, with respect to the

first Bond Payment Date for such Series, the number of full months since the last day of the month preceding the date of issuance of such Series) and the denominator of which is the number of months between Bond Payment Dates minus one (or, with respect to the first Bond Payment Date for a Series, the number of months between the last day of the month preceding the date of issuance of such Series and the first Bond Payment Date minus one); provided, however, that if this formula would produce (A) a fraction greater than one, then the fraction shall be equal to one, or (B) a denominator less than one, then the fraction shall be equal to one; plus

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

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

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

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

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

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

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

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

Application of Moneys in the Operation and Maintenance Reserve Fund. If on the first day of any month the Board has not paid to the City an amount equal to the product of (i) the amount required to be paid for Operating Expenses pursuant to Section 8.1 of the Lease, multiplied by (ii) a fraction the numerator of which is the number of months which have commenced during such Fiscal Year, and the denominator of which is 12, the Board shall withdraw from the Operation and Maintenance Reserve Fund and pay to the City, on demand, an amount equal to $\frac{1}{12}$ of the amount so required to be paid pursuant

to Section 8.1 of the Lease, or the entire balance in such Fund if less than sufficient. Amounts on deposit in the General Account may be applied (i) to purposes provided for in Section 4.2, (ii) to the payment of Bonds in accordance with Article XII of the Resolution or (iii) to the Costs of Water Projects, but shall be retained therein to the extent required by the Annual Budget. *(Section 4.5)*

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

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

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

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

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

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

In each Fiscal Year, the Consulting Engineer and the Rate Consultant shall make an examination of, and shall report to the Authority, the Board, the City and the Trustee, on the properties and operations of the System. The report of the Rate Consultant shall set forth among other findings, the Rate Consultant’s recommendation as to any necessary or advisable revisions of rates, fees and charges for the

ensuing Fiscal Year and such other advice and recommendation as it may deem desirable. The Consulting Engineer's report shall set forth its findings as to whether the System has been maintained in good repair and sound operating condition, and its estimate of the amount, if any, required to be expended to place such properties in such condition and the details of such expenditures and the approximate time required therefor. The City covenants that if any such report of the Consulting Engineer shall set forth that the properties of the System have not been maintained in good repair and sound operating condition, it will promptly restore the properties to good repair and sound operating condition with all expedition practicable. (*Section 6.2*)

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

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

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

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

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

Annual Budget. On May 1 of each year (or on such later date as the Authority, the Board and the City may agree) the Authority shall deliver to the Board a certified copy of the Authority Budget for the ensuing Fiscal Year showing the Cash Flow Requirement for such Fiscal Year. Based upon the information contained in (a) the Authority Budget, (b) the City's certification pursuant to Section 8.3 of the Lease and (c) the Certificate of the Consulting Engineer delivered to the Board pursuant to Section 8.3 of the Lease (collectively, the "Budget Documents"), the Board shall prepare the Annual Budget for the ensuing Fiscal Year. In addition to the information contained in the Budget Documents the Board shall also make provision in the Annual Budget for Board Expenses for the ensuing Fiscal Year, for the amount, if any, required to be deposited in the Operation and Maintenance Reserve Fund in accordance with Section 4.4 of the Agreement, and for the application of the amounts in the General Account therein. Thereafter, but in no event later than 15 days after the date of publication of the Executive Budget of the City, the Board shall adopt such Annual Budget. Promptly after adoption of the Annual Budget, and in no event later than June 10 (or such other date as the Authority, the Board and the City may agree) of

each year, the Board shall establish the rates, fees and charges for the use of the System for the ensuing Fiscal Year. The Board may from time to time, either before or after commencement of the Fiscal Year to which it relates, amend the Annual Budget, but (except for its own expenses) only in accordance with and after receipt of amended Budget Documents. If as of the first day of any Fiscal Year an Annual Budget has not been adopted, the Annual Budget for the immediately preceding Fiscal Year shall be the Annual Budget for such Fiscal Year until a new Annual Budget is adopted. (*Section 6.4*)

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

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

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

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

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

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

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

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

Events of Default and Remedies. An “event of default” or a “default” means any one of the following events: (i) failure by the Board to pay the Authority those amounts required under

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

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

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

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

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

Summary of the Lease

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

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

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

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

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

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

Construction and Acquisition. The Board authorizes the City to perform the construction and effectuation of any Water Project specified in the Agreement and the City may incur Costs in connection therewith. The City may acquire all real and personal property, or any interest therein, necessary or useful

for the construction or effectuation of a Water Project; provided that all such property or interest acquired by the City through the exercise of the power of eminent domain shall be taken in the name of the City. (Sections 5.1, 5.2 and 5.3)

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

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

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

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

Payments of Costs by the Board. The Board has agreed to pay to the City amounts sufficient to: (i) pay the cost of administration, maintenance, repair and operation of the Leased Property, including overhead costs incurred by the City attributable to the Leased Property (but less the amount of any governmental operating aid received or receivable within the current Fiscal Year with respect to the System), the cost of materials and supplies, and the amount of any judgment or settlement paid by the City arising out of a tort claim (but only if the costs of such claim are not otherwise reimbursed, the City's liability for such claim is related to Construction of a Water Project or operation or maintenance of the System and the costs of such claims do not exceed for any Fiscal Year 5% of the aggregate revenues shown on the Board's last year-end audited financial statements); (ii) reimburse the City for capital Costs incurred by the City in the Construction of Water Projects (if requested by the City and not otherwise reimbursed) including, without limitation, the payment of any judgment or settlement arising out of a contract claim related to the Construction of any Water Project; (iii) pay the cost of billing and collection services provided by the City; (iv) pay the cost of legal services provided by the City; and (v) reimburse the City for the compensation, or the costs of the services, of any City officers and employees provided on a full-time or part-time basis to the Board. (Section 8.1)

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

Method of Payment. The City shall certify within five business days after publication of the City's Executive Budget for the ensuing Fiscal Year the (i) amount which the City reasonably anticipates it will expend in connection with the costs described in Section 8.2 of the Lease and (ii) the amount of the payments described in Section 8.1 of the Lease; provided that, prior to the Board's payment to the City the Board shall have received, in addition to such certification by the City, a certificate of the Consulting

Engineer to the effect that such amounts certified by the City for such payments and costs are reasonable and appropriate. Upon the Board's payment of all such amounts so certified or requested and any other payments required under the Act, or, after provisions for their payment have been made, the Board shall pay to the City, as Additional Rent in each Fiscal Year, any surplus of funds received. (*Section 8.3*)

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

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

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

Summary of the First Resolution

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) from the balance, if any, remaining in such month after making the deposits required in (i) above, to the Authority Expense Fund the entire balance until the total on deposit therein in such month is equal to the product obtained by multiplying (A) the sum of the Authority Expenses for the then current Fiscal Year plus (if included in the Authority Budget for the then current Fiscal Year) an amount (the "Reserve for Expenses") equal to one-sixth ($\frac{1}{6}$ th) of such Authority Expenses by (B) a fraction, the numerator of which is 12 minus the number of full months, excluding the month of calculation, remaining in the Fiscal Year, and the denominator of which is 12;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Arbitrage Rebate Fund. Amounts on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee to make payments to the Department of the Treasury of the United States of America. Notwithstanding the foregoing, the Trustee shall apply moneys credited to the Arbitrage Rebate Fund in the following amounts: (i) to the Debt Service Fund the amount, if any, necessary (or all the moneys in the Arbitrage Rebate Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in the Debt Service Fund and (ii) to the Debt Service Reserve Fund the amount, if any, necessary (or all the moneys in the Arbitrage Rebate Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in any Account in the Debt Service Reserve Fund.

Amounts on deposit in the Arbitrage Rebate Fund in excess of the amount required to be maintained therein for the purposes of such Fund may be transferred and paid by the Trustee to the Surplus Fund. *(Section 510-a)*

Subordinated Indebtedness. The Authority may issue Subordinated Indebtedness payable out of and secured by a pledge of and lien on amounts in the Subordinated Indebtedness Fund available for such payment. Such Subordinated Indebtedness, however, shall be issued only for the purposes set forth in the Resolution and shall be secured by a pledge subordinate in all respects to the pledge created by the Resolution as security for the Bonds. *(Section 511)*

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 Resolution with the Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds established by the Resolution shall be a trust fund for the purposes thereof.

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

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

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

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

Additional Bonds. The Authority may issue Bonds from time to time without limitation as to amount except as provided in the Resolution or as specified by law to generate funds sufficient to meet the Costs of Water Projects, to make deposits in the Funds and Accounts or to refund Outstanding Bonds, Bond Anticipation Notes, Subordinated Indebtedness or outstanding bonds of the City issued to pay the capital costs of the System. All Bonds shall be issued subject to the terms, conditions and limitations established in the Resolution and in one or more Series as therein provided.

Bonds shall be authenticated and delivered only upon the Trustee's receipt of, among other items:

- (a) a certified copy of the Supplemental Resolution authorizing such Series;
- (b) (i) in the case of the initial Series of Bonds, an executed copy of the Agreement and the Lease; and (ii) in the case of any subsequent Series of Bonds, an executed copy of any amendment or supplement to the Agreement or the Lease not theretofore delivered to the Trustee;
- (c) except in the case of Series of Bonds issued prior to July 1, 1986 and any Series of Refunding Bonds issued pursuant to Section 207 of the Resolution, a certificate of an Authorized Representative of the Authority setting forth (i) the Revenues for either of the last two full Fiscal Years immediately preceding the Fiscal Year in which such Bonds are to be issued and (ii) the Aggregate Debt Service during such Fiscal Year for which Revenues are set forth pursuant to clause (i) above (excluding from Aggregate Debt Service any Principal Installment or portion thereof which was paid from sources other than Revenues) and (iii) the sum of the Operating Expenses and the Required Deposits for such period, and showing that the amount set forth in (i) is at least equal to the sum of (x) an amount equal to 115% of the amount set forth in (ii) and (y) an amount equal to 100% of the amount set forth in (iii);
- (d) except in the case of the initial Series of Bonds under the Resolution and any Series of Refunding Bonds issued pursuant to Section 207 of the Resolution, a certificate of the Consulting

Engineer setting forth the projected Operating Expenses for each of the five Fiscal Years following the Issuance of such Series of Bonds (plus the Fiscal Year in which such Bonds are issued);

(e) except in the case of the initial Series of Bonds under the Resolution and any Series of Refunding Bonds issued pursuant to Section 207, a certificate, signed by an Authorized Representative of the Authority setting forth the estimated Required Deposits for each of the five Fiscal Years following the issuance of such Series of Bonds (plus the Fiscal Year in which such Bonds are issued); and

(f) except in the case of the initial Series of Bonds under the Resolution and any Series of Refunding Bonds issued pursuant to Section 207, a certificate of the Rate Consultant (i) setting forth the estimated Revenues for each of the five Fiscal Years following the issuance of such Series of Bonds (plus the Fiscal Year in which such Bonds are issued) after giving effect to any increases or decreases in rates, fees and charges projected for such Fiscal Years and (ii) showing for each such Fiscal Year that the estimated Revenues for such Fiscal Year will be at least equal to the sum of (A) 115% of the maximum estimated Adjusted Aggregate Debt Service on all Bonds then Outstanding including the Bonds to be issued, and (B) 100% of the sum of the projected Operating Expenses and Required Deposits, as shown on the Certificate of the Consulting Engineer delivered pursuant to paragraph (e) above and the Certificate of the Authority delivered pursuant to paragraph (f) above, respectively. (*Sections 204 and 206*)

Refunding Bonds. One or more Series of Refunding Bonds may be issued pursuant to Section 207 of the Resolution at any time to refund any Outstanding Bonds provided that (i) estimated average annual Debt Service on such Series of Refunding Bonds shall not exceed the average annual Debt Service on the Bonds to be refunded and (ii) the maximum Debt Service in any Fiscal Year on such Series of Refunding Bonds shall not exceed the maximum Debt Service in any Fiscal Year on the Bonds to be refunded, all as shown in a Certificate signed by an Authorized Representative of the Authority and delivered to the Trustee prior to the authentication and delivery of such Series of Refunding Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds and Accounts required by the provisions of the Supplemental Resolution authorizing such Bonds. (*Section 207*)

Bond Anticipation Notes. Whenever the Authority shall authorize the issuance of a Series of Bonds, the Authority may, by resolution, authorize the issuance of notes (and renewals thereof) in anticipation of such Series of Bonds. The principal of and interest on such notes and renewals thereof shall be payable from the proceeds of such notes or from the proceeds of the sale of the Series of Bonds in anticipation of which such notes are issued. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such notes and any such pledge shall have a priority over any other pledge of such proceeds created by the Resolution. The Authority may also pledge the Revenues to the payment of the interest on, and subject to Section 707 of the Resolution, the principal of such notes. A copy of the Resolution of the Authority authorizing such notes, certified by an Authorized Representative of the Authority, shall be delivered to the Trustee following its adoption, together with such other information concerning such notes as the Trustee may reasonably request. (*Section 208*)

Credit Facilities. In connection with the issuance of any Series of Bonds, the Authority may obtain or cause to be obtained one or more Credit Facilities providing for payment of all or a portion of the Principal Installments, or Redemption Price or interest due or to become due on such Bonds, providing for the purchase of such Bonds by the issuer of such Credit Facility or providing funds for the purchase of such Bonds by the Authority.

The Authority may secure such Credit Facility by an agreement providing for the purchase of the Series of Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity or redemption provisions as specified by the Authority in the applicable Supplemental Resolution. The Authority may also in an agreement with the issuer of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility, together with interest thereon (the "Reimbursement Obligation"); *provided, however*, that no Reimbursement Obligation shall be created until amounts are paid under such Credit Facility. Any such Reimbursement Obligation (a "Parity Reimbursement Obligation") may be secured by a pledge of, and a lien on

Revenues on a parity with the lien created by Section 501 of the Resolution. Upon the payment of amounts under the Credit Facility which payment results in the Parity Reimbursement Obligation becoming due and payable, such Parity Reimbursement Obligation shall be deemed to be part of the Series of Bonds to which the Credit Facility which gave rise to such Parity Reimbursement Obligation relates.

Any such Credit Facility shall be for the benefit of and secure such Series of Bonds or portion thereof, as specified in the applicable Supplemental Resolution. *(Section 209)*

Indebtedness and Liens. The Resolution provides that the Authority shall not issue any bonds, or other evidences of indebtedness, other than the Bonds, Bond Anticipation Notes, Subordinated Indebtedness and Parity Reimbursement Obligations, secured by a pledge of or other lien on the Revenues and shall not create or cause to be created any lien on such Revenues or on any amounts held by any Fiduciary, under the Resolution; however, the Authority may: (i) issue notes payable from the proceeds of Bonds or other obligations for the corporate purposes of the Authority payable or secured by Revenues derived on and after such date as the pledge of the Revenues provided in the Resolution is discharged and satisfied and (ii) issue bonds or other obligations for the corporate purposes of the Authority payable out of or secured by the pledge of amounts in the Local Water Fund after satisfaction of the Cash Flow Requirement for the then current Fiscal Year, and which recite on their face that such pledge of said amounts is and shall be in all respects subordinate to the provisions of the lien and pledge created by the Resolution. *(Section 707)*

Agreement of the State. In accordance with Section 1045-t of the Act, the Authority agrees, for and on behalf of the State, that the State will not alter or limit the rights vested by the Act in the Authority or the Board to fulfill the terms of any agreement made with or for the benefit of the Bondholders, or in any way impair the rights and remedies of Bondholders, until the Bonds, together with the interest thereon, with interest on any unpaid installment of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged. *(Section 711)*

Authority Budget. The Authority shall, on or before May 1, in each Fiscal Year, adopt and file with the Trustee, the Board and the City, a certified copy of the Authority Budget showing the estimated Cash Flow Requirement and the components thereof (on a monthly basis) for the ensuing Fiscal Year, together with any other information required to be set forth therein by the Resolution or the Agreement. Such Authority Budget may set forth such additional information as the Authority may determine or as the Board or the City may request. If for any reason the Authority shall not have adopted the Authority Budget before such May 1, the Authority Budget for the then current Fiscal Year shall be deemed to be the Authority Budget for the ensuing Fiscal Year until a new Authority Budget is adopted. The Authority may at any time adopt an amended Authority Budget for the then current or ensuing Fiscal Year, but no such amended Authority Budget shall supersede any prior Budget until the Authority shall have filed with the Trustee, the Board and the City a copy of such amended Authority Budget. Each month the Authority shall recalculate the Cash Flow Requirement. *(Sections 712 and 713)*

Enforcement and Amendment of Agreement and Lease. The Authority shall enforce or cause to be enforced the provisions of the Agreement and the Lease and duly perform its covenants and agreements under the Agreement. The Authority will not consent or agree to or permit any rescission of or amendment to or otherwise take any action under or in connection with the Agreement or the Lease except in accordance with Article X of the Agreement of the Resolution. *(Section 714)*

Supplemental Resolutions. The Resolution permits the modification or amendment of the rights and obligations of the Authority and of the holders of the Bonds thereunder by a Supplemental Resolution, with the written consent of the holders of two-thirds of the principal amount of: (i) the Bonds then Outstanding and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Bonds of the Series so affected and then Outstanding; however, if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of modification; provided no such modification or amendment shall change the terms of redemption, maturity of principal,

installment of interest, or reduce the principal amount, Redemption Price, or rate of interest without the consent of the holder of the affected Bond, or reduce the percentages of consents required to effect any future modification or amendment.

The Authority may adopt (without the consent of any holders of the Bonds) supplemental resolutions to authorize additional Bonds; to add to the restrictions contained in the Resolution upon the issuance of additional indebtedness; to add to the covenants of the Authority contained in, or surrender any rights reserved to or conferred upon it by, the Resolution; to confirm any pledge under the Resolution of Revenues or other moneys; to preserve the federal tax exemption of interest on the Bonds; or otherwise to modify any of the provisions of the Resolution (but no such other modification may be effective while any of the Bonds of any Series theretofore issued are Outstanding); or to cure any ambiguity, supply any omission or to correct any defect in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, and are not contrary to or inconsistent with the Resolution as theretofore in effect or to provide for additional duties of the Trustee (provided that the Trustee shall consent thereto). (*Arts. VIII and IX*)

Defaults and Remedies. The Resolution provides that if one or more of the following Events of Default shall occur, namely: (i) a default in the payment of the principal or Redemption Price of any Bond; (ii) a default in payment of any installment of interest on any Bond; (iii) a default by the Authority in the performance or observance of any other of its covenants, agreements or conditions in the Resolution for a period of 45 days after written notice thereof; (iv) a default under the Agreement or the Lease by the Board or the City for a period of 45 days after written notice thereof; or (v) a filing of a petition for relief under any federal or State bankruptcy or similar law by the Authority; then, upon the happening and continuance of any Event of Default, the Trustee may, and upon the written request of the holders of not less than a majority in principal amount of the Bonds Outstanding the Trustee shall, declare the principal and accrued interest on all the Bonds then Outstanding, due and payable immediately subject, however, to rescission of such declaration and annulment of the default upon the remedying thereof.

The Authority covenants that upon the occurrence of an Event of Default, the books of record and account of the Authority shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys and that, upon demand of the Trustee, the Authority will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand.

Upon default, the Trustee may proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant therein contained, or in aid of the execution of any power therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution. During the continuance of an Event of Default, Revenues shall be applied first, to the reasonable and proper charges and expenses of the Trustee; then (unless the principal of all of the Bonds shall have been declared payable) to the payment of all unpaid interest ratably, and then to unpaid principal or Redemption Price, ratably; and if all of the principal of the Bonds shall be due and payable, to the payment of unpaid principal and interest, without preference or priority of interest over principal, principal over interest or of any Bond or installment over any other Bond or installment, without any discrimination or preference. No Bondholder has any right to institute suit to enforce any provision of the Resolution or the execution of any trust thereunder or for any remedy thereunder, unless the Trustee has been requested by the holders of at least a majority in principal amount of the Bonds to take such action and has been offered adequate security and indemnity and has failed to commence such suit in the manner provided in the Resolution. The right to appoint a statutory trustee under Section 1045-p of the Act is expressly abrogated. (*Art. X*)

Defeasance of Bonds Other than Variable Rate or Option Bonds. Any Outstanding Bond shall prior to the maturity or redemption date thereof be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Resolution if (i) in the case of any Bonds to be redeemed prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in

writing by the Trustee to publish on such date the notice of redemption therefor (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption), (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Obligations the principal of and/or the interest on which, when due, without reinvestment, will, as verified by the report of a firm of nationally recognized independent certified public accountants⁽¹⁾, provide moneys which, together with the moneys deposited shall be sufficient, to pay when due the principal or Redemption Price (if applicable) and interest due and to become due on said Bonds and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Bonds that the deposit required above has been made with the Trustee and that said Bonds are deemed paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, on such Bonds (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption); provided that any notice published for Bonds constituting less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, to the extent necessary, apply moneys to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments thereto.

The Trustee shall, if so directed by the Authority prior to the maturity date of Bonds deemed to have been paid which are not to be redeemed prior to their maturity date or prior to the publication of the above notice of redemption for Bonds deemed paid and to be redeemed, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and purchase such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; *provided, however*, that the moneys and Defeasance Obligations remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Bonds. (Section 1201)

Defeasance of Variable Rate Bonds. The Resolution provides that for the purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, by the deposit of moneys, or Defeasance Obligations and moneys (if any), the interest due on such Bonds shall be calculated at the maximum rate permitted; *provided, however*, that if, as a result of such Bonds having borne interest at less than the maximum rate for any period, the total amount of moneys and Investment Securities on deposit with the Trustee for the payment of interest on such Bonds exceeds the total amount required to be deposited with the Trustee, the Trustee shall, if requested by the Authority, pay the amount in excess to the Authority free and clear of any lien or pledge securing the Bonds or otherwise existing under the Resolution. (Section 1201)

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

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 Resolution, subject only to the provisions of the Resolution, the First General Resolution, the Act and the Agreement permitting the application thereof for or to the purposes and on the terms and conditions of the Resolution and therein set forth: (i) all moneys or

⁽¹⁾ The Supplemental Resolutions No. 48 and 49 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.

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 Resolution, (iv) all other moneys and securities to be received, held or set aside by the Authority or by any Fiduciary pursuant to the Resolution and (v) from and after the time that the pledge of Revenues made in the First General Resolution shall be discharged and satisfied in accordance with the Resolution, all Revenues; *provided, however*, that such pledge shall be in all respects subordinate to the provisions of the First General Resolution and the lien and pledge created by the First General 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 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 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 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 Resolution, (ii) the pledges made by the Resolution and each pledge made to secure obligations of the Authority which, by the terms set forth in the 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 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 Resolution that is prior to or of equal rank with the pledge made by the Resolution and neither the Revenues nor any other property pledged by the Resolution have been described in any financing statement. Except as expressly permitted by the 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 Resolution that is prior to or of equal rank with the pledge made by the 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 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 General Resolution; *provided, further*, that the assignment made by the 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 General Resolution and the Resolution and do not and will

not constitute an indebtedness of the State, the City or the Board and neither the State, the City nor the Board shall be in any way liable thereon. (*Sections 203 and 501*)

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

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

The Resolution establishes in the Debt Service Reserve Fund a separate account known as the “Common Account”, and provides that any Supplemental Resolution which authorizes a (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 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 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 General 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 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 General Resolution Bonds Outstanding. From and after the date on which no First General 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 General 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 General Resolution and the 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 General 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 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 General 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 General 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 Resolution establishes a Debt Service Reserve Fund and a Common Account therein. In addition, the 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 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 Fund 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 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 success or 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 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 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*)

Depositories. All moneys or securities held by the Trustee under the provisions of the 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 Depositories in trust for the Trustee. All moneys or securities deposited under the provisions of the Resolution with the

Trustee or any Depositary shall be held in trust and applied only in accordance with the provisions of the Resolution and the applicable provisions of the First General 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 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 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 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 Resolution and, subject to Section 515 of the 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 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 General 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 Resolution or as may be limited by law and such Bonds shall be issued subject to the terms, conditions and limitations established in the Resolution and in one or more Series as therein provided.

Bonds shall be authenticated and delivered only upon the Trustee's receipt of, among other items:

(a) a Bond Counsel's Opinion as to validity and certain other matters required by the 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 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 General 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 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 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 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 to 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 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 Resolution, the principal of such notes. A copy of the Resolution of the Authority authorizing such notes, certified by an Authorized Representative of the Authority, shall be delivered to the Trustee following its adoption, together with such other information concerning such notes as the Trustee may reasonably request. (*Section 208*)

Credit Facilities 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 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 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 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 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 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 Resolution shall be discharged and satisfied as provided in Section 1201 of the 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 Resolution and the lien and pledge created by the Resolution.

The Authority will not issue any bonds, notes or other evidences of indebtedness or otherwise incur any indebtedness, other than Bonds or First General 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 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 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 Resolution or by the Agreement or First General 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 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 Resolution. (*Section 713*)

Amendments to First General Resolution, Agreement and Lease. Except as otherwise provided in the Resolution, the First General 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 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 General Resolution:

(ii) amends Section 207 or Section 209 of the First General Resolution in any manner which would permit First General 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 General 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 General Resolution, or

(v) amends the First General Resolution, the Agreement or the Lease in any manner which would indirectly modify the provisions of any of the Sections of the First General Resolution referred to in clauses (i), (ii), (iii) or (iv) of Section 714(a) of the 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 General Resolution and Agreement.”

Notwithstanding the provisions of the preceding paragraph, the amendments to the First General 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 General 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 General 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 General 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 General Resolution, Agreement and Lease,” Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the First General 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 General 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 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 Resolution upon the issuance of additional indebtedness; to add to the covenants of the Authority contained in, or surrender any rights reserved to or conferred upon it by, the Resolution; to confirm any pledge under the Resolution of Revenues or other moneys; to preserve the federal tax exemption of interest on the Bonds; or otherwise to modify any of the provisions of the Resolution (but no such other modification may be effective while any of the Bonds of any Series theretofore issued are Outstanding); or to cure any ambiguity, supply any omission or to correct any defect in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, and are not contrary to or inconsistent with the Resolution as theretofore in effect; or to modify any provision of the 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 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 Resolution in the manner

provided in the 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 Resolution provides that if one or more of the following Events of Default shall occur, namely: (i) a default in the payment of the principal or Redemption Price of any Bond; (ii) a default in payment of any installment of interest on any Bond; (iii) a default by the Authority in the performance or observance of any other of its covenants, agreements or conditions in the Resolution for a period of 45 days after written notice thereof; (iv) a default under the Agreement or the Lease by the Board or the City for a period of 45 days after written notice thereof; (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 General Resolution Bonds are then Outstanding under the First General Resolution or if the principal of all First General Resolution Bonds then Outstanding has been declared to be due and payable immediately pursuant to Section 803 of the First General 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 Resolution for such period as shall be stated in such demand.

Upon default, the Trustee may proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant therein contained, or in aid of the execution of any power therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution. During the continuance of an Event of Default, Revenues shall be applied first, to the reasonable and proper charges and expenses of the Trustee; then (unless the principal 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 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 Resolution. The right to appoint a statutory trustee under Section 1045-p of the Act is expressly abrogated. (*Art. X*)

Defeasance of Bonds Other than Variable Rate or Option Bonds. Any Outstanding Bond shall prior to the maturity or redemption date thereof be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Resolution if (i) in the case of any Bonds to be redeemed

prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to publish on such date the notice of redemption therefor (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption), (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Obligations the principal of and the interest on which, when due, without reinvestment, will, as verified by the report of a firm of nationally recognized independent certified public accountants⁽¹⁾, provide moneys which, together with the moneys deposited shall be sufficient, to pay when due the principal or Redemption Price (if applicable) and interest due and to become due on said Bonds and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Bonds that the deposit required above has been made with the Trustee and that said Bonds are deemed paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, on such Bonds (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption); provided that any notice published for Bonds constituting less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, to the extent necessary, apply moneys to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments thereto.

The Trustee shall, if so directed by the Authority prior to the maturity date of Bonds deemed to have been paid which are not to be redeemed prior to their maturity date or prior to the publication of the above notice of redemption for Bonds deemed paid and to be redeemed, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and purchase such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; *provided, however*, that the moneys and Defeasance Obligations remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Bonds. (Section 1201)

Defeasance of Variable Rate Bonds. The Resolution provides that for the purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, by the deposit of moneys, or Defeasance Obligations and moneys (if any), the interest due on such Bonds shall be calculated at the maximum rate permitted; *provided, however*, that if, as a result of such Bonds having borne interest at less than the maximum rate for any' period, the total amount of moneys and Investment Securities on deposit with the Trustee for the payment of interest on such Bonds exceeds the total amount required to be deposited with the Trustee, the Trustee shall, if requested by the Authority, pay the amount in excess to the Authority free and clear of any lien or pledge securing the Bonds or otherwise existing under the Resolution. (Section 1201)

Defeasance of Option Bonds. Under the Resolution, Option Bonds shall be deemed paid in accordance with the Resolution only if, in addition to satisfying several of the requirements applicable to 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)

⁽¹⁾ Supplemental Resolutions No. 48 and 49 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.

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FINANCIAL STATEMENTS

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK CITY WATER AND SEWER SYSTEM

June 30, 2006 and 2005

C O N T E N T S

	<u>Page</u>
Report of Independent Certified Public Accountants	D-3
Management's Discussion and Analysis	D-4 - D-10
Basic Financial Statements	
Balance Sheets	D-11 - D-14
Statements of Revenues, Expenses and Changes in Net Assets	D-15 - D-16
Statements of Cash Flows	D-17 - D-20
Notes to Financial Statements	D-21 - D-42

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets, and cash flows of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board, which collectively comprise the New York City Water and Sewer System (the "System"), a component unit of the City of New York, New York, as of and for the years ended June 30, 2006 and 2005. These financial statements, which collectively comprise the basic financial statements of the System, are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board of the System as of June 30, 2006 and 2005, 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.

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

Grant Thornton LLP

New York, New York
October 17, 2006

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, 2006 and 2005. The System is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board").

The basic financial statements of the System, which include the balance sheets, the statements of revenues, expenses and changes in net assets and the statements of cash flows, are presented for the purposes of displaying entity-wide information, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended. These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Financial Analysis and Results of Operations

The following summarizes the activities of the System for the years 2006, 2005 and 2004.

	<u>2006</u>	<u>2005</u> (in thousands)	<u>2004</u>
Revenues			
Water supply and distribution	\$ 735,200	\$ 755,693	\$ 713,097
Sewer collection and treatment	1,143,424	1,043,575	984,753
Other operating revenues	<u>100,306</u>	<u>85,459</u>	<u>75,283</u>
Total operating revenues	1,978,930	1,884,727	1,773,133
Subsidy income	88,447	78,834	68,311
Investment income, net	<u>105,239</u>	<u>97,362</u>	<u>86,949</u>
Total revenues	<u>2,172,616</u>	<u>2,060,923</u>	<u>1,928,393</u>
Expenses			
Operations and maintenance	1,056,379	944,919	933,736
Bad debt expense	87,222	114,702	116,108
Administration and general	26,727	23,168	19,853
Depreciation and amortization	500,161	515,325	451,585
Loss on retirement of fixed assets	7,046	7,971	25,214
Interest expense	<u>731,563</u>	<u>668,675</u>	<u>612,054</u>
Total expenses	<u>2,409,098</u>	<u>2,274,760</u>	<u>2,158,550</u>
Net loss before capital contributions (distributions)	(236,482)	(213,837)	(230,157)
Capital (distributions) contributions, net	<u>(19,241)</u>	<u>(185,242)</u>	<u>29,875</u>
Change in net assets	(255,723)	(399,079)	(200,282)
Net assets - beginning	<u>3,155,104</u>	<u>3,554,183</u>	<u>3,754,465</u>
Net assets - ending	<u>\$2,899,381</u>	<u>\$3,155,104</u>	<u>\$3,554,183</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

2006 - 2005

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

2005 - 2004

Total operating revenues increased by 6.3%, principally resulting from a rate increase of 5.5%.

The following summarizes other operating revenues (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Upstate water fees	\$ 42,693	\$27,290	\$24,611
Late payment fees	45,519	47,810	41,767
Connection fees and permits	<u>12,094</u>	<u>10,359</u>	<u>8,905</u>
Total other revenues	<u>\$100,306</u>	<u>\$85,459</u>	<u>\$75,283</u>

2006 - 2005

The System has collected \$15 million of upstate water fees that had been in dispute for several years. These payments resulted in an increase in other fee revenue of nearly 17.6% or \$15.0 million.

2005 - 2004

The System has increased its collections of past-due amounts, which resulted in an increase in late payments fee revenue of nearly 14.5% or \$6.0 million.

2006 - 2005

Investment income increased by \$7.9 million. Investment balances in construction and revenue and debt service funds increased from 2005. Interest rates earned on investments also increased.

Total operations and maintenance expense increased by \$111 million or 11.8%. The rental payment to the City for debt service increased by \$10 million. Payments for watershed improvements increased by \$21 million. All other operations and maintenance costs increased by \$80 million or 10%.

Bad debt expense decreased by \$27.5 million. Receivable balances have decreased, as the System has collected on past-due amounts.

Interest expense increased by \$63 million or 9.4%. Total debt of the System has increased by 9% and interest expense has increased by about the same percentage.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

In 2006, the System granted back to the City land that had been purchased with bond proceeds. The total grant was \$32.9 million. The System also received grants from other sources of \$13.7 million.

2005 - 2004

Investment income increased by 11.9%. Total investment balances remained about the same, but there were no additional arbitrage rebate expenses in 2005 and interest rates earned on investments increased.

Total operations and maintenance expenses increased by \$11.2 million or 1.2%. The rental payment to the City for debt service decreased by over \$6 million, and judgments and claims decreased by over \$25 million. All other operations and maintenance expenses increased by \$44 million or 5.5%.

Bad debt expense decreased by \$1.4 million. Receivable balances have decreased, as the System has collected on past-due amounts, and bad debt expense has leveled as a percentage of revenues.

Interest expense increased by \$56.6 million or 9.25%. Total debt of the System has increased by 10.2% and interest expense has increased by a similar percentage.

In 2005, the System granted back to the City land that had been purchased with bond proceeds. The total granted was \$187.6 million. The System also received grants from other sources of \$2.4 million.

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

	<u>2006</u>	<u>2005</u> (in thousands)	<u>2004</u>
Current assets	\$ 1,954,277	\$ 2,436,222	\$ 2,423,309
Deferred bond and financing expenses	130,728	125,582	112,540
Capital assets	<u>17,155,603</u>	<u>16,008,960</u>	<u>15,174,128</u>
Total assets	<u>19,240,608</u>	<u>18,570,764</u>	<u>17,709,977</u>
Long-term liabilities	15,306,834	13,955,495	12,565,882
Current liabilities	<u>1,034,393</u>	<u>1,460,165</u>	<u>1,589,912</u>
Total liabilities	<u>16,341,227</u>	<u>15,415,660</u>	<u>14,155,794</u>
Net assets			
Invested in capital assets, net of related debt	2,556,766	2,803,031	3,368,355
Restricted for debt service	171,859	152,544	179,106
Restricted for operations and maintenance	157,806	145,693	135,701
Unrestricted (deficit)	<u>12,950</u>	<u>53,836</u>	<u>(128,979)</u>
Total net assets	<u>2,899,381</u>	<u>3,155,104</u>	<u>3,554,183</u>
Total liabilities and net assets	<u>\$19,240,608</u>	<u>\$18,570,764</u>	<u>\$17,709,977</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

2006 - 2005

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

2005 - 2004

Current assets increased by \$13 million. Total investments and receivables remained about the same.

Total liabilities increased by \$1.3 billion, which was due to the increase in debt payable.

Capital Assets

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

	<u>2006</u>	<u>2005</u> (in thousands)	<u>2004</u>
Utility plant construction	\$ <u>4,546,209</u>	\$ <u>4,010,861</u>	\$ <u>3,564,455</u>
Land	-	-	142,409
Buildings	22,266	22,071	22,071
Equipment	472,034	424,673	378,333
Water supply and wastewater treatment systems	10,886,477	10,152,707	9,619,222
Water distribution and sewage collection systems	<u>7,844,126</u>	<u>7,579,881</u>	<u>7,196,035</u>
Total utility plant in service	<u>19,224,903</u>	<u>18,179,332</u>	<u>17,358,070</u>
Less accumulated depreciation	<u>6,615,509</u>	<u>6,181,233</u>	<u>5,748,397</u>
Total, net utility plant in service	<u>12,609,394</u>	<u>11,998,099</u>	<u>11,609,673</u>
Total capital assets	<u>\$17,155,603</u>	<u>\$16,008,960</u>	<u>\$15,174,128</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The net increase in the System's capital assets during fiscal year 2006 was \$1,147 million or 7.2 %. Net capital asset additions for 2005 were \$1,581 million.

The net increase in the System's capital assets during fiscal year 2005 was \$834 million or 5.5 %. Net capital asset additions for 2005 were \$1,268 million.

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

Debt Administration

The Authority issues debt to pay for the capital improvements to the System. 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 issues refunding bonds to refinance higher coupon debt.

At June 30, 2006, the total outstanding debt of the System was \$16.3 billion, of which \$351 million was commercial paper. The remaining \$15.9 billion consisted of variable and fixed rate bonds and notes maturing in varying installments through 2039. The total outstanding long-term debt at June 30, 2006 was as follows:

	<u>(In thousands)</u>
Issue date	
2006	\$ 2,608,308
2005	2,811,165
2004	1,687,875
2003	2,803,132
2002	2,119,222
2001 and prior	<u>3,904,649</u>
Total long-term debt	<u>\$15,934,351</u>

In the above, bonds retired through refundings in 2006 are removed from the year in which the refunded bonds were issued.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

In fiscal year 2006, the Authority issued \$1,931,080,000 of water and sewer revenue bonds directly to the public, including \$722,590,948 of refunding bonds and \$1,208,489,052 in new money financing. The Authority also issued \$686,846,759 in Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC, all of which were issued for new money purposes. The new money bond proceeds provided long-term financing of commercial paper notes which had previously financed capital improvements to New York City's Water and Sewer System.

The highlight of the financing program in fiscal year 2006 was the issuance of the Second Resolution bonds directly to the public for the first time. In October 2005, the Authority issued \$400 million of the Second Resolution variable rate bonds, and in January 2006, it sold \$100 million of fixed rate serial bonds with retail-sector maturities. The Authority also continues to issue the Second Resolution bonds through EFC.

On October 12, 2005, the Authority closed its first transaction of fiscal year 2006. The Fiscal 2006 Series 1 bonds with a par amount of \$229,018,261 were sold through EFC. Proceeds were used to defease the Authority's commercial paper Series 7 notes and a portion of the Authority's Series 5 notes, which had funded eligible Clean Water and Drinking Water SRF projects. Proceeds were also used to pay the costs of issuance of the bonds.

On October 18, 2005, in a common plan of finance with the Fiscal 2006 Series 1 bonds, the Authority issued the Fiscal 2006 Series A with a par amount of \$524,530,000. Proceeds from the sale were used to defease all of the Authority's commercial paper Series 6 notes and to refund a portion of the Fiscal 1998 Series B bonds and a portion of the Fiscal 2000 Series A bonds. Proceeds were also applied to fund a portion of the Debt Service Reserve Fund and pay costs of issuance. A portion of the Fiscal 2006 Series 1 bonds was insured by Financial Security Assurance Inc.

On October 27, 2005, the Authority issued its Fiscal 2006 Series AA Bonds as the Second Resolution variable-rate demand bonds with \$100,000,000 offered in the weekly reset mode and \$300,000,000 sold in the daily reset mode. Three different remarketing agents were chosen to remarket these bonds. Proceeds were applied to defease all of the Authority's commercial paper Series 1 notes and a portion of the Authority's Series 5 notes, to fund a deposit to the Construction Fund and to pay costs of issuance.

On January 26, 2006, the Authority closed the Fiscal 2006 Series B, BB and C bonds delivered in par amounts of \$150,000,000 for the Series B bonds, \$100,000,000 for the Series BB bonds and \$350,345,000 for the Series C bonds. Proceeds from the combined sale of the Series B, BB and C bonds were used to defease all of the Authority's commercial paper Series 1 notes and a portion of the Authority's Series 5 notes, to refund the Fiscal 2001 Series A bonds, to fund a portion of the Debt Service Reserve Fund and to pay costs of issuance. The Fiscal 2006 Series B and Series C bonds were structured as Term bonds. A portion of the Fiscal 2006 Series C bonds was insured by XL Capital Assurance Inc. The Fiscal 2006 Series BB included serial bonds in years 2007 through 2016.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

On March 23, 2006, the Authority issued the Fiscal 2006 Series D bonds. The bonds were sold at a par amount of \$406,205,000. Proceeds from the sale were used to defease all of the Authority's commercial paper Series 1 notes and a portion of its Series 5 notes, to refund the Fiscal 2003 Series B bonds, to fund a deposit to the Debt Service Reserve Fund and to pay certain costs of issuance. The 2036 maturity was insured by Ambac Assurance Corporation.

The fiscal year 2006 Series 2 and Series 3 closed on June 22, 2006. \$201,440,829 of the FY 2006 Series 2 and \$256,387,669 of the fiscal year 2006 Series 3 were issued through EFC to secure senior and subordinate bonds, respectively, issued by EFC for the Authority. Proceeds were used to defease all of the Authority's commercial paper Series 7 notes and a portion of its Series 5 and Series 6 notes and to pay certain costs of issuance.

On June 29, 2006, the Authority legally defeased with revenues \$60,135,000 of outstanding General Resolution bonds, including portions of the Fiscal 1996 Series C, Fiscal 1997 Series A, Fiscal 1998 Series A, Fiscal 1998 Series C, Fiscal 1998 Series D, Fiscal 1999 Series B, Fiscal 2001 Series B and Fiscal 2001 Series D bonds. In addition, the Authority economically defeased \$70,360,000 of the Fiscal 1993 Series A capital appreciation bonds with current System revenue.

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

Economic Factors and Next Year's Rates

Rates are adopted each year by the Board in May for the following fiscal year. A rate increase of 3.0% for fiscal 2006 became effective July 1, 2005 based on projected revenues and costs.

Request for Information

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

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New York City Water and Sewer System

BALANCE SHEETS

June 30, 2006
(in thousands)

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

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

BALANCE SHEETS (continued)

June 30, 2006
(in thousands)

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

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

BALANCE SHEETS

June 30, 2005
(in thousands)

Assets	New York City		<u>Eliminations</u>	<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>		
Utility plant in service, less accumulated depreciation of \$6,181,233	\$11,998,099	\$ -	\$ -	\$11,998,099
Utility plant construction	<u>4,010,861</u>	<u>-</u>	<u>-</u>	<u>4,010,861</u>
Total capital assets	<u>16,008,960</u>	<u>-</u>	<u>-</u>	<u>16,008,960</u>
Current assets				
Cash and cash equivalents	83,666	1,015,387	-	1,099,053
Investments	72,427	795,875	-	868,302
Accrued interest receivable	282	2,989	-	3,271
Accounts receivable				
Billed, less allowance for uncollectible receivables of \$207,239	283,139	-	-	283,139
Unbilled	150,806	-	-	150,806
Receivable from the City	31,390	-	-	31,390
Other	<u>-</u>	<u>261</u>	<u>-</u>	<u>261</u>
Total current assets	<u>621,710</u>	<u>1,814,512</u>	<u>-</u>	<u>2,436,222</u>
Revenue requirement from the Board	-	7,568,568	(7,568,568)	-
Long-term deferred bond and financing expenses	<u>-</u>	<u>125,582</u>	<u>-</u>	<u>125,582</u>
Total assets	<u>\$16,630,670</u>	<u>\$ 9,508,662</u>	<u>\$(7,568,568)</u>	<u>\$18,570,764</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

BALANCE SHEETS (continued)

June 30, 2005
(in thousands)

Liabilities and Net Assets	New York City		<u>Eliminations</u>	<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>		
Long-term liabilities				
Bonds and notes payable, less current portion	\$ -	\$ 14,396,067	\$ -	\$14,396,067
Net discount on bonds and notes payable	-	(100,304)	-	(100,304)
Deferred bond refunding costs	-	(340,268)	-	(340,268)
Revenue requirement payable to the Authority	<u>7,568,568</u>	<u>-</u>	<u>(7,568,568)</u>	<u>-</u>
Total long-term liabilities	<u>7,568,568</u>	<u>13,955,495</u>	<u>(7,568,568)</u>	<u>13,955,495</u>
Current liabilities				
Accounts payable and accrued expenses	6,510	38,325	-	44,835
Revenues received in advance	70,482	-	-	70,482
Current portion of bonds and notes payable	-	1,037,984	-	1,037,984
Payable to the City	-	288,136	-	288,136
Refunds payable to customers	<u>18,728</u>	<u>-</u>	<u>-</u>	<u>18,728</u>
Total current liabilities	<u>95,720</u>	<u>1,364,445</u>	<u>-</u>	<u>1,460,165</u>
Total liabilities	<u>7,664,288</u>	<u>15,319,940</u>	<u>(7,568,568)</u>	<u>15,415,660</u>
Net assets				
Invested in capital assets, net of related debt	16,008,960	(13,205,929)	-	2,803,031
Restricted for debt service	-	152,544	-	152,544
Restricted for operations and maintenance	145,693	-	-	145,693
Unrestricted (deficit)	<u>(7,188,271)</u>	<u>7,242,107</u>	<u>-</u>	<u>53,836</u>
Total net assets (deficit)	<u>8,966,382</u>	<u>(5,811,278)</u>	<u>-</u>	<u>3,155,104</u>
Total liabilities and net assets	<u>\$16,630,670</u>	<u>\$ 9,508,662</u>	<u>\$(7,568,568)</u>	<u>\$18,570,764</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2006
(in thousands)

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

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2005
(in thousands)

	New York City		
	Water	Municipal	
	Board	Water	
		Finance	
		Authority	Total
Operating revenues			
Water supply and distribution	\$ 755,693	\$ -	\$ 755,693
Sewer collection and treatment	1,043,575	-	1,043,575
Other operating revenues	<u>85,459</u>	<u>-</u>	<u>85,459</u>
Total operating revenues	<u>1,884,727</u>	<u>-</u>	<u>1,884,727</u>
Operating expenses			
Operations and maintenance	944,919	-	944,919
Bad debt expense	114,702	-	114,702
Administration and general	<u>6,840</u>	<u>16,328</u>	<u>23,168</u>
Total operating expenses	<u>1,066,461</u>	<u>16,328</u>	<u>1,082,789</u>
Depreciation and amortization	<u>460,458</u>	<u>54,867</u>	<u>515,325</u>
Operating income (loss)	357,808	(71,195)	286,613
Nonoperating revenue (expense)			
Interest expense	-	(668,675)	(668,675)
Loss on retirement of fixed assets	(7,971)	-	(7,971)
Subsidy income	-	78,834	78,834
Investment income	<u>782</u>	<u>96,580</u>	<u>97,362</u>
Net income (loss) before capital contributions (distributions)	350,619	(564,456)	(213,837)
Capital distributions - net	<u>(185,242)</u>	<u>-</u>	<u>(185,242)</u>
Change in net assets	165,377	(564,456)	(399,079)
Net assets (deficit) at beginning of year	<u>8,801,005</u>	<u>(5,246,822)</u>	<u>3,554,183</u>
Net assets (deficit) at end of year	<u>\$8,966,382</u>	<u>\$ (5,811,278)</u>	<u>\$3,155,104</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS

Year ended June 30, 2006
(in thousands)

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

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS (continued)

Year ended June 30, 2006
(in thousands)

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

The following are the noncash capital and related financing activities:

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

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS

Year ended June 30, 2005
(in thousands)

	<u>New York City</u>		
	<u>Water</u>	<u>Municipal</u>	
	<u>Board</u>	<u>Water</u>	
		<u>Finance</u>	<u>Total</u>
		<u>Authority</u>	
Cash flows from operating activities			
Receipts from customers	\$1,770,432	\$ -	\$ 1,770,432
Payments for operations and maintenance	(927,391)	-	(927,391)
Payments for administration	<u>(7,075)</u>	<u>(16,727)</u>	<u>(23,802)</u>
Net cash provided by (used in) operating activities	<u>835,966</u>	<u>(16,727)</u>	<u>819,239</u>
Cash flows from capital and related financing activities			
Proceeds from issuing bonds, notes and other borrowings, net of issuance costs	-	4,480,669	4,480,669
Acquisition and construction of capital assets	-	(1,697,125)	(1,697,125)
Payments by the Board to the Authority	(827,097)	827,097	-
Repayments of bonds, notes and other borrowings	-	(3,136,879)	(3,136,879)
Interest paid on bonds, notes and other borrowings	<u>-</u>	<u>(570,415)</u>	<u>(570,415)</u>
Net cash used in capital and related financing activities	<u>(827,097)</u>	<u>(96,653)</u>	<u>(923,750)</u>
Cash flows from investing activities			
Proceeds from sales and maturities of investments	44,815	-	44,815
Purchases of investments	(52,337)	(35,194)	(87,531)
Interest on investments	<u>985</u>	<u>96,210</u>	<u>97,195</u>
Net cash (used in) provided by investing activities	<u>(6,537)</u>	<u>61,016</u>	<u>54,479</u>
Net increase (decrease) in cash and cash equivalents	<u>2,332</u>	<u>(52,364)</u>	<u>(50,032)</u>
Cash and cash equivalents, beginning of year	<u>81,334</u>	<u>1,067,751</u>	<u>1,149,085</u>
Cash and cash equivalents, end of year	<u>\$ 83,666</u>	<u>\$ 1,015,387</u>	<u>\$ 1,099,053</u>

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

STATEMENTS OF CASH FLOWS (continued)

Year ended June 30, 2005
(in thousands)

	<u>New York City</u>		
	<u>Water</u>	<u>Municipal</u>	
	<u>Board</u>	<u>Water</u>	
		<u>Finance</u>	<u>Total</u>
		<u>Authority</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 357,808	\$ (71,195)	\$ 286,613
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	460,458	54,867	515,325
Bad debt expense	114,702	-	114,702
Operations and maintenance expense paid with bond proceeds	45,595	-	45,595
Changes in net assets and liabilities			
Receivables, net	(106,701)	-	(106,701)
Receivable from the City	(28,067)	-	(28,067)
Other	1	(18)	(17)
Accounts payable and accrued expenses	(235)	(381)	(616)
Revenues received in advance	(7,749)	-	(7,749)
Refunds payable to customers	<u>154</u>	<u>-</u>	<u>154</u>
Net cash provided by (used in) operating activities	<u>\$ 835,966</u>	<u>\$ (16,727)</u>	<u>\$ 819,239</u>

The following are the noncash capital and related financing activities:

- Interest expense includes the amortization of premium and discount in the amount of \$10,543.
- Capital expenditures in the amount of \$288,136 had been incurred but not paid at June 30, 2005.
- The Board received capital assets of \$2,342 in 2005, which represented capital contributed by the City.

The accompanying notes are an integral part of these statements.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 1 - ORGANIZATION

The New York City Water and Sewer System (the “System”) provides water supply and distribution, sewage collection, treatment, and disposal for The City of New York (the “City”). The System, as presented in the accompanying financial statements, began operations on July 1, 1985 and is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the “Authority”) and the New York City Water Board (the “Board”). The Authority is a public benefit corporation created in accordance with the New York City Municipal Water Finance Act (the “Act”), duly enacted into law as Chapter 513 of the laws of 1984 of the State of New York, as amended by Chapter 514 of the laws of 1984 of the State of New York. The Board was created by Chapter 515 of the laws of 1984 of the State of New York. The Act empowers the Authority to issue bonds or notes to finance the cost of capital improvements to the System, and to refund any and all outstanding bonds and general obligation bonds of the City issued for water and sewer purposes. The Act empowers the Board to lease the System from the City and to fix and collect rates, fees, rents and other charges for the use of, or for services furnished, rendered, or made available by, the System, to produce cash sufficient to pay debt service on the Authority’s bonds and to place the System on a self-sustaining basis.

The Financing Agreement (the “Agreement”) provides that the Authority will issue bonds to finance the cost of capital investment in the water and sewer system serving the City. It also sets forth the funding priority for the debt service costs of the Authority, operating costs of the water and sewer system, and the rental payment to the City.

The physical operation and capital improvements of the System are performed by the City’s Department of Environmental Protection subject to contractual agreements with the Authority and the Board.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 2 (continued)

Entities that Use Proprietary Funds,” provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The System has elected to follow GASB pronouncements exclusively after that date. Other significant accounting policies are:

a. Investments and Cash Equivalents

Investments and cash equivalents consist principally of securities of the United States and its agencies, certificates of deposit, guaranteed investment contracts, and repurchase agreements. Investments with maturity periods of greater than one year are carried at market value. Investments with maturities less than one year are carried at cost which approximates fair value. For purposes of the statements of cash flows, the System generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

b. Restricted Assets

Proceeds from the issuance of debt and monies set aside for the operation and maintenance of the System are classified as restricted by applicable bond indentures.

c. Bond Discount and 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.

d. Utility Plant

Utility plant acquired through purchase or internal construction is recorded at cost, net of retirements. It is the Board’s policy to capitalize assets over \$35,000. Contributed utility plant is recorded at its estimated historical cost based on appraisals or other methods when historical cost information is not available, net of depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

	<u>Years</u>
Buildings	40 - 50
Water supply and wastewater treatment systems	15 - 50
Water distribution and sewage collection systems	15 - 75
Equipment	5 - 35

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 2 (continued)

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

e. Operating Revenues and Operating Expenses

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

f. Deferred Revenues

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

g. Deferred Bond Refunding Costs

Deferred bond refunding costs represent the accounting loss incurred in advance refundings of outstanding bonds. In accordance with the provisions of GASB Statement No. 23, "Accounting and Financial Reporting of Debt Reported by Proprietary Activities," gains or losses arising from debt refundings are deferred and amortized over the lesser of the remaining life of the old debt or the life of the new debt.

h. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 3 - UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2006 and 2005 (in thousands):

	Balance at June 30, 2004	Additions	Deletions	Balance at June 30, 2005	Additions	Deletions	Balance at June 30, 2006
Nondepreciable assets							
Utility construction	\$ 3,564,455	\$1,536,441	\$1,090,035	\$ 4,010,861	\$1,704,324	\$1,168,976	\$ 4,546,209
Land	142,409	-	142,409	-	-	-	-
Depreciable assets							
Buildings	22,071	-	-	22,071	195	-	22,266
Equipment	378,333	46,535	195	424,673	49,430	2,069	472,034
Water supply and wastewater treatment systems	9,619,222	534,474	989	10,152,707	733,770	-	10,886,477
Water distribution and sewage collection systems	<u>7,196,035</u>	<u>418,255</u>	<u>34,409</u>	<u>7,579,881</u>	<u>285,806</u>	<u>21,561</u>	<u>7,844,126</u>
	20,922,525	2,535,705	1,268,037	22,190,193	2,773,525	1,192,606	23,771,112
Less accumulated depreciation	<u>5,748,397</u>	<u>460,458</u>	<u>27,622</u>	<u>6,181,233</u>	<u>450,860</u>	<u>16,584</u>	<u>6,615,509</u>
	<u>\$15,174,128</u>	<u>\$2,075,247</u>	<u>\$1,240,415</u>	<u>\$16,008,960</u>	<u>\$2,322,665</u>	<u>\$1,176,022</u>	<u>\$17,155,603</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 4 - INVESTMENTS AND CASH DEPOSITS

a. 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.

b. Cash Deposits

The System follows the New York City Banking Commission designations for the System's bank depositories. The Commission consists of the Comptroller, the Mayor, and the Finance Commissioner of the City and uses independent bank rating agencies in part to assess the financial soundness of each bank, and the banking relationships are under constant operational and credit reviews. Each bank in which the System's cash is deposited is required to have its principal office in New York State and have capital stock, surplus, and undivided earnings aggregating at least \$100 million. The System had \$200 thousand on deposit at June 30, 2006 and 2005, which was covered by Federal depository insurance and the remaining balance was uncollateralized.

At June 30, 2006 and 2005, the carrying amounts of bank deposits were \$5.9 million and \$6.7 million, respectively, and the bank balances were \$7 million and \$8.2 million, respectively. The System had the following investments and maturities (in thousands):

<u>Investment type</u>	<u>2006</u>	<u>2005</u>	<u>Investment maturity</u>
Certificate of Deposit	\$ 100	\$ 99	Greater than one year
U.S. Government securities	1,018,495	1,138,713	Less than one year
New York State securities	77,230	81,170	Greater than one year
Repurchase agreements	82,259	76,376	Less than one year
Guaranteed investment contracts	<u>298,306</u>	<u>667,616</u>	Greater than one year
	<u>\$1,476,390</u>	<u>\$1,963,974</u>	

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 4 (continued)

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

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

NOTE 5 - LEASE AGREEMENT

The Board is party to a long-term lease (the "Lease") with the City, which transfers all the water and sewer related real and personal property to the Board for the term of the lease. The Lease term commenced on July 1, 1985, and continues until the later of the fortieth anniversary of the commencement of the lease, or the date on which all bonds, notes or other obligations of the Authority are paid in full, or provisions for such payment have been made pursuant to the applicable debt instrument. The Lease provides for payments to the City to cover the following:

- (a) an amount sufficient to pay the cost of administration, maintenance, repair and operation of the leased property, which includes overhead costs incurred by the City attributable to the leased property, net of the amount of any Federal, State, or other operating grants received by the City;
- (b) an amount sufficient to reimburse the City for capital costs incurred by the City for the construction of capital improvements to the leased property which are not paid or reimbursed from any other source.

In addition to the payments described above, the Board pays rent to the City in each fiscal year in an amount not to exceed the greater of (a) the principal and interest payable on general obligation bonds issued by the City for water and sewer purposes certified by the City to be paid within such fiscal year or (b) 15% of principal and interest payable on the bonds of the Authority to be paid within such fiscal year.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 5 (continued)

A summary of operation and maintenance expenses for the years ended June 30, 2006 and 2005 is as follows (in thousands)

	<u>2006</u>	<u>2005</u>
Water transmission and distribution	\$ 332,174	\$291,488
Sewer collection systems	392,071	355,581
City agency support cost	54,387	53,562
Fringe benefits	83,212	83,425
Payments for watershed improvements	66,833	45,595
Judgments and claims	<u>8,241</u>	<u>6,081</u>
	936,918	835,732
Rental payments to the City	<u>119,461</u>	<u>109,187</u>
	<u>\$1,056,379</u>	<u>\$944,919</u>

NOTE 6 - PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2006 and 2005, 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, 2006 and 2005, the System had a net payable of \$317.6 million and \$256.7 million, respectively, from the City for payments of utility construction and for overpayment of operations and maintenance expense.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 7 - SHORT-TERM LIABILITIES

In fiscal years 2005 and 2006, the changes in short-term liabilities were as follows (in thousands):

	Balance at June 30, 2004	Additions	Deletions	Balance at June 30, 2005	Additions	Deletions	Balance at June 30, 2006
Commercial paper (1)	<u>\$800,000</u>	<u>\$1,600,700</u>	<u>\$1,600,700</u>	<u>\$800,000</u>	<u>\$1,392,800</u>	<u>\$1,841,800</u>	<u>\$351,000</u>

(1) Commercial paper is used to pay construction costs in advance of long-term bond financing.

Commercial paper activity comprises the following for the year ended June 30, 2006 (in thousands):

	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
Commercial Paper Series 1 - Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	\$200,000	\$ 600,000	\$ 600,000	\$200,000
Commercial Paper Series 5 - Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	200,000	392,800	452,800	140,000
Commercial Paper Series 6 - Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	200,000	200,000	389,000	11,000
Commercial Paper Series 7 - Variable Rate, Short-term Rolling Maturity	<u>200,000</u>	<u>200,000</u>	<u>400,000</u>	<u>-</u>
Total commercial paper payable	<u>\$800,000</u>	<u>\$1,392,800</u>	<u>\$1,841,800</u>	<u>\$351,000</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 8 - LONG-TERM LIABILITIES

In fiscal years 2005 and 2006, the changes in long-term liabilities were as follows (in thousands):

<u>Bonds payable</u>	<u>Balance at June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>	<u>Due within one year</u>
First resolution	\$ 9,742,813	\$2,227,600	\$1,335,817	\$10,634,596	\$1,431,080	\$1,171,123	\$10,894,553	\$ 40,508
Second resolution	<u>3,490,104</u>	<u>621,034</u>	<u>111,683</u>	<u>3,999,455</u>	<u>1,186,847</u>	<u>146,504</u>	<u>5,039,798</u>	<u>174,553</u>
Total bonds payable	<u>13,232,917</u>	<u>2,848,634</u>	<u>1,447,500</u>	<u>14,634,051</u>	<u>2,617,927</u>	<u>1,317,627</u>	<u>15,934,351</u>	<u>\$215,061</u>
Less discounts (net)	197,293	(60,464)	36,525	100,304	(31,866)	26,431	42,007	
Less deferred refunding costs	<u>265,102</u>	<u>108,924</u>	<u>33,758</u>	<u>340,268</u>	<u>66,222</u>	<u>36,041</u>	<u>370,449</u>	
Total long-term liabilities	<u>\$12,770,522</u>	<u>\$2,800,174</u>	<u>\$1,377,217</u>	<u>\$14,193,479</u>	<u>\$2,583,571</u>	<u>\$1,255,155</u>	<u>\$15,521,895</u>	

With respect to all series, the Board has agreed to maintain rates and charges to provide revenues at levels sufficient to pay principal and interest requirements as well as to meet certain debt service coverage and operating cost funding requirements. All series are specific obligations of the Authority payable solely from and secured by a pledge of and lien on the gross revenue of the System, as defined.

During 2006 and 2005, the Authority issued \$720.7 million and \$1.2 billion, respectively, of bonds to refund \$683.3 million and \$1.1 billion, respectively, of outstanding bonds. The advance refundings resulted in an accounting loss of \$66.2 million and \$108.9 million, respectively. The Authority in effect reduced its aggregate debt service by \$56.3 million and \$107.4 million, respectively, and obtained an economic benefit of \$37.3 million and \$62.7 million, respectively.

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

During 2006 and 2005, the Authority defeased \$60.1 million and \$183.2 million, respectively, of outstanding bonds with \$60.1 million and \$159.9 million, respectively, of current revenue, which resulted in an accounting loss of \$1.0 million and \$13.9 million, respectively.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 8 (continued)

During 2005, the Authority issued \$50 million of bonds that refunded \$50 million of principal of the 2003 B issue in June 2006.

The Authority has defeased cumulatively \$9.056 billion and \$7.936 billion of outstanding bonds as of June 30, 2006 and 2005, respectively, by placing proceeds of refunding bonds issued 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.

As of June 30, 2006 and 2005, \$6.883 billion and \$5.991 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, 2006 are as follows (in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest (1)</u>	<u>Total</u>
2007	\$ 566,061	\$ 657,357	\$ 1,223,418
2008	231,816	648,695	880,511
2009	247,072	642,737	889,809
2010	250,504	636,910	887,414
2011	328,066	629,437	957,503
2012-2016	1,799,996	2,978,798	4,778,794
2017-2021	2,365,410	2,606,692	4,972,102
2022-2026	2,646,230	2,127,089	4,773,319
2027-2031	3,352,250	1,520,028	4,872,278
2032-2036	3,235,770	754,929	3,990,699
2037-2039	<u>1,262,176</u>	<u>136,888</u>	<u>1,399,064</u>
	<u>\$16,285,351</u>	<u>\$13,339,560</u>	<u>\$29,624,911</u>

- (1) Includes interest for variable rate bonds estimated at 3.97% which is the rate at the end of the fiscal year. Variable rate bonds are sold daily or weekly and interest rates are determined by the market on the day sold.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 8 (continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2006 (in thousands):

	Balance at June 30, 2005	Issued	Retired/ defeased	Balance at June 30, 2006
1991 Fiscal Series B - 6.00% to 7.25% Serial and Term Bonds maturing in varying installments through 2012	\$ 13,075	\$ -	\$ 2,820	\$ 10,255
1992 Fiscal Series B - 6.66% to 6.86% Serial and Term Bonds maturing in varying installments through 2014	14,242	-	2,924	11,318
1993 Fiscal Series A - 5.875% to 6.0% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2013	94,030	-	11,835	82,195
1993 Fiscal Series C - Adjustable Rate Term Bonds maturing 2022	100,000	-	-	100,000
1994 Fiscal Series 1 - 3.00% to 6.00% Serial Bonds maturing in varying installments through 2013	31,805	-	305	31,500
1994 Fiscal Series C - Adjustable Rate Term Bonds maturing in 2023	200,000	-	-	200,000
1994 Fiscal Series G - Adjustable, Auction and Leveraged Reverse Rate Bonds maturing in varying installments through 2024	185,000	-	-	185,000
1995 Fiscal Series A - Adjustable Rate Term Bonds maturing in varying installments through 2025	210,700	-	6,000	204,700
1995 Fiscal Series 1 - 5.25% to 6.875% Serial Bonds maturing in varying installments through 2016	28,930	-	2,435	26,495
1996 Fiscal Series B - 5.75% to 5.875% Serial Bonds maturing in varying installments through 2026	376,610	-	376,610	-
1996 Fiscal Series C - 4.90% to 5.75% Serial Bonds maturing in varying installments through 2017	30,275	-	820	29,455
1997 Fiscal Series A - 4.85% to 6.0% Serial Bonds maturing in varying installments through 2026	131,545	-	1,000	130,545
1997 Fiscal Series B - 5.75% to 5.80% Serial Bonds maturing in varying installments through 2029	100,000	-	-	100,000

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 8 (continued)

	Balance at June 30, 2005	Issued	Retired/ defeased	Balance at June 30, 2006
1998 Fiscal Series 1 - 4.00% to 5.35% Serial Bonds maturing in varying installments through 2017	\$ 32,420	\$ -	\$ 1,985	\$ 30,435
1998 Fiscal Series 3 - 4.30% to 6.00% Serial Bonds maturing in varying installments through 2016	348,196	-	35,158	313,038
1998 Fiscal Series 4 - 3.60% to 5.20% Serial Bonds maturing in varying installments through 2018	11,105	-	735	10,370
1998 Fiscal Series 6 - 4.827% to 5.125% Serial Bonds maturing in varying installments through 2019	14,447	-	814	13,633
1998 Fiscal Series A - 4.80% to 5.125% Serial Bonds maturing in varying installments through 2022	259,350	-	3,035	256,315
1998 Fiscal Series B - 5.125% to 5.25% Serial Bonds maturing in varying installments through 2030	449,525	-	225,055	224,470
1998 Fiscal Series C - 4.30% to 5.125% Serial Bonds maturing in varying installments through 2021	85,675	-	1,375	84,300
1998 Fiscal Series D - 4.25% to 5.00% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	372,295	-	13,025	359,270
1999 Fiscal Series 2 - 4.00% to 5.25% Serial Bonds maturing in varying installments through 2020	99,258	-	4,693	94,565
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	205,870	-	33,960	171,910
2000 Fiscal Series A - 5.50% to 5.75% Serial Bonds maturing in varying installments through 2032	80,000	-	80,000	-
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	10,085	-	505	9,580

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 8 (continued)

	Balance at June 30, 2005	Issued	Retired/ defeased	Balance at June 30, 2006
2001 Fiscal Series A - 5.50% Term Bonds maturing in varying installments through 2033	\$ 328,225	\$ -	\$ 328,225	\$ -
2001 Fiscal Series B - 4.5% to 5.125% Serial and Term Bonds maturing in varying installments through 2031	68,100	-	710	67,390
2001 Fiscal Series C - 5.125% Term Bonds maturing in varying installments through 2033	112,040	-	-	112,040
2001 Fiscal Series D - 4.5% to 5.5% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	257,325	-	22,525	234,800
2001 Fiscal Series E - 4.5% to 5.25% Serial and Term Bonds maturing in varying installments through 2031	86,105	-	-	86,105
2001 Fiscal Series F - Adjustable Rate Bonds maturing in varying installments through 2033	184,130	-	-	184,130
2002 Fiscal Series A - 5.00% to 5.75% Serial and Term Bonds maturing in varying installments through 2033	166,305	-	-	166,305
2002 Fiscal Series B - 3.625% to 5.00% Serial and Term Bonds maturing in varying installments through 2026	171,455	-	-	171,455
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	41,665	-	85	41,580
2002 Fiscal Series E - 3.4% to 5.0% Serial and Term Bonds maturing in varying installments through 2026	213,850	-	-	213,850
2002 Fiscal Series F - 3.6% to 5.0% Serial and Term Bonds maturing in varying installments through 2029	105,635	-	-	105,635
2002 Fiscal Series G - 5.00% to 5.125% Term Bonds maturing in varying installments through 2034	216,375	-	-	216,375

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 8 (continued)

	Balance at June 30, 2005	Issued	Retired/ defeased	Balance at June 30, 2006
2002 Fiscal Series 1 - 4.82% to 5.25% Serial Bonds maturing in varying installments through 2031	\$ 186,229	\$ -	\$ 5,591	\$ 180,638
2002 Fiscal Series 2 - 4.22% to 5.00% Serial Bonds maturing in varying installments through 2031	64,281	-	2,446	61,835
2002 Fiscal Series 3 - 4.65% to 5.00% Serial Bonds maturing in varying installments through 2031	477,213	-	13,903	463,310
2002 Fiscal Series 4 - 5.13% to 6.74% Serial Bonds maturing in varying installments through 2023	208,363	-	7,830	200,533
2002 Fiscal Series 5 - 3.82% to 5.21% Serial Bonds maturing in varying installments through 2031	169,116	-	5,234	163,882
2002 Fiscal Series 6 - 3.82% to 5.21% Serial Bonds maturing in varying installments through 2019	85,980	-	4,661	81,319
2002 Fiscal Series 7 - 7.4% to 7.5% Serial Bonds maturing in varying installments through 2012	7,540	-	1,615	5,925
2003 Fiscal Series A - 4.0% to 6.0% Serial, Term and Muni-CP1 Bonds maturing in varying installments through 2034	689,180	-	-	689,180
2003 Fiscal Series B - 4.0% to 5.25% Refundable Principal Installment Bonds maturing in varying installments through 2006	50,000	-	50,000	-
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	218,145	-	1,790	216,355
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	141,854	-	4,441	137,413

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 8 (continued)

	Balance at June 30, 2005	Issued	Retired/ defeased	Balance at June 30, 2006
2003 Fiscal Series 2 - 5.27% Serial Bonds maturing in varying installments through 2028	\$ 572,959	\$ -	\$ 11,295	\$ 561,664
2003 Fiscal Series 3 - 5.15% Serial Bonds maturing in varying installments through 2025	20,490	-	665	19,825
2003 Fiscal Series 4 - 5.18% Serial Bonds maturing in varying installments through 2025	32,615	-	1,070	31,545
2003 Fiscal Series 5 - 4.23% to 4.45% Serial Bonds maturing in varying installments through 2032	286,637	-	8,707	277,930
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	340,245	-	1,745	338,500
2004 Fiscal Series C - 2.00% - 5.00% Serial and Term Bonds maturing in varying installments through 2035	596,310	-	565	595,745
2004 Fiscal Series 1 - 4.12% - 4.45% Serial Bonds maturing in varying installments through 2033	294,912	-	7,345	287,567
2004 Fiscal Series 2 - 4.46% Serial Bonds maturing in varying installments through 2026	255,154	-	6,091	249,063
2005 Fiscal Series A - 5.00% Serial Bonds maturing in varying installments through 2039	150,000	-	-	150,000
2005 Fiscal Series B - 2.125% - 5.00% Serial Bonds maturing in varying installments through 2036	922,030	-	1,025	921,005
2005 Fiscal Series C - 3.00% - 5.00% Serial Bonds maturing in varying installments through 2036	576,445	-	710	575,735
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	229,965	-	6,019	223,946
2005 Fiscal Series 2 - 2.567% - 5.00% Bonds maturing in varying installments through 2026	389,900	-	8,626	381,274
2006 Series A - 3.50% - 5.00% Serial Bonds maturing in varying installments through 2039	-	524,530	5,285	519,245
2006 Series B - 5.00% Term Bonds maturing in 2036	-	150,000	-	150,000
2006 Series C - 4.50% - 4.75% Term Bonds maturing in 2033	-	350,345	-	350,345

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 8 (continued)

	Balance at June 30, 2005	Issued	Retired/ defeased	Balance at June 30, 2006
2006 Fiscal Series D - 4.5% - 5.00% Serial Bonds maturing in varying installments through 2038	\$ -	\$ 406,205	\$ -	\$ 406,205
2006 Fiscal Series AA - Adjustable rate bonds maturing in varying installments through 2032	-	400,000	-	400,000
2006 Fiscal Series BB - 3.25% - 5.00% Serial Bonds maturing in varying installments through 2016	-	100,000	-	100,000
2006 Fiscal Series 1 - Adjustable rate bonds maturing in varying installments through 2036	-	229,018	4,334	224,684
2006 Fiscal Series 2 - Adjustable rate bonds maturing in varying installments through 2036	-	201,441	-	201,441
2006 Fiscal Series 3 - Adjustable rate bonds maturing in varying installments through 2036	-	256,388	-	256,388
Total debt payable	<u>14,634,051</u>	<u>\$2,617,927</u>	<u>\$1,317,627</u>	<u>15,934,351</u>
Current portion of bonds and notes payable	<u>237,984</u>			<u>215,061</u>
Bonds and notes payable, less current portion	<u>\$14,396,067</u>			<u>\$15,719,290</u>

Derivatives

In 2004, the Authority entered into a \$200 million interest rate exchange agreement under which the Authority receives a fixed rate in exchange for a floating rate based on the 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 BMA index and the counterparty to pay 3.567%.

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

Through the swap agreements the Authority is exposed to credit risk, i.e., the risk that the counterparty fails to perform its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swap. The fair value of the swaps at June 30, 2006 and 2005 was approximately \$5.8 million and \$2.9 million, respectively, in favor of the counterparty. To mitigate credit risk, the agreement requires the counterparty to post collateral for the Authority's benefit if it is downgraded below a designated threshold, as defined in the agreement.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 9 - RESTRICTED ASSETS

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

	<u>2006</u>	<u>2005</u>
<u>The Board</u>		
Operation and maintenance reserve account	\$ 157,797	\$ 145,683
Operation and maintenance reserve general account	<u>10</u>	<u>10</u>
	<u>157,807</u>	<u>145,693</u>
<u>The Authority</u>		
Revenue fund	171,859	152,544
Debt service reserve fund	787,808	754,672
Construction fund	62,097	245,070
Escrow fund	<u>293,394</u>	<u>662,732</u>
	<u>1,315,158</u>	<u>1,815,018</u>
	<u>\$1,472,965</u>	<u>\$1,960,711</u>

The operation and maintenance reserve account is established as a depository to hold the operations and maintenance reserve fund as required by the Resolution. It is required to hold one-sixth of the operating expenses as set forth in the annual budget. It is funded through the cash receipts of the Board. The operation and maintenance reserve general account is established as a depository to hold all excess funds of the Board after all legally mandated transfers have been made. It is available to meet any deficiencies in the flow of funds including debt service and alternatively can be used as a financing source for capital expenditures.

The revenue fund is established as a depository to fund the debt service, Authority expense, debt service reserve and escrow funds. It is funded through cash transfers from the Board. The debt service reserve fund is established as a depository to hold the maximum annual debt service requirement for the next current or any future fiscal year. It is funded through revenue bond proceeds and the revenue fund.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 9 (continued)

The debt service fund is established as a depository to pay all principal and interest payments on the Authority's debt for the current fiscal year. It is funded through the revenue fund. The construction fund is established as a depository to pay all capital construction costs incurred by the City and reimbursed by the Authority. It is funded through the proceeds of bond and note sales. The escrow fund is established as a depository to refund debt in future years. It is funded through bond proceeds.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

a. Construction

The System has contractual commitments of approximately \$5,058 million and \$4,395 million at June 30, 2006 and 2005, respectively, for water and sewer projects.

b. Claims and Litigation

In accordance with the Lease, the Board is required to reimburse the City for any judgment or settlement paid by the City arising out of a tort claim to the extent that the City's liability is related to capital improvements and the operation or maintenance of the System. However, in no event shall the payment made to the City, in any fiscal year, exceed an amount equal to 5% of the aggregate revenues shown on the prior year's audited financial statements of the System. 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, 2006, the potential future liability attributable to the System for claims outstanding against the City was estimated to be \$110.5 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.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 10 (continued)

c. Arbitrage Rebate

To maintain the exemption from Federal income tax of interest on bonds issued subsequent to January 1, 1986, the System will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all nonpurpose obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, and within 60 days after retirement of the bonds. During 2006 and 2005, the System paid \$882 thousand and \$232 thousand, respectively, in rebates. At June 30, 2006 and 2005, the Authority had a liability of \$7.493 million and \$7.279 million, respectively.

NOTE 11 - PENSION PLANS

During 2006, the System employed eleven individuals at the Water Authority. Pension expense for these employees totaled \$101,000. All other personnel are employees of the City and are covered under the City's pension plan. The System pays the costs of those employees' pension through an allocation of fringe benefit costs, which are included within operations and maintenance expenses in the accompanying financial statements.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 12 (continued)

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

Funding Policy

The Authority is not required to provide funding for OPEB, other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal year ended June 30, 2006, the Authority had no retirees, and thus made no contribution to the Plan. Plan members are not required to contribute to the plan, 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 Statement No. 45. The frozen entry age cost method was used in the actuarial valuation prepared as of June 30, 2005, which was the basis for the 2006 ARC calculation.

The following table shows the elements of the Authority's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Authority's net OPEB obligation to the Plan for the year ended June 30, 2006:

	<u>Amount</u>
Normal cost	\$ 74,354
Amortization of unfunded actuarial liability over one year	308,348
Interest at 4.0%	<u>15,308</u>
Annual required contribution	<u>\$398,010</u>
OPEB cost (expense) for fiscal 2006	\$398,010
Contributions made	<u>-</u>
Increase in net OPEB obligation	398,010
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u>\$398,010</u>

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 12 (continued)

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

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

Funded Status and Funding Progress

As of June 30, 2005, the most recent (initial) actuarial valuation date, the Plan was 0.0% funded. The actuarial accrued liability for benefits was \$308 thousand, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$308 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was \$1 million, and the ratio of the UAAL to the covered payroll was 29.6%.

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.

Implementation for Fiscal 2006

As a component unit of the City, the Authority is required to implement GASB No. 45 for its fiscal year ended June 30, 2006, the year for which the City has implemented. As there was no pay-as-you-go OPEB cost during fiscal 2005, no OPEB expense is reported for that year.

New York City Water and Sewer System

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 12 (continued)

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

Required Supplementary Information (unaudited)

Schedule of Funding Progress

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

NOTE 13 - SUBSEQUENT EVENTS

On October 25, 2006, the Authority issued fiscal 2007 Series AA Second Resolution Bonds in the aggregate amount of \$199.9 million to reimburse outstanding commercial paper notes, and to pay certain costs of issuance.

On October 25, 2006, the Authority issued fiscal 2007 Series BB Second Resolution Bonds in the aggregate amount of \$134.4 million to refund outstanding bonds and to pay for certain costs of issuance.

APPENDIX E

FORMS OF OPINION OF BOND COUNSEL

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FORM OF OPINION OF BOND COUNSEL

October , 2007

New York City Municipal
Water Finance Authority

**New York City Municipal Water Finance Authority
Water and Sewer System Second General Resolution Revenue Bonds,
Adjustable Rate Fiscal 2008 Series BB
and
Adjustable Rate Fiscal 2008 Series CC
(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 \$401,000,000 aggregate principal amount of Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2008 Series BB (the "2008 Series BB Bonds") and \$352,200,000 aggregate principal amount of Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2008 Series CC (the "2008 Series CC 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 "Resolution"), including with respect to the 2008 Series BB Bonds by a supplemental resolution adopted October , 2007 entitled "Supplemental Resolution No. 48 Authorizing the Issuance of up to \$401,000,000 Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2008 Series BB" (the "Supplemental Resolution No. 48") authorizing the 2008 Series BB Bonds and including with respect to the 2008 Series CC Bonds by a supplemental resolution adopted October , 2007 entitled "Supplemental Resolution No. 49 Authorizing the Issuance of up to \$352,200,000 Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2008 Series CC" (the "Supplemental Resolution No. 49") authorizing the 2008 Series CC Bonds. The 2008 Series BB Bonds and 2008 Series CC Bonds are part of an issue of bonds of the Authority (the "Bonds") which the Authority has created under the terms of the Resolution and is authorized to issue from time to time for the purposes authorized by the Act and the Resolution, as then in effect, and without limitation as to amount except as provided in the Resolution or as may be limited by law. The 2008 Series BB Bonds and 2008 Series CC Bonds are being issued for the purposes of the Resolution. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

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

In such connection, we have reviewed the Resolution, the Supplemental Resolution No. 48, the Supplemental Resolution No. 49, the Authority's Water and Sewer System General Revenue Bond

Resolution, adopted November 14, 1985 (the "First Resolution"), the Lease, the Financing Agreement and the Tax Certificate of the Authority (the "Tax Certificate"), opinion of Corporation Counsel of The City of New York, certificates of the Authority, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this letter. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution, the Supplemental Resolution No. 48, the Supplemental Resolution No. 49, the First Resolution, the Lease, the Financing Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2008 Series BB Bonds or the 2008 Series CC Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2008 Series BB Bonds, the 2008 Series CC Bonds, the Resolution, the Supplemental Resolution No. 48, the Supplemental Resolution No. 49, the First Resolution, the Lease, the Financing Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Resolution, the Supplemental Resolution No. 48, the Supplemental Resolution No. 49, 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 2008 Series BB Bonds or the 2008 Series CC Bonds and express no opinion with respect thereto herein.

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

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State, duly created and existing under the laws of the State with the right and lawful authority and power to enter into the Financing Agreement, to adopt the Resolution, the Supplemental Resolution No. 48 and the Supplemental Resolution No. 49 and to issue the 2008 Series BB Bonds and the 2008 Series CC Bonds.

2. The Resolution, the Supplemental Resolution No. 48 and the Supplemental Resolution No. 49 have been duly and lawfully adopted by the Authority, are in full force and effect and are the legal, valid and binding agreements of the Authority enforceable in accordance with their terms. The Resolution, the Supplemental Resolution No. 48 and the Supplemental Resolution No. 49 create the valid, binding and perfected pledges they purport to create of the Revenues and any moneys or securities on deposit in the Funds and Accounts created thereby for the repayment of the Bonds, subject only to the provisions of the Resolution, the Supplemental Resolution No. 48, the Supplemental Resolution No. 49 and the Financing Agreement permitting the application thereof for or to the purposes and on the terms and conditions permitted thereby, including the making of any required payments to the United States with respect to arbitrage earnings.

3. The 2008 Series BB Bonds and the 2008 Series CC Bonds have been duly and validly authorized and issued. The 2008 Series BB Bonds and the 2008 Series CC Bonds are valid and binding special obligations of the Authority payable as provided in the Resolution, are enforceable in accordance with their terms and the terms of the Resolution and are entitled, together with all other Bonds issued under the Resolution to the benefits of the Resolution and the Act.

4. The 2008 Series BB Bonds and the 2008 Series CC Bonds are payable solely from the Revenues and other amounts pledged to such payment under the Resolution. Neither the 2008 Series BB Bonds nor the 2008 Series CC Bonds are a debt of the State, the City or the Board and neither the State, the City, the Board nor any other political subdivision of the State is liable thereon.

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

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

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

8. Interest on the 2008 Series BB Bonds and the 2008 Series CC Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Neither the interest on the 2008 Series BB Bonds nor the 2008 Series CC Bonds is a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the 2008 Series BB Bonds and the 2008 Series CC Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2008 Series BB Bonds or the 2008 Series CC Bonds.

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

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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APPENDIX F

BOOK-ENTRY-ONLY FORM

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BOOK-ENTRY-ONLY FORM

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of New York Banking Law, member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (“NSCC,” “FICC” and “EMCC”, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc. the American Stock Exchange LLC, and the National Association of Securities Dealers Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com or www.dtc.org.

Purchases of Fiscal 2008 BB and CC Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Fiscal 2008 BB and CC Bonds on DTC’s records. The ownership interest of each actual purchaser of each Fiscal 2008 AA Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Fiscal 2008 BB and CC Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Fiscal 2008 BB and CC Bonds, except in the event that use of the book-entry system for the Fiscal 2008 BB and CC Bonds is discontinued.

To facilitate subsequent transfers, all Fiscal 2008 BB and CC Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Fiscal 2008 BB and CC Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of any Fiscal 2008 BB and CC Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts the Fiscal 2008 BB and CC Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Fiscal 2008 BB and CC Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Fiscal 2008 BB and CC Bonds, such as redemptions, tenders, defaults and proposed amendments to the bond documents. For example, Beneficial Owners of Fiscal 2008 BB and CC Bonds may wish to ascertain that the nominee holding the Fiscal 2008 BB and CC Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Fiscal 2008 BB and CC Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Fiscal 2008 BB and CC Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Fiscal 2008 BB and CC Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Fiscal 2008 BB and CC Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Fiscal 2008 BB and CC Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Fiscal 2008 BB and CC Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

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

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

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

APPENDIX G

DESCRIPTION OF FACILITY PROVIDERS

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DESCRIPTION OF THE FACILITY PROVIDERS

The Authority makes no representation as to the accuracy or adequacy of the information relating to the Facility Providers set forth below or as to the absence of material adverse changes in such information subsequent to the date indicated. Summaries of or references to the Credit Facilities are made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all such provisions.

BB-1, BB-3 and BB-4 Facility Provider

Fortis Bank

Fortis Bank S.A./N.V. (“Fortis Bank”) conducts the banking activities of Fortis, an international financial services provider active in the fields of banking, insurance and investment.

Fortis Bank is a wholly-owned indirect subsidiary of Fortis SA/NV and Fortis N.V., whose principal offices are located in Brussels (Belgium) and Utrecht (the Netherlands) respectively.

Fortis Bank is a commercial bank offering a full range of banking and insurance products and services to a wide range of customers. In its home market, the Benelux countries, Fortis Bank occupies a leading position. Fortis is the largest bank in Belgium, the second-largest in Luxembourg, and the fourth-largest in the Netherlands. The bank had full-time staff of over 43,000 in 2006. Outside its home market, Fortis Bank concentrates on selected market segments. Its business is subject to examination and regulation by the Belgian Banking, Finance and Insurance Commission (“CBFA”).

As of December 31, 2006 Fortis Bank had total assets of EUR 674.7 billion.

Fortis Bank’s New York branch (the “New York Branch”) has been licensed by the New York State Banking Department (the “NY Banking Department”) to carry on the business of a branch as of November 15, 2002. The New York Branch is subject to examination by the Banking Department and the Federal Reserve Bank of New York. In addition, the New York Branch is required to file periodic and other reports containing financial information with the Banking Department and the Federal Reserve Bank of New York.

Additional information, including the Fortis Annual Report for 2006, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to Fortis Bank, 520 Madison Avenue, New York, New York 10022. This information is also available at www.Fortis.com.

The financial statements appearing in the Fortis Annual Report for 2006 were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which differ from generally accepted accounting principles in use in the United States.

The information in this Appendix has been obtained from Fortis Bank, which is solely responsible for its content. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of Fortis Bank since the date hereof, or that the information contained or referred to in this Appendix G is correct as of any time subsequent to its date.

BB-2 and BB-5 Facility Provider

Bank of America, N.A.

Bank of America, N.A. (the “Bank”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “Corporation”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2007, the Bank had consolidated assets of \$1,252 billion, consolidated deposits of \$776 billion and stockholder’s equity of \$109 billion based on regulatory accounting principles.

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

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

The BB-2 and BB-5 Standby Bond Purchase Agreement has been issued by the Bank. Moody’s Investors Service, Inc. (“Moody’s”) currently rates the Bank’s long-term debt as “Aaa” and short-term debt as “P-1.” The outlook is stable. Standard & Poor’s rates the Bank’s long-term debt as “AA+” and its short-term debt as “A-1+.” The outlook is stable. Fitch Ratings, Inc. (“Fitch”) rates long-term debt of the Bank as “AA” and short-term debt as “F1+.” The outlook is stable. Further information with respect to such ratings may be obtained from Moody’s, Standard & Poor’s and Fitch, respectively. No assurances can be given that the current ratings of the Bank’s instruments will be maintained.

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

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

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

AUCTION PROCEDURES

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AUCTION PROCEDURES

During an Auction Rate Mode, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, except that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

For purposes of this Appendix, the term “Bonds” refers to the Fiscal 2008 BB or CC Bonds while they are in the Auction Rate Mode.

Definitions

“**Agent Member**” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“**All Hold Rate**” means, as of any Auction Date, 55% of the Index in effect on such Auction Date for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 90% of the Index in effect on such Auction Date for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

“**ARS Conversion Date**” means with respect to a Subseries of Bonds, the date on which the Bonds of such Subseries convert from an interest rate period other than an ARS Rate Period and begin to bear interest at the Auction Period Rate, including the Issue Date.

“**ARS Rate Period**” means, for each Subseries of Bonds, any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of such Bonds.

“**Auction**” means each periodic implementation of the Auction Procedures.

“**Auction Agent**” means Wells Fargo Bank, N.A. or another Auction Agent appointed by the Authority.

“**Auction Agreement**” means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix H with respect to the Bonds while such Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

“**Auction Date**” means with respect to any Subseries:

(a) *Daily Auction Period.* If a Subseries of Bonds is in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) *Flexible Auction Period.* If a Subseries of Bonds is in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) *Other Auction Periods.* If a Subseries of Bonds is in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); *provided, however*, that the last Auction Date with respect to a Subseries of Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the

Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and

provided, further, that if a Subseries of Bonds is in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each Subseries is set forth on the inside front cover of this Reoffering Circular.

“Auction Desk” means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

“Auction Period” means with respect to each Series of Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a Subseries of Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven day Auction Period.* With respect to a Subseries of Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A) When Auctions Occur on this day	(B) Auction Period Generally Begins this day	(C) Auction Period Generally Ends this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to a Subseries of Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to a Subseries of Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table

above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to a Subseries of Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a Subseries of Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding December 14 or June 14;

(h) *Conversions.* If there is a conversion of a Subseries of Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

(i) *Automatic Conversions.* Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“Auction Period Rate” means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined as provided herein under the caption “Determination of Auction Period Rate”; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

“Auction Procedures” means the procedures for conducting Auctions for Bonds during an ARS Rate Period set forth in this Appendix H.

“Auction Rate” means for each Subseries of Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate for such Series of Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such Series of Bonds.

“Auction Rate Mode” means the period during which the Bonds are in an Initial Period or an ARS Rate Period.

“Authorized Denominations” means \$25,000, or such other amount specified in the Certificate, and integral multiples thereof so long as the Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Authorizing Document to the contrary.

“Authorizing Document” means the Resolution and the applicable Supplemental Resolution authorizing the issuance of a Series of Bonds.

“Available Bonds” means, for each Series of Bonds on each Auction Date, the number of Units of Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified herein under the caption “Order by Existing Owners and Potential Owners.”

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Authority and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Authority. The “Broker-Dealer of record” with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the Authority and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, as such agreement may from time to time be amended or supplemented.

“Broker-Dealer Deadline” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions in this Appendix. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“Business Day” in addition to any other definition of “Business Day” included in the Authorizing Document, while Bonds bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

“Clerical Error” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer’s Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

“Conversion Date” means the date on which any Subseries of the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

“Electronic Means” means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“Error Correction Deadline” means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by

any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

“Existing Owner” means a Person who is the beneficial owner of Bonds; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“Flexible Auction Period” means with respect to a Subseries of Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Subseries of Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Subseries of Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Subseries of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Subseries of Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Subseries of Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Subseries of Bonds.

“Hold Order” has the meaning specified herein under the caption “Orders by Existing Owners and Potential Owners.”

“Index” has the meaning specified herein under the caption “Index.”

“Initial Period” means the period commencing on the Issue Date and extending to and including the date set forth in this Reoffering Circular as the last day of the Initial Period for each Subseries of Bonds and following an ARS Conversion Date the Initial Period will mean the period from the ARS Conversion Date to but not including the first Interest Payment Date after the ARS Conversion Date.

“Initial Period Rate” has the meaning set forth in the applicable Supplemental Resolution.

“Interest Payment Date” with respect to a Subseries of Bonds bearing interest at Auction Period Rates, means, notwithstanding anything else in the Authorizing Document to the contrary, the first Interest Payment Date for such Subseries of Bonds as set forth on the inside cover of this Reoffering Circular (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding the first date of such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Bonds would be payable if such Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds of such Series becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

“Issue Date” means October 24, 2007.

“Maximum Rate” means for any Bond in the Auction Rate Mode (i) 12% if the interest on such Bond is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and (ii) 18% if the interest on such Bond is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“Record Date” means, notwithstanding anything else in the Authorizing Document, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

“Securities Depository” means, notwithstanding anything else in the Authorizing Document to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Authority.

“Sell Order” has the meaning specified herein under “Orders by Existing Owners and Potential Owners.”

“Submission Deadline” means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Trustee or the Authority pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by the Trustee or the Authority. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

“Submitted Bid” has the meaning specified in subsection (b) under the caption “Determination of Auction Rate.”

“Submitted Hold Order” has the meaning specified in subsection (b) under the caption “Determination of Auction Rate.”

“Submitted Order” has the meaning specified in subsection (b) under the caption “Determination of Auction Rate.”

“Submitted Sell Order” has the meaning specified in subsection (b) under the caption “Determination of Auction Rate.”

“Sufficient Clearing Bids” means for each Subseries of Bonds, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

“Units” means a principal amount of Bonds equal to the minimum Authorized Denominations.

“Winning Bid Rate” means for each Subseries of Bonds, the lowest rate specified in any Submitted Bid of such Subseries which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Subseries.

Orders by Existing Owners and Potential Owners

(a) Prior to the Broker-Dealer Deadline for each Subseries on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a “Hold Order,” an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a “Bid,” and an Order containing the information referred to in clause (i)(C) above is referred to as a “Sell Order.”

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b)(i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in subsection (a)(v) under the caption “Allocation of Bonds” if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in subsection (b)(iv) under the caption “Allocation of Bonds” if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (b)(iv) under the caption “Allocation of Bonds” if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (a)(vi) under the caption “Allocation of Bonds” if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the Bonds of a particular Series held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the

Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds of a Subseries to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided herein under the caption "Submission of Orders by Broker-Dealers to Auction Agent"; and

(iii) for purposes of any Auction other than during a daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

Submission of Orders by Broker-Dealers to Auction Agent

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for a Subseries of Bonds, all Orders with respect to Bonds of such Series accepted by such Broker-Dealer in accordance with "Orders by Existing Owners and Potential Owners" above and specifying with respect to each Order or aggregation of Orders pursuant to paragraph (b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units of Bonds of such Subseries, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Bonds;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the number of Units of such Subseries, if any, subject to any Hold Order placed by such Existing Owner;

(B) the number of Units of such Subseries, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the number of Units of such Subseries, if any, subject to any Sell Order placed by such Existing Owner; and

(v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) None of the Authority, the Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained in this Appendix shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error on the part of the Broker-Dealer in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this paragraph (f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this paragraph (f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Treatment of Orders by the Auction Agent

Anything in this Appendix to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) below and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a Subseries are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Bonds of such Subseries for which such Broker-Dealer is the Broker-Dealer of record;

(ii)(A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Subseries for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Bonds of such Subseries subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Subseries for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Subseries for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units of Bonds of such Subseries for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Subseries for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, of such Bonds of such Subseries subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Bonds of such Subseries equal to the excess of the number of Units of Bonds of such Subseries for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of the Bonds of such Subseries considered to be subject to Hold Orders pursuant to clause

(i) above and the number of Units of Bonds of such Subseries considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee or the Authority that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Trustee or the Authority has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the Bonds of a particular Subseries is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds of a particular Subseries to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

(h) Any Bid specifying a rate higher than the Maximum Rate will (i) be treated as a Sell Order if submitted by an Existing Owner and (ii) not be accepted if submitted by a Potential Owner.

Determination of Auction Period Rate

(a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each Subseries of Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each Subseries of Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth below if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day)

and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth below if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate or an All Hold Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

The percentage of the Index referred to above is specified below under the heading "Index."

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

Allocation of Bonds

(a) In the event of Sufficient Clearing Bids for a Series of Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Subseries of Bonds, Submitted Orders for each Subseries of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Bonds subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the undertakings described in paragraphs (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the Bonds that is not an integral multiple of an Authorized Denomination on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the undertakings described in paragraph (a) above, any Potential Owner would be required to purchase less than an Authorized Denomination in principal amount of the Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Bonds for purchase among Potential Owners so that the principal amount of the Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing the Bonds on such Auction Date.

Notice of Auction Period Rate

(a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each Subseries of Bonds for which an Auction was held on such Auction Date:

- (i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;
- (ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the number of Units, if any, to be sold by such Existing Owner;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units, if any, to be purchased by such Potential Owner;
- (v) if the aggregate number of Units to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids;
- (vi) the amount of dividend or interest payable per Unit on each Interest Payment Date with respect to such Auction Period; and
- (vii) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each Subseries of Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction

Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the number of Units to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Authority and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

Index

(a) "Index" means on any Auction Date with respect to Bonds in any Auction Period of 35 days or less, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Reuters Screen LIBORO1 Page (or such other page as may replace that page on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits for one month) at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market. The Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in *The Wall Street Journal* or such other source as may be mutually agreed upon by the Authority and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Authority. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

The percentage of the Index referred to herein under "Determination of Auction Period Rate" is 75% for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 110% for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

(b) If for any reason on any Auction Date the Index shall not be determined as provided above, the Index shall be the Index for the prior Business Day.

(c) The determination of the Index as provided herein shall be conclusive and binding upon the Authority, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

Miscellaneous Provisions Regarding Auctions

(a) In this Appendix, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to each Series of Bonds, the provisions of the Authorizing Document and the definitions contained therein and described in this Appendix, including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Authorizing Document by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Authorizing Document, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Authority and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Authority that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Authority within 90 days after the Authority receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee.

During an ARS Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

(d) The Auction Agent shall continue to implement the Auction Procedures notwithstanding the occurrence of an Event of Default under the Authorizing Document.

Changes in Auction Period or Auction Date

(a) Changes in Auction Period.

(i) During any ARS Rate Period, the Authority, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds of a Subseries among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. The Authority shall initiate the change in the length of the Auction Period by giving written notice to the Authority, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds of such Subseries.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds of any Subseries, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of such Subseries if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, at the direction of the Authority, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of “Auction Date” in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of

the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the Authority's direction to specify an earlier or later Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Authority and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which an Auction Period ends and the Interest Payment Dates relating to such Auction Period shall be adjusted accordingly.

(c) *Changes Resulting from Unscheduled Holidays.* If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by the Broker-Dealers for a majority of the outstanding Units (based on the number of Units for which a Broker-Dealer is listed as the Broker-Dealer in the Existing Owner Registry maintained by the Auction Agent pursuant to the Auction Agreement), and, if there is not a majority, so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date, and the Interest Payment Date and the Auction Period shall be adjusted accordingly.

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APPENDIX I

SPECIMEN BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

[NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to

or its successor (the "Paying Agent ") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
 [LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

This policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

 President

Attest:

 Assistant Secretary

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TABLE OF REFUNDED BONDS

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TABLE OF REFUNDED BONDS

The Authority expects to refund the Outstanding Water and Sewer System Revenue Bonds specified below on November 26, 2007 by providing for the payment of the principal of, redemption premium and interest on such Bonds to November 26, 2007. The refunding is contingent upon delivery of the Fiscal 2008 CC Bonds.

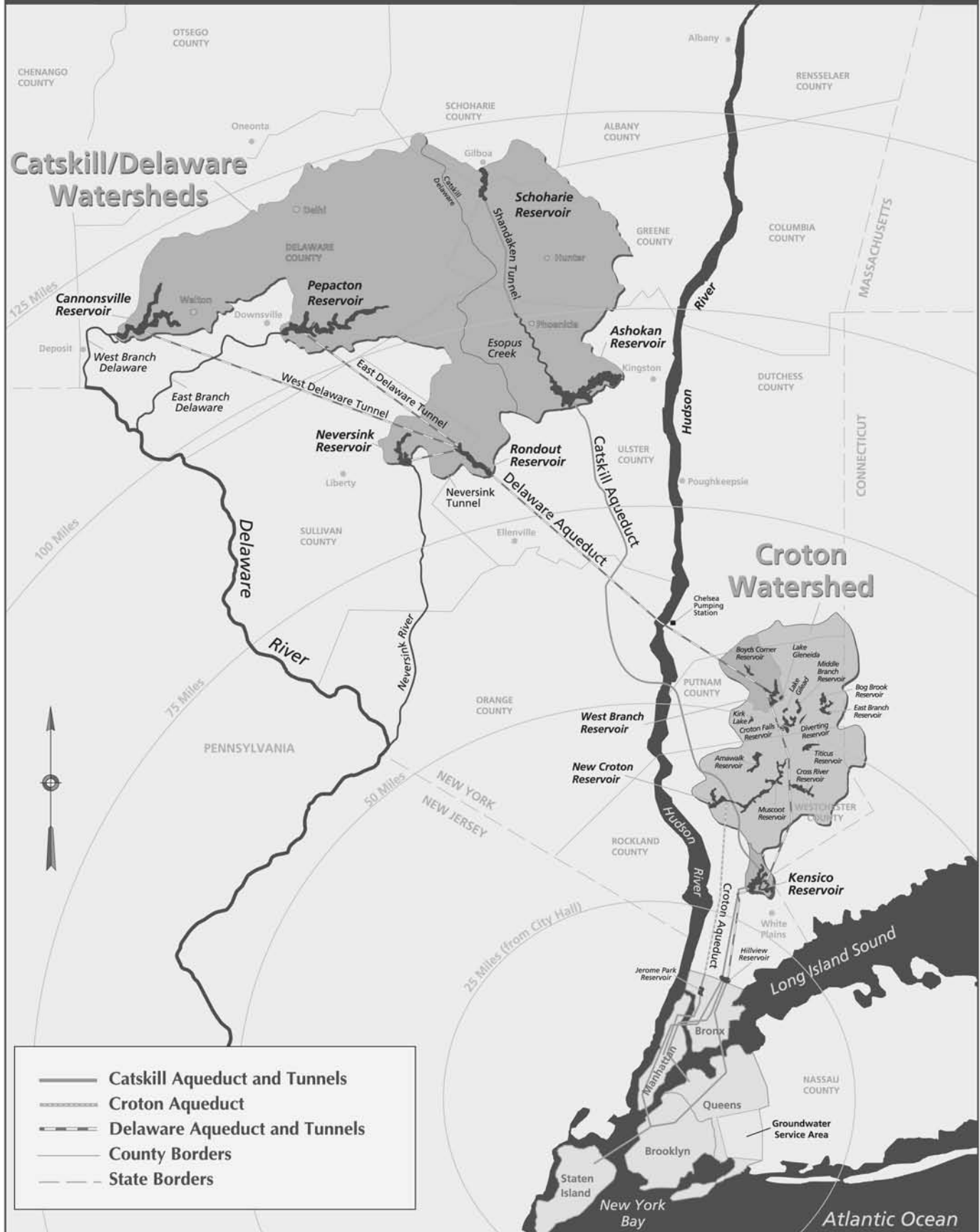
<u>Series</u>	<u>Coupon</u>	<u>Maturity Date</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount to be Refunded</u>	<u>Redemption Price</u>
1998A	5.200%	6/15/2013	\$ 2,065,000	\$ 2,065,000	101%
1998A	5.250	6/15/2014	2,175,000	2,175,000	101
1998A	5.125	6/15/2017	40,730,000	40,730,000	101
1998A	5.250	6/15/2018	15,660,000	15,660,000	101
1998A	5.125	6/15/2021	130,140,000	130,140,000	101
1998A	5.125	6/15/2022	65,545,000	65,545,000	101
1998C	5.000	6/15/2013	430,000	430,000	101
1998C	5.100	6/15/2014	450,000	450,000	101
1998C	5.125	6/15/2015	470,000	470,000	101
1998C	5.125	6/15/2016	495,000	495,000	101
1998C	5.000	6/15/2021	82,130,000	82,130,000	101

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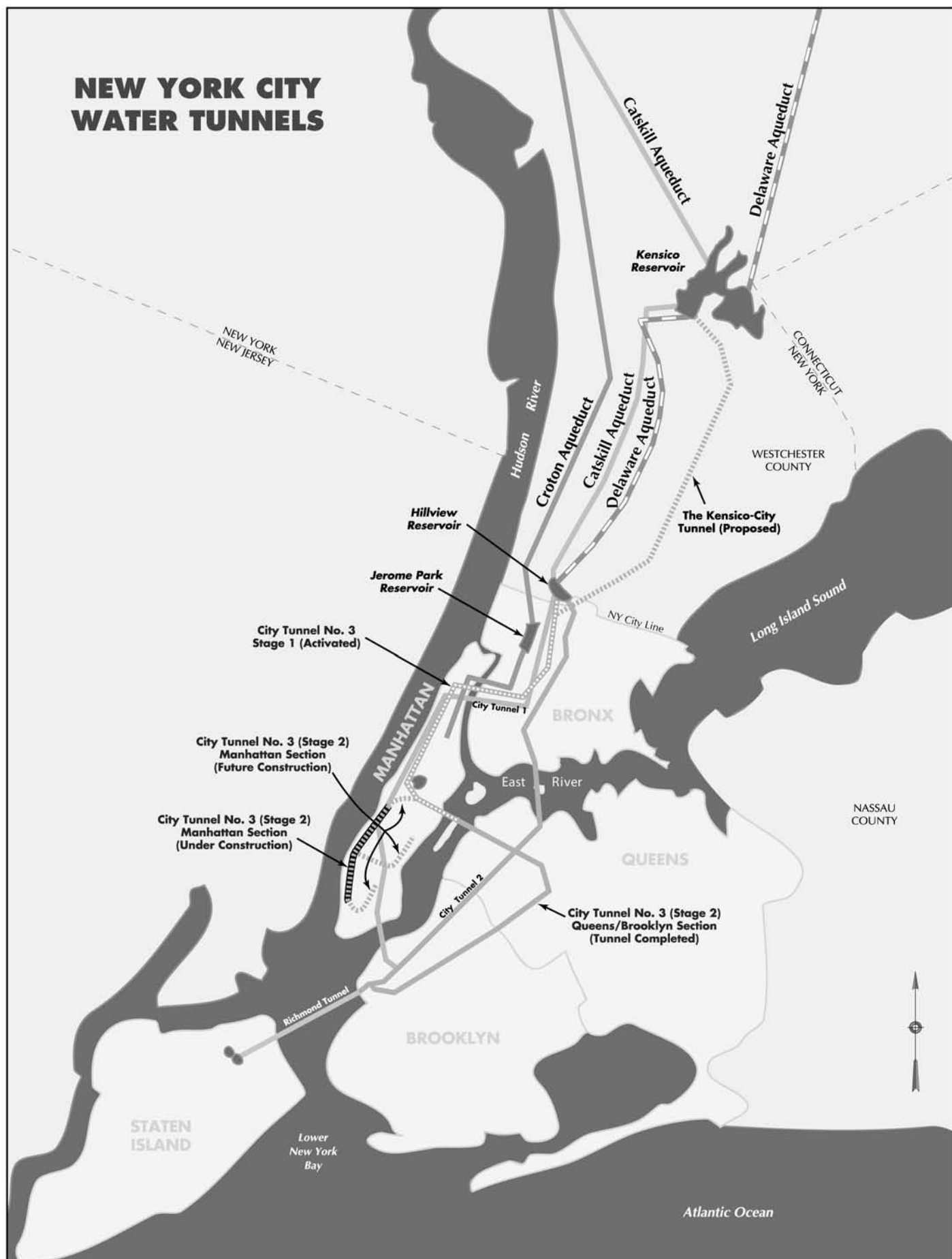
SYSTEM MAPS

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New York City Water Supply System



NEW YORK CITY WATER TUNNELS

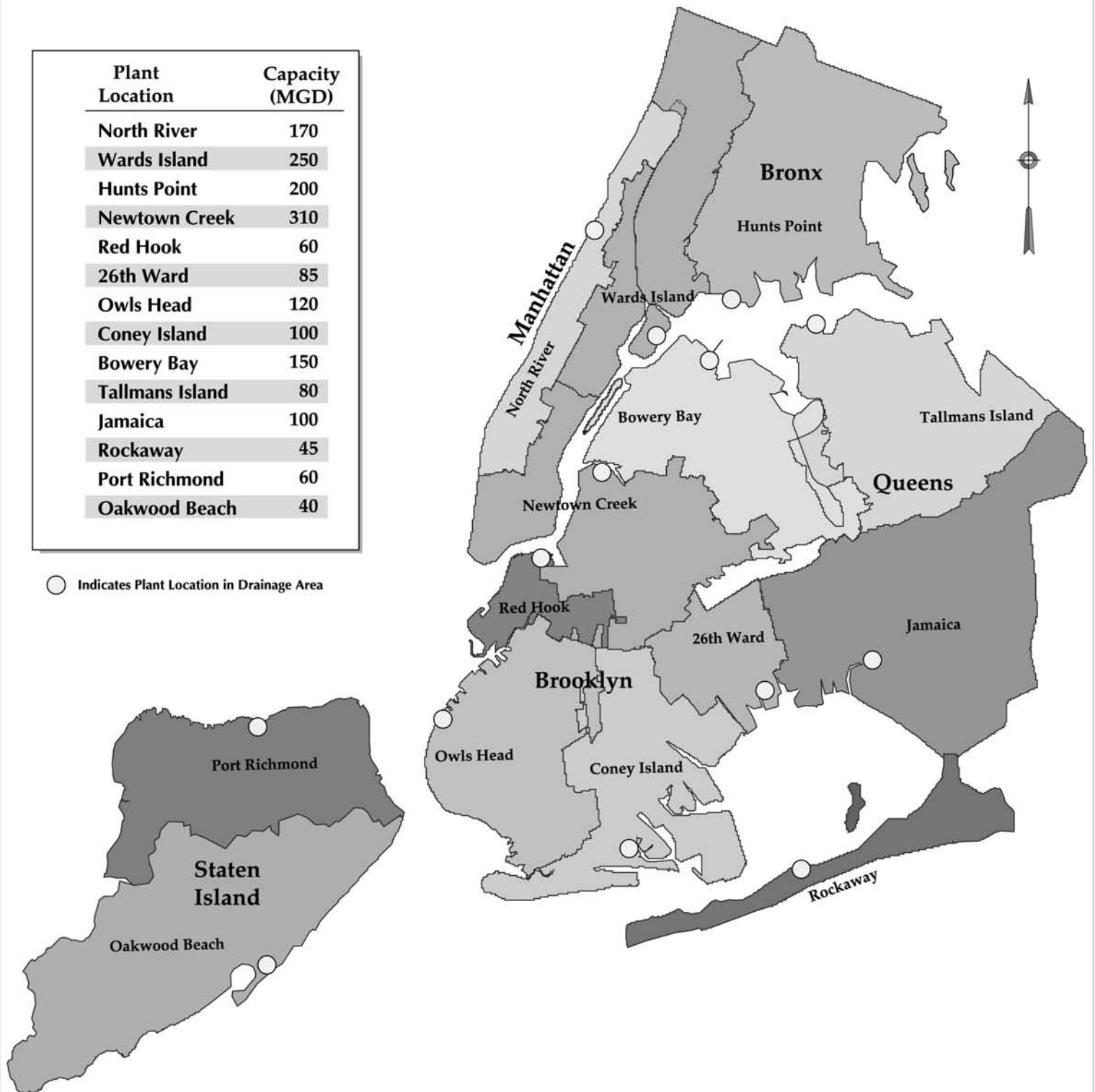


New York City Drainage Areas and Water Pollution Control Plants

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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