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The New York City Municipal Water Finance Authority

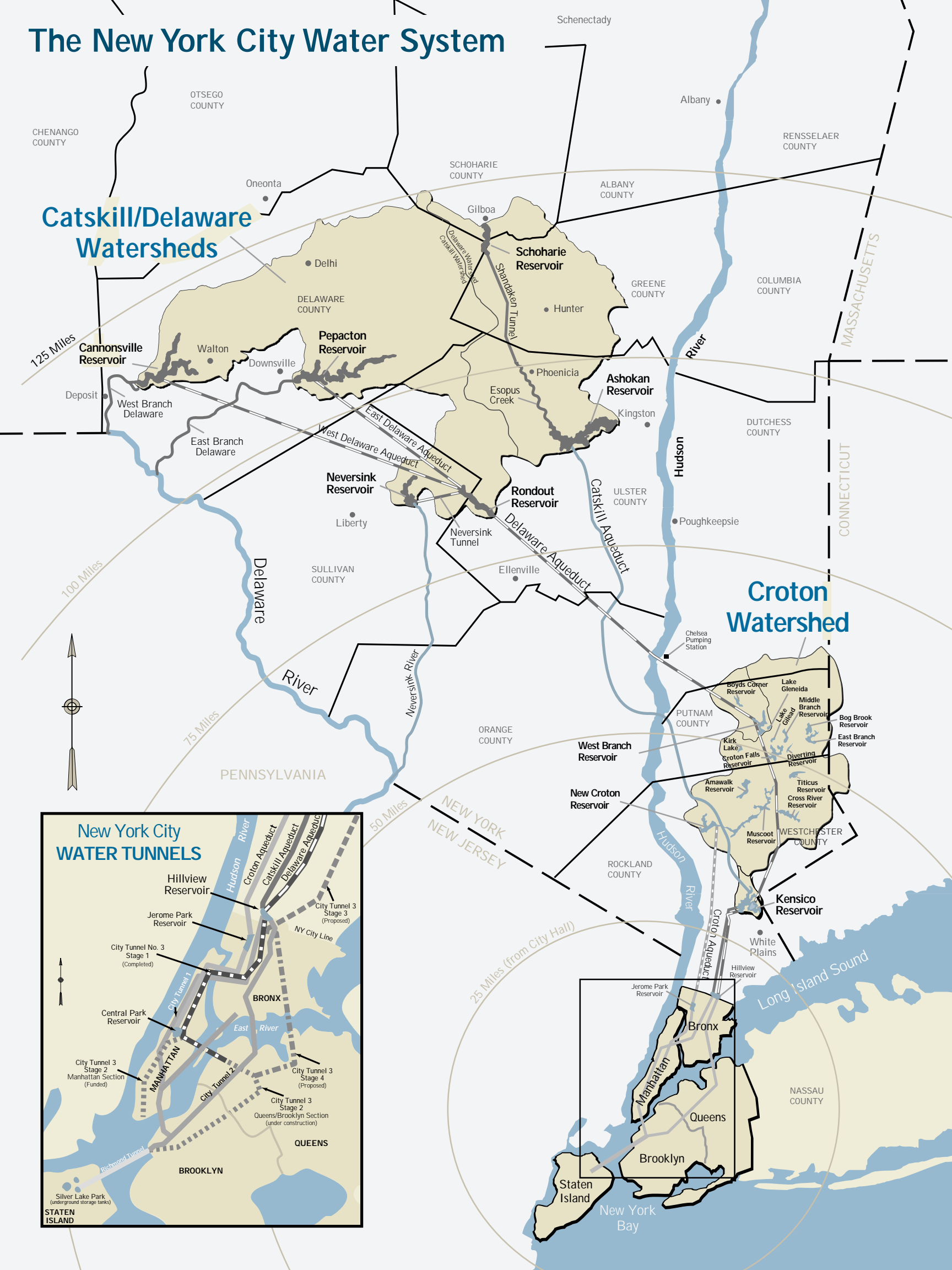
The New York City Water and Sewer System
Comprehensive Annual Financial Report Fiscal Year 2000



The New York City Water and Sewer System

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2000

The New York City Water System



Catskill/Delaware Watersheds

Croton Watershed

New York City Water Tunnels



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Pulitzer Fountain

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New York City Water & Sewer System Organizational Chart

SYSTEM CUSTOMERS

NYC Municipal Water Finance Authority	NYC Water Board	NYC Department of Environmental Protection	
Board of Directors • 7 members	Board of Directors • 7 members	Commissioner	
Executive Director	Executive Director	Customer & Conservation Services	Water Supply, Quality & Protection
Comptroller Treasurer	Secretary Treasurer	Water & Sewer Operations	Environmental Engineering
Secretary		Wastewater Pollution Control	

Water System

Collection reservoirs	18
Storage capacity	547.5 billion gallons
Watershed area	2,000 square miles
Average daily water consumption (calendar 1999)	1.37 billion gallons
Average daily water consumption (calendar 1989)	1.49 billion gallons
Miles of water mains	6,134
Miles of water tunnels and aqueducts	359
Fire hydrants in New York City	98,812
Water samples taken each year	80,000
Laboratory tests performed each year on water samples	1 million

Sewer System

Water pollution control plants	14
Wastewater pump stations	89
Design capacity per day	1.8 billion gallons
Percent of dry-weather sewage processed through this system	100%
Dry-weather sewage treated per day (FY 1999)	1.26 billion gallons
Percent of plant effluent complying with Federal Clean Water Act standards	99.9%
Miles of sewage pipes	6,437
Biosolids produced each year	438,000 wet tons
Percent of biosolids used beneficially	100%



Letter of Transmittal

The New York City Water and Sewer System

To: Members of the Board of the New York City Water Finance Authority, Members of the Board of the New York City Water Board, and the Commissioner of the New York City Department of Environmental Protection



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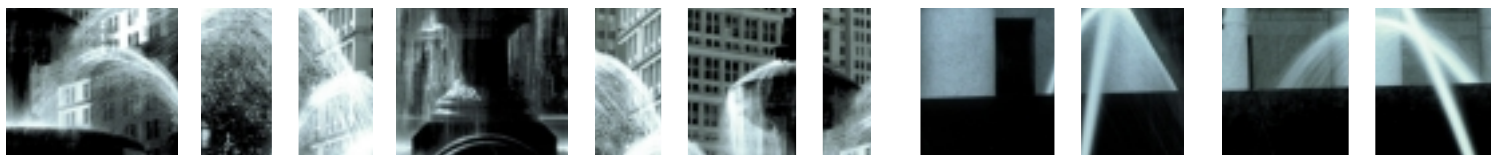
December 31, 2000

We are pleased to submit to you this Comprehensive Annual Financial Report (“CAFR”) of the New York City Water and Sewer System (the “System”) for the year ended June 30, 2000. To the best of our knowledge, this report is accurate in all material respects and is reported in a manner designed to present fairly the financial condition of the System. All disclosures necessary to enable the reader to gain an understanding of the System’s financial activities have been included. The information contained in this report is the responsibility of management.

This CAFR is presented in three major sections: introductory, financial and statistical. The introductory section, which is unaudited, includes this letter of transmittal, an organizational chart and a list of the New York City Water and Sewer System’s principal officials. The financial section includes the general purpose financial statements and the combining financial statements and schedules, as well as the independent auditor’s report on these financial statements and schedules. The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

The reporting entity, the New York City Water and Sewer System, consists of two separate and independent corporate bodies that are combined for reporting purposes: the New York City Municipal Water Finance Authority (the “Authority”) and the New York City Water Board (the “Board”). In addition, the New York City Department of Environmental Protection (“DEP”) operates the City’s water and sewer system. The passage of the New York City Municipal Water Finance Authority Act (the “Act”) of 1984 by the New York State Legislature authorized this operating and financing relationship. The System is a component unit of the City for financial reporting purposes.

The Authority is authorized to issue bonds and various debt instruments for the purpose of the renovation and improvement of the System and the acquisition of the System by the Board. The Authority also has the power to refund its bonds and notes and general obligation bonds of the City issued for water or sewer purposes. The Authority is administered by a seven-member Board of Directors. Four members are designated as ex officio. Two members are appointed by the Mayor of New York



City. One member is appointed by the Governor of the State of New York (the "State"). The appointed members have terms of two years. Pursuant to the Act, all members continue to hold office until their successors are appointed. The staff of the Authority operate under the direction of an Executive Director.

The Board leases the operating system from the City, sets rates, and collects the System revenue. The Lease Agreement (the "Lease") dated July 1, 1985 provides for a lease term until such time as all the bonds of the Authority are paid in full, or provision for payment has been made. The Lease requires the Board to make a payment to the City which is no more than the greater of: i) principal and interest for the fiscal year on City general obligation bonds issued for water and sewer purposes, or ii) fifteen percent of principal and interest on Authority debt for the fiscal year. The Board is obligated to allocate the revenues of the System in sequential order of importance to: debt service on Authority bonds, DEP's cost of operating and maintaining the operating system, and rental fees to the City for the use of the operating system. The Board consists of seven members who are appointed by the Mayor for terms of two years. 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. The staff of the Board operate under the direction of an Executive Director

The operation and maintenance of the operating system is performed by DEP. DEP is managed by a Commissioner who is appointed by the Mayor, and oversees a workforce of close to 5,700 people. DEP is divided into seven bureaus: Bureau of Customer and Conservation Services, Bureau of Water and Sewer Operations, Bureau of Water Supply, Quality and Protection, Bureau of Environmental Engineering, Bureau of Wastewater Pollution Control, Management and Budget, and Executive. DEP protects the environmental welfare and health of the City's residents and natural resources. DEP manages the City's water supply system, including upstate collection and downstate distribution; and collects, treats, and disposes of waste and storm water. DEP manages over 2,000 square miles of watershed in upstate New York from which the City and several upstate counties draw their supply of drinking water. In addition to a system of dams, reservoirs, aqueducts, and water tunnels, DEP maintains

6,134 miles of water mains which distribute water throughout the five boroughs, and 6,437 miles of sewers which collect waste and storm water and transport it to 14 water pollution control plants.

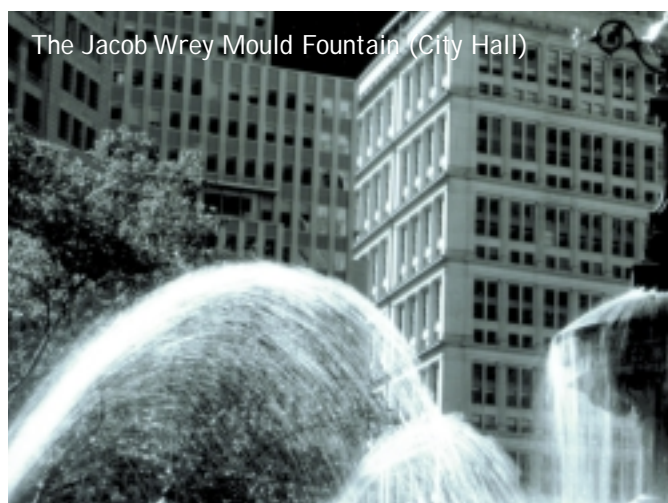
Economic Conditions and Outlook

The City of New York is a vital center for government, business, financial, communications, higher education, cultural, medical and public services. The City also serves as a key transportation hub with important facilities linking the rest of North America with cities and countries throughout the world. The transportation infrastructure includes multiple air, rail, trucking and shipping facilities.

The City's economy continued to improve in the first half of calendar year 2000, adding on average 80,000 payroll jobs year-on-year, an annualized rate of 2.2 percent, compared with the national gain of 2.3 percent. While improving, the City still lags behind the nation. The City's jobless rate averages 5.9 percent, significantly above the national rate of 4.0 percent.

System Capacity

The Water & Sewer System saw a steadily increasing demand through the early 1990s. Water Conservation programs and other measures reduced demand and average daily water consumption has decreased significantly over the past ten years. Demand in calendar year 2000 showed a marked decrease in usage from 1990 levels. The goal of such conservation programs is to operate the supply system within the dependable yield, which is the amount of water that can be safely drawn from the existing supply system during drought periods. Reduced demand also decreases the capital outlays needed for expansion of the system's water control plants.



The Jacob Wrey Mould Fountain (City Hall)

Universal Metering

DEP's Bureau of Customer and Conservation Services collects the data used to generate bills to customers. It is responsible for reading water meters and checking their accuracy as well as maintaining current information for those accounts remaining on the flat-rate system of billing. Meters are replacing the old system of flat-rate billing, which is based on numerous factors including the size of the property and the number of water using fixtures installed. There are now approximately 826,000 metered accounts and 125,000 flat-rate accounts.

Long-Term Watershed Protection

The System is subject to Federal, State, interstate and municipal regulation. At the Federal level, regulatory jurisdiction is vested in the United States Environmental Protection Agency ("USEPA"); at the State level in the New York State Department of Environmental Conservation ("NYSDEC") and the New York State Department of Health ("NYSDOH"); at the interstate level in the Delaware River Basin Commission ("DRBC") and in the Interstate Sanitation Commission (the "ISC"); and at the municipal level in DEP, the New York City Department of Health ("NYCDOH"), the Department of Buildings ("DOB"), and, to a limited degree, in municipalities and districts located in eight watershed counties north of the City.

Pursuant to the Federal Safe Drinking Water Act ("SDWA"), the 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 operating system.

On May 6, 1997, USEPA issued a determination which waived the City's requirement, as stated in the federal Surface Water Treatment Rule ("SWTR"), to filter water from its Catskill and Delaware systems until a further determination is made or until April 15, 2002, whichever is earlier. The May 6, 1997 determination is the third extension of a filtration avoidance determination first issued by USEPA in January 1993. The determination contains a number of conditions which the City is required to satisfy in order to ensure that the City will continue to be relieved of requirements for filtration. Conditions include requirements for land purchases by the City in sensitive areas of the watershed, revised watershed regulations, and upgrading of City-owned and other water pollution control plants in the watersheds.

On January 21, 1997, the City and the State executed a Memorandum of Agreement with the communities in the Catskill, Delaware and Croton watersheds, the USEPA and several environmental groups. Under the Memorandum of Agreement, the City has supplemented its existing watershed protection program with approximately \$400 million in additional funding. This funding, at least \$290 million of which is expected to be provided through the issuance of Authority bonds, consists of approximately \$350 million for an economic-environmental partnership program with upstate communities which includes a water quality investment program, a regional economic development fund and a regional advisory forum for water quality initiatives and watershed concerns, and an additional \$250 million for land acquisition.

On May 31, 2000, the US Environmental Protection Agency issued a midcourse review of the city's compliance with the requirements of the Filtration Avoidance Determination from May, 1997. The report identified successes, corrections and improvements that must be made, and opportunities for enhancement.

The USEPA gave the city high marks in the following areas:

- Safe, clean drinking water that meets all federal standards
- Regular sampling for Giardia and Cryptosporidium
- Working with a local corporation to repair or rehabilitate almost 1,000 septic systems in the Catskills
- Development and implementation of a ground breaking disease surveillance program which serves as a national model
- Successful implementation of an extensive watershed sampling program and distribution system sampling program
- Implementation of a very successful program to reduce pollutant runoff from farms
- Meeting and exceeding land acquisition solicitation goals in primary areas surrounding key reservoirs, and successfully acquiring approximately 20,000 acres in the watershed
- Increased compliance with current state permits, correcting violations at sewage treatment plants in the watershed, and a drop in significant non-compliance from 30% to 8%
- Upgrading of all six city-owned sewage treatment plants in the Catskill/Delaware watershed which accounted for 40% of total STP discharges into the watershed

According to the midcourse review, the two most critical areas in which the city must significantly better its progress are as follows:

- Acquiring land or conservation easements around the Kensico Reservoir
- Upgrading the treatment technology at the 34 non-city-owned sewage treatment plants located in the Catskill/Delaware watershed

In addition, the USEPA recommends that the city accomplish the following:

- Expand its waterfowl management program to the Rondout and West Branch Reservoirs
- Develop a strategy to further reduce non-source pollution in the Catskill/Delaware drainage basin east-of Hudson
- Expedite completion of Stream Management Plans
- Aggressively review all permit applications that come into the Army Corps of Engineering under its Nation-wide Permit program for wetlands fill resulting from development and construction
- Strengthen public outreach efforts with communities affected by watershed issues
- Develop a long-term mechanism to better detect and correct failing septic systems
- Get more involved at an earlier stage in the SEQRA process
- Conduct an analysis of its entire watershed monitoring program
- Reinstate its Annual Water Quality Report last published in 1993

Croton Filtration Project

Because of the quality of the operating system's water and the long periods of retention in the reservoirs, it has not been necessary to filter water to reduce bacterial content and turbidity. Higher water quality standards led to a 1992 stipulation with NYSDOH which provided for the construction of a full-scale water treatment facility to filter Croton System water. The stipulation has been superseded by a 1998 federal court Consent Decree which requires the City to design and construct such a facility and have it operational by March 1, 2007. Approximately \$921 million is included in the Capital Improvement Program to construct the Croton Filter Project.

In December 1998, after an extensive study of several alternative sites, DEP released a Draft Environmental Impact Statement which identified the Mosholu Golf Course at Van Cortlandt Park in the Bronx as the City's preferred site for the full-scale water treatment facility to filter Croton System water. Also in December 1998, the City commenced a proceeding under the Uniform Land Use Review Procedure ("ULURP") to secure approval of the Mosholu Golf Course as the site for such facility. In May 1999, a Final environmental Impact Statement was released. On July 21, 1999, the New York City Council approved with modifications the prior determination of the New York City Planning Commission endorsing selection of the Mosholu Golf Course as the site for the treatment facility. The City Council action completed the ULURP proceeding, and preliminary design work for construction of the facility is currently underway.

Ratings Upgrades

The three major rating agencies issued upgrades on the New York City Municipal Water Finance Authority's outstanding debt this year. The ratings upgrades from Standard & Poor's, Moody's Investors Service, and Fitch, Inc. reflect the ongoing recognition of the credit as an asset-backed security.

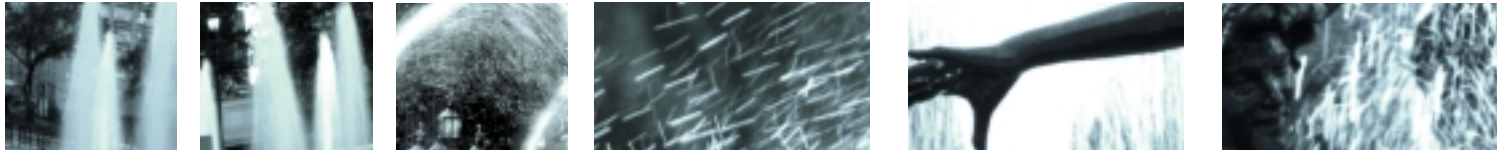
After two years of embarking on a quest for higher ratings by advocating for recognition as an asset-backed credit, on May 30, 2000 the Authority received an upgrade from "A" with a "positive outlook" to "AA" with a "stable outlook" from Standard & Poor's Ratings Group, marking the first time a S&P water and sewer rating recognized the Authority's enhancement by additional layers of structured security strong enough to warrant a rating upgrade from "A+". On May 25, 2000, Fitch Inc., upgraded the Authority from "AA minus" to "AA" after completing a comprehensive review of the U.S. municipal water and sewer sector ratings. This review caused Fitch to reconsider the degree of extra protection for bondholders provided by the Authority's unique structure, compared to those typically present in the sector. And, previously, on March 6, 2000, Moody's Investors Service upgraded the Authority from "A1" to "Aa3". Moody's cited improved customer collections, strong legal provisions for bondholder protection and progress in reaching milestones established by the Catskill/Delaware watershed filtration avoidance agreement while making progress that moves the Croton watershed closer to its filtration goal.

Standard & Poor's upgraded the debt from A to AA, based on the following factors:

- Credit strengths provided by enhanced legal & structural features
- Pledged revenue stream and ability to adjust rates in a timely manner
- Rates are affordable and generally lower on both actual and as a percentage of income bases than comparable urban systems
- Charges have increased annually at rates below forecasts

Moody's Investors Service upgraded the debt from A1 to Aa3, based on the following factors:

- Continued improvement in current collections and progress in system metering



- Regular rate increases expected
- Bondholder protection provided by timely rate setting history
- Steady achievement of milestones delineated in filtration avoidance agreement
- Croton filtration plant construction proceeding
- Capital Improvement Plan remains well managed
- Legal provisions supporting debt service
- Ongoing economic growth in service area

Fitch, Inc. upgraded the debt from AA- to AA, based on the following factors:

- Legal framework stronger than that of other US water/sewer bonds
- NYW is a "bankruptcy remote" issuer
- Annual required resetting of rates providing coverage of 1.15x annual debt service
- Essential nature of the service
- Large and diverse customer base
- Cash flow stress testing of revenue
- Detailed review of relevant legal precedents and opinions

We welcome these upgrades and plan to continue our long-term strategy of ensuring that the debt ratings match the true strength and quality of our bonds.

Internal Controls

Management of the Board and the Authority is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the System are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

The System is subject to the internal control directives and memorandums that originate from the New York City Comptroller's office. These directives establish internal controls and accountability which safeguard City assets. In addition, the System is also subject to the City's internal auditors who periodically check the City's agencies' and component units' adherence to internal control policies and procedures.

Budgetary Controls

The Board and the Authority maintain separate control structures for their specific areas of responsibility. The Board and the Authority establish separate operating budgets approved by their respective Boards of Directors.

The capital budget of the Authority is appropriated

CAPITAL PROGRAM GOALS

- ▶ To maintain the quality of the water in the City's watersheds and, where necessary, treat the supply to ensure that supplies continue to be of high quality;
- ▶ To maintain and improve the transmission and distribution capabilities of the City's water supply system;
- ▶ To improve the quality of the surrounding estuarine waters by upgrading the City's water pollution control plants;
- ▶ To remove sanitary sewage and prevent flooding by replacing failing sewers and extending service to underserved areas of the city.

through the City's Capital Budget, and the operation and maintenance budget of the System is appropriated through the City's annual operating budget. The City also maintains an encumbrance accounting system as another technique of accomplishing budgetary control.

Capital Improvement Program and Financing Program

The System's Ten Year Capital Improvement Program 2000-2009 ("CIP") provides for the rebuilding of the System's infrastructure, including water and sewer facilities. The total projected expenditure for the CIP is \$9.1 billion.

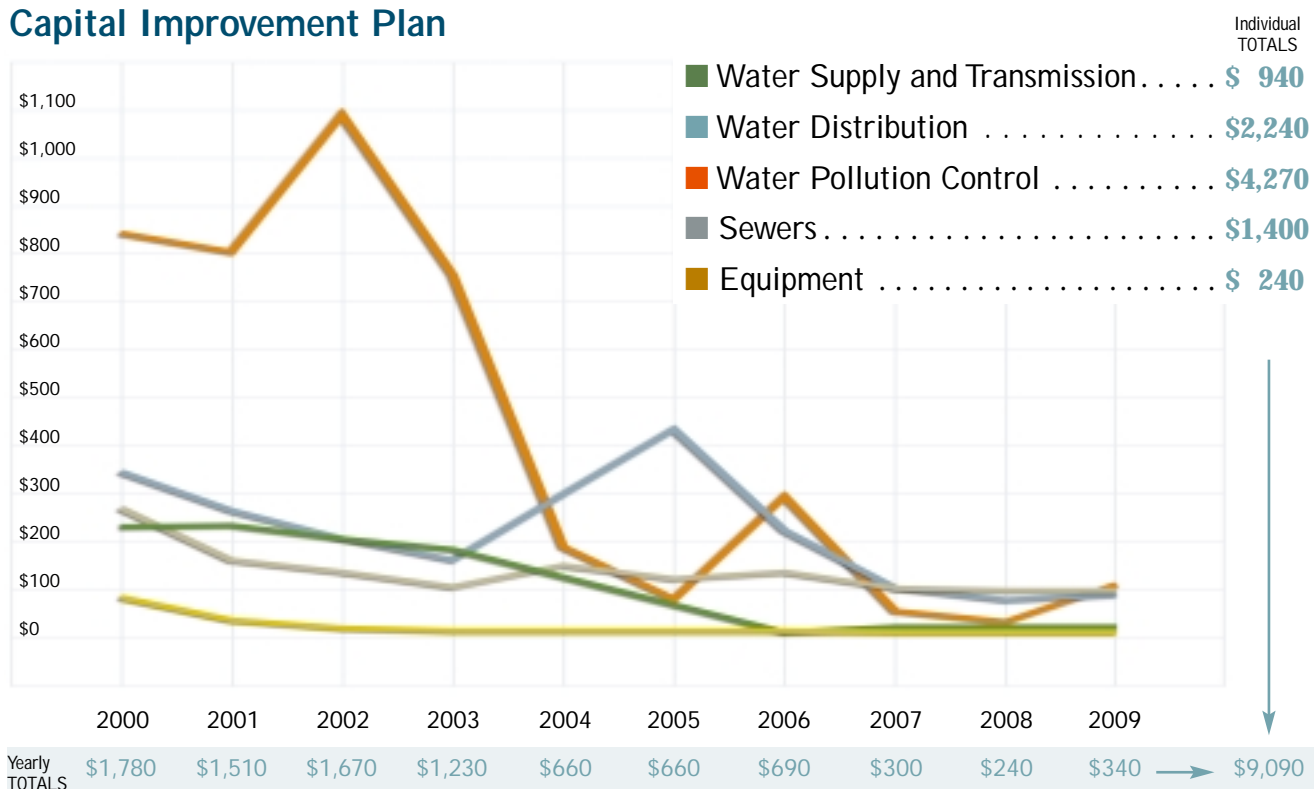
The CIP is based on a review of the present condition and long-term needs of the plant and equipment constituting the System. The CIP incorporates the requirements of legal mandates, the present replacement cycle for these facilities, extensions to the present service area, and programs to enhance and optimize the operation of the System. Allowances are included in the CIP for emergency repair and replacement. An annual allowance for escalation in cost due to inflation of approximately 4% has been included, using fiscal year 1999 as the base year.

The costs identified in the table below represent an aggregation of capital commitments for specific projects

Current Capital Plan

System Funds (in thousands)	2001	2002	2003	2004	Total
Water Supply & Transmission	\$ 195,888	\$ 260,830	\$ 211,500	\$ 243,030	\$ 668,218
Water Distribution	696,018	818,616	339,029	128,321	1,853,663
Water Pollution Control	1,327,045	1,056,878	651,671	368,606	3,035,594
Sewers	224,286	175,573	111,482	77,505	511,341
Equipment	132,227	42,200	33,327	22,723	207,754
Total	\$2,575,464	\$2,354,097	\$1,347,009	\$ 840,185	\$ 6,276,570

Capital Improvement Plan



for Fiscal Years 2001-2004. This Current Capital Plan reflects the most recent (September 2000) revision of expected expenditures and represents the System's annual cash flow requirements. For a number of reasons, including unforeseen inflation and changes in plans, actual costs may vary from the estimates set forth below.

The CIP is divided into five project types. Each is discussed below separately.

Water Supply and Transmission

This component of the CIP includes approximately \$939 million for Stages I and II of New York City's Water Tunnel No. 3, to augment transmission capacity from the watersheds into the City. Construction of Stage 2 of Tunnel No. 3 will continue towards its expected operational date of 2008. The remaining section of Stage II underground excavation is the Manhattan leg, which stretches for seven miles through lower Manhattan. After Stage 2 comes on line and it begins to deliver water, DEP will have achieved full redundancy of Tunnels No. 1 and 2. This will allow the DEP to inspect and repair these tunnels for the first time since they were put into operation in 1917 and 1936, respectively.

Water Distribution

The System's drinking water is rated among the best in the country. To ensure its continuing quality, and to comply with Federal standards, DEP is pursuing a comprehensive program to halt further environmental deterioration in the increasingly urbanized Croton watershed, and to prevent similar problems in the still relatively pristine Catskill and Delaware watersheds. The CIP contains \$2.2 billion for the protection, expansion, and distribution of the City's water supply. The CIP provides funding for the construction of a full-scale filtration plant for the Croton watershed system at a cost of \$921 million. The Program calls for \$369 million to be committed to on-going water quality preservation programs to ensure the continued purity of the water supply. This includes the reconstruction of a City-owned upstate water pollution control plant located in the watershed to meet the new proposed watershed regulations (the reconstruction of seven other City-owned plants in the watershed already having been completed) and the acquisition of environmentally sensitive property in the upstate watershed.

Water Pollution Control

To improve the quality of the City's estuaries and to implement long-range land based solutions to sludge

disposal, an end-product of the sewage treatment process, \$4.3 billion is allocated to water pollution control programs. Combined Sewer Overflow (CSO) is currently a source of pollution in the City's waters. CSO occurs during and after heavy rainstorms, when the flow of waste water and storm water in the sewers exceeds the treatment capacity of a sewage treatment plant and therefore enters surrounding waterways. DEP's Program includes over \$700 million for the abatement of CSO's. A part of the funds allocated to the abatement of CSO's are being used to explore various alternatives to the construction of retention tanks. Results from this and other projects and studies will drive future abatement efforts.

DEP has renegotiated the consent decree governing the City's long term sludge disposal plan. DEP does not have to construct sludge processing facilities, but will continue contracting with private firms to dispose of the City's sludge in a cost effective manner. Funds totaling \$20 million will be used for the design and construction of docking facilities to transport de-watered sludge. The Water Pollution Control Program includes \$1.8 billion allocated to begin the upgrade of the Newtown Creek Water Pollution Control Plant to full secondary treatment, complete upgrades to treatment capacity at two plants and to address odor concerns at two other pollution control plants. Another significant program included in the CIP is \$550.7 million to be used for the reconstruction and modernization of ten water pollution control plants so that these plants continue to meet strict guidelines contained in State operating permits.

Sewers

Approximately \$1.4 billion will be committed through 2010 to replace existing sewers in areas requiring increased capacity, to extend sewers to unserved or underserved areas, and to replace failing, flawed, or collapsed sewer mains.

Equipment

Programs in this category of the CIP include the installation of water meters, the procurement of vehicles and equipment, management information systems, and utility relocation for sewers and water mains. A total of \$240 million has been committed to these projects.

DEP is currently evaluating replacement cycles of existing meters as well as the installation of meters as it completes the installation of meters for all residential

and commercial customers. This program to promote water conservation and equity allows DEP to track actual usage by its customers rather than estimates based on property characteristics.

Funding Sources

In fiscal year 2000, the Authority issued \$707.0 million of water and sewer revenue bonds directly to the public and \$12.7 million in Drinking Water State Revolving Fund (SRF) bonds in conjunction with the New York State Environmental Facilities Corporation (EFC). The Authority also received a Clean Water SRF direct loan from EFC totaling \$286.8 million. These bond proceeds financed infrastructure improvements to New York City's water and sewer system.

Highlights of the financing program in 2000 include continued low interest costs on Authority borrowing, the Authority's first issuance of uninsured variable rate debt, and across the board credit rating increases from three rating agencies. With its EFC transactions, the Authority continued to maximize the utilization of the subsidized interest costs available from the Clean Water and Drinking Water State Revolving Funds in an effort to minimize the costs of financing its ten-year Capital Improvement Program.

On October 6, 1999 – the first transaction of fiscal year 2000 – the Authority issued its fiscal year 2000 Series A bonds with a principal amount of \$275.7 million. These bonds were insured and had a total interest cost of 5.93% and an average life of 31.4 years.

The Authority's next transaction on February 3, 2000, was the EFC direct loan of \$286.8 million (Fiscal Year 2000 Series 1 Bonds). EFC created this 20-year direct loan to act as a bridge in anticipation of federal government approval of the issuance of 30-year Clean Water SRF bonds. Once EFC receives approval, they expect to issue 30-year bonds and use the proceeds to pay off the direct loan. The total interest cost for this loan is 2.56%.

On March 9, 2000 the Authority issued its \$12.7 million in Series 2 bonds, part of the Environmental Facilities Corporation Drinking Water SRF Program. The Series 2 bonds have a total interest cost of 5.65% and an average life of 11.4 years.

The Authority's last issuance for the 2000 fiscal year was on June 20th, and included \$323.7 million in fixed rate bonds (Fiscal Year 2000 Series B) and \$107.5 million in variable rate bonds (Fiscal Year 2000 Series C). These bonds came to market with credit rating upgrades from three major rating agencies. Fitch, Inc. raised its rating to "AA" from "A-", Moody's Investors Service raised its rating to "Aa3" from "A1" and Standard and Poor's raised its rating to "AA" from "A".

The Series B bonds have an average life of 32.0 years and a total interest cost of 6.15%. The Series C bonds have an average life of 33 years and a total interest cost of 4.01%. The Series C bonds were the first variable rate bonds that the Authority has issued in over five years and the first uninsured variable rate bonds that the Authority has ever issued.

Green Acre Parks Fountain



Operating Results

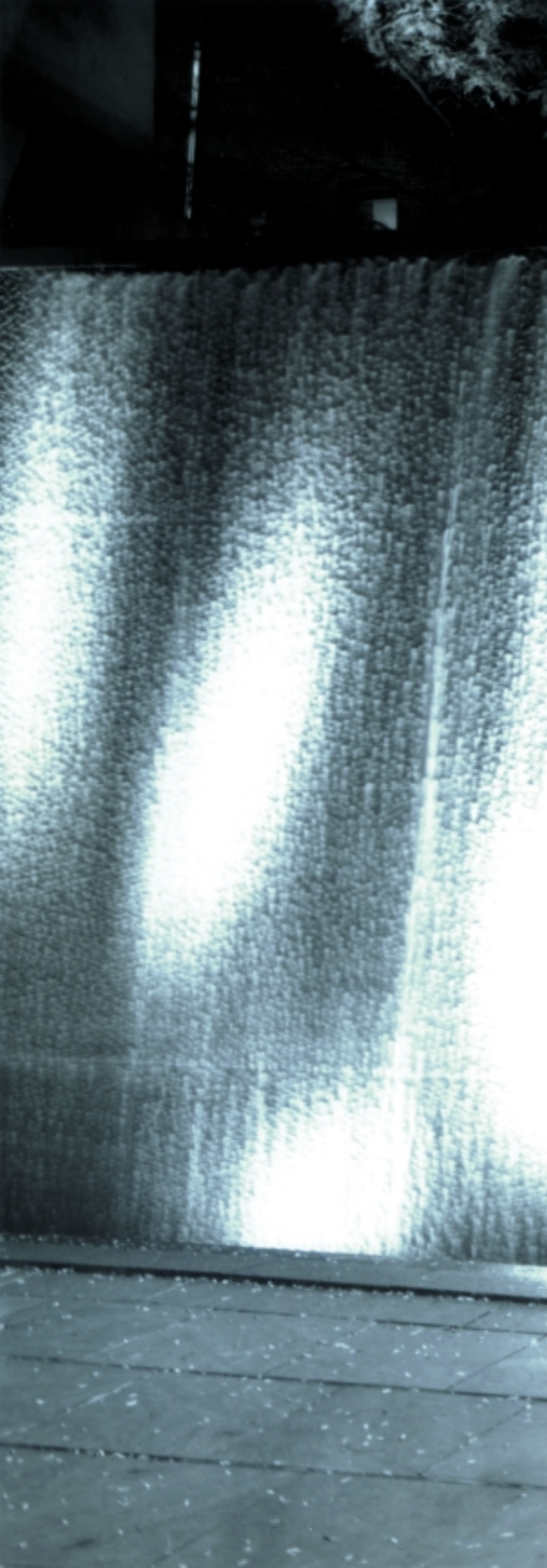
A comparative analysis of revenue for the years ended June 30, 2000 and 1999 is shown by major category on the following schedule.

	2000	1999	Percent Increase (Decrease)
Water supply and distribution	\$ 610,949	583,394	4.7%
Sewer collection and treatment	876,455	857,204	2.2
Other operating revenues	93,194	85,903	8.5
Total operating revenues	1,580,598	1,526,501	3.5%
Investment income	70,478	81,465	(13.5)
Total revenues	\$1,651,076	1,607,966	2.7%

Water rates were increased in Fiscal year 2000 by 4.0%, resulting in an increase of 3.5% in operating revenues. Water consumption from 1999 to 2000 increased by only 1.3%. Investment income declined by 13.5% due primarily to a decrease in construction funds available for investment and a decline in interest rates.

A comparative analysis of expenses for the years ended June 30, 2000 and 1999 is shown by major category on the following schedule.

	2000	1999	Percent Increase (Decrease)
Water transmission and distribution	\$ 227,066	233,221	(2.6%)
Sewage collection systems	317,980	300,406	5.9
City agency support	32,967	31,879	3.4
Fringe benefits	64,923	58,950	10.1
Judgements and claims	7,844	5,330	47.2
Total operations and maintenance	\$ 650,780	629,786	3.3%
Provision for uncollectible accounts	89,062	103,960	(14.3)
Rental payment to the City	150,475	147,886	1.8
Administration and general	10,092	10,879	(7.2)
Depreciation and amortization	347,055	380,023	(8.7)
Interest expense	492,747	476,675	3.4
Total expenses	\$1,740,211	1,749,189	(0.5)%



Total operating expenses increased by \$20.9 million or 3.3%. The largest percentage increases were in fringe benefits (10% increase) due to an increase in salary expenses and in judgments and claims (47% increase) which are payable at the time of settlement.

The provision for uncollectible accounts decreased from \$104 to \$89 million. The provision was decreased in part because of improvements in collections of customer accounts in 2000.

In accordance with the terms of the Lease, the rental payment to the City increased from \$148 million to \$150 million. This covers the actual debt service payments made by the City for general obligation bonds issued on behalf of the System. These bonds were issued prior to the commencement of the Lease dated July 1, 1985.

Debt Administration

At June 30, 2000 the total outstanding debt of the System was \$9.8 billion, of which \$200 million is Commercial Paper. The remaining \$9.6 billion consists of variable and fixed rate bonds and notes maturing in varying installments through 2033. Debt Service coverage for 2000 was 335 percent. The total outstanding long term debt at June 30, 2000 is as follows:

Issue Date	Amount (thousands)
2000	\$ 1,005,140
1999	1,219,047
1998	1,733,623
1997	1,065,125
1996 and Prior	4,553,437
Total revenues	\$ 9,576,372

Risk Management

In accordance with the Lease, the Board is required to reimburse the City for any judgment or settlement paid by the City arising out of a tort claim to the extent that the City's liability is related to capital improvements and the operation or maintenance of the System.

However, in no event shall the payment made to the City, in any fiscal year, exceed an amount equal to 5% of the aggregate revenues shown on the last year-end audited financial statements of the System. In addition, the System is required to reimburse the City, to the extent requested by the City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements. In addition, the City has agreed, subject to certain conditions, to indemnify the Authority 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.



McGraw Hill Fountain

Cash Management

Both the Authority and the Board have funds which are invested. The Authority's investments must conform to the policies set forth in the Authority's Investment Guidelines, dated April 17, 1998. Specifically, the Authority may invest in any bonds or other obligations which constitute direct obligations of, or are guaranteed by, the United States of America, including obligations of any agency, corporation or instrumentality thereof; direct obligations of, or obligations guaranteed by, the State of New York or direct obligations of any agency or public authority thereof, provided such obligations are rated in one of the two highest rating categories by a Rating Agency; bankers' acceptances or certificates of deposit issued by a commercial bank, with its principal place of business within the State of New York and having capital or surplus in excess of \$100 million; corporate securities, including commercial paper and fixed income obligations, rated by a Rating Agency in its highest category for comparable types of obligations; or repurchase agreements collateralized by obligations of the Federal government.

The Authority employs various methods for the investment of its funds: The Authority's management is responsible for the investment of certain funds, the Authority utilizes an investment manager for the active management of some funds, and finally, the Authority also invests in forward purchase agreements and a guaranteed investment contract. The Board makes its own investments through the City Comptroller's investment group.

Funds are invested for periods of one day up to fifteen years based upon cash flow requirements and subject to the restrictions on investments set forth in the Authority's General Bond Resolution. Daily cash from user payments is received into a lock box by the Board and is transferred daily to the Authority for debt service payments and to the City Comptroller to pay for the operation and maintenance of the System. No cash is retained by the Board until all requirements for debt service, operation and maintenance, and rental payments are met. Any surplus cash over these requirements is retained by the Board for use in the following year to pay required deposits.

Independent Audit

Section 6.11 (b) of the Financing Agreement by and among the City, the Authority and the Board dated as of July 1, 1985 requires that the Authority 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. The financial section of the 2000 Comprehensive Annual Financial Report begins with the report of our independent auditors, KPMG LLP. This report expresses an unqualified opinion as to the fairness of the presentation of our financial statements.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The New York City Water and Sewer System for its comprehensive annual financial report (CAFR) for the fiscal years ended June 30, 1995, 1996, 1997, 1998 and 1999.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Columbus Monument Fountain



The preparation of this Comprehensive Annual Financial Report has been accomplished by the staff of the New York City Municipal Water Finance Authority. We wish to acknowledge the dedicated effort of the staff of the Authority, especially Raymond J. Orlando, Manager of Investor Relations, Thomas Paolicelli, Deputy Treasurer, Finance Manager Valerie Mehallow, Julio Cortez, Supervising Analyst, Bruce Goodman, NYC Comptroller's Office, William Kusterbeck and Carmelo Emilio of the NYC Water Board and Philip Wasserman, Assistant Treasurer, in bringing together information from numerous sources to produce this document. Their work ensures that this report presents fairly and accurately the financial position and the results of operations of the New York City Water and Sewer System.

Respectfully submitted,



Mark Page
Executive Director



Lawrence R. Glutz
Comptroller

Principal Officials

of the New York City Water and Sewer System



New York City Municipal Water Finance Authority

BOARD OF DIRECTORS

Adam L. Barsky	<i>ex officio</i> Member
John P. Cahill	<i>ex officio</i> Member
Charles E. Dorkey III	Member
Andrew S. Eristoff	<i>ex officio</i> Member
Arthur B. Hill	Member
Joel A. Miele Sr., P.E.	<i>ex officio</i> Member
James P. Stuckey	Member

STAFF

Mark Page	Executive Director
Marjorie E. Henning	Secretary
Alan Anders	Treasurer
Lawrence R. Glantz	Comptroller

New York City Water Board

MEMBERS

Susan Millington Campbell	Member
Leroy Carmichael	Member
Mark R. Hellerer	Chairman
Amaziah Howell	Member
Agustin Rivera	Member
David B. Rosenauer	Member
James T.B. Tripp	Member

STAFF

Diana Chapin, Ph.D.	Executive Director
William Kusterbeck	Treasurer
Albert F. Moncure, Jr.	Secretary

Principal Officials

of the New York City Water and Sewer System

New York City Department of Environmental Protection

OFFICERS

Joel A. Miele Sr., P.E.

Commissioner

Diana Chapin, Ph.D.

First Deputy Commissioner

Robert Adamski, P.E.

Deputy Commissioner, Bureau of Wastewater Pollution Control

Robert Gaffoglio, P.E.

Deputy Commissioner, Bureau of Environmental Engineering

Douglas F. Greeley, P.E.

Deputy Commissioner, Bureau of Water and Sewer Operations

Lawrence E. Schatt

Deputy Commissioner, Bureau of Customer and Conservation Services

Michael A. Principe, Ph.D.

Acting Deputy Commissioner, Bureau of Water Supply, Quality and Protection

The Jacob Wrey Fountain (City Hall)



Report of Independent Auditors

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



Fireman's Memorial Fountain

We have audited the accompanying combined balance sheets of the New York City Water and Sewer System (the "System") as of June 30, 2000 and 1999, and the related combined statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These combined financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the New York City Water and Sewer System as of June 30, 2000 and 1999, and the results of its operations and changes in retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplementary information included in schedules I through IX is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements as a whole.

We did not audit the data presented in the introductory and statistical sections as listed in the accompanying table of contents, which are not a required part of the combined financial statements and, therefore, express no opinion thereon.

KPMG LLP

October 20, 2000
New York, New York