

NEW ISSUE

In the opinion of Mudge Rose Guthrie Alexander & Ferdon, Bond Counsel to the Authority, under existing law, and assuming compliance with the tax covenants described herein, interest on the Series A Bonds is excluded from gross income for Federal income tax purposes and is not a specific preference item for purposes of the Federal alternative minimum tax. Bond Counsel is further of the opinion that, under existing law, interest on the Series A Bonds is exempt from personal income taxes of the State of New York and its political subdivisions, including The City of New York, as described more fully herein. See, however, "TAX EXEMPTION" herein regarding certain other tax considerations.

\$1,040,704,592.35
New York City
Municipal Water Finance Authority
Water and Sewer System Revenue Bonds,
Fiscal 1993 Series A

Dated: Date of Delivery

Due: June 15, as shown on the inside cover

The Series A Bonds will be issued as registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series A Bonds. Purchases of beneficial interests in the Series A Bonds will be made in book-entry-only form in denominations of \$5,000 and integral multiples thereof except that the Capital Appreciation Bonds will be issued in denominations of \$5,000 aggregate principal and interest payable at maturity or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Series A Bonds purchased. See "THE SERIES A BONDS — Book-Entry Form Only". Interest on the Series A Bonds (other than the Capital Appreciation Bonds) will accrue from their date of delivery and will be payable semiannually on each December 15 and June 15, commencing December 15, 1992. Interest on the Capital Appreciation Bonds will accrue from their date of delivery and will be compounded on each December 15 and June 15, commencing December 15, 1992, but will be payable only at maturity or upon redemption in the manner set forth herein. The Series A Bonds are subject to redemption prior to maturity as described herein. Certain maturities will be insured by **AMBAC Indemnity Corporation, Financial Guaranty Insurance Company** or **Municipal Bond Investors Assurance Corporation**. A detailed schedule of the Series A Bonds is set forth inside this cover page including the Series A Bonds insured by **AMBAC Indemnity Corporation, Financial Guaranty Insurance Company** or **Municipal Bond Investors Assurance Corporation**.

The proceeds of the Series A Bonds are expected to be used to advance refund a portion of the outstanding principal amount of the Authority's Water and Sewer System Revenue Bonds and to pay costs of issuance.

The Series A Bonds are special obligations of the Authority, payable solely from and secured by a pledge of and first lien on the gross revenues of the System. The Authority has no taxing power. The Series A Bonds are not a debt of the State of New York, The City of New York or the New York City Water Board and neither the State of New York, The City of New York, nor the New York City Water Board is liable on the Series A Bonds.

The Series A Bonds are offered when, as and if issued by the Authority and received by the Underwriters and subject to the approval of legality by Mudge Rose Guthrie Alexander & Ferdon, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Barnes, McGhee, Neal, Poston & Segue, New York, New York. It is anticipated that the Series A Bonds will be available for delivery in New York, New York, on or about August 13, 1992.

Smith Barney, Harris Upham & Co.
Incorporated

Pryor, McClendon, Counts & Co., Inc.
Morgan Stanley & Co.
Incorporated

Dillon, Read & Co. Inc.

Prudential Securities Incorporated
PaineWebber Incorporated

First American Municipals, Inc.
Lebenthal & Co., Inc.
Reinoso & Company
Incorporated

Goldman, Sachs & Co.

Kidder, Peabody & Co. Incorporated
J.P. Morgan Securities Inc.
Roosevelt & Cross, Incorporated

\$349,205,000 Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>
1993	\$12,720,000	3.10%	3.10%	2004	\$11,755,000	5.90%	5.90%
1994	11,430,000	4.10	4.10	2005	12,450,000	6	6
1995	11,900,000	4.35	4.35	2006	13,200,000	6.10	6.10
1996	12,420,000	4.60	4.60	2007	25,610,000	6.15	6.15
1997	12,990,000	4.85	4.85	2008	19,480,000	6	6.15
1998	13,620,000	5.10	5.10	2009	20,000,000	6	6.17
1999	14,315,000	5¼	5¼	2010	21,195,000	6	6.19
2000	15,065,000	5.40	5.40	2011	23,545,000	5½	6.15
2001	15,880,000	5.55	5.55	2012	30,000,000*	5⅞	5.95
2002	10,515,000	5.70	5.70	2013	30,000,000*	5⅞	5.97
2003	11,115,000	5.80	5.80				

\$69,999,592.35 Capital Appreciation Serial Bonds**

<u>Maturity</u>	<u>Original Principal Amount</u>	<u>Approximate Yield</u>	<u>Price Per \$5,000 Maturity Amount</u>	<u>Maturity</u>	<u>Original Principal Amount</u>	<u>Approximate Yield</u>	<u>Price Per \$5,000 Maturity Amount</u>
2002	\$ 6,807,847.05	5.70%	\$2,876.15	2007	\$ 4,852,113.30	6.10%	\$2,049.90
2003	6,334,920.45	5.85	2,676.35	2008	7,866,176.25	6.10	1,930.35
2004	5,911,582.50	5.95	2,497.50	2009	10,992,586.15	6.15	1,802.95
2005	5,505,878.70	6.05	2,326.10	2010	10,346,609.00	6.15	1,697.00
2006	5,152,603.95	6.10	2,176.85	2011	6,229,275.00	6.15	1,597.25

\$299,000,000 6% Term Bonds Due June 15, 2017, Yield 6.30%
\$70,500,000 5¾% Term Bonds Due June 15, 2018, Yield 6.10%***
\$50,000,000 5¾% Term Bonds Due June 15, 2018, Yield 6.10%*
\$202,000,000 5½% Term Bonds Due June 15, 2020, Yield 6¼%

* AMBAC Insured Bonds

** MBIA Insured Bonds

*** Financial Guaranty Insured Bonds

New York City Municipal Water Finance Authority
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Thomas C. Jorling, *ex officio* *Member*
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Kenneth Kopelson *Member*

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Alan Anders *Treasurer*
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Ralph da Costa Nunez *Member*
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Steven F. Ostrega *Executive Director*
William Kusterbeck *Treasurer*
Michael Burke *Secretary*

Authority Consultants

Bond Counsel *Mudge Rose Guthrie Alexander & Ferdon*
Consulting Engineer *Metcalf & Eddy of New York, Inc.*
Financial Advisor *WR Lazard & Co., Incorporated*
Rate Consultant *Ernst & Young*

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Series A 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 the Series A Bonds, and if given or made, such information or representation must not be relied upon. Neither the delivery of this Official Statement nor the sale of any of the Series A 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. The information set forth herein has been provided by the Authority, the Board and the City, but it is not guaranteed as to its accuracy or completeness and is not to be construed as a representation by the Underwriters.

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

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SUMMARY STATEMENT

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

Use of Proceeds: The Series A Bonds are being issued to advance refund a portion of the outstanding principal amount of the Authority's Water and Sewer System Revenue Bonds in an aggregate principal amount of \$893,385,000 and to pay costs of issuance.

The System: The Water System provides an average of 1,569 million gallons per day (mgd) of water to approximately 807,000 accounts. It supplies water to approximately 300 square miles in the City and consists of approximately 5,760 miles of pipe, 88,000 mainline valves, 96,600 fire hydrants, 18 reservoirs and three controlled lakes. The Sewer System is primarily a combined system designed to carry both storm and sanitary flows. It is comprised of an extensive network of approximately 6,300 miles of sewer lines, 90,000 catch basins, 5,000 seepage basins and 14 treatment plants. The sewage treatment facilities include 14 operating treatment plants, one storm-overflow retention plant, 88 pump stations, five wastewater laboratories, three inner-harbor vessels and four ocean-going barges for sludge transport between eight sludge dewatering facilities. The sewage treatment facilities treat approximately 1,539 mgd of dry-weather sewage. 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.

Capital Improvement Program: The Capital Improvement Program published in April 1992 covering the Fiscal Years 1992 through 2001 is designed to maintain a satisfactory level of service, to improve operating efficiencies of the System and to address future System requirements. During those ten years, the anticipated cost is \$10.492 billion of which substantially all is expected to be provided from System funds. Under the Financing Agreement, the City is obligated to carry out capital improvements to the System.

Security for the Series A Bonds:

Revenue Pledge: The Series A Bonds are special obligations of the Authority, payable solely from and secured by a pledge of the gross revenues of the System prior to the payment of operation and maintenance costs or any other expenses.

Debt Service Reserve Fund: Upon the delivery of the Series A Bonds, a Debt Service Reserve Fund will be funded in an amount equal to the maximum Adjusted Aggregate Debt Service on the Bonds.

Security for the Series A Bonds

(continued):

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 (i) 115% of Aggregate Debt Service on all Bonds Outstanding and on any Projected Series of Bonds payable in such Fiscal Year, and (ii) the Operating Expenses and Required Deposits for such Fiscal Year.
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 less than 1% of Revenues and as provided under certain Federal grants.
Additional Bonds:	Additional Bonds, secured on a parity with the Series A Bonds and the Outstanding Bonds, may be issued to pay for capital improvements to the System and to refund any and all outstanding Bonds and general obligation bonds of the City issued for water or sewer purposes. Additional Bonds may be issued subject to financial tests specified in the Resolution.
The Authority:	The Authority, a separate legal entity established in 1984, has the power to issue Bonds for financing the renovation and improvement of the System, to require the Board to fix rates sufficient to pay the costs of operating and financing the System and to require the City to adequately maintain the System. 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 Financing Agreement:	Pursuant to the Financing Agreement, the Authority has agreed to finance all or a portion of the Capital Improvement Program, both current and as to work commenced in prior years, through the issuance of Bonds 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 equal to the longer of 40 years from the date of the Lease or until provision has been made for the repayment of all outstanding Bonds or other indebtedness of the Authority.

OFFICIAL STATEMENT

\$1,040,704,592.35

New York City Municipal Water Finance Authority Water and Sewer System Revenue Bonds, Fiscal 1993 Series A

INTRODUCTORY STATEMENT

The purpose of this Official Statement, which includes the cover page, summary statement and the appendices hereto, is to set forth certain information pertaining to the New York City Municipal Water Finance Authority (the "Authority"), a public benefit corporation duly created and existing under the New York City Municipal Water Finance Authority Act, as amended (the "Act"); the New York City Water Board (the "Board"), a public benefit corporation created and existing under Chapter 515 of the Laws of 1984, both of which laws were enacted by the Legislature of the State of New York (the "State"); and the Authority's \$1,040,704,592.35 Water and Sewer System Revenue Bonds, Fiscal 1993 Series A (the "Series A Bonds"). Capitalized terms used in this Official Statement and not defined herein shall have the meanings ascribed thereto in "APPENDIX D — 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"). Pursuant to 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 (the "Bonds") or other obligations of the Authority. Pursuant to the Lease and the Agreement, the Board has agreed to cause rates, fees and charges to be collected.

In April 1992, the City published a ten-year \$10.492 billion capital improvement program (the "CIP") for the System. The Authority estimates that substantially all of the cost of the CIP will be provided from System funds, consisting of proceeds derived from the sale of the Authority's notes and bonds. See "CAPITAL IMPROVEMENT AND FINANCING PROGRAMS". The Series A Bonds will be issued by the Authority pursuant to its Water and Sewer System General Revenue Bond Resolution adopted on November 14, 1985, as amended (the "General Resolution"), and its Eighteenth Supplemental Resolution adopted on August 6, 1992 (the "Supplemental Resolution"). The General Resolution and the Supplemental Resolution are collectively referred to herein as the "Resolution." The Authority has appointed Citibank, N.A. to act as trustee (the "Trustee") under the Resolution.

The Bonds are special obligations of the Authority, payable solely from and secured by a pledge of the Revenues, all moneys or securities in any of the funds and accounts established under the Resolution, including the Debt Service Reserve Fund, and all other moneys and securities to be received, held or set aside pursuant to the Resolution, subject only to provisions of the Resolution and the Agreement relating to the use and application thereof. The Board has covenanted in the Agreement to maintain rates, fees and charges at sufficient levels to produce in each Fiscal Year an amount equal to 115% of the principal and interest coming due and projected to become due in such Fiscal Year on Bonds, plus 100% of the operation and maintenance expenses of the System certified by the City and of Required Deposits. The Agreement requires a Consulting Engineer to review the operation and maintenance of the System, and further requires the City to operate and maintain the System in accordance with the advice and recommendations of the Consulting Engineer. See "SECURITY FOR THE BONDS".

Rates, fees and charges are imposed by the Board and are not subject to regulatory approval nor are they subject to other regulations under current law except for the rates charged to a limited class of upstate users, representing less than 1% of Revenues, or as required by certain Federal grants. See "GOVERNMENTAL REGULATION" and "RATES AND BILLINGS".

The estimates and projections contained in this Official Statement are based on, among other factors, evaluations of historical revenue and expenditure data, analyses of economic trends and current and anticipated Federal and State legislation affecting the Authority's finances. The financial projections contained herein are subject to certain contingencies which 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.

Capital Improvement Program

Major investments in the City's water and sewer infrastructure have been made since the nineteenth century. Capital improvements and renovations to the System are planned and budgeted at the point of contracting for work. Therefore, the CIP describes the capital program at the point of contracting for work. Authority financing pays for actual expenditures under contracts. Accordingly, the capital cash flow, which Authority bonds finance and on which Authority financing plans are based, is for a body of capital work which in part predates the current CIP. To maintain and improve the integrity of the System, the current CIP was published in April 1992 and anticipates an investment of approximately \$10.492 billion for Fiscal Years 1992 through 2001. The Authority estimates that substantially all of the cost of the CIP will be provided from System funds. For further information regarding the CIP see "CAPITAL IMPROVEMENT AND FINANCING PROGRAMS".

The following table sets forth the current CIP.

Summary of Capital Improvement Program
(thousands)

Water Supply	\$ 3,442,869
Sewers	1,596,994
Water Pollution Control	5,354,969
Equipment	<u>97,538</u>
Total	<u>\$10,492,370</u>

There follow in this Official Statement brief descriptions of the Series A Bonds, the Authority, the Board, the System and the CIP together with other information including summaries of the terms of the Series A Bonds, the Resolution, the Agreement and the Lease. All references herein to the Resolution, the Agreement and the Lease are qualified by reference to such documents in their entirety, copies of which are available from the Authority. All references to the Series A Bonds are qualified in their entirety by reference to the definitive Series A Bond form and the terms and provisions thereof contained in the Resolution.

THE SERIES A BONDS

General

The Series A Bonds initially delivered to the Underwriters will be dated their date of delivery, which is expected to be on or about August 13, 1992. The Series A Bonds will mature on the dates and will bear interest at the annual rates shown on the inside cover of this Official Statement until paid or redeemed. Interest on the Series A Bonds (other than the Capital Appreciation Bonds), will be payable semi-annually on each December 15 and June 15, commencing December 15, 1992. Interest on the Capital Appreciation Bonds will be compounded on each December 15 and June 15, commencing December 15, 1992, but will be payable only at maturity or upon redemption. Principal of, redemption premium, if any, and interest on the Series A Bonds will be payable in lawful money of the United States of America. The Series A Bonds will be issued only as fully registered bonds without coupons in the denomination of \$5,000 or any integral multiple thereof except that the Capital Appreciation Bonds will be issued in denominations of \$5,000 aggregate principal and interest payable at maturity or any integral multiple thereof. Series A Bonds issued in denominations of more

than the applicable minimum amount may be redeemed by the Authority in part from time to time in one or more units of such minimum amount as more fully provided in the Supplemental Resolution.

Book-Entry Form Only

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series A Bonds. The Series A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Series A Bond certificate will be issued for each maturity of the Series A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds \$150 million, one certificate will be issued with respect to each \$150 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such maturity.

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

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

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

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

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

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

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

DTC may discontinue providing its services as securities depository with respect to the Series A 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, Series A 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, Series A Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

Redemption Provisions

Sinking Fund Redemption. The Series A Term Bonds due June 15, 2017, the Series A Term Bonds due June 15, 2018 and the Series A Term Bonds due June 15, 2020 will be subject to mandatory redemption prior to maturity in part, by lot in such manner as the Trustee may reasonably determine at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date, on June 15 in each of the years and in the respective principal amounts, as follows:

\$299,000,000 Series A Bonds due 2017			\$70,500,000* Series A Bonds due 2018		
Year	Amount		Year	Amount	
2012	\$ 5,610,000		2015	\$ 16,170,000	
2013	37,345,000		2016	17,110,000	
2014	65,605,000		2017	18,085,000	
2015	33,970,000		2018†	19,135,000	
2016	86,715,000				
2017†	69,755,000				
\$50,000,000** Series A Bonds due 2018			\$202,000,000 Series A Bonds due 2020		
Year	Amount		Year	Amount	
2014	\$ 21,480,000		2018	\$ 141,235,000	
2015	6,545,000		2019	43,470,000	
2016	6,920,000		2020†	17,295,000	
2017	7,320,000				
2018†	7,735,000				

† Final Maturity

* Financial Guaranty Insured Bonds

** AMBAC Insured Bonds

The Authority may from time to time direct the Trustee to purchase Series A Bonds with moneys in the Debt Service Fund, at or below par plus accrued interest to the date of such purchase, and apply any Series A Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the Series A Bonds of the same maturity. The amount of any excess of the amounts so credited over the amount of such Sinking Fund Installment will be credited against future Sinking Fund Installments. To the extent the Authority's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Series A Bonds of the maturity so purchased will be reduced for such year.

Optional Redemption. The Capital Appreciation Bonds and other Series A Bonds maturing on June 15, 2008, 2009, 2010, 2012 and 2013 are not subject to optional redemption prior to maturity. The Series A Bonds maturing on June 15, 2020 may be redeemed prior to maturity at the option of the Authority on and after June 15, 2002 in whole at any time or in part on any interest payment date by lot, at the redemption price of 100% of the principal amount of such Series A Bonds to be redeemed, plus accrued interest to the redemption date. The Series A Bonds maturing on and after June 15, 2003 except the Capital Appreciation Bonds and the other Series A Bonds maturing on June 15, 2008, 2009, 2010, 2012, 2013 and 2020 may be redeemed prior to maturity at the option of the Authority from any moneys available therefor on and after June 15, 2002 in whole at any time or in part on any interest payment date by lot, at the redemption prices (expressed as percentages of the principal amount of such Series A Bonds to be redeemed) set forth below, plus accrued interest to the redemption date.

<u>Redemption Period(both dates inclusive)</u>	<u>Optional Redemption Prices</u>
June 15, 2002 to June 14, 2003	101.5 %
June 15, 2003 to June 14, 2004	100.75
June 15, 2004 and thereafter	100

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 holders of such 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 Series A Bonds, such notices of redemption shall 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 Series A Bonds of like maturity 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 shall have been mailed, then interest on the Series A Bonds of such maturity to be redeemed will cease to accrue from and after the redemption date and such Series A Bonds will no longer be considered to be Outstanding under the Resolution.

REFUNDING PLAN AND USE OF PROCEEDS

A portion of the proceeds of the Series A Bonds will provide for the advance refunding of \$149,805,000 principal amount of the Outstanding Fiscal 1986 Series B Bonds maturing on and after June 15, 2002, \$145,030,000 principal amount of the Outstanding Fiscal 1988 Series B Bonds maturing on and after June 15, 2009, \$111,995,000 principal amount of the Outstanding Fiscal 1989 Series A Bonds maturing on and after June 15, 2009, \$90,765,000 principal amount of the Outstanding Fiscal 1989 Series B Bonds maturing on and after June 15, 2007, \$98,630,000 principal amount of the Outstanding Fiscal 1991 Series A Bonds maturing on and after June 15, 2016, \$297,160,000 principal amount of the Outstanding Fiscal 1991 Series C Bonds maturing on and after June 15, 2008 (collectively, the "Refunded Bonds"). Pursuant to the Escrow Agreement between the Authority and Citibank, N.A. (the "Escrow Trustee"), the Authority will irrevocably deposit Defeasance Obligations in trust with the Escrow Trustee. The Defeasance Obligations will bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid in accordance with their terms, together with any uninvested cash held by the Escrow Trustee, sufficient moneys will be available to make full and timely payment of the maturing principal and Sinking Fund Installments of

and redemption premium and interest on the Refunded Bonds to their earliest optional redemption date. 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 Resolution, or to payment from Revenues of the System. On their respective earliest optional redemption dates, as shown below, the Refunded Bonds will be redeemed at a redemption price expressed as a percentage of the principal amount thereof set forth below.

<u>Series</u>	<u>Earliest Redemption Date</u>	<u>Redemption Price</u>
Fiscal 1986 Series B	June 15, 1996	102 %
Fiscal 1988 Series B	June 15, 1997	102
Fiscal 1989 Series A	June 15, 1997	101.5
Fiscal 1989 Series B	June 15, 1998	101.5
Fiscal 1991 Series A	June 15, 2000	101.5
Fiscal 1991 Series C	June 15, 2001	101.5

In addition, the Series A Bonds are being issued to pay costs of issuance. As described herein, additional Bonds, including refunding Bonds, may be issued under the Resolution which, together with the Series A Bonds, would be equally and ratably secured by and entitled to the protection of the Resolution. It is anticipated that the Series A Bond proceeds, exclusive of accrued interest, will be applied in the following manner:

Deposit to the Escrow Fund.....	\$ 988,604,114.18
Costs of Issuance, including Underwriters' Discount.....	12,148,242.52
Original Issue Discount.....	<u>39,952,235.65</u>
Principal Amount of the Series A Bonds.....	<u>\$1,040,704,592.35</u>

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 sufficient to place the System on a self-sustaining basis. All Revenues of the System will be 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. The statutory lien, however, does not give any holder or owner of any Bond issued by the Authority, or any receiver of the System, power to 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. 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 the Revenues in the Local Water Fund, for deposit in the Revenue Fund until the amount on deposit equals the Minimum Monthly Balance and the Required Deposits for such month. The Minimum Monthly Balance is the amount required to provide for timely payment of all debt service on Outstanding Bonds. See "APPENDIX D — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Agreement — Minimum Monthly Balance". Thereafter in such month from the balance remaining in the Local Water Fund, the Board is required, after paying monthly Board Expenses, to pay to the City 1/12th 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 Revenue Fund until the total of all amounts deposited in the Revenue Fund equals the Cash Flow Requirement for such Fiscal Year and (b) to the City until all amounts required to be paid to the City for Operating Expenses for such Fiscal Year have been paid. For a more complete description of the required payments from the Local Water Fund, see “APPENDIX D — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Agreement — Establishment of Certain Funds and Application of Revenues in the Local Water Fund”.

Under the Resolution, all Revenues received by the Authority from the Board will be deposited promptly in the Revenue Fund. As soon as practicable in each month after the deposit of Revenues, the Trustee will, from the amounts in the Revenue Fund, make the deposits in the Funds and Accounts established under the Resolution. See “APPENDIX D — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Summary of the Resolution — Payments Into Certain Funds”.

The Series A Bonds will be on a parity with the Bonds currently Outstanding and with Bonds hereafter issued pursuant to the Resolution and are payable from and secured by a pledge of (i) all Revenues, (ii) all moneys or securities in any of the Funds and Accounts established under the Resolution, and (iii) all other moneys and securities to be received, held or set aside pursuant to the Resolution, subject only to the provisions of the Resolution and the Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, including the making of any required payments to the United States with respect to arbitrage earnings. See “APPENDIX D — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Resolution” and “SUMMARY OF THE AGREEMENT”. As of August 1, 1992 the Authority had approximately \$3.972 billion (unaudited) aggregate principal amount of Bonds Outstanding under the Resolution.

Debt Service Reserve Fund

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

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

As of June 30, 1992, the market value of the securities in the Debt Service Reserve Fund was \$338,929,019.33. The Authority will cause to be deposited in the Debt Service Reserve Fund from the proceeds of the Series A Bonds an amount sufficient to increase the amount on deposit in the Debt Service Reserve Fund to the Debt Service Reserve Requirement after giving effect to the issuance of the Series A Bonds.

Rate Covenant

The Board has covenanted in the Agreement to establish, fix, revise and collect rates, fees and charges for the use of, or the services furnished by the System to provide for (i) the timely payment of debt service on the 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 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 (i) 115% of Aggregate Debt Service and Projected Debt Service payable in such Fiscal Year, and (ii) 100% of the Operating Expenses and Required Deposits for such Fiscal Year. A failure to

generate Revenues as set forth in this paragraph shall 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.

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 in the preceding paragraph, 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 (i) by the Act, as in effect on July 24, 1984, or (ii) by existing agreements (including any successor agreements) with the privately-owned Jamaica Water Supply Company (“Jamaica”) designed to minimize the disparity between the cost of water paid by users of the System and the cost of water paid by those City residents served by Jamaica. See “RATES AND BILLINGS”.

Additional Bonds

The Authority may issue additional Bonds under the Resolution on a parity with all Bonds Outstanding only upon satisfaction of certain requirements including receipt by the Trustee of:

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

(b) a certificate of the Rate Consultant to the effect that the estimated Revenues for each of the 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 will be at least equal to the sum of (i) 115% of the maximum estimated Adjusted Aggregate Debt Service on all Bonds then Outstanding including the Bonds to be issued, and (ii) 100% of the sum of the projected Operating Expenses and Required Deposits for such Fiscal Years.

Alternatively, the Authority may issue additional Bonds for the purpose of refunding Outstanding Bonds upon satisfaction of the following requirements, among others:

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

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

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

BOND INSURANCE

The following information pertaining to AMBAC Indemnity, Financial Guaranty and MBIA has been supplied by AMBAC Indemnity, Financial Guaranty and MBIA, respectively. The Authority makes no representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the dates indicated. Summaries of or references to the insurance policies to be issued by AMBAC Indemnity, Financial Guaranty and MBIA 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 of such provisions. See “APPENDIX H — SPECIMEN INSURANCE POLICIES”.

AMBAC Insured Bonds

AMBAC Indemnity has made a commitment to issue a municipal bond insurance policy (the “AMBAC Policy”) relating to the Series A Bonds maturing on June 15 in 2012 and 2013 and \$50,000,000 aggregate principal amount of Series A Term Bonds maturing on June 15 in 2018 (the “AMBAC Insured Bonds”), effective as of the date of issuance of the AMBAC Insured Bonds. Under the terms of the AMBAC Policy, AMBAC Indemnity will pay to the United States Trust Company of New York, in New York, New York, or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the AMBAC Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the AMBAC Policy). AMBAC Indemnity will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment within one business day following the date on which AMBAC Indemnity shall have received notice of Nonpayment from the City’s Fiscal Agent. The insurance will extend for the term of the AMBAC Insured Bonds and, once issued, cannot be cancelled by AMBAC Indemnity.

The AMBAC Policy will insure payment only on stated maturity dates, in the case of principal, and on stated dates of payment, in the case of interest. In the event of any acceleration of the principal of the AMBAC Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Authority’s Fiscal Agent has notice that any payment of principal of or interest on an AMBAC Insured Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the City has been deemed a preferential transfer and therefore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available.

The AMBAC Policy does not insure any risk other than Nonpayment, as defined in the AMBAC Policy. Specifically, the AMBAC Policy does not cover:

1. payment on acceleration, as a result of a call for redemption or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the AMBAC Policy, payment of principal requires surrender of AMBAC Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such AMBAC Insured Bonds to be registered in the name of AMBAC Indemnity to the extent of the payment under the AMBAC Policy. Payment of interest pursuant to the AMBAC Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder’s right to payment to AMBAC Indemnity.

Upon payment of the insurance benefits, AMBAC Indemnity will become the owner of the AMBAC Insured Bond or right to payment of principal or interest on such AMBAC Insured Bond and will be fully subrogated to the surrendering Bondholder’s rights to payment. Reference is made to Appendix H for a specimen of the AMBAC Policy.

In cases where the AMBAC Insured Bonds are issuable in book entry form, the Insurance Trustee shall disburse principal and interest to a Bondholder only upon evidence satisfactory to the Insurance Trustee and AMBAC Indemnity that the ownership interest of the Bondholder in the right to payment of such principal and interest has been effectively transferred to AMBAC Indemnity on the books maintained for such purpose. AMBAC Indemnity shall be fully subrogated to all of the Bondholders’ rights to payment to the extent of the insurance disbursements so made.

The insurance provided by the AMBAC Policy is not covered by the property/casualty insurance security fund specified by the insurance laws of the State.

AMBAC Indemnity is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia and the Commonwealth of Puerto Rico, with admitted assets of approximately \$1,436,000,000 (unaudited) and statutory capital of approximately \$826,000,000 (unaudited) as of March 31, 1992. Statutory capital consists of AMBAC Indemnity's policyholders' surplus and statutory contingency reserve. AMBAC Indemnity is a wholly owned subsidiary of AMBAC Inc., a 100% publicly-held company. Moody's and Standard & Poor's have both assigned a triple-A claims-paying ability rating to AMBAC Indemnity.

Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

AMBAC Indemnity has entered into pro rata share reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

AMBAC Indemnity has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Indemnity will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC Indemnity under policy provisions substantially identical to those contained in its AMBAC Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Bonds.

AMBAC Indemnity makes no representation regarding the AMBAC Insured Bonds or the advisability of investing in the AMBAC Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by AMBAC Indemnity and presented under the heading "AMBAC Insured Bonds".

Financial Guaranty Insured Bonds

Set forth below is a brief summary of certain information concerning Financial Guaranty Insurance Company ("Financial Guaranty") and the terms of the municipal bond insurance policy provided by Financial Guaranty. Information with respect to Financial Guaranty has been supplied to the Authority by Financial Guaranty. The following discussion does not purport to be complete and is qualified in its entirety by reference to the municipal bond insurance policy.

Financial Guaranty has made a commitment to issue its Municipal Bond New Issue Insurance Policy (the "Financial Guaranty Policy") relating to \$70,500,000 aggregate principal amount of the Series A Term Bonds maturing on June 15, 2018 (the "Financial Guaranty Insured Bonds"). The Financial Guaranty Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Financial Guaranty Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. Financial Guaranty will make such payments to Citibank, N.A., or its successor, as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Financial Guaranty Insured Bonds or the Paying Agent of the nonpayment of such amount by the Authority. The Fiscal Agent will disburse such amount due on any Financial Guaranty Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Financial Guaranty Insured Bond includes any payment of principal or interest made to an owner of a Financial Guaranty Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Financial Guaranty Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Financial Guaranty Insured Bonds. The Financial Guaranty Policy covers failure to pay principal of the Financial Guaranty Insured Bonds on their respective Stated Maturity date or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Financial Guaranty Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Authority is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Financial Guaranty Insured Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Financial Guaranty Insured Bonds. Reference should be made to the description of the Authority for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

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

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation, a Delaware holding company. FGIC Corporation is a wholly-owned subsidiary of General Electric Capital Corporation ("GE Capital"). Neither FGIC Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of March 31, 1992, the total capital and surplus of Financial Guaranty was approximately \$565,000,000. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 175 Water Street, New York, New York 10038, Attention: Communications Department (telephone number: (212) 607-3000) or to the New York State Insurance Department at 160 West Broadway, 18th Floor, New York, New York 10013, Attention: Property Companies Bureau (telephone number: (212) 602-0389). See APPENDIX H — SPECIMEN BOND INSURANCE POLICIES.

Other than with respect to information concerning Financial Guaranty contained under the caption "Financial Guaranty Insured Bonds" herein, none of the information in this Official Statement has been supplied or verified by Financial Guaranty and Financial Guaranty makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series A Bonds; or (iii) the tax exempt status of the interest on the Series A Bonds.

MBIA Insured Bonds

The following information has been furnished by Municipal Bond Investors Assurance Corporation (the "MBIA") for use in this Official Statement and describes the policy to be issued by the MBIA. No representation is made herein by the Authority or the Underwriters as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Neither the Authority nor the Underwriters has made any independent investigation of the MBIA or the MBIA's policies. Reference is made to Appendix H for a specimen of the MBIA's policy. For a description of certain circumstances in which the MBIA shall have rights in addition to or in lieu of certain rights of Series A Bondholders under the Resolution, and a description of certain consents to amendments to

the Resolution to be made by the MBIA at the time of issuance of the policies see "APPENDIX D — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Resolution."

MBIA has made a commitment to issue a municipal bond insurance policy (the "MBIA Policy") relating to \$69,999,592.35 initial principal amount of the Capital Appreciation Bonds (the "MBIA Insured 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 Trustee 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 MBIA Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of an 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); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the MBIA Insured 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").

The MBIA Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any MBIA Insured Bond. The MBIA 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 the MBIA Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The MBIA Policy also does not insure against nonpayment of principal of or interest on the MBIA Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the MBIA Insured 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 the MBIA from the Trustee or any owner of an MBIA Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, the 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 Citibank, N.A., in New York, New York, of its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such MBIA Insured Bonds or presentment of such other proof of ownership of the MBIA Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the MBIA Insured Bonds as are paid by the MBIA, and appropriate instruments to effect the appointment of the MBIA as agent for such owners of the MBIA Insured Bonds in any legal proceeding related to payment of insured amounts on the MBIA Insured Bonds, such instruments being in a form satisfactory to Citibank, N.A., Citibank, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such MBIA Insured Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available thereof.

The MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the MBIA. The MBIA is a limited liability corporation rather than a several liability association. The MBIA is domiciled in the State of New York and licensed to do business in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

As of December 31, 1991 the MBIA had admitted assets of \$2.0 billion (audited), total liabilities of \$1.4 billion (audited), and total capital and surplus of \$647 million (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 1992, the MBIA had admitted assets of \$2.2 billion (unaudited), total liabilities of \$1.5 billion (unaudited), and total capital and surplus of \$713 million (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. Copies of the MBIA's year end financial statements prepared in accordance with statutory accounting practices are available from the MBIA. The address of the MBIA is 113 King Street, Armonk, New York 10504.

Moody's Investors Service rates all bond issues insured by the MBIA "Aaa" and short term loans "MIG I," both designated to be of the highest quality.

Standard & Poor's Corporation rates all new issues insured by the MBIA "AAA" Prime Grade.

The Moody's Investors Service rating of the MBIA should be evaluated independently of the Standard & Poor's Corporation rating of the MBIA. No application had been made to any other rating agency in order to obtain additional ratings on the Series A Bonds. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the 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 Series A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Series A Bonds.

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

THE AUTHORITY

Purpose and Powers

The New York City Municipal Water Finance Authority is a public benefit corporation created pursuant to the Act. Among its powers under the Act, the Authority may borrow money, issue debt and enter into the Agreement. 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.

Pursuant to the Act, there is a statutory first lien upon the Revenues in favor of the payment of all amounts due to the Authority under the Agreement. The Revenues remain subject to this lien until provision for payment of all indebtedness issued by the Authority has been made.

Membership

The Authority is administered by a seven-member Board of Directors. 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>	<u>Term Expires</u>
Albert F. Appleton	Commissioner of Environmental Protection of the City	<i>ex officio</i>
Philip R. Michael	Director of Management and Budget of the City	<i>ex officio</i>
Carol O'Cleireacain	Commissioner of Finance of the City	<i>ex officio</i>
Thomas C. Jorling	Commissioner of Environmental Conservation of the State	<i>ex officio</i>
Arthur B. Hill**	Vice President, United Parcel Service	December 1988
<u>Kenneth Kopelson*</u>	Attorney	December 1987

* Appointed by the Governor.

**Appointed by the Mayor.

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

Mark Page, Executive Director

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

Alan Anders, Treasurer

Mr. Anders was appointed Treasurer on October 26, 1990. Mr. Anders also serves as Director of Financing Policy and Coordination for the Office of Management and Budget of the City. Prior to joining the Water Authority and the City in September 1990, Mr. Anders was a senior investment banker for J. P. Morgan Securities since 1977 and prior to that date was Executive Director of the Commission on Governmental Efficiency and Economy in Baltimore, Maryland. Mr. Anders is a graduate of the University of Pennsylvania and the University of Maryland Law School.

Alexandra Altman, Secretary

Ms. Altman was appointed Acting Secretary in December 1984 and Secretary in October 1985. Ms. Altman also serves as Senior Assistant Corporation Counsel of the City. Ms. Altman has worked for the City since 1973 and has served as General Counsel and Director of Finance of the Office of Management and Budget and Counsel to the Deputy Mayor for Finance. Ms. Altman is a graduate of Harvard University and the Yale Law School.

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 Financing Agreement, shall be deposited in the General Account in the Operation and Maintenance Reserve Fund and will 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 D — 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 with a term of 40 years from 1985 or until all Bonds or other obligations issued by the Authority are paid in full or provision for payment has been made, whichever is later. Under the Lease, the City will provide billing, collection, enforcement and legal services to the Board. The Board is required to compensate the City for the cost of these services.

Membership

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

The current members of the Board are:

<u>Member</u>	<u>Occupation</u>	<u>Term Expires</u>
Robert B. Tierney, Chairman.....	Director of Public Affairs, American Telephone and Telegraph Company	June 1989
Leroy Carmichael	Regional Director of the State Office of Minority Affairs	June 1986
Ralph da Costa Nunez	President, Homes for the Homeless	June 1993
Barbara Fife	Deputy Mayor for Planning and Development of the City	June 1992
Gaspar V. Garcia.....	President, Atlantic Associates	June 1986
Michael W. Geffrard.....	Director, New York City Office of Public Finance	June 1992

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

Steven F. Ostrega, Executive Director

Mr. Ostrega was appointed Executive Director in June 1992 and was appointed Deputy Commissioner of DEP in April 1992. He has served as the Director of the Bureau of Water and Energy Conservation since May 1986. Mr. Ostrega has served in numerous capacities with DEP since 1969, including Deputy Director of the Bureau of Management Services. Mr. Ostrega is a graduate of Hunter College of the City University of New York and the New School For Social Research.

William Kusterbeck, Treasurer

Mr. Kusterbeck was appointed Acting Treasurer in June 1985 and Treasurer in November 1985. Mr. Kusterbeck also directs public financing and rate setting activities within DEP. He has worked for DEP since 1979 and has served in various positions including Assistant to the Deputy Commissioner for Planning. Additionally, he served as a staff assistant to the Chairman of the City Council Finance Committee. Mr. Kusterbeck is a graduate of Hunter College of the City University of New York and Columbia University Graduate School of Business.

Michael Burke, Secretary

Mr. Burke was appointed Secretary in April 1988. Mr. Burke also serves as Chief of the Municipal Finance Division of the New York City Law Department. Mr. Burke has worked for the Law Department since 1981. Mr. Burke is a graduate of Pace University and the Georgetown University Law Center.

THE SYSTEM

History

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

After exploring alternatives for increasing supply, the City decided to impound water from the Croton River, in what is now Westchester County, and to build an aqueduct to carry water from the Croton River to

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

In 1905 the Board of Water Supply was created by the State Legislature. After careful study, the City decided to develop the Catskill region as an additional source. The Board of Water Supply proceeded to plan and construct facilities to impound the waters of the Esopus Creek, one of the four watersheds in the Catskills, and to deliver the water throughout the City. This project, to develop what is known as the Catskill System, included the Ashokan Reservoir and the Catskill Aqueduct, and was completed in 1915 by the Board of Water Supply. It was subsequently turned over to the City's Department of Water Supply, Gas and Electricity for operation and maintenance. Further development of the Catskill System involving the construction of the Schoharie Reservoir and Shandaken Tunnel was completed in 1928.

In 1927 the Board of Water Supply submitted a plan to the Board of Estimate and Apportionment for the development of the upper portion of the Rondout watershed and tributaries of the Delaware River within the State of New York. This project was approved in 1928. Work was subsequently delayed by an action brought by the State of New Jersey in the Supreme Court of the United States to enjoin the City and State of New York from using the waters of any Delaware River tributary. In May, 1931 the Supreme Court of the United States upheld the right of the City to augment its water supply from the headwaters of the Delaware River. Construction of the Delaware System was begun in March, 1937. The Delaware System was placed in service in stages: Delaware Aqueduct was completed in 1944, Neversink Reservoir in 1950, Rondout Reservoir in 1951, Pepacton Reservoir in 1954 and Cannonsville Reservoir in 1965.

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

Although water pollution control did not become a major issue until recent years, it has been a concern of local conservationists and public officials for almost a century. The first sewage treatment facility in the City was opened in 1886, when a small plant was constructed on Coney Island to protect the bathing beaches. In 1904 a Sanitary Commission was established and charged with developing a master plan for sewage treatment in the City. Although the Sanitary Commission completed its task in 1910, sewage treatment plant construction did not receive serious attention until 1929, when the City established a department to construct sewage treatment facilities under the jurisdiction of the Department of Sanitation. In the 1930's this function was transferred to the Department of Public Works. In 1931 a plant construction program was begun to construct a system of sewage treatment plants and associated facilities to control and treat all sewage produced within the City. The first of these plants, Coney Island, opened in 1935 and three more large plants, Wards Island, Tallmans Island and Bowery Bay, were placed in operation before the end of the 1930's. During the 1940's two additional plants, Jamaica and 26th Ward, were opened. The post-war years witnessed an intensified construction effort and, by 1967, 12 major treatment plants were in operation treating about 1,000 mgd at an average removal efficiency of about 65%. At that time most other urban areas were providing only about 35% removal efficiency.

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

Department of Environmental Protection

Organization. The following table sets forth the six DEP bureaus relating to the System, their projected staffing levels for Fiscal Year 1993 and major responsibilities.

Organization of DEP

<u>Bureau</u>	<u>System Staff</u>	<u>Major Responsibilities</u>
Water and Energy Conservation.....	351	Administration of water and energy conservation programs, development of water and sewer service input data, enforcement of water use activities, and management of universal metering program
Water Supply and Wastewater Collection.....	2,233	Water supply and sewage collection system planning, design, construction supervision, operation, maintenance and repair
Environmental Engineering.....	409	Design, construction supervision of large capital projects, i.e., water tunnel, sewage treatment upgrades
Clean Water	1,979	Wastewater treatment plant planning, design, construction supervision, operation, maintenance and repair
Management and Budget	374	Administration of personnel and fiscal services, vehicle fleet and building analysis, labor relations and management analysis
Executive	145	Executive management, public affairs and intergovernmental relations, engineering audit, engineering services and legal counsel
Total	<u>5,491</u>	

The System staff represents personnel dedicated to the provision of water and sewer services. Approximately 1,059 people within the System staff are assigned to the design and construction of ongoing capital projects and projects within the CIP and 483 provide administrative and support services to both System and non-System staff. There are an additional 503 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.

DEP is managed by a Commissioner who is appointed by the Mayor. Each of the four operating Bureaus (the Bureaus of Water Supply and Wastewater Collection, Environmental Engineering, Clean Water and Water and Energy Conservation) reports to the Commissioner through the First Deputy Commissioner and is directly supervised by a Deputy Commissioner or an Assistant Commissioner.

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

Albert F. Appleton—Commissioner

Mr. Appleton was appointed Commissioner of Environmental Protection in January 1990. Prior to his appointment, Mr. Appleton served as Executive Assistant and Special Assistant Attorney General in the New York State Medicaid Fraud Control Unit, as an attorney in private practice, and as a Senior Project Planner in the New York City Mayor's Office. Mr. Appleton has also served in a volunteer capacity as an officer or director of numerous local, regional, and national conservation organizations. He received his B.A. in political science and mathematics from Gonzaga University in Spokane, Washington and his law degree from the Yale Law School.

Nicholas S. Ilijic, P.E.—First Deputy Commissioner

Mr. Ilijic was appointed First Deputy Commissioner on April 8, 1991. Mr. Ilijic has served in a number of capacities in his 30 years with DEP, including Deputy Chief and Chief of the Division of Plant Design for the Bureau of Water Pollution Control and Director for the Bureau of Heavy Construction. Mr. Ilijic is a graduate of Brooklyn Polytechnic Institute and is a Professional Engineer.

John L. DiMartino, P.E.—Senior Consulting Engineer

Mr. DiMartino served as Assistant Commissioner and Director of the Bureau of Sewers from 1978 until 1986 and was appointed Senior Consulting Engineer in April 1991. Mr. DiMartino has served the City since 1953 and has held a number of positions at DEP, including Deputy Director of the Bureau of Water Pollution Control and Chief of the Division of Sewer Maintenance. Mr. DiMartino is a graduate of New York University and is a Professional Engineer.

Steven F. Ostrega — Deputy Commissioner

Mr. Ostrega was appointed Deputy Commissioner in April 1992 and appointed Executive Director of the Board in June 1992. He has served as the Director of the Bureau of Water and Energy Conservation since May 1986. Mr. Ostrega has served in numerous capacities with DEP since 1969, including Deputy Director of the Bureau of Management Services. Mr. Ostrega is a graduate of Hunter College of the City University of New York and the New School For Social Research.

Edward O. Wagner, P.E.—Deputy Commissioner

Mr. Wagner was appointed Director of the Bureau of Clean Water in 1986. He has served with DEP in numerous capacities for over 25 years, including Director of Plant Operations and Deputy Director of the Bureau of Water Pollution Control. Mr. Wagner is a graduate of the College of The City of New York and New York University and is a Professional Engineer.

Glen E. Vogel, P.E.—Assistant Commissioner

Mr. Vogel currently serves as the Assistant Commissioner and Director of the Bureau of Environmental Engineering. Mr. Vogel has served in various capacities in his 27 years with DEP including Chief of Plant Management for Wastewater Facilities and Chief of Sewer Construction. Mr. Vogel is a graduate of New York University and is a Professional Engineer.

Edward C. Scheader, P.E.—Acting Director

Mr. Scheader was appointed Acting Director of the Bureau of Water Supply and Wastewater Collection on June 1, 1992. Prior to that he was Deputy Director. Mr. Scheader has served in a number of capacities in his more than 37 years with DEP and its predecessor agencies, including both Assistant Chief Engineer and Deputy Chief Engineer for the Bureau of Water Supply. Mr. Scheader is a graduate of College of the City of New York and holds the degrees of Bachelor of Civil Engineer and Master of Civil Engineering. He is a Professional Engineer.

Environmental Planning. DEP has created an Office of Environmental Quality (OEQ), a unit within DEP, to work with departmental bureaus to identify, integrate and harmonize long-term water, sewer and environmental protection needs.

Service Area. DEP supplies water and sewer service to the Boroughs of Manhattan, the Bronx, Brooklyn, Queens, and Staten Island, an area of over 300 square miles, and serves over 7,300,000 people. Water and sewer service is provided to approximately 807,000 accounts on either a flat-rate or metered basis. There are approximately 424,000 metered accounts and 383,000 flat rate accounts. See "APPENDIX C — CERTAIN INFORMATION CONCERNING THE CITY OF NEW YORK". The City is also required by State law to sell water in counties where its water supply facilities are located. See "RATES AND BILLINGS — Upstate Water Rates."

The vast majority of System accounts receive both water and sewer service. The remaining customers either receive water from the private Jamaica Water Supply Company or are in the few areas of the City, primarily in Staten Island, where water or sewer service is not yet established and, thus, accounts may be water only or sewer only.

Approximately 88% of the System's water and sewer customers are residential. The remainder are primarily commercial and industrial users with industrial customers accounting for only a small portion of water and sewer usage.

The classification of customer accounts is set forth in the table below.

Customer Classifications (1)

<u>Type of Account</u>	<u>Percentage of Total Accounts</u>	<u>Percentage of Total Billings(2)</u>
One-Family Dwellings	37.5%	9.6%
Two-Family Dwellings	27.3	10.3
Walk-up Apartments (3)	15.9	19.0
Elevator Apartments (3)	2.7	25.7
Factories and Industrial	1.9	5.2
Stores	6.3	8.3
Office Buildings	0.9	5.6
Utility Properties	0.2	2.8
Lofts	0.9	2.6
Hospitals and Health Facilities	0.2	1.5
Hotels	0.2	2.3
Other	6.0	7.1
Total	<u>100.0%</u>	<u>100.0%</u>

- (1) This information is based upon an analysis conducted in Fiscal Year 1987 by Ernst & Young. Billing percentages by customer class reflect total billings for each customer class less average cancellations and adjustments for metered customers.
- (2) The distribution of billings for Fiscal Year 1991 was 45% for water service and 55% for sewer service.
- (3) Certain accounts and billings under this type of account relate to commercial establishments located in apartment buildings.

Daily consumption from the Water System averages approximately 1,569 mgd, of which approximately 1,445 mgd is consumed in the City and 124 mgd is consumed in Westchester, Putnam, Orange and Ulster Counties. Water consumption varies by season with the summer months having the largest demand. Peak flows in the Water System can exceed a rate of 2,000 mgd. The following table shows the average daily water consumption from the Water System from 1982 through 1991.

Average Daily Water Consumption

Calendar Year	Total (mgd)	Upstate Counties (mgd)	New York City	
			Total (mgd)	Per Capita* (gals/day)
1982	1,419	105	1,314	194
1983	1,480	113	1,367	199
1984	1,527	114	1,413	204
1985	1,390	107	1,283	184
1986	1,433	116	1,317	187
1987	1,543	120	1,423	200
1988	1,582	125	1,457	204
1989	1,492	113	1,379	192
1990	1,525	122	1,403	195
1991	1,569	124	1,445	200

* Population source: U.S. Department of Commerce, Bureau of the Census.

Sewer service is provided to virtually the entire City. Sewer service is also provided to certain upstate communities in System watershed areas. Daily sewage flow from these upstate communities is approximately 2.1 mgd. In Fiscal Year 1992, daily flows of sewage to the City treatment plants averaged approximately 1,539 mgd of dry weather flow.

For a discussion of a possible addition to the System service area, see "RATES AND BILLINGS — Jamaica Water Supply Company."

Expenditures. The System's forecasted Fiscal Year 1992 expenditures for operation and maintenance are approximately \$500.0 million. This amount represents the cost of DEP services dedicated to operating the System. The costs associated with DEP staff whose responsibilities include the design and management of the CIP are included in the CIP and therefore are not reflected in the following table.

Fiscal Year 1992 System Forecasted Operation and Maintenance Expenses (thousands)

	Total Expenses(1)
Water	
Personal Service (2)	\$ 70,900
Other Than Personal Service (3)	104,227
Total	175,127
Sewer	
Personal Service (2)	139,100
Other Than Personal Service (3)	185,789
Total	324,889
Total System	\$500,016

(1) Amounts shown are consistent with the forecasted cash flows in Appendix B.

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

(3) Other Than Personal Service costs include real estate taxes on upstate watershed properties, electricity, costs for protection and replacement of gas mains affected by water and sewer replacements, fees for ocean disposal of sludge, chemicals and supplies.

The Water System

Water for the System is impounded at three upstate reservoir systems which include 18 reservoirs and three controlled lakes with a storage capacity of approximately 550 billion gallons. The three water collection

systems 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.

Water is conveyed to the City from the reservoirs in the Croton, Catskill and Delaware Systems by gravity through large aqueducts and balancing reservoirs. Within the City, water is distributed through two major tunnels and four distribution facilities. A third tunnel is now under construction and will supplement the two City tunnels currently in use.

In comparison to other public water systems, the Water System is both economical and flexible. Approximately 95% of the total water supply is delivered to the consumer by gravity. Only about 5% of the water is regularly pumped to maintain the desired pressure. As a result, operating costs are relatively insensitive to fluctuations in the cost of power. When drought conditions exist, additional pumping is required.

Water Collection. The three main reservoir systems are the Croton, Catskill and Delaware. (See “New York City Water Supply System” map between Appendices A and B for the location of the reservoir systems.) The following is a brief description of the City’s water collection 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-1960’s. During periods of normal rainfall, watersheds supply more than the Dependable Yield.

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

Water System 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	<u>580</u>	<u>320.4</u>
Total.....	<u>1,290</u>	<u>547.5</u>

(1) Capacity above minimum operating level.

The Croton System: The Croton System normally provides approximately 10% of the City’s daily water supply. The Croton System consists of 12 reservoirs and three controlled lakes on the Croton River, its three branches and three other tributaries. The water flows from upstream reservoirs through natural streams to downstream reservoirs, terminating at the New Croton Reservoir. The watershed drained by the Croton System is now extensively developed and the density of the population is eroding the original quality of this water source. See “THE SYSTEM — The Water System — Water Quality”.

The Croton System is divided into three subsystems: the West Branch, Croton Falls, and Muscoot. The watershed which supplies the Croton System has an area of 375 square miles. It lies almost entirely within the State, approximately 45 miles north of lower Manhattan, with a small portion in the State of Connecticut.

The Catskill System: 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 Esopus Creek flows naturally into the Hudson River and drains an area of about 257 square miles. The Schoharie Creek drains into the Mohawk River from an area of 314 square miles. The greater part of the water from these two watershed areas is stored in the Ashokan Reservoir and the balance in the Schoharie Reservoir.

The Ashokan Reservoir is formed by Ashokan Dam across the Esopus Creek. The Schoharie Reservoir is formed by the Gilboa Dam across Schoharie Creek at Gilboa in Greene County, north of the Esopus Creek. The tributaries of the Schoharie Creek have their source at elevations of nearly 2,200 feet in the vicinities of Hunter, Windham, Prattsville and Grand Gorge in Greene, Delaware and Schoharie Counties.

Water from Schoharie Reservoir is conveyed via the Esopus Creek and Shandaken Tunnel to Ashokan Reservoir where the Catskill Aqueduct begins. It is possible to divert water from the Catskill Aqueduct into the New Croton Reservoir to maximize the use of storage capacity.

The Delaware System: The Delaware System, located approximately 100 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 a 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). These reservoirs feed eastward through separate rock tunnels, West Delaware, East Delaware and Neversink, to Rondout Reservoir where the Delaware Aqueduct begins. Rondout Reservoir is formed by the Merriman Dam across Rondout Creek. Although much of the water in Rondout Reservoir is Delaware River water drawn from the other three reservoirs, Rondout Reservoir is not in the Delaware River watershed since Rondout Creek flows into the Hudson River.

Water may be pumped into the Delaware Aqueduct from the standby pump station at Chelsea, New York (the "Chelsea Pump Station") which draws from the Hudson River. The Chelsea Pump Station has a capacity of 100 mgd and pumped approximately 82 mgd of water from the river for almost five months during the 1985 drought. The Chelsea Pump Station also pumped approximately 90 mgd between May 1, 1989 and May 15, 1989. The second facility of its type to be situated at this location, the Chelsea Pump Station was reconstructed in 1965-66 under drought emergency circumstances and operated for approximately ten months during that period. It was placed on standby status until 1981. In that year, again under drought conditions, the station was rehabilitated to full operating capacity. Tests made of the Hudson River water indicate that the untreated water meets virtually all Federal and State standards for treated water and that it compares favorably as to water quality to the supplies available to major population centers outside the Hudson River Basin.

The City has submitted an application for a five-year permit to the New York State Department of Environmental Conservation ("NYSDEC") to operate the pump station on an emergency basis at the maximum rate of 100 mgd. Adjudicatory hearings commenced in April 1988. In May 1990, the City requested a modification of its application to propose a maximum 100 mgd withdrawal at Chelsea at an earlier stage of the drought emergency than the original permit had contemplated. Action on the request for modification must await completion of a supplemental environmental impact statement. Pursuant to a recent court decision, operation of the Chelsea Pumping Station may require a State Pollution Discharge Elimination Systems ("SPDES") permit. Such a permit or, when issued, the operating permit may require additional expenditures prior to the operation of the pumping station.

Water Transmission. The System's water supply is transported through an extensive system of tunnels and aqueducts. (See "New York City Water Tunnels" map between Appendices A and B for the location of the major water transmission facilities.) Croton System water is delivered from the New Croton Reservoir by the New Croton Aqueduct to the Jerome Park Reservoir in The Bronx and Central Park Reservoir in Manhattan. From Jerome Park and Central Park Reservoirs 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 and 2. Trunk mains carry water from tunnel shafts and from the distribution facilities (Jerome Park, Central Park and Ridgewood Reservoirs and Silver Lake Tanks) (the "Distribution Facilities") to the service area. These trunk mains are usually more than 20 inches in diameter.

Water System Tunnels and Aqueducts

<u>Tunnels and Aqueducts</u>	<u>Connections</u>	<u>Length (miles)</u>	<u>Diameter (feet)</u>	<u>Transmission Capacity (mgd)</u>	<u>In-service Date</u>
<u>Tunnels Upstate</u>					
Shandaken	Schoharie to Ashokan	18.1	11.5 x 10.25	650	1924
West Delaware . . .	Cannonsville to Rondout	44.0	11.33	500	1964
East Delaware	Pepacton to Rondout	25.0	11.33	700	1955
Neversink	Neversink to Rondout	6.0	10	500	1954
<u>Aqueducts</u>					
New Croton	New Croton to Jerome Park	24.0	13.5 x 13.6	300	1893
	Jerome Park to the 135th St. Gatehouse	9.0	12.25 - 10.5	250	1893
Catskill	Ashokan to Kensico	75.0	17 x 17.5	610	1915
	Kensico to Hillview	17.0	17.5 x 18	800	1915
Delaware	Rondout to West Branch	44.2	13.5	890	1944
	West Branch to Kensico	27.2	15	1,045	1943
	Kensico to Hillview	13.6	19.5	1,450	1942
<u>Tunnels-Downstate</u>					
Tunnel 1	Hillview to distribution system	18.0	15 - 11	1,000	1917
Tunnel 2	Hillview to distribution system	20.0	17 - 15	1,000	1936
Richmond Tunnel	Tunnel 2 to Staten Island Uptake Shaft	5.0	10	350	1970

The New Croton Aqueduct: The New Croton Aqueduct transmits water by gravity from New Croton Reservoir to Jerome Park Reservoir in The Bronx and via aqueducts and conduits to Central Park Reservoir in Manhattan. Water is also drawn from the New Croton Aqueduct directly into distribution mains in the City. It is a grade tunnel about 33 miles long with a delivery capacity of about 300 mgd. The New Croton Aqueduct is located three to 300 feet underground and is composed of two sections. One section is a bricklined rock tunnel located near the Old Croton Dam, three miles north of the New Croton Dam, and extends to Gatehouse No. 1 in Van Cortlandt Park, a distance of about 24 miles. The other section is a pressurized masonry conduit extending from Gatehouse No. 1 to a gatehouse at 135th Street and Convent Avenue in Manhattan, a distance of about nine miles. In addition, a branch of the New Croton Aqueduct transmits water from Gatehouse No. 1 to the Jerome Park Reservoir.

The Catskill Aqueduct: The Catskill Aqueduct, which also transmits water by gravity, is 92 miles long and extends from the Ashokan Reservoir to Kensico and Hillview Reservoirs. Four distinct types of aqueduct construction were required due to the terrain between the Catskill Mountains and the City. The Catskill Aqueduct is for the most part a 17 feet high by 17.5 feet wide horseshoe-shaped cut-and-cover conduit. The Catskill Aqueduct is also composed of a number of steel pipe siphons and grade and pressure tunnels where topography requires. A deep rock tunnel siphon 14 feet in diameter and 1,114 feet below mean sea level crosses beneath the Hudson River near Cornwall. The delivery capacity of the Catskill Aqueduct from the Ashokan Reservoir to the Kensico Reservoir is about 610 mgd and about 800 mgd from the Kensico Reservoir to the Hillview Reservoir. The Catskill Aqueduct passes under the New Croton Reservoir. At this point it is possible to transfer water from Ashokan Reservoir to New Croton Reservoir.

The Delaware Aqueduct: The Delaware Aqueduct similarly transmits water by gravity from Rondout Reservoir to West Branch Reservoir, in the Croton System, and from West Branch Reservoir to Kensico Reservoir and to Hillview Reservoir. The Delaware Aqueduct is a circular, cement-lined, pressurized, bedrock tunnel 85 miles long located 300 to 1,000 feet underground, passing beneath the Hudson River at a depth of about 600 feet below sea level. Water in this aqueduct is directed by uptake and downtake shafts to the Kensico and West Branch Reservoirs. The Delaware Aqueduct has a diameter of 13.5 feet to 19.5 feet. The

capacity of the section from Rondout Reservoir to West Branch Reservoir is about 890 mgd and delivers water from the Rondout, Neversink, Pepacton and Cannonsville Reservoirs. Interconnection with the Catskill System is possible at both the Kensico and Hillview Reservoirs. The delivery capacity of the Delaware Aqueduct from West Branch to Kensico Reservoirs is about 1,045 mgd and about 1,450 mgd from Kensico to the Hillview Reservoirs.

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 narrowing in diameter from 15 to 11 feet. Tunnel 1 is 18 miles in length and extends south from Hillview Reservoir through the West Bronx to Manhattan and Brooklyn. From two terminal shafts in Brooklyn, steel and standby cast iron pipelines extend into Queens and Staten Island, respectively. Tunnel 1 is 200 to 750 feet underground and thus avoids interference with streets, buildings, subways, sewers, pipes and other underground infrastructure. These depths are necessary to ensure substantial rock covering necessary to withstand the bursting pressure of the water inside and to ensure watertightness. Tunnel 1 has a capacity of approximately 1,000 mgd. Shafts placed along the tunnel connect with surface mains which deliver water to the distribution system.

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

Richmond Tunnel: Connecting to Tunnel 2 in Brooklyn is the 10-foot diameter, five-mile long Richmond Tunnel, which was completed in 1970 and carries water 900 feet beneath Upper New York Bay to Staten Island. The Richmond Tunnel, the Richmond Distribution Chamber, the Richmond Aqueduct and the underground Silver Lake Tanks were designed to improve the water supply facilities of Staten Island. The underground storage tanks (among the world's largest) have a combined capacity of 100 million gallons and replace the Silver Lake Reservoir (now Silver Lake).

Tunnel 3: A new water tunnel connecting the reservoir system to the City is presently under construction to enhance the adequacy and reliability of water transmission to the City in the future. The primary reasons for constructing Tunnel 3 are 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;
- provide water delivery alternatives to the City in the event of disruption in Tunnel 1 or 2; and
- provide capacity for peak demand which Tunnels 1 and 2 occasionally cannot supply.

Tunnel 3 is a circular, cement-lined, pressurized, bedrock tunnel which will be built in four stages which include:

STAGE I, currently under construction and expected to be operable in 1994, has 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 I parallels Tunnel 1 along most of this route.

STAGE II will consist of two sections expected to be operable in 2004. The Brooklyn/Queens section will extend from the end of Stage I to supply Queens, Brooklyn and the Richmond Tunnel. The second section will extend south from the valve chamber at Central Park into lower Manhattan. Completion of Stage II will further enhance the System's water distribution capability. Upon completion of this stage, Tunnel 1 or 2 can be closed for inspection.

STAGE III will extend from the Kensico Reservoir to the interconnecting chamber of Stage I, south of Hillview Reservoir. Completion of this stage will supplement the delivery capability of both the Catskill and Delaware Aqueducts between Kensico and Hillview Reservoirs. Tunnel 3 will deliver water from

Kensico Reservoir under greater pressure than is available in Tunnels 1 and 2. This increased pressure is a result of the higher elevation of Kensico Reservoir than that of Hillview Reservoir where Tunnels 1 and 2 originate.

STAGE IV, as now contemplated, would 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.

Water Distribution. The water distribution system consists of a grid network of water mains ranging in size from six to 84 inches in diameter. It contains approximately 5,760 miles of pipe, 88,000 mainline valves and 96,600 fire hydrants.

Slightly over half of the mains in the System are unlined cast iron, the primary construction material used before 1930. Between 1930 and 1970, cement-lined, cast iron pipe was used and comprises about 39% of the water main mileage. Since 1970, the installed pipe material has been cement-lined, ductile iron and comprises about 9% of the water main mileage. The CIP provides for the programmatic replacement of water mains in accordance with certain established criteria. The water distribution system also has an excellent record with regard to the frequency of water main breaks per mile of distribution network. See "Appendix A — REPORT ON THE ENGINEERING FEASIBILITY OF THE WATER AND SEWER SYSTEM SERVING THE CITY OF NEW YORK — System Description and Evaluation".

Water pressure is regulated within a range of 35 to 60 pounds per square inch ("psi") at street level. Generally, 40 psi is sufficient to supply water to the top of a five or six-story building. About 95% of the total consumption is normally delivered by gravity. It is necessary to pump only the remaining 5% to areas of higher elevation to keep the pressure within this desired range.

The distribution system in each Borough is divided into three or more zones in accordance with pressure requirements. These zones are determined chiefly by the local topography. The ground elevation in the City varies from a few feet above sea level, along the waterfront, to 403 feet at Todt Hill in Staten Island. The highest ground elevations in the other Boroughs are: Manhattan, 267 feet; the Bronx, 284 feet; Brooklyn, 210 feet; and Queens, 266 feet. 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 in peak hours during summer months, the water distribution system provides generally excellent service.

Water Quality. The System is known for the high quality of its water. Because of its inherent quality and the long periods of retention in the reservoirs, it has not been necessary to filter water from the System to reduce the bacterial content and the turbidity. The only treatment procedures routinely employed by DEP are screening, detention, addition of caustic soda for pH control, chlorination for disinfection, and fluoridation. Additions of copper sulfate for algae control and alum for turbidity control are made only when needed.

Until recently, this level of treatment had proven to be more than sufficient to maintain water quality standards throughout the entire Water System. Population growth and commercial and industrial development within the Croton System, the Water System's oldest, have caused some deterioration of its water quality. The City is operating a demonstration treatment facility for Croton System water at Jerome Park Reservoir. Funding for a full-scale treatment facility, the Croton Filter Project, is included in the CIP. This project is expected to be completed in the late 1990's.

The System has five laboratories that monitor water quality employing approximately 60 bacteriologists, engineers, and chemists. Over 80,000 samples per year are collected and 1,000,000 analyses are performed annually. Routine checks are made for 60 different substances, including heavy metals and trace organics. As part of a long range water quality and watershed protection program, DEP is increasing its staff in order to expand water quality monitoring within watershed and distribution areas and to improve its sample collection force. The monitoring program meets or exceeds Federal and State requirements and has the capability to meet potentially more stringent requirements.

DEP has historically monitored key locations representative of its distribution system for over 40 individual water quality parameters. These special monthly analyses include analyses for lead. Current DEP data indicate that lead is absent from both the water supply and distribution systems. Federal guidelines are being developed as to how water purveyors should address the issue of lead in building plumbing.

In addition to the monitoring program, DEP watershed inspectors continually run sanitary surveys and maintain constant surveillance of the watersheds. To ensure high quality water, DEP has proposed new watershed protection regulations for the upstate watershed area. These regulations are designed to prevent future contamination and reverse any existing degradation of the New York City water supply. These regulations are subject to the approval of the New York State Department of Health ("NYSDOH"). See "GOVERNMENTAL REGULATION — Water Supply Regulation — State". Additionally, the System includes real estate adjacent to its reservoirs acquired to prevent potential water contamination from sewage that would be produced if these areas were developed and to control access to the reservoirs. To enhance these efforts, DEP continues to work in conjunction with State programs to better protect watershed wetlands which act as a filter to general land use pollution which would otherwise be deposited in the reservoirs. DEP's wetlands projects include: data collection and communication with the State to effect watershed classification upgrading; review of and comment on wetlands protection regulations; and wetlands studies.

The System includes several upstate sewage treatment plants to prevent untreated sewage from being released into the watersheds. To enhance watershed protection, the CIP includes funds for upgrading these facilities and, DEP, through the City's law department, is taking legal action pursuant to the Federal Clean Water Act to compel the owners and operators of non-City owned sewage treatment plants in the watersheds to comply with SPDES permits.

DEP is undertaking a new initiative to develop a computerized watershed modelling system which will enable DEP to evaluate better the effects of land development on water quality.

Drought Response Measures. From time to time the System experiences drought conditions caused by significantly below-normal precipitation in the watershed areas. Since the Water System relies upon a surface water supply it is sensitive to major fluctuations in precipitation. Historically, drought conditions in the Water System have occurred in 14 to 20 year cycles. Throughout even the worst droughts, the Water System has continued to supply sufficient amounts of water to the City.

An extended period of below normal rainfall over the watershed for summer 1991 resulted in the depletion of storage in the reservoirs to below normal levels. As a result, a Drought Watch was declared on September 25, 1991, and a Drought Warning was declared on November 8, 1991. Due to a dramatic increase in reservoir storage levels during spring 1992, both the Drought Warning and Drought Watch were lifted on June 17, 1992. As of July 28, 1992 reservoir storage levels were at 85.4% of capacity compared to normal levels of 90.9% at that time of year.

To ensure adequate water supply during drought conditions, DEP, in conjunction with other City, State and interstate agencies, maintains a Drought Contingency Plan. The Drought Contingency 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 into 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 more than a 50% probability, based on the existing 60 years of record, that either the Catskill or Delaware reservoir system will not be filled by the following June 1. This phase initiates the pumping of water from the Croton System. In addition, a public awareness program is begun and all users, including upstate communities taking water from the System, are requested to initiate conservation measures. Discussions with NYSDOH, NYSDEC, the Delaware River Basin Commission (the "DRBC") and City agencies are held concerning their prospective participation in the event of a declaration of a "Drought Warning."

A Drought Warning is declared when there is more than a 66% probability that either the Catskill or Delaware reservoir system will not fill by June 1. Limited restrictions on water usage are mandated. All

previous efforts are continued or expanded and additional programs are initiated, including City conservation programs, expanded leak detection and the placing of the Chelsea Pump Station on a standby alert status.

A Drought Emergency is declared when it becomes necessary to reduce consumption by imposing even more stringent measures. A Drought Emergency is usually subdivided into four stages and imposes mandatory water use restrictions on all users of the Water System. Major components of the Drought Emergency phase of the Drought Contingency Plan are set forth below.

Stage I Mandates include 15% reduction in water consumption based on prior year usage for non-residential users; restriction on watering of lawns, gardens and golf courses to a maximum of four hours on alternate days during specific hours; and \$500 fine for unauthorized use of a fire hydrant.

Stage II Mandates include a ban on lawn watering; a ban on the filling of private swimming pools; restricted use of water-cooled air conditioners, requiring a two-hour shut-down between 8 AM and 10 AM or 4 PM and 6 PM; and an additional 5% reduction in water consumption for non-residential users.

Stage III Mandates include additional restrictions on the use of water-cooled air conditioning systems, prohibiting temperatures below 78F; and an additional 5% reduction in water consumption for non-residential users.

Stage IV Mandates include installation of flow restricting devices on plumbing fixtures; and an additional 5% reduction in water consumption for non-residential users.

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. The Chelsea Pump Station may also be brought into service in order to draw Hudson River water into the System.

Long-Term Water Supply Planning. After the mid-1960's drought, the U.S. Army Corps of Engineers commissioned the Northeast Water Supply Study to address regional water supply needs. The study considered, among other sources, further use of Hudson River water. In July 1985, the City formed an intergovernmental task force to study New York's water supply needs. It issued its first interim report in February 1986, entitled "Increasing Supply, Controlling Demand." The report recommended that consumption studies be performed to refine water use projections and that every reasonable effort be made to control water demand through increased metering, rate setting, leak detection and conservation. As a result of the work of the task force, a study of system water demand was approved by the City's Board of Estimate in December 1986. Phase I of the demand study, which includes the development of the forecasting model and initial forecasts, was completed in November 1989. An interagency demand forecasting work group is now undertaking a program of data collection, analysis and model development. In addition, a universal metering program was adopted by the Board and the City in 1986 and began in Fiscal Year 1988. Full implementation of metering for all customers of the System is expected to be completed by the end of 1998.

The first interim report of the task force concluded that expanded pumping of Hudson River water represents the only large source of supplemental supply which can be realistically developed within the next 10 to 15 years. The current CIP includes \$25 million for the design of the expansion of the existing pumping station at Chelsea to a maximum capacity of 300 mgd which is estimated to cost approximately \$415 million. The second interim report of the task force, which builds upon those recommendations made in the first interim report, was completed in December 1987. The final task force report is available in draft form and is expected to be completed by late 1992.

The Sewer System

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

Sewage Collection. The sewage collection system is divided into 14 drainage areas and includes approximately 6,300 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, 90,000 catch basins and 5,000 seepage basins are maintained to prevent flooding and sewer backups.

The Sewer System is comprised of a number of systems 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.

Approximately 17% of the City's sewers were installed before 1900 and roughly 69% are over 50 years old. Several components of the Sewer System were constructed of very durable materials and methods and have achieved a service life in excess of 100 years. Most notable are the approximately 600 miles of brick sewer in lower Manhattan and Brooklyn where large portions are still structurally sound. Other components of the Sewer System were constructed of less durable materials that have a more limited useful life, primarily cement pipe sewers installed in Brooklyn between 1860 and 1900. Approximately 300 miles of this type of sewer are being replaced.

Sewage Treatment Facilities. The facilities related to the treatment of sewage include 14 currently operating sewage treatment plants, one storm-overflow retention plant, 88 pump stations, five laboratories, eight sludge dewatering facilities, three inner-harbor vessels and four ocean-going barges which transport sludge between facilities. Sludge is a by-product of the sewage treatment process. The 14 plants currently in operation treat about 1,539 mgd of dry-weather sewage, virtually all of the dry-weather sewage generated in the City. Eleven of the System's 14 plants have been upgraded to provide for full secondary treatment capability.

The Red Hook plant, which became operational in May 1987, is designed to treat approximately 60 mgd of sewage. Its total cost is estimated to be \$410 million. Full secondary treatment facilities at Red Hook were completed in 1989. The North River plant, which is designed to treat 170 mgd of sewage became operational in March 1986. Approximately \$1.1 billion was spent on the construction of that plant. Full secondary treatment facilities at North River went on-line in May 1991.

DEP has signed a consent decree with NYSDEC with regard to plant capacity, odors and air emissions at the North River facility. A consultant has been engaged to develop solutions to the odor issues and currently over \$40 million is expected to be committed in this fiscal year to address odor concerns. The ultimate cost of addressing odor issues at the plant has not yet been established. Although recent measurements indicate that flows to the plant are near design capacity, DEP is undertaking flow reduction and surveillance measures under the consent decree.

In 1983 the City commenced the upgrading to full secondary treatment of an additional two plants in Brooklyn, Owls Head and Coney Island. Upgrading of these plants will be completed in 1995 and 1994, respectively, at an estimated total cost of \$1.1 billion.

In December 1991, NYSDEC withdrew its approval of the Newtown Creek facility plan, because it included technology that has caused operational problems at another plant. The schedule for the planned upgrade of the Newtown Creek facility is under discussion with the State. The CIP includes \$423 million to initiate this upgrade.

Issues of treatment capacity have been raised at the Wards Island and Newtown Creek plants. On February 2, 1989, the City signed a consent order which mandates various water conservation measures to reduce flow to the Wards Islands plant. Interim conservation measures have reduced flow to the Newtown Creek plant to its design capacity. The City plans to initiate a study to address capacity issues and other water quality concerns. The CIP includes over \$700 million to implement recommendations resulting from the study.

Issues of treatment capacity have also been raised at the Coney Island plant. DEP believes that the actual capacity of the Coney Island plant exceeds its current rating and can accommodate expected flow. DEP is therefore seeking an increase to the Coney Island plant's rated capacity from the State.

Water quality has improved significantly according to the Harbor Surveys conducted by DEP. The final results of the 1988-90 Harbor Surveys indicate that the Hudson River continues to show marked improvements since the North River plant commenced operation. In addition, the Surveys reflect the positive impact the Red Hook plant has had on the lower East River. These improvements are also due to increased inspection and maintenance of the sewage regulator system. In general, coliform bacterial counts, indicators of sewage pollution, are down throughout New York Harbor and the dissolved oxygen level, important to sustaining marine life, has increased measurably over the past several years. As a result of this improvement the NYSDEC has reclassified the Hudson River north of Manhattan from a fishing standard to a swimming standard.

The Long Island Sound Study ("LISS") is a joint federal-state-local (the states being New York and Connecticut) program to identify the Sound's major environmental problems and develop a plan to manage those problems. The United States Environmental Protection Agency ("USEPA") is the lead federal agency involved in the LISS. Hypoxia, or low levels of dissolved oxygen, has emerged as the issue of greatest concern in Long Island Sound. Hypoxia is the result of a chemical chain reaction that begins with high levels of nutrients, largely nitrogen. In addition to natural sources, other nutrient sources include effluent from sewage treatment plants, stormwater run-off carrying lawn and agricultural fertilizer, organic materials, and air-deposited nitrate substances. On November 30, 1990, the LISS Policy Committee approved a Status Report and Interim Actions for Hypoxia Management, which summarize the Study's findings and include management recommendations to prevent significant increases ('no net increase' policy) in the amount of nitrogen entering the Sound. DEP is taking measures to make its operations consistent with the recommendations. It is expected that the study will be completed in the Fall of 1992 and a Comprehensive Conservation and Management Plan ("CCMP") will be adopted by the participants to reverse the adverse impacts associated with hypoxia in Long Island Sound. The financial implications to the System of the CCMP are uncertain.

Sludge Disposal. Pursuant to the Marine Protection, Research and Sanctuaries Act of 1972 ("MPRSA") as amended by the Ocean Dumping Ban Act of 1988 (the "Ban Act") DEP was permitted to dispose of all of the sludge generated by its sewage treatment plants in the Atlantic Ocean 106 miles offshore (the "106 Mile Site"). The Ban Act prohibits the ocean disposal of sludge after August 14, 1989 without a permit from the USEPA. DEP entered into a Consent Decree And Enforcement Agreement ("Consent Decree") with the United States and the State of New York on August 1, 1989 and was granted a permit to continue to use the 106 Mile Site on condition that the City develop alternative sludge disposal technologies and cease all ocean disposal by June 30, 1992. The Consent Decree provided a timetable with specific milestones to be achieved in order to meet the June 1992 deadline.

The Consent Decree requires the implementation of interim measures and a long-term program to end ocean disposal. As part of the interim measures, DEP is operating facilities to dewater its sludge and reduce its volume. Sludge dewatering is a necessary first step in the process of ending ocean disposal and is consistent with any interim or long-term alternative sludge disposal program. Sludge dewatering facilities are located at eight of the sewage treatment plants and have the capacity to dewater all of the sludge generated by the System. DEP has contracted with various private firms for the beneficial use or disposal of its dewatered sludge. A thermal drying facility with a capacity of 220 dry tons per day is expected to be constructed by one of the private firms in the Bronx by August 1993. Other firms are disposing of the dewatered sludge through the use of a fully permitted landfill facility and through land application. The capacity provided by the contracts is more than sufficient to handle projected production.

An action has been commenced by a member of the New York City Council in the United States District Court for the Eastern District of New York challenging the award of the contracts. Plaintiff alleges that the City failed to comply with provisions in the New York City Charter governing the award of contracts, and seeks an order declaring the contracts null and void. On January 31, 1992, the Court dismissed the complaint and the dismissal was upheld by the United States Court of Appeals for the Second Circuit on July 22, 1992.

A declaration that such contracts were null and void could lead to a delay in the City's compliance with the terms of the Consent Decree which could result in the assessment of penalties against the City.

The Consent Decree also requires DEP to explore long-term solutions for sludge disposal which may rely on additional DEP facilities or private firms and to implement long-term solutions capable of processing 50% of the City's sludge by December 31, 1995 and 100% by June 30, 1998. In accordance with the Consent Decree, DEP published a Long Range Sludge Management Plan in May 1991 which was modified in April 1992. Such plan will utilize three technologies to process sludge cake produced by the eight dewatering facilities including thermal drying, chemical stabilization and composting. The plan provides for processing an average of 400 dry tons per day throughout the City, including a proposed Wards Island chemical stabilization facility and the proposed Bronx thermal drying facility. By utilizing such proposed facilities, the December 31, 1995 milestone would be satisfied without any additional construction.

Ocean disposal fees and penalties imposed by the Ban Act and the Consent Decree amounted to approximately \$13.7 million in Fiscal Year 1990 and \$21.6 million in Fiscal Year 1991. DEP expects such fees and penalties were approximately \$52.6 million in Fiscal Year 1992. The Ban Act and the Consent Decree provide that 85% of the fees and penalties payable shall be deposited into a Trust Account and shall be available to reimburse the City for costs incurred for developing alternative sludge disposal facilities. A portion of the balance of the fees and penalties accruing shall be paid to USEPA with the remainder divided equally between the New York State Water Pollution Control Revolving Fund and the New York State Clean Oceans Fund. Amounts paid to the Clean Oceans Fund are also available to reimburse the costs of developing alternative sludge management programs. The eight dewatering facilities are expected to be completed in Fiscal Year 1993 at a cost of approximately \$850 million. The Financial Plan includes \$125 million in each year for contracts with private vendors to dispose of the dewatered sludge. The CIP includes \$1.1 billion for the construction of long-term disposal facilities.

In August 1991 the City Comptroller published a report questioning the viability of various disposal means and the ability to perform of private contractors on which DEP proposes to rely. The Comptroller also estimated that the ultimate cost of land-based sludge disposal could be substantially higher than currently projected by DEP. In addition, the Manhattan District Attorney's office is investigating contracts relating to the interim sludge program.

GOVERNMENTAL REGULATION

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

Water Supply Regulation

Federal. All water supply systems in the United States which provide water to at least 15 service connections or 25 individuals are subject to the provisions of, and to regulation by USEPA under, the Safe Drinking Water Act ("SDWA"). USEPA has promulgated nationwide drinking water regulations which specify the maximum level of harmful contaminants allowed in drinking water and which govern the construction, operation, and maintenance of water supply systems as required by SDWA.

Under 1986 amendments to SDWA, the USEPA is directed to promulgate filtration treatment regulations "relevant to the protection of health" which shall be used by the State to identify public water systems supplied by surface water sources which must initiate filtration measures. The regulations, known as the Surface Water Treatment Rule ("SWTR"), 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. USEPA published regulations in the Fall of 1987, but due to numerous comments received from municipalities nationwide, it revised the regulations and republished them in the Spring of 1988. A final SWTR was published in June 1989. The City believes that under the SWTR promulgated by the

USEPA it will be able to meet criteria for non-filtered supplies. See “THE SYSTEM — The Water System — Water Quality”.

State. In 1977, enforcement of SDWA and its related regulations was delegated by USEPA to the State. Under the terms of SDWA, a State has primary enforcement responsibility for public water systems if USEPA determines that the State’s drinking water regulations are at least as stringent as the Federal drinking water regulations. Consequently, regulation of the Water System is primarily under the jurisdiction of the State. Enforcement of the water quality mandates for the most part has been entrusted to NYSDOH. The State Sanitary Code (“Sanitary Code”) sets forth surveillance, quality testing and water treatment requirements. Also set forth in the Sanitary Code are the procedures for planning, facility siting, facility operation and the granting by NYSDOH of variances and exemptions. At times Croton System water does not meet the currently applicable State drinking water standards for turbidity. The City has received variances from the State permitting continued use of the Croton System. These variances are contingent on the City’s proceeding with the Croton Filter Project. See “CAPITAL IMPROVEMENT PROGRAM — Water System”.

Subsequent to promulgation of SWTR by USEPA, NYSDOH commenced a rulemaking proceeding as a prelude to amending the Sanitary Code through the issuance of new State surface water filtration and disinfection requirements. A report, explaining the need for adopting new requirements, the various options available, and the considerations involved with each option, was issued in December 1989, and public hearings were thereafter held in January and February 1990. NYSDOH had recommended that among other measures, filtration of all surface water supplies, including those of the Catskill and Delaware Systems, be required by calendar year 2005. At the public hearing, held February 7, 1990 in New York City, the City opposed the adoption of a blanket filtration rule with no exceptions allowed, as being premature and counterproductive State-wide, especially in the Catskill and Delaware Watersheds. The City also took issue with the Catskill/Delaware capital cost estimate of \$2.5 billion put forth by NYSDOH, contending that cost would be in the \$4 billion to \$5 billion range. In December 1991, the NYSDOH approved the City’s filtration avoidance application subject to specific conditions and for a period of twelve months. A coalition of towns located in the City’s upstate watershed has commenced litigation in both federal and state court against the City and others claiming, among other things, that NYSDOH lacked the authority to approve the City’s filtration avoidance application. On July 28, 1992, NYSDOH withdrew its December 1991 approval, while noting that this withdrawal was not the result of any failure by the City to meet the technical requirements of the State Sanitary Code filtration avoidance criteria. NYSDOH anticipates seeking authority to issue filtration avoidance determinations within four months. The City will then have to reapply for filtration avoidance in accordance with, among other things, the State Environmental Quality Review Act. The City intends to comply with all conditions for filtration avoidance in anticipation of renewed approval. The City believes that its increased regulatory efforts to protect its water supply, described below, will preserve the high quality of the water in the Catskill and Delaware watersheds and will prevent the need for filtration.

A major component of the City’s efforts to protect its water supply is new regulations for the upstate watershed areas. These regulations will be promulgated under the authority of the New York State Public Health Law and subject to the approval of NYSDOH. They are designed to prevent future contamination and reverse any existing degradation of the New York City water supply. DEP is in the process of fulfilling State regulatory requirements, including the drafting of an environmental impact study for the approval of these regulations.

Pursuant to the Water Supply Act of 1905 (the “1905 Act”), the City was granted permission to develop areas of the Catskill Mountains, located in the Hudson River Basin, for additional sources of pure and wholesome water. Subsequent amendments to the 1905 Act extended the City’s development rights to portions of the Delaware River Basin located to the west of the Catskill Mountains, provided that no additional water storage structure or reservoir could be built within the drainage area of the Esopus Creek in Ulster County.

In return for these development rights, the 1905 Act and subsequent amendments require the City to furnish, upon request, supplies of fresh water to municipalities and water districts in eight northern counties in which City water supply facilities and watersheds are located. The City’s obligations under the 1905 Act in this respect have now passed to the Board.

The 1905 Act also governs the provision of fresh water to the northern counties and the rates that may be levied for such water. An eligible municipality or district may draw water based on a formula computed as the local population multiplied by the daily per capita consumption in the City. Current water allowances are based upon 1990 U.S. census data. In the event of disagreement between the upstate users and the System as to appropriate water charges, NYSDEC has the authority to fix the water charges based on the actual total cost of the water to the City, deducting those costs incurred by the City itself for distributing water to City residents.

The Water System historically has furnished and is currently furnishing water to users in only four of the eight eligible northern counties (Westchester, Putnam, Orange and Ulster counties). Economic and demographic conditions in the remaining four counties have rendered use of System water impractical.

NYSDEC has promulgated regulations which require release of fresh water from most of the Water System's reservoirs into downstream water bodies, to enhance recreational use of rivers and streams in the System's watersheds and drainage areas. The regulations recognize seasonal variations and, with insignificant exceptions, releases for recreational purposes are effectively suspended during periods of drought.

NYSDEC also oversees a dam safety program in connection with the System's dams located east of the Hudson River (Croton System and Kensico Reservoir). The first phase initiated under the National Dam Inspection Act included inspection by the U.S. Army Corps of Engineers of all of the System's dams. That study indicated that the dams in the Delaware and Catskill Systems were in excellent operating condition and that the dams east of the Hudson were safe but in need of some rehabilitation and reconstruction work. The second phase, administered by the City and subject to NYSDEC approval, assessed the measures needed to restore the dams east of the Hudson River to first-class operating condition. The first contract for the reconstruction of Boyds Corner Dam was awarded in the spring of 1988, and work was substantially completed in the fall of 1990. DEP has selected consultants to design the balance of the work that will be required under the second phase of the dam safety program.

Interstate. Three major interstate actions have influenced the maintenance and operation of the 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.

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

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

diversions and releases necessary during normal hydrological conditions and during periods of drought. The Good Faith Agreement was followed during the 1985 and 1989 droughts.

Municipal. 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 inspectors; county, municipal and district police and inspectors; and City personnel from DEP and NYCDOH. The various jurisdictions maintain physical security, take water samples, monitor the use of herbicides, insecticides and fertilizers, and generally oversee the physical condition of, activity on and the operation of water supply lands and facilities. Portions of the overall legislative and regulatory framework governing the watersheds may be found in the City's Administrative Code, Health Code and Water Supply Regulations.

Regulatory enforcement within City limits is almost exclusively accomplished through City personnel. Provisions incorporating and augmenting the substance of 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.

Wastewater Regulation

Under 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"), USEPA administers an extensive program of Federal capital construction grants (the "Construction Grants Program") and oversees compliance with regulations and guidelines promulgated by it concerning (i) sewer and sewage treatment plant construction, operation, maintenance, upgrading and rehabilitation, (ii) introduction of toxins and other pollutants into sewer and sewage treatment facilities, and (iii) pollutant discharges from all point sources. Included in that regulatory framework is the National Pollutant Discharge Elimination System ("NPDES") Permit Program and the issuance of sewage treatment plant operating permits. As authorized by the Clean Water Act, enforcement of the permits program has been delegated to the State.

Funding for a major portion of the capital costs of upgrading and new construction of sewage treatment plants has been received through the Construction Grants Program. Administration of the grants has been delegated to the State by USEPA. Congressional authorization for the Construction Grants Program was renewed in January 1986.

The Water Quality Act of 1987 has phased out the Construction Grants Program and provides for the implementation of a water pollution control revolving loan program. Such act requires, as a condition for receipt of federal financial assistance, that each state establish a revolving fund administered by the state or an instrumentality of the state. The purpose of a state revolving fund is to provide a source for loans and other types of financial assistance (other than direct grants) to local entities for the construction of publicly owned wastewater treatment facilities. Initial funding for a revolving fund program is provided from federal capitalization grants and state matching funds.

The State has created a State revolving fund and has designated the Environmental Facilities Corporation (the "Corporation") to be the administrator of such fund. The Corporation will apply federal capitalization grants and State matching funds or other available amounts in the State revolving fund to provide subsidized capital financing to municipalities for eligible sewage treatment projects.

The upgrading of eleven of the System's existing plants and the construction of the two new plants are, in part, for the purpose of complying with the mandates of the Clean Water Act. In 1972, the City began a program of upgrading its existing plants to operate in conformance with the requirements of the Clean Water Act; that is, 30 milligrams per liter ("mg/l") or less of suspended solids and BOD₅ in the effluent or at least 85% removal, whichever is more stringent ("Full Secondary Treatment"). Eleven of the System's 14 sewage treatment plants have already been upgraded at a construction cost of approximately \$1.4 billion. Two additional existing System plants, Coney Island and Owls Head, are currently in the process of being upgraded with anticipated completion dates of 1994 and 1995, respectively. The Newtown Creek plant will also be

upgraded in order to meet Federal requirements on a consistent basis. See “The SYSTEM — The Sewer System — Sewage Treatment Facilities”.

The construction schedules of the new sewage treatment plants, the North River plant on the Hudson River and the Red Hook plant on the East River, are also the subject of a United States District Court Consent Decree, last modified in 1982 (the “Decree”), which directs ending the discharge of approximately 215 mgd of untreated sewage into those rivers. The Decree requires that the North River plant commence advanced preliminary treatment operation by May 1, 1986, which deadline was met, and that Full Secondary Treatment operation be commenced by May 1, 1991, which deadline was met. The Red Hook plant began advanced preliminary treatment operation in May 1987; the Decree deadline for full secondary treatment operation was met on May 1, 1989.

The Clean Water Act also directs USEPA to address the problem of discharges of toxins and other pollutants into publicly-owned treatment works. USEPA has promulgated effluent limits for toxic and other substances that must be met by specific industries (“Categorical Standards”) and has directed that publicly owned treatment works establish and enforce industrial pretreatment programs. The System has undertaken such a program. DEP has modified its Sewer Use Regulations to incorporate the Categorical Standards and to assign personnel to monitor and enforce compliance with the Sewer Use Regulations.

Under Federal court order, the Ban Act, MPRSA and USEPA regulations promulgated thereunder, the System was also required to have a permit for dumping into the Atlantic Ocean sludge generated by its sewage treatment plants and to cease ocean disposal by June 30, 1992, which milestone has been met. These regulations also include requirements for the long-term disposal of sludge. See, “The SYSTEM — The Sewer System — Sludge Disposal”.

State. Under authority delegated by USEPA the State established SPDES and has assumed jurisdiction over point source discharges and wastewater treatment plant operating permits. The State powers are enforced by NYSDEC, which also administers the Construction Grants Program. NYSDEC, therefore, has regulatory power with respect to the upgrading, construction and operation of the sewage treatment plants by the Sewer System pursuant to some 14 SPDES permits. DEP has increased its maintenance staff in an effort to further improve its preventive and corrective maintenance programs. In addition, NYSDEC monitors compliance by the System not only with the conditions of the Construction Grants Program, but also the System’s adherence to the terms of the State construction and operations reimbursement grants under the State’s Pure Waters Bond Act of 1965 and Environmental Quality Bond Act of 1972.

As part of its municipal compliance program, the State took action against the City for those sewage treatment plants that were unable to attain the secondary treatment requirements of the Clean Water Act by July 1, 1988. This court action resulted in the City signing consent decrees (the “State Consent Decrees”) for the Owls Head, Coney Island, Newtown Creek and Oakwood Beach plants, all of which include compliance schedules. State referees have been assigned to monitor the City’s compliance. The State Consent Decree requires that the upgrading of the Newtown Creek plant be completed by 1996. DEP is currently negotiating a later completion date and expects that the State will agree to an amendment to the Decree to accommodate the change. By phasing construction of the Newtown Creek plant improvements over a longer period, disruption of sewage treatment during construction will be minimized.

The System is also required to develop programs to reduce pollution from combined sewer overflows into New York Harbor and to eliminate excess inflow into the Sewer System from infiltration of ground and storm water. On June 26, 1992, DEP entered into a consent decree with the State establishing various timetables by which DEP would complete development of the programs. DEP has completed Infiltration/Inflow Studies for 11 of its 14 drainage areas and Sewer System Evaluation Studies (“SSES”) for four of the drainage areas. Studies covering the Sewer System’s remaining drainage areas and sewage treatment plants are either underway or planned to satisfy SPDES permit requirements.

On May 19, 1989, in a proceeding commenced by the ISC and several environmental groups against NYSDEC, the New York State Supreme Court, Queens County ruled that NYSDEC was required to conduct a hearing prior to the renewal of operating permits for the City’s fourteen sewage treatment plants.

NYSDEC is currently conducting an administrative proceeding which could result in modification of the permits previously issued by NYSDEC.

Interstate. In the late 1920's the State and the states of Connecticut and New Jersey recognized the need for interstate cooperation and regulatory overview to abate and control pollution in their tidal and coastal waters. The ISC was formed for those purposes by a tri-state compact approved by Congress in 1935. The ISC was given investigative and regulatory powers which it exercises with respect to floating and settleable solids, oil and grease contamination, color and turbidity, dissolved oxygen and BOD₅, and various other standards. In large measure, the jurisdiction of ISC has been preempted by the more comprehensive Federal and State legislation and regulations currently in force. Nonetheless, the ISC continues to exercise an investigative and regulatory role which reinforces and supplements those of the Federal, State and municipal governments.

Municipal. Rates, fees and charges for sewer service are the responsibility of the Board. Connections to the System's sewers are also regulated by DEP under the Sewer Use Regulations and by DOB under the Building and Building Construction Codes. Also contained in the Sewer Use Regulations are the industrial pretreatment standards mandated by USEPA under the Clean Water Act and the system of sewer surcharges which are a condition of the System's receipt of Federal grants. Compliance monitoring and compilation of necessary data for surcharge billing are functions performed by DEP.

RATES AND BILLINGS

The System has approximately 807,000 water and sewer accounts. The vast majority of these accounts receive both water and sewer service. There are more sewer accounts than water accounts since 90,000 accounts in Queens receive water from Jamaica. In addition, in developing areas such as portions of Staten Island where the System does not yet provide full service, accounts may be for water service only.

The Board's customer accounts are in two categories: approximately 426,000 metered accounts and approximately 381,000 flat-rate accounts. Only water service is metered. Charges are established for both flat-rate and metered customers with sewer charges computed as a percentage of water charges. The Board retains the firm of Ernst & Young for the purpose of conducting a detailed review of the structure of water and sewer rates. The Board considers the results of their rate studies in establishing its rates and charges for service.

The System's rates and charges are largely exempt from Federal or State regulation. The Board's water rates, fees and charges are not subject to further approval or regulation except for rates for upstate users. Participation in the Construction Grants Program, however, requires the maintenance of sewer charges sufficient to defray costs of operation, maintenance and replacement, and of surcharges for industrial discharges into the System's sewers levied in conformity with formulas set forth in the Clean Water Act and regulations thereunder. Rates, fees and charges for water supply are the responsibility of the Board. Data compiled from meter readings made by DEP inspectors furnish input for billings and information useful in determining the effectiveness of City-mandated conservation measures. For a discussion of limitations on water service rates, fees and charges, see "GOVERNMENTAL REGULATION — Water Supply Regulation — State" and "THE SYSTEM — Department of Environmental Protection — Service Area".

Flat-Rate Accounts

At the present time, approximately 381,000 accounts are billed annually through the flat-rate system. These accounts are charged for water through a computation which incorporates, among other factors, the width of the front of the building ("frontage"), the number of stories, the number of dwelling units, and the number of each of the water-using fixtures (such as bathtubs, showers and toilets) in the building. The flat-rate is computed when the building is first constructed, and amended upon notice from 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 beginning of the Fiscal Year but may be sent out to reflect changes in charges adopted by the Water Board as necessary.

Metered Accounts

There are now approximately 426,000 meters in use. Meters installed prior to July 1, 1987 are owned by the property owners, but must meet DEP specifications and be tested for accuracy. All meters installed or replaced by the City as part of the universal metering program are the property of the City.

It is the policy of DEP to read the meters of the 25,000 largest accounts every two months and to recalibrate or replace such meters when necessary. DEP reads all other meters every six months. Meter readings currently are recorded on optical scanning cards for automated processing. Metered account bills are sent out throughout the year.

The Board has amended its regulations to preclude any properties which are currently metered from changing to a flat-rate billing basis. Commercial accounts are required by the Board and the City to have meters installed on all water services. Currently 14.8% of these accounts are not in compliance with this requirement due to their location in multi-use buildings (i.e., containing both residential and commercial units).

Universal Metering Program

The three major goals of universal metering of all water service in the City are water conservation, improved water supply system management and rate equity. Under the program, all flat-rate accounts will be metered by the end of 1998. The City has issued contracts for the bulk purchase and installation of the meters. At the same time, existing meters are being tested and replaced by DEP where necessary. All new meters will incorporate remote devices which enable meter reading from outside the building. This will enhance meter reading efficiency by eliminating the meter reader's need to gain building access. The installation of meters is being conducted on an area-by-area basis. Six community board districts were chosen for the program's initial phase. These districts are areas in the City where there is low water pressure and/or where water must be pumped. An additional twenty-eight community board districts have been selected Citywide, among them areas requiring conservation to reduce sewage volume. To date, approximately 212,000 meters have been installed under the universal metering program. Upon the initiation of this program, the City assumed responsibility for the maintenance, repair and replacement of all meters. The costs of this program are funded from System revenues and are anticipated to be paid from System revenues in the future as well.

Both DEP and DOF have identified major customer service and support issues relating to the universal metering program. Among these are a need to respond to expected increases in customer inquiries regarding meter installations, initial bills and consumption. Existing record-keeping systems are inadequate to support this increased service requirement in addition to typical utility customer information, classification and billing practices. A joint DEP/DOF program has been initiated to generate key customer account information that is currently contained in various paper and electronic files in both agencies and to jointly design, procure and operate a single automated utility customer information and billing system. Funds for this system are included in the Board's budget for Fiscal Year 1993. In January 1992, the Water Board approved a contract with Price Waterhouse to provide and customize a new customer information system at a cost of approximately \$12 million which is expected to be completed in December 1994. Integrating operations, which are now divided among three computer centers and operating systems, will improve the capacity to sort and report water/sewer customer account information. For information concerning a lawsuit challenging the Universal Metering Program see "LITIGATION".

Exempt Accounts

Certain institutions are exempt under State law from the payment of all or a portion of their water and sewer charges depending upon usage. These institutions include religious, certain educational and other charitable institutions as well as homes for the aged, hospitals and other non-profit or charitable corporations. For Fiscal Years 1992 and 1993, flat-rate accounts of these institutions which would be charged less than \$8,784 per year for water service are fully exempt from water and sewer charges with a 50% exemption for those accounts ranging from \$8,784 to \$17,509 in annual water charges. Flat-rate accounts charged in excess of \$17,509 are not exempt. The thresholds for metered accounts of these institutions are \$9,781 and \$19,562.

As of January 1992, there were 3,476 exempt accounts. Less than 1% of these accounts were partially exempt, the remainder were fully exempt.

Jamaica Water Supply Company

The Jamaica Water Supply Company has benefitted from an agreement with the System to provide virtually free water to Jamaica to help equalize costs for water between the Jamaica water service area and the service area for the System. The current agreement sets the maximum amount of water to be delivered to Jamaica by the System at 50 mgd.

On June 16, 1988, pursuant to State legislation, the City commenced condemnation proceedings against that portion of the Jamaica system which in 1989 delivered approximately 52.5 mgd of water (of which 29.5 mgd was provided from the Water System) to about 518,000 people in southeast Queens, representing approximately 90,000 accounts. The legislation requires the City to condemn the property, provided that the Court fixes compensation therefor by use of a specified valuation method. The trial on valuation has been completed and the parties have submitted post trial briefs. The legislation also specifies that in the event the value established by the court is in excess of the value utilized by the Public Service Commission ("PSC") in setting rates, the proceeding may be discontinued by the City. The City estimates that the value utilized by the PSC for such property in setting rates is approximately \$60 million. The acquisition of the City portion of Jamaica would result in increased operating and maintenance costs for the System as well as the addition of new accounts for water service. This acquisition, although not included in the CIP, could be financed through the issuance of Bonds.

Rates

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

History of Water and Sewer Rate Increases

<u>Date</u>	<u>Change in Flat-Rate Water</u>	<u>Change in Metered Water</u>	<u>New Metered Water Rate</u>	<u>Change in Sewer</u>
July 1, 1986	Increased 9.9%	Increased 9.9%	72.5¢ per ccf	Remained at 60% of water charge.
July 1, 1987	Increased 12%	Increased 12%	81¢ per ccf	Increased to 70% of water charge.
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	No change	Increased to 75% of water charge.
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¢ per ccf	Increased to 88% of water charge.
Jan. 1, 1990	Increased 9%	Increased 9%	95¢ per ccf	Increased to 112% of water charge.
July 1, 1991	Increased 6.4%	Increased 6.4%	\$1.01 per ccf	Increased to 136% of water charge.
July 1, 1992	No change	No change	\$1.01 per ccf	Increased to 159% of water charge.

Basic Sewer Charge. For all properties connected to the Sewer System, there is a charge imposed equal to a fixed percentage of the property's water charge. As of July 1, 1992, the sewer charge is 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 Surcharges. For those industries which generate sewage of a particularly high strength, as measured by suspended solids and BOD₅ concentrations, an additional charge is imposed. The surcharge is based on the cost of removing the excessive concentrations, and specific charges are determined by a complex formula. Eligible accounts are identified by the Bureau of Clean Water, and charges are rendered to customers in a supplemental billing.

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.

Jamaica Sewer Accounts. There are approximately 90,000 accounts in Queens which are connected to the Sewer System but receive their water from Jamaica. The rate schedule provides that the sewer charge of these accounts shall, as nearly as possible, be adjusted so as to be equivalent to the sewer charge that would have been imposed if the property were served by the Water System. Accordingly, DEP maintains a record of properties served by Jamaica and purchases a computer tape of meter readings billed by Jamaica. A special billing for these accounts is generated annually.

Upstate Water Rates. Rates for water supply service provided to municipalities and water districts located north of the City are established in accordance with the provisions of the Water Supply Act of 1905. The 1905 Act provides that such rates shall be based on the System's actual cost of service. Water taken from either the Croton or Catskill/Delaware systems is currently charged at a rate of \$143.84 per million gallons. Effective July 1, 1993, this rate would increase to \$165.23 per million gallons. These changes in rates will increase the annual revenues from upstate customers from the current \$4.25 million to approximately \$5.5 million in Fiscal Year 1993 and approximately \$6.6 million in Fiscal Year 1994. Certain upstate customers have filed a challenge to the rate increase with NYSDEC.

Comparative Charges. The following table presents comparative annual water and sewer charges for 24 large cities in 1992 based upon a survey conducted by Ernst & Young. Using a ranking system where 1 represents the lowest rates, the City's ranking relative to these cities is: for Single-Family Residential — 9, for Commercial — 14, and for Industrial — 15.

Comparative Annual Water and Sewer User Charges(1)

Single Family Residential		Commercial		Industrial	
<u>City</u>	<u>Annual Charge</u>	<u>City</u>	<u>Annual Charge</u>	<u>City</u>	<u>Annual Charge</u>
Chicago	\$171	Baltimore	\$1,737	Milwaukee	\$132,564
Baltimore	\$226	Milwaukee	\$1,858	Baltimore	\$146,753
Detroit	\$231	Detroit	\$1,962	Detroit	\$156,206
Milwaukee	\$240	San Antonio	\$2,134	St. Louis	\$170,225
St. Louis	\$275	St. Louis	\$2,136	Indianapolis	\$184,677
San Antonio	\$309	Chicago	\$2,409	San Antonio	\$199,257
Cleveland	\$320	Dallas	\$2,516	Dallas	\$222,381
Indianapolis	\$333	Indianapolis	\$2,628	Chicago	\$240,932
New York	\$350	Honolulu	\$3,132	Philadelphia	\$254,879
Atlanta	\$367	Columbus	\$3,206	Atlanta	\$259,747
Los Angeles	\$369	Cleveland	\$3,311	New Orleans	\$277,254
Columbus	\$372	New Orleans	\$3,463	Columbus	\$278,089
Washington	\$384	Philadelphia	\$3,480	Honolulu	\$311,044
San Diego	\$420	New York	\$3,497	Cleveland	\$332,340
Dallas	\$423	Atlanta	\$3,528	New York	\$349,719
Newark	\$428	Washington	\$3,834	Jacksonville	\$376,915
New Orleans	\$433	San Diego	\$3,968	Washington	\$383,422
Honolulu	\$447	Jacksonville	\$4,108	San Diego	\$384,877
Jacksonville	\$455	Los Angeles	\$4,207	Newark	\$391,121
San Jose	\$466	Newark	\$4,281	San Jose	\$403,863
San Francisco	\$512	San Jose	\$4,341	Los Angeles	\$412,555
Philadelphia	\$532	San Francisco	\$5,640	San Francisco	\$504,174
Houston	\$569	Houston	\$6,490	Houston	\$618,711
Boston	\$652	Boston	\$6,658	Boston	\$693,871
Average	\$387	Average	\$3,522	Average	\$320,232

(1) User charges are based upon information provided by the identified cities and standardized assumptions regarding water consumption, wastewater discharge and other factors. Actual charges in each city will vary in accordance with local usage patterns. Charges for all cities except New York City reflect rate schedules in effect in March 1992. The New York City charges reflect the current metered rates effective July 1, 1992.

Billing and Collection

The Board has contracted with the City for billing and collection services. The Bureau of Water and Energy Conservation of DEP collects the data used to generate bills to customers. Through its field offices in each Borough of the City and its central offices in Manhattan, it is responsible for the reading of meters and checking of meter accuracy as well as the maintenance of current information for those customers on the flat-rate system of billing. Data files for flat-rate customers are updated through inspections by Bureau of Water and Energy Conservation personnel. The Bureau of Water and Energy Conservation also collects certain over-the-counter payments for water and sewer services.

The Bureau of Water and Energy Conservation organizes metered consumption and flat-rate data and forwards all such data to the City's Department of Finance ("DOF") which prepares and mails bills to customers for water and sewer services. Each customer's account is identified by a unique Borough/block/lot number developed through the City's property tax records. DOF bills customer accounts, records these billings and is primarily responsible for the collection process, including procedures for handling delinquent accounts. DOF also administers billing adjustments and works with the Bureau of Water and Energy Conservation to handle customer inquiries. Although shutoffs are infrequent, DOF advises the Bureau of Water and Energy Conservation when a shutoff of services is required for nonpayment of bills.

Payment of bills is made to the Board's account at Chemical Bank, which records payments and forwards the recorded data and receipts to the Board. Customer payments are received either directly by Chemical

Bank or through hand-delivered payments to Borough offices of DOF, which are deposited to the Board's account at Chemical Bank. Acting on behalf of the Board, the Office of the City Comptroller records the cash receipts from the System.

The New York City Housing Authority ("Housing Authority") is the System's largest customer having been billed approximately \$37.4 million in calendar year 1991 for water and sewer services. The next largest customer is The City of New York with a Fiscal Year 1992 water and sewer bill of \$22.1 million. Other large customers include the New York City Health and Hospitals Corporation, Consolidated Edison Company of New York, Inc., the Board of Education of the City of New York and the Riverbay Corporation (Co-op City). Annual water and sewer charges for these customers range up to approximately \$5 million.

FINANCIAL OPERATIONS

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

Revenues

The following table presents System revenues for Fiscal Years 1987 through 1991. The System revenues for Fiscal Years 1987 through 1991 have been derived from the schedules of cash receipts contained in annual audited financial statements.

System Revenues					
(thousands)					
<u>Revenue Category</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Flat Rate — Water Charges (1)	\$189,016	\$205,751	\$265,435	\$271,010	\$251,959
Flat Rate — Sewer Charges (1)	118,154	143,666	176,790	263,060	317,573
Metered — Water Charges (1)(2)	96,124	105,167	121,186	108,659	115,308
Metered — Sewer Charges (1)(3)	50,898	63,415	74,291	87,099	115,337
Miscellaneous Revenues (4)	22,290	20,902	45,003	40,864	41,962
Interest Penalty — Late Charges	13,066	11,609	11,606	14,304	17,258
Customer Refunds (5)					(31,600)
Total	<u>\$489,548</u>	<u>\$550,510</u>	<u>\$694,311</u>	<u>\$784,996</u>	<u>\$827,797</u>

- (1) Includes both current payments and payments relating to accounts in arrears.
- (2) Includes charges collected from certain upstate communities which are supplied water by the System.
- (3) Includes industrial surcharges to certain users of the Sewer System.
- (4) 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 investment income.
- (5) Reflects a one time provision for anticipated refunds to customers for overpayments in previous years.

Expenditures

The following table presents System expenditures for Fiscal Years 1987 through 1991. The System expenditures for Fiscal Years 1987 through 1991 have been derived from the schedules of cash receipts contained in annual audited financial statements and represent operation and maintenance expense excluding the lease rental payment to the City and certain other items. In each fiscal year the Water Board pays to the City, in accordance with a certification from the City, an amount in cash from System Revenues equal to the dollar amounts set forth below as Total System expenditure presented on an accrual basis.

System Expenditures					
(thousands)					
<u>Expenditure Category</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Water (1)					
Personal Service (2)	\$ 57,042	\$ 57,248	\$ 64,531	\$ 51,626	\$ 68,665
Other Than Personal Service (3)	<u>62,098</u>	<u>59,896</u>	<u>72,365</u>	<u>85,311</u>	<u>88,892</u>
Total	119,140	117,144	136,896	136,937	157,557
Sewer (1)					
Personal Service (2)	95,014	103,229	117,358	97,811	131,001
Other Than Personal Service (3)	<u>37,654</u>	<u>49,988</u>	<u>65,821</u>	<u>96,055</u>	<u>116,663</u>
Total	<u>132,668</u>	<u>153,217</u>	<u>183,179</u>	<u>193,866</u>	<u>247,664</u>
Sub-Total	251,808	270,361	320,075	330,803	405,221
Indirect Expenditures (4)	<u>15,232</u>	<u>19,286</u>	<u>20,557</u>	<u>21,231</u>	<u>21,984</u>
Total System	<u>\$267,040</u>	<u>\$289,647</u>	<u>\$340,632</u>	<u>\$352,034</u>	<u>\$427,205</u>

- (1) Certain historical, administrative and overhead costs of DEP were allocated to the water and sewer functions based upon the proportion of applicable personnel within DEP.
- (2) Personal Service costs include salaries, fringe benefits and pension costs.
- (3) Other Than Personal Service costs include real estate taxes paid to upstate communities for watershed properties and electricity, chemical and supply costs.
- (4) Indirect Expenditures include City agency support, customer accounting, and judgments and claims costs.

The Fiscal Year 1992 Revenue and Expenditure forecast is included in the Forecasted Cash Flows contained in Appendix B.

Capital Program

The following table presents capital commitments and capital expenditures of the System for Fiscal Years 1987 through 1991. 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(1) (millions)

Commitments	1987		1988		1989		1990		1991	
	System Funds(2)	All Funds(3)	System Funds(2)	All Funds(3)	System Funds(2)	All Funds(3)	System Funds(2)	All Funds(3)	System Funds(2)	All Funds(3)
Water Supply	\$ 16	\$ 16	\$ 52	\$ 52	\$ 4	\$ 4	\$ 68	\$ 68	\$ 52	\$ 52
Water Mains	197	197	112	112	109	110	90	90	63	63
Sewer	118	118	137	137	143	143	158	158	72	72
Water Pollution Control	<u>122</u>	<u>243</u>	<u>106</u>	<u>289</u>	<u>119</u>	<u>276</u>	<u>499</u>	<u>499</u>	<u>449</u>	<u>496</u>
Total	<u>\$453</u>	<u>\$574</u>	<u>\$407</u>	<u>\$590</u>	<u>\$375</u>	<u>\$533</u>	<u>\$815</u>	<u>\$815</u>	<u>\$636</u>	<u>\$683</u>
Expenditures										
Water Supply	\$ 71	\$ 71	\$ 51	\$ 51	\$ 44	\$ 44	\$ 35	\$ 35	\$ 39	\$ 39
Water Mains	78	78	109	109	134	134	134	134	118	118
Sewer	114	114	142	142	165	165	140	140	162	162
Water Pollution Control	<u>90</u>	<u>297</u>	<u>92</u>	<u>252</u>	<u>89</u>	<u>258</u>	<u>136</u>	<u>302</u>	<u>315</u>	<u>413</u>
Total	<u>\$353</u>	<u>\$560</u>	<u>\$394</u>	<u>\$554</u>	<u>\$432</u>	<u>\$601</u>	<u>\$445</u>	<u>\$611</u>	<u>\$634</u>	<u>\$732</u>

- (1) Figures do not include a small amount spent annually on the purchase of vehicles and equipment.
- (2) System Funds include the proceeds of Authority bonds sold directly to the public and privately placed with the Environmental Facilities Corporation under the revolving loan fund program.
- (3) All Funds include Federal and State capital grants.

CAPITAL IMPROVEMENT AND FINANCING PROGRAMS

Capital Improvement Program

In April 1992 the City published its Ten-Year Capital Strategy (1992-2001) (the "Ten Year Capital Strategy"), which provides for the rebuilding of the City's infrastructure, including water and sewer facilities. The City's Ten Year Capital Strategy included projected expenditures of \$10.5 billion for water and sewer facilities.

The Capital Improvement Program (the "CIP") is based on the Ten Year Capital Strategy in conjunction with 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 5% has been included, using 1992 as the base year.

The costs identified in the table below represent an aggregation of capital commitments for specific projects in each Fiscal Year. For information concerning such projects, see "APPENDIX A — REPORT ON THE ENGINEERING AND FEASIBILITY OF THE WATER AND SEWER SYSTEM SERVING THE CITY OF NEW YORK — Capital Improvement Program". The System's annual cash flow requirements are based upon these commitments and are used to determine annual construction financing needs. For a number of reasons, including unforeseen inflation, compliance with governmental procedures and regulations and changes in plans, actual costs may vary from the Capital Improvement Program estimates set forth below.

Capital Improvement Program

(Thousands)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>Five- Year Total</u>	<u>1997- 2001</u>	<u>Ten- Year Total</u>
Water Supply and Transmission	\$ 39,991	\$ 250,846	\$ 38,988	\$ 237,345	\$ 242,300	\$ 809,470	\$ 465,228	\$ 1,274,698
Water Distribution	194,378	262,859	146,543	174,074	787,052	1,564,906	603,265	2,168,171
Water Pollution Control	369,453	383,765	666,130	748,686	43,292	2,211,326	3,143,643	5,354,969
Sewers	172,231	176,531	161,372	154,348	147,102	811,584	785,409	1,596,993
Equipment	5,470	34,897	11,896	6,757	12,207	71,227	26,311	97,538
Total	<u>\$ 781,523</u>	<u>\$1,108,898</u>	<u>\$1,024,929</u>	<u>\$1,321,210</u>	<u>\$1,231,953</u>	<u>\$5,468,513</u>	<u>\$5,023,856</u>	<u>\$10,492,369</u>

Financing Program

Prior Financing. Since the first issuance of Bonds by the Authority in 1985, capital improvements to the System have been financed primarily with (1) proceeds of Bonds sold directly to the public and privately placed with the State Environmental Facilities Corporation in connection with the revolving loan fund program described below and (2) Federal and State capital grants. (See “Debt Service Requirements”).

Future Financing. The Authority estimates that substantially all of the cost of the CIP for Fiscal Years 1992 through 2001 will be paid from System funds, including proceeds of Bonds sold to the public and privately placed with the State Environmental Facilities Corporation. For purposes of forecasting cash flows for the System, the principal amount of Bonds estimated to be issued in Fiscal Years 1992 through 1996 range from approximately \$1.1 billion to \$1.6 billion per year. (See “APPENDIX B — Report on Forecasted Cash Flows of the Water and Sewer System Serving The City of New York — Forecasted Cash Flows.”) However, the actual amount and timing of future Bond issues will depend upon a number of factors, including market conditions.

Historically, federal grant funds were provided pursuant to the Clean Water Act, in a program administered by the states, for construction and reconstruction of wastewater treatment facilities. The City is currently using these grant funds for five sewage treatment plants: Oakwood Beach, Coney Island, Owls Head, Red Hook and North River. The Clean Water Act currently requires states to use Federal funds in revolving loan programs for wastewater treatment facilities, rather than grant programs for such facilities. To this end, a revolving loan program has been established by the State in order to utilize federal financial assistance together with state matching grants in a program to assist municipalities to construct eligible sewage facilities by providing subsidized loans. In addition to the financing contemplated herein, the Authority has participated in loans under the revolving loan program and anticipates further borrowing under the program. Revolving loan program funding is deemed System funds as it is obtained through the private placement of Authority bonds with the State Environmental Facilities Corporation. (See “GOVERNMENTAL REGULATION-Wastewater Regulation-Federal”). Implementation of the CIP is dependent upon the Authority’s ability to market its securities successfully in the public credit markets. Sales of securities are subject to market conditions.

Water System

Tunnel 3. The CIP provides for the completion of Stages I and II including completion of the Brooklyn/Queens and Manhattan segments. Excavation of Stage I of Tunnel 3 was completed in 1985. Since that time, all concrete lining has been finished, and valves and other mechanical equipment have been installed in approximately half of the shafts. Stage I will be operational in 1994 and will improve the reliability of the transmission system. Completion of the Brooklyn/Queens segment of Stage II will improve services to Staten Island, Brooklyn and Queens. Construction of the Manhattan segment of Stage II will follow completion of the Brooklyn/Queens segment of Stage II. Tunnel 3 will create a more flexible system, providing delivery alternatives in the event of disruption in any of the Tunnels. It will permit the shutdown of tunnels for inspection and any necessary rehabilitation.

Dam Safety Program. Engineering reports sponsored by the U.S. Army Corps of Engineers indicated that with the exception of the Boyds Corner Dam, the dams and reservoirs in the Croton System are safe but in need of rehabilitation and reconstruction. The Boyds Corner Dam was rated unsafe and the Boyds Corner Reservoir was drained. Reconstruction of that dam was substantially completed in the fall of 1990, except for mechanical work in the gatehouse, which is expected to be completed in the fall of 1992. An ongoing reconstruction program has been established that includes rehabilitation of dams within the Croton watershed and the Kensico Dam. This program will bring those dams up to the more stringent national safety standards established in 1976.

Croton Filter Project. Due to development in the watershed area, the quality of Croton System water has shown some deterioration. To ensure that water supplied by the Croton watershed meets all standards set by the NYSDOH and NYCDOH, the Croton Filter Project is being constructed. A full-scale filter plant, expected to be completed in the late 1990's, will treat up to 300 mgd of water. A study is underway to determine the scope of work required for the reconstruction of the inner structures and equipment of certain shafts of the New Croton Aqueduct.

Trunk and Distribution Main Extension. Some developing areas within the City are in need of new or augmented service from the System. Installation of trunk and distribution mains is required to meet these needs.

Trunk and Distribution Main Replacement. In order to maintain essential water service operations, repair and replacement of obsolete or failed trunk and distribution mains must be continually undertaken. Included in this program is water main replacement done in conjunction with highway reconstruction.

Augmentation of Water Supply Systems. A feasibility study for the expansion of the Chelsea pump station beyond its present capacity has been completed and reviewed by an intergovernmental task force. A preliminary investigation will determine the work required to develop a new source of water from the Hudson River. The project is estimated to provide from 300 to 1200 mgd.

Water Quality Preservation. Further expenditures are planned for the reconstruction of various upstate watershed facilities. These will include gatehouses, valve chambers, shafts and sewage treatment facilities.

Corrosion Protection System. This is a citywide program to control and prevent external corrosion of water mains.

Brooklyn-Queens Aquifer Study. This is a study to evaluate the supply potential and determine the work that would be required to make use of the existing underground water supplies in the Brooklyn-Queens Aquifer to supplement the City's upstate reservoir supply.

Mapping and Telemetry. This is a program to design a citywide telemetry system.

Sewer System

Chronic Malfunction and Emergency Replacement. This program provides for the replacement of sewers which have already collapsed or experience chronic malfunctions that cannot be overcome through maintenance (i.e., sagging, bends or improper alignment), or experience chronic malfunction due to inadequate capacity.

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

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

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

- Sewers meet design expectations but land use or other design conditions have changed, increasing flows to levels greater than the original maximum design flow.
- The original design criteria do not meet current standards.
- The physical integrity of the sewers is damaged through a partial collapse, blockage or uneven settling, reducing the capacity of the sewers to convey stormwater and sewage.
- Unauthorized private stormwater connections to the Sewer System add an additional flow to the sewers and displace capacity reserve for the original design flows.

The sewer projects contained within this category will increase the capacity of these sewers to adequate levels through reconstruction, repair, replacement or diversion of flow into supplemental sewer pipe. In addition, where stormwater connections are determined to be unauthorized, DEP can require private construction of stormwater collection and retention facilities.

Also included in this category are sewer projects which are undertaken primarily because other infrastructure projects make such sewer work desirable. These projects include the construction of sewers in conjunction with: other utilities (such as water, gas and electric); road reconstruction; and major land use changes (such as the Javits Convention Center).

Extensions to Accommodate New Development. The City is legally mandated to 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.

Water Pollution Control

Consent Decree Construction and Upgrading. The Clean Water Act and the State Consent Decrees require construction of an intercepting sewer for one plant, and the upgrading of three plants. These projects are designed to improve the quality of the surrounding waters. The following projects are included in this segment of the CIP:

Oakwood Beach Water Pollution Control Plant Consent Decree Project: This project involves the construction of a sewer interceptor and pump stations on Staten Island. The interceptor will convey sewage from the Tottenville and South Shore drainage areas to the plant.

Coney Island Water Pollution Control Plant Upgrade: This plant provides partial secondary treatment of sewage. This upgrading involves rehabilitating the deteriorated portions of the plant, as well as constructing additional facilities to enable the plant to provide Full Secondary Treatment for up to 100 mgd of sewage. Under storm conditions, the plant will be able to treat up to 200 mgd of sewage.

Owls Head Water Pollution Control Plant Upgrade: This plant provides partial secondary treatment of sewage. This upgrading involves rehabilitating the deteriorated portions of the plant, as well as constructing additional facilities to provide Full Secondary Treatment for up to 120 mgd. Under storm conditions, the plant will be able to treat up to 240 mgd of sewage.

Newtown Creek Water Pollution Control Plant Upgrade: This plant provides partial secondary treatment of sewage and will be upgraded to provide Full Secondary Treatment. See "THE SYSTEM — The Sewer System — Sewage Treatment Facilities".

Sludge Disposal. Under Federal court order, the Ban Act, MPRSA and USEPA regulations promulgated thereunder, the System was required to cease ocean disposal of the sludge generated by its sewage

treatment plants by June 30, 1992 which it accomplished by interim disposal methods. The CIP contains funds for long-term disposal facilities. See "THE SYSTEM — The Sewer System — Sludge Disposal".

Plant Component Stabilization. This program includes the interim replacement and reconstruction of failing components within the plants and their related facilities necessary to maintain process reliability. In some cases, this segment of the CIP provides for the replacement or rehabilitation of plant components required prior to comprehensive reconstruction at older plants which are not yet fully upgraded. Stabilizing these plants enables the City to maintain and improve water quality.

Water Quality Mandates. During periods of heavy rainfall, a combination of stormwater and sewage bypasses treatment and is released into the City's waterways. This program provides for the study, design and construction of the facilities necessary to control the polluting effects of such releases. In addition, Infiltration/Inflow studies and SSES are a prerequisite for receipt of Federal water pollution control construction grants for construction of facilities. The purpose of these evaluations is to determine whether excess water (rain leachate or tidal flows) is entering the Sewer System, thereby reducing the effectiveness of the treatment process.

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

For further information regarding the CIP see "APPENDIX A — REPORT ON THE ENGINEERING FEASIBILITY OF THE WATER AND SEWER SYSTEM SERVING THE CITY OF NEW YORK".

DEBT SERVICE REQUIREMENTS

The following schedule sets forth the amount required to be paid during each Fiscal Year ending June 30 of the years shown for the payment of the principal (including the accreted value of the Capital Appreciation Bonds) of and the interest on the Bonds after giving effect to the issuance of the Series A Bonds and the refunding of the Refunded Bonds. The anticipated issuance of additional Bonds to finance the CIP is reflected in Appendix B.

Fiscal Year Ending June 30	Outstanding Bond's Total Debt Service	Series A Bonds			Total Debt Service
		Principal	Interest	Total	
1993	\$265,816,380.59	\$ 12,720,000.00	\$46,329,276.82	\$59,049,276.82	\$324,865,657.41
1994	266,934,991.22	11,430,000.00	54,832,632.50	66,262,632.50	333,197,623.72
1995	267,987,703.81	11,900,000.00	54,364,002.50	66,264,002.50	334,251,706.31
1996	268,225,298.78	12,420,000.00	53,846,352.50	66,266,352.50	334,491,651.28
1997	268,268,309.96	12,990,000.00	53,275,032.50	66,265,032.50	334,533,342.46
1998	268,268,856.94	13,620,000.00	52,645,017.50	66,265,017.50	334,533,874.44
1999	268,303,959.46	14,315,000.00	51,950,397.50	66,265,397.50	334,569,356.96
2000	268,339,637.76	15,065,000.00	51,198,860.00	66,263,860.00	334,603,497.76
2001	268,358,908.26	15,880,000.00	50,385,350.00	66,265,350.00	334,624,258.26
2002	262,823,263.04	17,322,847.05	54,531,162.95	71,854,010.00	334,677,273.04
2003	262,866,180.86	17,449,920.45	54,404,734.55	71,854,655.00	334,720,835.86
2004	262,901,615.06	17,666,582.50	54,183,402.50	71,849,985.00	334,751,600.06
2005	262,949,813.12	17,955,878.70	53,895,561.30	71,851,440.00	334,801,253.12
2006	262,984,899.48	18,352,603.95	53,501,836.05	71,854,440.00	334,839,339.48
2007	253,299,329.11	30,462,113.30	52,997,126.70	83,459,240.00	336,758,569.11
2008	252,525,194.18	27,346,176.25	56,948,048.75	84,294,225.00	336,819,419.18
2009	243,081,283.55	30,992,586.15	62,762,838.85	93,755,425.00	336,836,708.55
2010	243,070,924.07	31,541,609.00	62,208,816.00	93,750,425.00	336,821,349.07
2011	243,055,956.89	29,774,275.00	54,069,450.00	83,843,725.00	326,899,681.89
2012	243,062,986.35	35,610,000.00	39,503,750.00	75,113,750.00	318,176,736.35
2013	188,743,270.79	67,345,000.00	37,404,650.00	104,749,650.00	293,492,920.79
2014	171,216,591.57	87,085,000.00	33,401,450.00	120,486,450.00	291,703,041.57
2015	202,469,163.25	56,685,000.00	28,230,050.00	84,915,050.00	287,384,213.25
2016	151,661,749.75	110,745,000.00	24,885,737.50	135,630,737.50	287,292,487.25
2017	173,917,550.25	95,160,000.00	18,301,112.50	113,461,112.50	287,378,662.75
2018	123,689,200.00	168,105,000.00	12,655,025.00	180,760,025.00	304,449,225.00
2019	138,791,212.50	43,470,000.00	3,342,075.00	46,812,075.00	185,603,287.50
2020	167,357,877.50	17,295,000.00	951,225.00	18,246,225.00	185,604,102.50
2021	187,292,262.50	—	—	—	187,292,262.50

LABOR RELATIONS

During the last decade, there have been no strikes or major work stoppages of DEP employees affecting the System.

Approximately 5,000 of DEP's 5,500 active employees are members of labor unions which represent such employees in collective bargaining with the City. This includes approximately 1,950 laborers, mechanics, and workers in other crafts governed by the provisions of Section 220 of the State Labor Law. The salary increases of these employees are decided pursuant to the determination of the City's Comptroller as to "prevailing rates". Almost all of the approximately 2,000 DEP employees represented by District Council 37, American

Federation of State, County and Municipal Employees and the approximately 200 employees represented by the Communications Workers of America have reached tentative collective bargaining agreements for a 3.5% increase effective October 1, 1990 and an additional 1% increase effective October 1, 1991 in an agreement that expired on December 31, 1991. The International Brotherhood of Teamsters representing approximately 250 DEP employees has reached a tentative collective bargaining agreement for a 3.5% increase effective July 1, 1990 and an additional 1% increase effective July 1, 1991 in an agreement that expired on September 30, 1991.

There are 275 DEP employees holding management or "original jurisdiction" positions who are not members of unions and are not covered by Labor Law Section 220, but do receive comparable benefits. Wages for these employees are set by the order of the Mayor. "Original Jurisdiction" employees will receive 3½% increases retroactive to July 1, 1990. No increases have been ordered for managers.

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.

PENDING LEGISLATION

From time to time bills are introduced in the State Legislature which propose to limit or restrict the rights and powers of the Authority and the Board or otherwise affect the activities of the Authority and the Board. It is not possible to predict whether any of such bills will be enacted.

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 Series A Bonds, or in any way contesting or affecting the validity of the Series A Bonds or any proceedings of the Authority, the Board or the City taken with respect to the issuance or sale of the Series A Bonds or with respect to the Resolution or the pledge or application of any money or security provided for the payment of the Series A Bonds, or the existence or powers of the Authority or the Board.

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

There are numerous claims seeking damages and injunctive and other relief against the City related to the System. Except as noted below, these claims represent routine litigation incidental to the performance of the City's governmental functions in connection with the operation, maintenance and improvement of the System. The City has paid an average of approximately \$1.59 million per year from Fiscal Years 1987 through 1991 in satisfaction of tort claims relating to the operation of the System. The majority of these claims allege property damage caused by watermain breaks and sewer overflows. Contract claims on water supply, sewer and water pollution control projects arise in varying amounts based on alleged change orders and related matters. Numerous lawsuits relating to construction contract claims are currently pending. One action seeks damages in excess of \$9 million and another in excess of \$27 million. While the probable outcome of these actions

cannot be determined at this time, contract claims are expected to be funded through the CIP, which may be revised from time to time to accommodate such claims as well as other changes therein.

The following paragraphs describe certain legal proceedings and claims involving the System, other than routine litigation incidental to construction, the collection of rates, fees and charges and certain other litigation arising out of alleged constitutional violations, torts, breaches of contract and other violations of law and condemnation proceedings. While the ultimate outcome of the proceedings and claims described below is not currently predictable, and unfavorable determinations in certain of them could result in substantial judgments, the City has estimated that as of June 30, 1991, potential future liability for claims involving the System was \$223 million.

Jamaica Sewer Accounts

On June 23, 1992, an action was commenced in State Supreme Court, Queens County, against the City, DEP and the Jamaica Water Supply Company ("Jamaica") seeking, among other things, a prohibition against the collection of sewer charges, and the refund of alleged overcharges, for service provided in 1989 and 1990 to System customers receiving water service from Jamaica. Such charges are collected by the Board and are included in System revenues. Plaintiffs, purporting to represent a class of similarly situated homeowners in southeastern Queens, allege that water and sewer charges for such homeowners were excessive, inaccurate and not billed in a timely manner. Subsequent to service of the City's answer to the complaint denying such allegations, plaintiffs served an amended complaint alleging various deficiencies in the measurement by Jamaica of water consumption which serves as the basis of sewer charges billed by the Board. The total amount billed for the period in question is approximately \$28 million.

Torts

1. Approximately 50 actions, including a purported class action, have been commenced against the City alleging damages of approximately \$1.5 billion arising out of an August 10, 1983 water main break and electrical blackout. On December 18, 1990, the New York State Supreme Court, New York County, dismissed all claims which sought damages for purely economic loss unaccompanied by any claim for direct physical damage. Unless reversed or modified on appeal, if any, this decrease will significantly reduce the City's potential liability from this incident. Several notices of appeal have been filed by various plaintiffs and defendants, including the City. The City's appeal relates to those provisions of the Court's order which did not dismiss certain claims that alleged both economic loss and direct physical damage.

2. Forty actions have been commenced against the City seeking damages in excess of \$364 million for personal injuries and property damage in connection with an explosion of a Con Edison steam pipe which occurred in Gramercy Park on August 19, 1989.

Metering

On March 18, 1992, the Rent Stabilization Association of N.Y.C. Inc. and others commenced an action in State Supreme Court, Bronx County, against the Board seeking a judgment declaring null and void the Board's regulations which established the Board's universal metering program. Plaintiffs allege that the Board acted in excess of its authority in requiring the installation of meters and seek to enjoin any further meter installations or billing based on metered rates. Plaintiffs also seek refunds of any excess of metered billings above frontage rates. The Board has served its answer to the complaint and has denied all of plaintiffs' material allegations.

Filtration

Litigation has been commenced in both federal and state court by a coalition of towns located in the upstate watershed against the City and others claiming, among other things, that NYSDOH lacked the authority to approve the City's filtration avoidance application relating to the upstate water supply system. For information regarding water supply filtration requirements and the City's filtration avoidance application, as

well as actions taken by the NYSDOH with respect thereto, see “GOVERNMENTAL REGULATION — Water Supply Regulation — State.”

RATINGS

Moody’s has rated the uninsured Series A Bonds A. Standard & Poor’s has rated the uninsured Series A Bonds A-. Fitch Investors Services has rated the uninsured Series A Bonds A. Such ratings reflect only the views of Moody’s, Standard & Poor’s and Fitch from which an explanation of the significance of such ratings may be obtained. There is no assurance that any or all of such ratings will continue for any given period of time or that any or all will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of the Series A Bonds. These ratings do not reflect any bond insurance relating to any portion of the Series A Bonds.

The ratings on the AMBAC Insured Bonds, Financial Guaranty Insured Bonds and the MBIA Insured Bonds are based on the insurance policies issued by AMBAC Indemnity, Financial Guaranty and MBIA, respectively. Moody’s rates bond issues insured by AMBAC Indemnity Aaa. Standard & Poor’s rates bond issues insured by AMBAC Indemnity AAA. Moody’s rates bond issues insured by Financial Guaranty Aaa. Standard & Poor’s rates bond issues insured by Financial Guaranty AAA. Moody’s rates all bond issues insured by MBIA Aaa. Standard & Poor’s rates all bond issues insured by MBIA AAA. Such ratings reflect only the views of Moody’s and Standard & Poor’s, from which an explanation of the significance of such ratings may be obtained. There is no assurance that such ratings will continue for any given period of time or that they will be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of such Series A Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series A Bonds from the Authority at a price which is \$8,911,715.99 less than the total of the initial offering prices. The Underwriters’ obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Series A Bonds if any of the Series A Bonds are purchased. The Series A Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing the Series A Bonds into investment trusts) and others at prices lower than such public offering prices and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters have designated Smith Barney, Harris Upham & Co. Incorporated as their Representative.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the Series A Bonds is subject to the approval of legality by Mudge Rose Guthrie Alexander & Ferdon, 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 Barnes, McGhee, Neal, Poston & Segue, New York, New York.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the Act, the Bonds are made 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 other persons whatsoever, who are now or may hereafter be authorized to invest in the Bonds or other obligations of the State, may properly and legally invest funds including capital in their control or belonging to them in such Bonds. The Act further provides that the 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

The financial statements of the New York City Water and Sewer System included in this Official Statement have been audited by KPMG Peat Marwick, independent certified public accountants, to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG Peat Marwick.

EXPERTS

The engineering feasibility report in Appendix A is based upon studies by and has been included in reliance upon the authority of Metcalf & Eddy of New York, Inc. The financial forecast in Appendix B has been examined by Ernst & Young, Certified Public Accountants, as set forth in their report appearing in Appendix B, and is included in reliance upon the authority of such firm as experts in presentation and examination of financial forecasts.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the issuance and delivery of the Series A Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series A Bonds. The Authority has covenanted in the Resolution that it shall not permit the purchase of securities or obligations the acquisition of which would cause any Series A Bond to be an "arbitrage bond" as defined in Section 148 of the Code, that it shall not permit the use of the proceeds of the Series A Bonds in a manner which would result in the loss of the exclusion of the interest on the Series A Bonds from gross income for Federal income tax purposes and that it shall provide for any required rebate to the United States.

In the opinion of Mudge Rose Guthrie Alexander & Ferdon, Bond Counsel to the Authority, under existing law, and assuming compliance with the aforementioned covenant, interest on the Series A Bonds is excluded from gross income for Federal income tax purposes. Bond Counsel is also of the opinion that the Series A Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Code and, therefore, the interest on the Series A Bonds will not be treated as a preference item for purposes of computing the Federal alternative minimum tax imposed by Section 55 of the Code. Interest on Series A Bonds owned by corporations will, however, be taken into account in determining the alternative minimum tax imposed by Section 55 of the Code on seventy-five percent (75%) of the excess of adjusted current earnings over alternative minimum taxable income (determined without regard to this adjustment and the alternative tax net operating loss deduction).

Bond Counsel is further of the opinion that the difference between the principal amount of the Capital Appreciation Bonds and the other Series A Bonds maturing from 2008 through 2020, inclusive (collectively, the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of the Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Series A Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of a Discount Bond acquired at such initial offering price by an initial purchaser of such Discount Bond will be increased by the amount of such accrued original issue discount.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Series A Bonds may affect the tax status of interest on the Series A Bonds. No assurance can be given that

future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Series A Bonds from gross income for Federal income tax purposes.

Although Bond Counsel has rendered an opinion that interest on the Series A Bonds is excluded from gross income for Federal income tax purposes, a Bondholder's Federal, State or local tax liability may otherwise be affected by the ownership or disposition of the Series A Bonds. The nature and extent of these other tax consequences will depend on the Bondholder's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Series A Bonds should be aware that: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series A Bonds or, in the case of a financial institution, that portion of such holder's interest expense allocated to interest on the Series A Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by fifteen percent (15%) of the sum of certain items, including interest on the Series A Bonds, (iii) interest on the Series A Bonds earned by some corporations could be subject to the environmental tax imposed by Section 59A of the Code, (iv) interest on the Series A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (v) passive investment income, including interest on the Series A Bonds, may be subject to Federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subsection C earnings and profits at the close of the taxable year if greater than twenty-five percent (25%) of the gross receipts of such Subchapter S corporation is passive investment income, and (vi) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account receipts or accruals of interest on the Series A Bonds in determining gross income. Bond Counsel has expressed no opinion regarding any other tax consequences.

Bond Counsel is further of the opinion that the interest on the Series A Bonds is exempt, under existing law, from personal income taxes of the State of New York and its political subdivisions, including The City of New York.

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 and the 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 and the 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 Series A Bonds.

NEW YORK CITY MUNICIPAL WATER
FINANCE AUTHORITY

By _____ /s/ MARK PAGE
MARK PAGE
EXECUTIVE DIRECTOR

APPENDIX A

**REPORT ON THE ENGINEERING
FEASIBILITY OF THE WATER AND SEWER SYSTEM
SERVING THE CITY OF NEW YORK**

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Metcalfe & Eddy of New York, Inc.

A Metcalfe & Eddy Company

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

Re: New York City Municipal Water Finance Authority
Water and Sewer System Revenue Bonds

Dear Mr. Page:

We are delighted to submit Metcalfe & Eddy's Report on the Engineering Feasibility of the Water and Sewer System Serving The City of New York. This report is based on the work that Metcalfe & Eddy has performed as consulting engineer for the New York City Water and Wastewater Operations Evaluation Project and then as consulting engineer for the Authority.

Our overall conclusion is that the water and sewer system (the "System") serving The City of New York (the "City") continues to be operated in a professional and prudent manner. Specific conclusions are listed below:

- The condition of the System continues to receive the highest rating of our three rating categories (adequate).
- The expense allocations for Fiscal Year 1993 are adequate to assure continued reliable operation of the System.
- The Capital Improvement Program (the "CIP"), is comprehensive and responsive to the long-term operating requirements of the service area.
- Staffing for the System is adequate to assure proper operation and maintenance.

The forecasted cash flows relating to the New York City Municipal Water Finance Authority's plans to finance water and sewer facilities as specified under the CIP, and to fund expenditures incurred under ongoing capital contracts commenced prior to the CIP, are set forth in Appendix B, "Report on the Forecasted Cash Flows of the Water and Sewer System Serving The City of New York". The forecasted cash flows were independently examined by Ernst & Young as described in Appendix B.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Very truly yours,

METCALFE & EDDY OF NEW YORK, INC.
August 13, 1992

INTRODUCTION

Purpose and Scope of the Report

The purpose of this report is to provide engineering information pertinent to the issuance of the Water and Sewer System Revenue Bonds, Fiscal 1993 Series A (the "Series A Bonds") by the New York City Municipal Water Finance Authority (the "Authority"). This report presents the findings of engineering analysis performed by Metcalf & Eddy of New York, Inc. ("Metcalf & Eddy") regarding the water and sewer system (the "System") serving The City of New York (the "City"). Certain studies and analyses were performed in anticipation of the creation of the Authority and were used in developing this report. The following sets forth a brief outline of the major tasks addressed by this report:

- 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 System's Capital Improvement Program (the "CIP") for the period 1992-2001 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 current and anticipated operating programs.

Methodology and Division of Responsibilities

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

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

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

The Consulting Engineer

Metcalf & Eddy has served the City as consulting engineers for over 25 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 sewer industry.

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”). Twelve 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
- Needs for Non-Routine Maintenance, Upgrading and Expansion
- Evaluation of Legal Mandates
- Overview of Present Capital Improvement Program
- Capital Improvement Requirements
- Safety Practices and Potential for Catastrophe

Conclusion of the Report

The System is well managed and in adequate condition (the highest rating category). The CIP (\$10.492 billion) and anticipated operating programs are also sufficient for the maintenance of water and wastewater services during the forecast period. The capital budget allocation for Fiscal Year 1992 (\$782 million) is responsive to the long-term operating requirements of the System. The expense budget for Fiscal Year 1992 contains sufficient funds for the proper operation and maintenance of the System. Current staffing levels are adequate for operation and maintenance of existing water and wastewater facilities.

THE AUTHORITY AND THE BOARD

The Authority is a public benefit corporation created by the New York State Legislature. Among its powers, the Authority may borrow money, issue debt and enter into agreements with the City and the New York City Water Board (the “Board”) for the financing of capital improvements to the System. The City is responsible for construction of capital improvements to the System financed by the Authority and the operation, maintenance and repair of the System.

The Board is a public benefit corporation of the State. 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 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. Any surplus of funds remaining, to the extent not needed for other authorized purposes, will be deposited in an account of the Operation and Maintenance Reserve Fund and will be available either as a source of funding for System expenditures or upon the certification of the City for deposit to the Authority’s Construction Fund to pay for the costs of System capital projects.

The Board has a leasehold interest in the System with a term of 40 years or until all Bonds issued by the Authority are paid in full or provision for payment has been made, whichever is later.

SYSTEM DESCRIPTION AND EVALUATION

In order to evaluate the System, the System has been divided into four areas:

1. The water supply system includes dams, reservoirs, aqueducts, and related facilities located outside the City limits which provide water to the City (the “Water Supply System”). This system is currently managed by the Bureau of Water Supply and Wastewater Collection of DEP.

2. The water distribution system delivers water from the Water Supply System to consumers (the "Distribution System"). These facilities are also managed by the Bureau of Water Supply and Wastewater Collection of DEP.

3. The sewage collection system collects and conveys wastewater away from its sources into larger interceptor systems (the "Collection System"). This system is managed by the Bureau of Water Supply and Wastewater Collection of DEP.

4. The wastewater treatment system conveys, treats, and discharges wastewater from the Collection System. These facilities include interceptors, sewer regulators, pump stations, and treatment plants (the "Wastewater Treatment System"). This system is managed by the Bureau of Clean Water of DEP.

This report describes the service areas, present condition and remaining useful life of physical facilities of the System and the recommended CIP, and operating programs from 1992 through 1996. Based on the evaluations performed, the implementation of the CIP and operating programs over the analysis period will provide cost-effective and reliable service for the users of the System.

Water Supply System

The City has operated a public water supply system since the late 1700's. The Water Supply System currently supplies over 95% of all water used in the City from three large watershed systems located in upstate New York and a pump station at Chelsea, New York on the Hudson River (see map located between Appendices A and B). A small percentage of water used in the City is supplied by a privately owned water company, the Jamaica Water Supply Company ("Jamaica"). In addition, the Water Supply System is obligated by law to supply water in specified quantities to municipalities in any County in which water supply facilities are located. The Water Supply System currently supplies approximately 124 million gallons per day ("mgd") of water to four counties outside the City.

The amount of water that can be safely drawn from a watershed during the drought of record is the "Dependable Yield". During the drought of record in the mid-1960's the System furnished an average of 1,290 mgd. During periods of normal rainfall watersheds supply more than the Dependable Yield. Water consumption varies by season of the year with the summer months having the largest demand and the winter months the lowest. Peak flows in the Water Supply System can exceed a rate of 2,000 mgd.

The Water Supply System obtains its water from three upstate reservoir systems, the Croton, Catskill and Delaware Systems, which include 18 reservoirs and three controlled lakes. The available storage capacity of the Water Supply System is approximately 550 billion gallons. Water is conveyed from the upstate reservoirs by gravity through large aqueducts up to 19.5 feet in diameter. Within the City water is distributed through two major tunnels and local distribution facilities. The condition of the Water Supply System is judged to be adequate (the highest rating category).

The following tables set forth the capacities and original in-service dates of the Water Supply System's collecting and balancing reservoirs and distribution facilities.

Collecting Reservoirs

<u>Name</u>	<u>Available(1) Capacity (Billion Gallons)</u>	<u>In-Service Date</u>
Croton		
New Croton	19.0	1905
Croton Falls Main	14.2	1911
Cross River	10.3	1908
West Branch	8.0	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	4.1	1878
Boyds Corner	1.7	1873(2)
Croton Falls Diverting	0.9	1911
Total	<u>86.6</u>	
Catskill		
Ashokan	122.9	1915
Schoharie	17.6	1926
Total	<u>140.5</u>	
Delaware		
Pepacton	140.2	1954
Cannonsville	95.7	1965
Rondout	49.6	1951
Neversink	34.9	1950
Total	<u>320.4</u>	
Total Available Capacity	<u><u>547.5</u></u>	

- (1) Capacity above minimum operating level.
(2) Reconstructed and placed back in service in 1990.

Balancing Reservoirs and Distribution Facilities

<u>Name</u>	<u>Storage Capacity (Billion Gallons)</u>	<u>In-Service Date</u>
Balancing Reservoirs		
Kensico	30.6	1915
Hillview	0.9	1915
Total	<u>31.5</u>	
Distribution Facilities		
Central Park	1.0	1862
Jerome Park	0.8	1905
Ridgewood (basin no. 3) (1)	0.1	1875
Silver Lake (tanks)	0.1	1970
Total	<u>2.0</u>	
Total Storage Capacity	<u><u>33.5</u></u>	

- (1) Currently only one of three basins is operational.

In comparison to water systems of other major cities, the Water Supply System is both economical and flexible. Approximately 95% of the total water supply normally is delivered to the consumer by gravity, which virtually eliminates the need for pumping. This also makes the System's operating costs comparatively insensitive to fluctuations in the cost of power. Only about 5% of the water supply is regularly pumped to maintain the desired pressure to areas with higher elevations. From time to time in drought conditions, additional pumping is required.

For operational flexibility, the three reservoir systems were designed and built with various interconnections which permit water from one system to be introduced into and mixed with water from another. Interconnections permit the Water Supply System to mitigate localized droughts or to take advantage of excess water in any of the three watersheds. Croton System water, for example, can be introduced into the Delaware Aqueduct at West Branch, Cross River and Croton Falls Main Reservoirs; Delaware and Catskill System waters can be introduced into the Croton System at West Branch and New Croton Reservoirs, respectively.

Croton System. The Croton System watershed has a total available storage capacity of 86.6 billion gallons. The Dependable Yield of the Croton System is currently estimated to be 240 mgd or 19% of the City's total Dependable Yield.

The Croton System includes three controlled lakes and twelve reservoirs with dams across the Croton River, its three branches and three other tributaries. Operation of the Croton System commenced in 1842. The Croton System is divided into three subsystems: West Branch, Croton Falls and Muscoot.

The West Branch subsystem is comprised of Boyds Corner and West Branch Reservoirs. West Branch Reservoir is connected to both the Delaware Aqueduct and the Croton Falls Main Reservoir. Water from the West Branch Reservoir is normally fed into the Delaware Aqueduct to take advantage of the high hydraulic head available.

The Croton Falls subsystem is made up of the Bog Brook, East Branch, Croton Falls Diverting, Middle Branch, and Croton Falls Main Reservoirs. Bog Brook and East Branch Reservoirs are connected by a 10-foot tunnel. Water from Croton Falls Diverting Reservoir can flow to either Croton Falls Main Reservoir or the Muscoot Reservoir. Water from Middle Branch Reservoir flows to Croton Falls Main Reservoir. Water from Croton Falls Main Reservoir can be pumped into the Delaware Aqueduct by operating the Croton Falls Hydraulic Pump Station or can flow to the Muscoot Reservoir.

The Muscoot subsystem is made up of the Titicus, Amawalk, and Cross River Reservoirs which all empty into the Muscoot Reservoir. Water from Cross River Reservoir can also be pumped into the Delaware Aqueduct by the Cross River Hydraulic Pump Station. The Muscoot Reservoir empties into the New Croton Reservoir. Water is then conveyed through the New Croton Aqueduct to Jerome Park Reservoir in the Bronx for distribution to consumers.

Recent engineering reports sponsored by the U.S. Army Corps of Engineers indicated that the dams and reservoirs in the Croton System are safe but in need of some rehabilitation and reconstruction work. One dam in the Croton System, at Boyds Corner Reservoir, was identified as unsafe. The Boyds Corner Reservoir was drained. Reconstruction of its dam, spillway and outlet works was substantially completed in the fall of 1990 and the Reservoir is currently operational. An ongoing reconstruction program has been established and funded in the CIP. The majority of the rehabilitation includes replacement and refurbishment of the outlet works and mechanical equipment within the gatehouses, improvements to the dam structures, maintenance of grounds and enlargement of the spillway capacities. Upon completion of the proposed reconstruction all facilities in the Croton System will be in satisfactory condition and will comply with the new national dam safety guidelines established in 1976.

The quality of the water in the Croton System, the City's oldest, does not consistently meet turbidity and color standards established by the New York State Sanitary Code (the "Sanitary Code"). As a result, the New York State Department of Health ("NYSDOH") has mandated treatment to ensure the Croton System water continues to meet all quality standards. This treatment program, the Croton Filter Project, is currently under way. The key features of this program are the construction of a demonstration water treatment plant at

the Jerome Park Reservoir (which was completed in October, 1988), site work improvements at the same location (to be completed in 1993), the construction of a full-scale water treatment plant (to be completed by the late 1990's), improvements to the distribution system in Manhattan (to be completed in 1993), and the reconstruction of the Croton Lake gatehouse (to be completed in 1993).

Catskill System. The total available storage capacity in the Catskill System is 140.5 billion gallons. The Dependable Yield of the Catskill System is currently estimated to be 470 mgd or 36% of the total Dependable Yield of the Water Supply System. All facilities in the Catskill System are in adequate condition.

The Catskill System is comprised of the Schoharie and Ashokan Reservoirs and the Catskill Aqueduct. The Schoharie Reservoir is formed by the Gilboa Dam across the Schoharie Creek. The Ashokan Dam across the Esopus Creek forms the Ashokan Reservoir. Catskill System water has its origin in the Esopus Creek and Schoharie Creek watersheds. These watersheds, occupying the central and eastern portions of the Catskill Mountains collect stream flow from the mountains of sparsely populated areas. The Esopus Creek watershed drains into the Hudson River and has an area of about 257 square miles. The Schoharie Creek watershed drains into the Mohawk River and has an area of about 314 square miles. The greater part of the water from these two watershed areas is stored in the Ashokan Reservoir and the balance is held in the Schoharie Reservoir.

Water from the Schoharie Reservoir is conveyed via the Shandaken Tunnel and Esopus Creek to Ashokan Reservoir and from there to Kensico Reservoir via the Catskill Aqueduct. The Catskill Aqueduct passes under the Hudson River and the New Croton Reservoir. At the New Croton Reservoir it is possible to introduce water from Ashokan Reservoir to the New Croton Reservoir. The Kensico Reservoir does not have a significant drainage area, but rather serves as a balancing reservoir for both the Catskill and Delaware Systems.

From the Kensico Reservoir Catskill System water flows to the Hillview Reservoir in Yonkers via the Catskill Aqueduct. Water is delivered from Hillview Reservoir to the City through Tunnels 1 and 2. It is also possible for the Catskill Aqueduct to bypass both Kensico and Hillview Reservoirs. Except for river crossings and a few sections of tunnel, the Catskill Aqueduct is a cut-and-cover conduit laid on grade. The Catskill System was completed between 1915 and 1927.

Delaware System. The total available storage capacity of the Delaware System is 320.4 billion gallons. The Dependable Yield of the Delaware System is estimated to be 580 mgd. which is 45% of the total Dependable Yield of the Water Supply System. All facilities in the Delaware System are in adequate condition.

The Delaware System is made up of four drainage areas, three in the Delaware River Basin and one in the Hudson River Basin. Delaware System water flows into the Neversink, Pepacton, and Cannonsville Reservoirs. The Neversink Reservoir is formed by a dam across the Neversink River which is a tributary of the Delaware River. The Downsville Dam, across the east branch of the Delaware River, forms the Pepacton Reservoir. On the west branch of the Delaware River, the Cannonsville Reservoir is formed by the Cannonsville Dam at Deposit, New York. These reservoirs are connected to the downstream Rondout Reservoir by the Neversink, East Delaware, and West Delaware Tunnels, respectively.

Rondout Reservoir is formed by the Merriman Dam across Rondout Creek, which is a tributary of the Hudson River. From Rondout Reservoir, water is conveyed via the Delaware Aqueduct to the West Branch Reservoir in the Croton System and then to Kensico Reservoir. Between the Rondout and West Branch Reservoirs, Hudson River water can be pumped into the Delaware Aqueduct from the Chelsea Pump Station. This pump station has been used only in drought situations and not during normal operating periods. Between the West Branch and Kensico Reservoirs, Croton System water can be pumped into the Delaware Aqueduct from the Croton Falls and Cross River Reservoirs. From Kensico Reservoir the Delaware Aqueduct continues on to Hillview Reservoir. Although water was available from portions of the Delaware System in 1951, the final reservoir was not completed until 1965.

Sewage Treatment Plants. The System also includes several upstate sewage treatment plants to prevent untreated sewage from being released into the watersheds. These plants were originally constructed between

1921 and 1959. Although they are still functional, many are reaching the end of their useful lives and will be undergoing reconstruction within the next 10 years. Capacities of these plants range from under 0.1 to over 0.8 mgd. The CIP contains adequate funds to maintain and improve these facilities and to insure that discharge from upstate municipalities continues to be properly treated.

Long-Term Water Supply Planning. On July 26, 1985, the Mayor's Intergovernmental Task Force on New York City Water Supply Needs (the "Task Force") was convened. The Task Force was formed to reassess the System's long-range water supply needs in light of the 1980-81 and 1985 droughts and to review the adequacy of planning efforts to meet those needs. The goal of the Task Force is to recommend what the City's long-term priorities should be and the actions that should be taken to ensure that those priorities can be achieved.

In the Interim Report of the Task Force dated February 11, 1986 (the "Interim Report"), the recommendations listed below were presented.

- Take every reasonable measure to control and contain water demand through metering, rate setting, leak detection and prevention, conservation, increased use of ground-water resources and recycling.
- Develop a supplemental supply of 200 to 300 mgd before the year 2000.
- Develop an additional water supply source, yielding between 300 and 1200 mgd to meet the long-term needs of the System.

As a result of the work of the task force, a study of system water demand was instituted in December, 1986. This study is being done as an amendment to an existing State Water Resource Management Strategy contract. In addition, a universal metering program was adopted for the System in 1986 and began in Fiscal Year 1988.

The first interim report of the task force concluded that expanded pumping of Hudson River water represents the only large source of supplemental supply which can be realistically developed within the next 10 to 15 years. The current CIP includes \$25 million for the design of the expansion of the Chelsea Pump Station to a maximum capacity of 300 mgd which is estimated to cost approximately \$415 million. The second interim report of the task force, which builds upon the recommendations of the first interim report, was completed in December, 1987. The final task force report is available in draft form and is expected to be completed in late 1992.

Chelsea Pump Station. The Chelsea Pump Station, located near Chelsea, New York on the eastern bank of the Hudson River was reactivated during the most recent drought (1989). The station operated from May 1, 1989 to May 15, 1989 under the direction of the NYSDOH. During this period a total of 1.4 billion gallons of water was pumped from the Hudson River. The Chelsea Pump Station had previously been operated during drought conditions in 1965-1966 and 1985.

The Chelsea Pump Station is capable of pumping up to 100 mgd of Hudson River water into the System. The City has submitted an application for a five-year permit to the New York State Department of Environmental Conservation ("NYSDEC") to operate the pump station on an emergency basis at the maximum rate of 100 mgd. Adjudicatory hearings commenced in April, 1988. In May, 1990, the City requested a modification of its application to propose a maximum 100 mgd withdrawal at Chelsea at an earlier stage of the drought emergency than the original permit had contemplated. Action on the request for modification must await completion of a supplemental environmental impact statement. Pursuant to a recent court decision, operation of the Chelsea Pumping Station may require a State Pollution Discharge Elimination Systems ("SPDES") permit. However, the City may operate the Chelsea Pump Station in the event of drought emergency without the issuance of the SPDES permit, providing the City continues to pursue its application for such permit. Such a permit or, when issued, the operating permit may require additional expenditures prior to the operation of the pumping station.

Tests made of the Hudson River water indicate that the untreated water meets virtually all Federal and State standards for treated water. Hudson River water compares favorably as to water quality to the supplies available to major population centers outside of the Hudson River Basin.

Distribution System

The Distribution System furnishes water to consumers through a series of aqueducts and tunnels and a network of distribution mains. The New Croton Aqueduct and Tunnels 1 and 2 connect water supply reservoirs to the distribution mains. From shafts located along the tunnels and from Jerome Park and Central Park Reservoirs trunk mains carry water to the service areas. Trunk mains are usually greater than 20 inches in diameter. Water then flows through successively smaller pipes for delivery to the consumer. A third water tunnel now under construction will supplement the Distribution System capacity and improve reliability. The principal elements of the Distribution System are described below.

The New Croton Aqueduct. The New Croton Aqueduct consists of two parts. The first is a masonry conduit from the inlet gatehouse located near the Old Croton Dam and three miles north of the New Croton Dam to Gatehouse No. 1 near the Jerome Park Reservoir, a distance of about 24 miles. The nominal capacity of this portion is 300 mgd. The second part is a pressurized masonry conduit running from Jerome Park Reservoir to the 135th Street gatehouse in Manhattan. This portion forms a long inverted siphon with a diameter of 12.25 feet, except in the tunnel under the Harlem River, where it was reduced to 10.5 feet to increase the velocity of current in order to prevent deposits of silt. The capacity of this section is approximately 250 mgd. In addition, a branch of the New Croton Aqueduct transmits water from Gatehouse No. 1 to the Jerome Park Reservoir.

The Catskill Aqueduct. The Catskill Aqueduct is 92 miles long and extends from the Ashokan Reservoir to Kensico and Hillview Reservoirs. Four distinct types of aqueduct construction were required due to the terrain between the Catskill Mountains and the City. The Catskill Aqueduct is for the most part a 17 feet high by 17.5 feet wide horseshoe-shaped cut-and-cover conduit. The Catskill Aqueduct is also composed of a number of steel pipe siphons and grade and pressure tunnels where topography requires. A deep rock tunnel siphon 14 feet in diameter and 1,114 feet below sea level crosses beneath the Hudson River near Cornwall. The delivery capacity of the Catskill Aqueduct from the Ashokan Reservoir to the Kensico Reservoir is about 610 mgd and about 800 mgd from the Kensico Reservoir to the Hillview Reservoir. The Catskill Aqueduct passes under the New Croton Reservoir. At this point it is possible to transfer water from Ashokan Reservoir to New Croton Reservoir.

The Delaware Aqueduct. The Delaware Aqueduct transmits water from Rondout Reservoir to West Branch Reservoir, in the Croton System, and from West Branch Reservoir to Kensico Reservoir and to Hillview Reservoir. The Delaware Aqueduct is a circular, cement-lined, pressurized, bedrock tunnel 85 miles long located 300 to 1,000 feet underground, passing beneath the Hudson River at a depth of about 600 feet below sea level. Water in this aqueduct is directed by uptake and downtake shafts to the Kensico and West Branch Reservoirs. The Delaware Aqueduct has a diameter of 13.5 feet to 19.5 feet. The capacity of the section from Rondout Reservoir to West Branch Reservoir is about 890 mgd and delivers water from the Rondout, Neversink, Pepacton and Cannonsville Reservoirs. Interconnection with the Catskill System is possible at both the Kensico and Hillview Reservoirs. The delivery capacity of the Delaware Aqueduct from West Branch to Kensico Reservoirs is about 1,045 mgd and about 1,450 mgd from the Kensico to the Hillview Reservoir.

Tunnel 1. Water from the Catskill and Delaware Systems is delivered from Hillview Reservoir into the City by a circular, cement-lined, pressurized, bedrock tunnel, reducing in diameter from 15 to 11 feet. Tunnel 1 extends 18 miles south from Hillview Reservoir through the West Bronx to Manhattan and Brooklyn. Steel and standby cast iron pipe lines extend from two terminal shafts in Brooklyn into Queens and Richmond. Tunnel 1 is located at depths of 200 to 750 feet below the street surface, thus avoiding interference with streets, buildings, subways, sewers and pipes. These depths are also necessary to secure a substantial rock covering to withstand the bursting pressure of the water inside and to afford the requisite watertightness. Tunnel 1 was placed in service in 1917 and has a capacity of approximately 1,000 mgd.

Tunnel 2. Tunnel 2 also delivers Catskill and Delaware water from Hillview Reservoir. It is a circular, cement-lined, pressurized, bedrock tunnel located at depths of 200 to 800 feet, reducing in diameter from 17 to 15 feet. Tunnel 2 extends south from Hillview Reservoir, east of Tunnel 1, through the West Bronx, under the East River at Rikers Island, through Queens and Brooklyn, connecting with Tunnel 1 at Fort Greene Park

and also at State and Nevins Streets in Brooklyn. The total length of the tunnel is 20 miles and it was placed in service in 1936. Connecting to Tunnel 2 in Brooklyn is the 10 foot diameter, 5 mile long Richmond Tunnel which was completed in 1970 and carries water to Staten Island. Tunnel 2 has a capacity of approximately 1,000 mgd.

Richmond Tunnel and Project. The Richmond Project was constructed to improve the water supply facilities for Staten Island. The principal components of the project are the Richmond Tunnel, which was completed in 1970, the Richmond Distribution Chamber, the Richmond Aqueduct and the Silver Lake underground storage tanks. The Richmond Tunnel lies 900 feet beneath Upper New York Bay and is 10 feet in diameter and approximately 5 miles long. The Silver Lake storage tanks (among the world's largest) have a combined capacity of 100 million gallons and have replaced the Silver Lake Reservoir (now Silver Lake). The Richmond Project also replaced the original water delivery facilities which served Staten Island by means of two cast iron pipelines (one 36 inches and one 42 inches in diameter) in the bed of upper New York Bay. These lines are available in case of an emergency.

Tunnel 3. Most parts of the City are supplied water through either Tunnel 1 or Tunnel 2. Although it is unlikely that a section of one of these tunnels would fail, the occurrence could leave parts of the City without water for an extended period of time. Tunnel 3 is currently under construction to guard against this possibility, to enable the two existing tunnels to be taken out of service for inspection and repair, and to provide Staten Island and other outlying areas with more water. This project is a multi-phase effort extending over many years. Planning for this project was started in the mid-1950's and construction began in 1970. Portions of Tunnel 3 are scheduled to be operating in 1994.

Tunnel 3 will be built in four stages:

- **STAGE I**, currently under construction and fully funded to completion in the CIP, is a 24-foot reducing to 20-foot circular, cement-lined, pressurized, bedrock tunnel 200 to 800 feet below the street surface. It is a 13-mile tunnel which extends south from Hillview Reservoir in Yonkers under Central Park Reservoir in Manhattan, and then east under the East River and Roosevelt Island to Long Island City in Queens. Stage I parallels Tunnel 1 along most of this route. Stage I has three chambers which allow interconnection with subsequent stages. Such chambers will also provide access to maintain flow control or shut sections while the remainder of Tunnel 3 continues to operate. Stage I is scheduled to be operable in 1994. Completion of Stage I will permit greater quantities of water to be delivered to the City as well as provide redundancy to protect the System in the event of failure of Tunnel 1 or Tunnel 2.
- **STAGE II**, fully funded in the CIP, will consist of a Brooklyn/Queens segment and a lower Manhattan segment. The Brooklyn/Queens segment will extend from the eastern end of Stage I on a route east of Tunnel 2 to supply Queens, Brooklyn and Staten Island. The lower Manhattan segment will extend south from the interconnecting chamber of Stage I at Central Park into lower Manhattan. Construction of Stage II began in 1987 and Stage II is scheduled to be operable in 2004. Completion of the Manhattan segment will provide system redundancy in Manhattan which does not presently exist and will allow Tunnel 1 to be taken out of service. The Brooklyn/Queens segment will permit greater quantities of water to be supplied to Brooklyn, Queens and Staten Island and will allow Tunnel 2 to be taken out of service.
- **STAGE III** will extend from Kensico Reservoir to the interconnecting chamber of Stage I south of Hillview Reservoir. It parallels the Delaware and Catskill Aqueducts between the two reservoirs. Completion of Stage III provides the System with redundancy for the Delaware and Catskill Aqueducts and allows the System to function at the higher Kensico Reservoir pressure. The completion of this stage will also permit Hillview Reservoir to be taken out of service for maintenance or in the event of contamination. This flexibility does not currently exist.
- **STAGE IV** would increase delivery capacity to the eastern parts of the Bronx and Queens. As now contemplated, it would extend southeast from the northern end of Stage I to Flushing, Queens, and

then southwest to interconnect with the eastern junction of Stages I and II. In addition, Stage IV could serve as an important link to Long Island in a future regional water supply system.

Water Mains. The Distribution System includes 5,773 miles of water pipe varying in size from six to 84 inches in diameter. Some pipe was installed before 1870 and approximately 6.1% is over 100 years old. The following tables set forth distribution of pipe by size and age, based on the City's 1991 fixed asset inventory files. Totals may vary due to rounding.

Water System Pipe Inventory: Diameter

<u>Diameter (inches)</u>	<u>Length (miles)</u>
6	420
8	2,497
12	1,825
16	171
20	446
24	52
30	50
36	71
48	165
54	*
60	40
72	37
84	*
Total	<u>5,773</u>

*Less than one mile in length

Water System Pipe Inventory: Age

<u>Installation Year</u>	<u>Length (miles)</u>	<u>Percent of System</u>
Pre-1870	54	0.9%
1870-1879	207	3.6
1880-1889	93	1.6
1890-1899	256	4.4
1900-1909	463	8.0
1910-1919	907	15.7
1920-1929	1,032	17.9
1930-1939	701	12.2
1940-1949	447	7.8
1950-1959	575	10.0
1960-1969	501	8.7
1970-1979	296	5.1
1980-1989	222	3.8
1990	17	0.3
Total	<u>5,773</u>	<u>100.0%</u>

Of the 5,773 miles of pipe in service, about 3,012 miles are unlined cast iron laid before 1930. Pipe laid between 1930 and 1969 is concrete-lined cast iron and comprises about 2,225 miles of the Distribution System. Pipe laid after 1970 is concrete-lined ductile iron and comprises about 535 miles of the Distribution

System. The Distribution System also includes over 86,710 mainline valves, about 97,800 hydrants, four distribution facilities, 15 gatehouses, 15 pump stations, and eight maintenance and repair yards.

Water pressure in the Distribution System is regulated so that it ranges between 35 and 60 pounds per square inch at street level. This range is sufficient to supply water to the top of a five- or six-story building. Normally about 95% of the total consumption is delivered to the network by gravity. The system regularly operates only three staffed pump stations, one in Manhattan, one in Queens and one in Staten Island, to deliver the majority of the remaining 5% to areas of higher elevation in order to keep the pressure within the desired range. Additional pumping may be necessary during periods of drought.

The Distribution System is judged to be in adequate condition (the highest rating category) based upon evaluation of key water system parameters: water main breaks, pressure tests, flow tests and leak detection. Based on studies conducted by the U.S. Army Corps of Engineers on the fewest pipeline breaks per 1,000 miles, the Distribution System has the fourth-lowest number of such breaks of 17 major United States cities. With few exceptions, all areas served by the Distribution System enjoy reliable water supply service at adequate pressure. During peak flow periods low and inadequate pressures may exist in certain areas of the City. Parts of Staten Island, the Co-op City complex in the Bronx and the Starrett City complex in Brooklyn require improvements either to provide greater pressure or redundant feeds to improve reliability. Growth and development resulting in increasing water demands in Staten Island also require that provision be made to supply more water to that Borough in the near future. Design contracts associated with Staten Island and The Bronx are currently in progress, to be followed by construction within the next two years. Problems associated with the Starrett City complex will be alleviated by construction, including the installation of a 60-inch trunk main, which is now underway.

Collection System

The Collection System collects and conveys wastewater from the user's service connection to the point where the sewage is discharged into Wastewater Treatment System.

The Collection System includes approximately 6,320 miles of sewer pipe, divided into 14 drainage areas together with manholes, catch basins, and maintenance and repair yards. Some pipe in the Collection System was installed before 1870, and about 6.4% of all sewer pipe in the Collection System is over 100 years old. The following table sets forth an inventory of sewer pipe by hydraulic diameter based on the City's 1991 fixed asset inventory files. (The hydraulic diameter of a given pipe is the diameter of a circular pipe with the same cross-sectional area.)

Collection System Pipe Inventory: Hydraulic Diameter

<u>Hydraulic Diameter (inches)</u>	<u>Length (miles)</u>
6-10	1,878
11-13	1,705
14-19	921
20-29	359
30-39	472
40-49	373
50-59	89
60-89	287
over 89	<u>239</u>
Total	<u>6,323</u>

The sewer pipe inventory by age as of June 30, 1991 is shown in the following table:

Collection System Pipe Inventory: Age

<u>Installation Year</u>	<u>Length (miles)</u>	<u>Percent of System</u>
Pre-1870	205	3.2%
1870-1879	82	1.3
1880-1889	118	1.9
1890-1899	684	10.8
1900-1909	493	7.8
1910-1919	722	11.4
1920-1929	1,022	16.2
1930-1939	994	15.7
1940-1949	594	9.4
1950-1959	590	9.3
1960-1969	441	7.0
1970-1979	225	3.6
1980-1989	121	1.9
1990	<u>32</u>	<u>0.5</u>
Total	<u>6,323</u>	<u>100.0%</u>

The Collection System is in adequate condition (the highest rating category) based on evaluation of Infiltration/Inflow studies. These studies have been completed for 11 of the 14 drainage areas and indicate that infiltration rates in the Collection System are relatively low. In addition to the results of Infiltration/Inflow studies prepared by consultants, the Bureau of Water Supply and Wastewater Collection has extensive data available from in-house studies assessing the adequacy of pipelines. This information is considered when developing capital projects. Maintenance yards in the Collection System are generally adequate for their purpose. Minor repair work and relocation of these yards is planned to correct deficiencies. Some sewer maintenance equipment is at or has exceeded its useful life and is scheduled for replacement.

The System must also provide new or larger sewers to serve newly developed sections of the City, particularly in Staten Island. In recent years the Bureau of Water Supply and Wastewater Collection has undertaken an extensive review of sewer service throughout the City. This review has led to the inclusion of two sewer construction programs in the CIP. The first program addresses the augmentation of sewer lines in areas of the City which are undergoing rapid development or where land use patterns have changed. The second program will provide sewers in areas which are not presently served.

Wastewater Treatment System

The Bureau of Environmental Engineering of DEP is responsible for the design and construction, and the Bureau of Clean Water of DEP is responsible for the operation and maintenance of all facilities related to the treatment of sewage, including 14 currently operating water pollution control plants, eight sludge dewatering facilities, one storm-overflow retention plant, 88 pump stations, five wastewater laboratories, three inner-harbor vessels and four ocean-going barges (the "Wastewater Treatment System"). Overall the condition of the Wastewater Treatment System is judged to be adequate (the highest rating category).

Public officials and local conservationists have been concerned with water pollution control for over a century. The first water pollution control facility in the City was opened in 1886, when a small plant was constructed in Coney Island to protect the bathing beaches. In 1931 a massive plant construction program was begun to construct a system of water pollution control plants and associated facilities to treat and control all wastewater produced within the City. The first of these modern plants, Coney Island, opened in 1935 and three more large plants, Wards Island, Tallmans Island and Bowery Bay, were placed into operation before the

end of the decade. During the 1940's two other plants, Jamaica and 26th Ward, were opened. The postwar years witnessed an intensified effort and by 1968 twelve major plants were in operation treating about 1,000 mgd at an average removal efficiency of about 65%. This was at a time when most other urban areas were providing only about 35% removal efficiency.

In 1972 the City began a program of upgrading its existing plants to operate in conformance with the requirements of the Federal Clean Water Act (the "Clean Water Act"), which requires effluent suspended solids and five day biological oxygen demand (BOD₅) to be 30 milligrams per liter ("mg/l") or less, or that the plant remove 85% or more of these pollutants, whichever provision is more stringent ("Full Secondary Treatment"). Eleven of the System's 14 plants have already been upgraded at a construction cost of \$1.4 billion. In 1983 the City commenced the upgrading to Full Secondary Treatment of an additional two plants in Brooklyn, Owls Head and Coney Island. Upgrading of these plants will be completed in 1995 and 1994, respectively, at an estimated total cost of \$1.1 billion.

In December 1991, NYSDEC withdrew its approval of the Newtown Creek facility plan, because it included technology that has caused operational problems at another plant. The schedule for the planned upgrade of the Newton Creek facility is under discussion with the State. The CIP includes \$423 million to initiate this upgrade.

Issues of treatment capacity have been raised at the Wards Island and Newtown Creek plants. On February 2, 1989, the City signed a consent order which mandates various water conservation measures to reduce flow to the Wards Islands plant. Interim conservation measures have reduced flow to the Newtown Creek plant to its design capacity. The City plans to initiate a study to address capacity issues and other water quality concerns. The CIP includes over \$700 million to implement recommendations resulting from the study.

Issues of treatment capacity have also been raised at the Coney Island plant. DEP believes that the actual capacity of the Coney Island plant exceeds its current rating and can accommodate expected flow. DEP is therefore seeking an increase to the Coney Island plant's rated capacity from the State.

Two new plants, North River and Red Hook, have been constructed thereby enabling the System to treat virtually all of the dry weather sewage generated by the City. The North River plant, designed to treat 170 mgd of sewage, is located on the upper west side of Manhattan. In March 1986, it began advanced preliminary treatment of sewage which formerly was discharged into the Hudson River. Full secondary treatment facilities at North River went on-line in May 1991. The Red Hook plant, in the Brooklyn Navy Yard, is designed to treat approximately 60 mgd of sewage. It began full secondary treatment in May 1989. The total cost of constructing these two new plants is approximately \$1.5 billion. Many of the construction programs which affect the System's water pollution control facilities are subject to Federal and State regulations.

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 (CSO). The CSO Abatement Program provides for studies, design and construction of facilities to address this issue. The CIP includes over \$2.0 billion for this program.

The System operates and maintains 88 wastewater pump stations located throughout the City. These stations are used to convey wastewater over long distances, to drain low-lying areas, and to lift wastewater to treatment plants. Many of the stations were constructed in the 1930's and earlier. The majority of the stations are in need of some reconstructive work. The CIP includes an ongoing program to reconstruct and refurbish stations.

The System has 490 sewer regulators and 552 tide gates which control flow in the Collection 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.

The following table describes wastewater treatment plants currently in service.

Water Pollution Control Facilities

<u>Plants in Service</u>	<u>Design Capacity (mgd)</u>	<u>Year of Completion</u>	<u>Completion of Upgrading to Full Secondary Treatment or Reconstruction</u>
Newtown Creek	310	1967	—(1)
Wards Island	250	1937	1979
Hunts Point	200	1952	1978
Bowery Bay	150	1939	1978
Owls Head	120	1952	1995
Coney Island	100	1935	1994
Jamaica	100	1943	1978
26th Ward (2)	85	1944	1979
Tallmans Island	80	1939	1978
Port Richmond	60	1953	1979
Rockaway	45	1952	1978
Oakwood Beach	40	1956	1979
North River	170	1986	1991
Red Hook	60	1987	1989
Total System-wide Capacity	<u>1,770</u>		

(1) Currently under discussion with the State.

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

All but three of the plants listed above currently use the step aeration process which meets Federal requirements for full secondary treatment. The Coney Island and Owls Head plants are being converted to this process from the less efficient modified aeration process. The schedule for the upgrade of the Newtown Creek plant is currently under discussion with the State.

The useful life of some of the mechanical components of the Wastewater Treatment System is less than 20 years. To maintain desired treatment levels, corrective and preventive maintenance programs are carried out and periodic major refurbishment of such mechanical components is provided for in the CIP.

Sludge Disposal. Pursuant to the Marine Protection, Research and Sanctuaries Act of 1972 (“MPRSA”) as amended by the Ocean Dumping Ban Act of 1988 (the “Ban Act”) DEP was permitted to dispose of all of the sludge generated by its sewage treatment plants in the Atlantic Ocean 106 miles offshore (the “106 Mile Site”). The Ban Act prohibits the ocean disposal of sludge after August 14, 1989 without a permit from the United States Environmental Protection Administration (“USEPA”). DEP entered into a Consent Decree And Enforcement Agreement (“Consent Decree”) with the United States and the State of New York on August 1, 1989 and was granted a permit to continue to use the 106 mile site on condition that the City develop alternative sludge disposal technologies and cease all ocean disposal by June 30, 1992 which deadline has been met.

The Consent Decree requires the implementation of interim measures and a long-term program to end ocean disposal. As part of the interim measures, DEP is operating facilities to dewater its sludge and reduce its volume. Sludge dewatering is a necessary first step in the process of ending ocean disposal and is consistent with any interim or long-term alternative sludge disposal program. Sludge dewatering facilities are located at 8 of the 14 sewage treatment plants and have capacity to dewater all of the sludge generated by the System. DEP has entered into contracts with various private firms for the beneficial use or disposal of its dewatered sludge. A thermal drying facility with a capacity of 220 dry tons per day is expected to be constructed by one

of the private firms in the Bronx by August 1993. The other firms are disposing of the dewatered sludge through the use of a fully permitted landfill facility and through land application.

The Consent Decree also requires DEP to explore long-term solutions for sludge disposal which may rely on additional DEP facilities or private firms and to implement long-term solutions capable of processing 50% of the City's sludge by December 31, 1995 and 100% by June 30, 1998. In accordance with the Consent Decree, DEP approved a Long Range Sludge Management Plan in May, 1991, which was modified in April 1992. Such plan will utilize three technologies to process sludge cake produced by the eight dewatering facilities including thermal drying, chemical stabilization and composting. The plan provides for processing an average of approximately 400 dry tons per day throughout the City, including the proposed Bronx thermal drying facility. By utilizing the Bronx thermal drying facility, the December 31, 1995 milestone would be satisfied without any additional construction.

Ocean disposal fees and penalties imposed by the Ban Act and the Consent Decree amounted to approximately \$13.7 million in Fiscal Year 1990 and \$21.6 million in Fiscal Year 1991. DEP expects such fees and penalties were approximately \$52.6 million in Fiscal Year 1992. The Ban Act and the Consent Decree provide that 85% of the fees and penalties payable shall be deposited into a Trust Account and shall be available to reimburse the City for costs incurred for developing alternative sludge disposal facilities. A portion of the balance of the fees and penalties accruing shall be paid to USEPA with the remainder divided equally between the New York State Water Pollution Control Revolving Fund and the New York State Clean Oceans Fund. Amounts paid to the Clean Oceans Fund are also available to reimburse the costs of developing alternative sludge management programs. The eight dewatering facilities are expected to be completed in Fiscal Year 1993 at a cost of approximately \$850 million. The Financial Plan includes \$125 million in each year for contracts with private vendors to dispose of the dewatered sludge. The CIP includes \$1.1 billion for the construction of long-term disposal facilities.

Staffing Evaluation

Current Staffing. Current staffing levels are adequate for operation and maintenance of existing water and wastewater facilities.

Future Staffing. To assure that staffing levels will continue to be adequate a review of DEP's manpower planning process was undertaken. The planning process was found to be comprehensive and responsive to the long-term needs of the System. It is concluded, therefore, that future staffing should be adequate to implement the CIP and associated operating programs.

CAPITAL IMPROVEMENT PROGRAM

Capital Improvement Program 1992-2001

On April 23, 1992 the City announced an update to the Ten-Year Capital Strategy for Fiscal Years 1992-2001 (the "Updated Ten Year Capital Strategy"), which provides for the rebuilding of the City's infrastructure, including water and sewer facilities. The City's Updated Ten Year Capital Strategy included projected expenditures of \$10.492 billion for water and sewer facilities.

The Capital Improvement Program (the "CIP") is based on the Updated Ten Year Capital Strategy in conjunction with 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. Adequate allowances are included in the CIP for emergency repair and replacement.

An annual allowance for escalation in cost due to inflation of 5% has been included, using 1992 as the base year. The costs identified in the following table represent estimated capital commitments for specific projects in each Fiscal Year. The System's annual cash flow requirements are based upon these commitments and are used to determine annual construction financing needs.

The sequence of projects in the CIP is based on the relative need and importance of each improvement as determined by a uniform rating system used by the Bureaus of Water Supply and Wastewater Collection, Clean Water and Environmental Engineering. The time required for planning and design work, legally mandated schedules, and the extent to which modifications and extensions to the System could be implemented without affecting ongoing operations were also considered.

The validity of the Ten Year Capital Plan for water and sewer facilities was evaluated independently under this study. We concluded that the plan was comprehensive and responsive to the long-term needs of the operation of the System.

Elements of the Capital Improvement Program

Water Supply and Transmission.

Tunnel 3 — Stage I: This stage consists of 13 miles of tunnel from Hillview Reservoir in Yonkers passing under Central Park in Manhattan and then east under the East River and Roosevelt Island to Long Island City in Queens. Stage I parallels Tunnel 1 most of this route. This leg of the tunnel will improve the reliability of the water supply system.

Tunnel 3 — Stage II: This stage consists of a section from Roosevelt Island to Brooklyn and Queens and a section from Central Park to lower Manhattan. Funding for completion of both sections is included in the CIP. Completion of this stage will improve delivery reliability and service pressures.

Miscellaneous Expenditures: This program will provide for greater control of water pressure in the Delaware System.

Water Distribution.

Augmentation of Water Supply Systems: This program includes the design of water supply facilities to provide 300 mgd from the Hudson River.

Water Quality Preservation: This program provides for upstate sewage treatment plant reconstruction, road resurfacing, the covering of Hillview reservoir, land acquisitions and the annual upgrading of upstate facilities.

Trunk and Distribution Main Replacement: This program consists of the replacement of mains prone to failure and those affected by sewer and highway programs. The program to avoid pipeline breaks includes the systematic replacement of small diameter water mains and mains installed prior to 1870.

Trunk and Distribution Main Extension: This program will provide improved reliability and redundancy within the Water Supply System. Specific areas have been targeted to prevent low pressure during peak demand periods and to ensure emergency service.

Croton Filter Project: This program will provide facilities to ensure that water from the Croton System consistently meets turbidity, bacteriological and chemical standards set by the State.

Dam Safety Program: This program will bring dams in the Croton System into compliance with recently established national standards.

Miscellaneous Expenditures:

- (a) *Corrosion Protection System.* This is a citywide program to control and prevent external corrosion of water mains.
- (b) *Brooklyn-Queens Aquifer Study.* This is a study to determine supply potential and the work that would be required to make use of the existing underground water supplies in the Brooklyn-Queens Aquifer to supplement the System's upstate reservoir supply.
- (c) *Mapping and Telemetry.* Design of a citywide telemetry system.

Water Pollution Control.

Consent Decree Construction and Upgrading: This program provides for the upgrading of the Coney Island, Owls Head and Newtown Creek plants to provide Full Secondary Treatment as required by the Clean Water

Act and construction of the interceptor for the Oakwood Beach plant. See "SYSTEM DESCRIPTION AND EVALUATION — Wastewater Treatment System".

Water Quality Mandates: This program will provide for studies, design, and construction to eliminate impact of wastewater bypass during periods of heavy rainfall and to reduce pollution in tributaries around the City. It also includes studies pursuant to Section 208 of the Clean Water Act to assess the impact of industrial wastes, runoff and tidal flows on treatment plant operation.

Plant Upgrading and Reconstruction: This program will provide for the upgrading and reconstruction of plants to ensure continuous and reliable operation.

Plant Component Stabilization: This program will provide for interim reconstruction necessary to maintain process reliability before full-scale reconstruction takes place.

Sludge Disposal: DEP has provided \$1.1 billion for design and construction of long term sludge disposal facilities as required by the Ban Act.

Sewers.

Replacement of Chronically Failing Components: This program includes replacement of components of the Sewer System that have already collapsed or that experience chronic malfunction which maintenance fails to correct. In addition, it includes replacement of components which experience chronic malfunction due to inadequate capacity.

Programmatic Replacement and Reconstruction: This program provides for systematic replacement of cement sewers in Brooklyn and Queens and lining of brick sewers.

Programmatic Response to Regulatory Mandates: This program allocates funds to the construction of sewers to eliminate the discharge of untreated sewage into the surrounding bodies of water as dictated by Section 208 of the Clean Water Act.

Replacement or Augmentation to Existing System: This program allocates funds for construction to increase the capacity of sewers by increasing their size or installing additional pipes to provide proper service levels. It also provides for the replacement of components which will be affected by other construction programs.

Sewer Extension to Accommodate New Development: This program will provide sewer service in portions of the City where such service is not presently available.

The CIP illustrated on the following table was published in April 1992. Actual construction costs to be incurred may vary from the estimates shown due to changes in business conditions, service requirements, environmental requirements, and availability and cost of equipment, labor and materials.

**Capital Improvement Program
(thousands)**

<u>SYSTEM FUNDS</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>TOTAL</u>
WATER SUPPLY AND TRANSMISSION											
City Tunnel No. 3, Stage 1	\$ 16,337	\$ 24,720	\$ 5,965	\$ 5,962	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 52,984
City Tunnel No. 3, Stage 2	23,591	226,126	33,023	231,383	242,300	327,035	81,357	3,400	51,400	0	1,219,615
Miscellaneous Programs	63	0	0	0	0	2,036	0	0	0	0	2,099
Subtotal	<u>39,991</u>	<u>250,846</u>	<u>38,988</u>	<u>237,345</u>	<u>242,300</u>	<u>329,071</u>	<u>81,357</u>	<u>3,400</u>	<u>51,400</u>	<u>0</u>	<u>1,274,698</u>
WATER DISTRIBUTION											
Augmentation of Water Supply System	84	6,871	0	0	0	24,995	0	0	0	0	31,950
Water Quality Preservation	19,821	15,584	57,347	27,008	34,670	12,265	0	0	163,240	0	329,935
Trunk & Distribution Main Replacement	93,196	122,640	46,522	86,137	97,559	57,542	52,926	74,167	42,816	48,359	721,864
Trunk & Distribution Main Extension	71,232	69,102	621	14,376	41,903	16,896	0	42,087	0	6,840	263,057
Croton Filter Project	2,491	45,862	2,680	0	539,000	3,715	0	0	0	0	593,748
Dam Safety Program	4,835	0	37,273	46,553	71,107	29,431	12,500	0	0	0	201,699
Miscellaneous Expenditures	2,719	2,800	2,100	0	2,813	15,486	0	0	0	0	25,918
Subtotal	<u>194,378</u>	<u>262,859</u>	<u>146,543</u>	<u>174,074</u>	<u>787,052</u>	<u>160,330</u>	<u>65,426</u>	<u>116,254</u>	<u>206,056</u>	<u>55,199</u>	<u>2,168,171</u>
WATER POLLUTION CONTROL											
Consent Decree Upgrading & Construction	150,860	116,334	45,988	45,894	0	0	364,526	36,577	0	0	760,179
Water Quality Mandates	5,335	86,315	24,443	43,893	14,547	133,125	578,350	396,750	504,100	283,625	2,070,483
Plant Upgrading & Reconstruction	66,436	49,920	59,929	45,899	28,745	60,159	39,700	33,000	44,352	46,379	474,519
Plant Component Stabilization	0	3,000	35,770	113,000	0	264,000	0	0	75,000	284,000	774,770
Sludge Disposal	146,822	128,196	500,000	500,000	0	0	0	0	0	0	1,275,018
Subtotal	<u>369,453</u>	<u>383,765</u>	<u>666,130</u>	<u>748,686</u>	<u>43,292</u>	<u>457,284</u>	<u>982,576</u>	<u>466,327</u>	<u>623,452</u>	<u>614,004</u>	<u>5,354,969</u>
SEWERS											
Replacement of Chronically Failing Components	66,075	66,041	56,695	60,146	56,874	72,271	75,936	76,419	82,886	87,603	700,946
Programmatic Replacement and Reconstruction	14,056	21,190	11,790	13,652	9,892	6,202	9,212	11,039	5,846	6,129	109,008
Programmatic Response to Legal Mandates	8,384	5,492	7,640	14,805	0	0	0	0	5,557	0	41,878
Replacement or Augmentation to Existing Systems	30,275	21,278	12,815	8,900	1,500	21,309	0	8,571	22,804	8,087	135,539
Extension to Accommodate New Development	53,441	62,530	72,432	56,845	78,836	61,908	61,791	57,881	40,206	63,752	609,622
Subtotal	<u>172,231</u>	<u>176,531</u>	<u>161,372</u>	<u>154,348</u>	<u>147,102</u>	<u>161,690</u>	<u>146,939</u>	<u>153,910</u>	<u>157,299</u>	<u>165,571</u>	<u>1,596,993</u>
EQUIPMENT											
Subtotal	<u>5,470</u>	<u>34,917</u>	<u>11,896</u>	<u>6,757</u>	<u>12,207</u>	<u>5,807</u>	<u>6,098</u>	<u>6,402</u>	<u>3,907</u>	<u>4,097</u>	<u>97,558</u>
TOTAL SYSTEM FUNDS	<u><u>781,523</u></u>	<u><u>1,108,898</u></u>	<u><u>1,024,929</u></u>	<u><u>1,321,210</u></u>	<u><u>1,231,953</u></u>	<u><u>1,114,182</u></u>	<u><u>1,282,396</u></u>	<u><u>746,293</u></u>	<u><u>1,042,114</u></u>	<u><u>838,871</u></u>	<u><u>10,492,389</u></u>

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Plant Location	Capacity (MGD)
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MANHATTAN

Wards Island	250
North River	170

BRONX

Hunts Point	200
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BROOKLYN

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

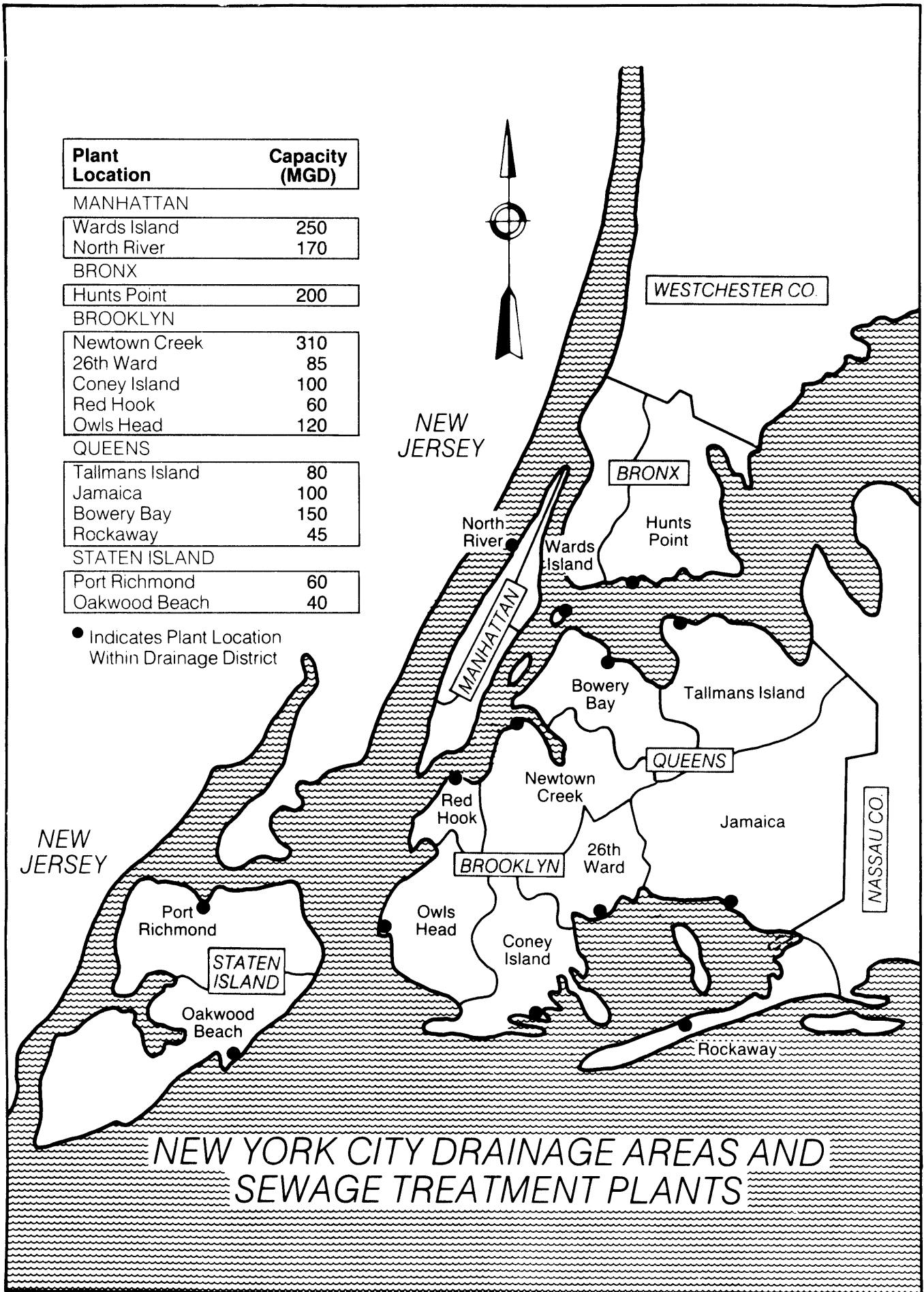
QUEENS

Tallmans Island	80
Jamaica	100
Bowery Bay	150
Rockaway	45

STATEN ISLAND

Port Richmond	60
Oakwood Beach	40

● Indicates Plant Location Within Drainage District

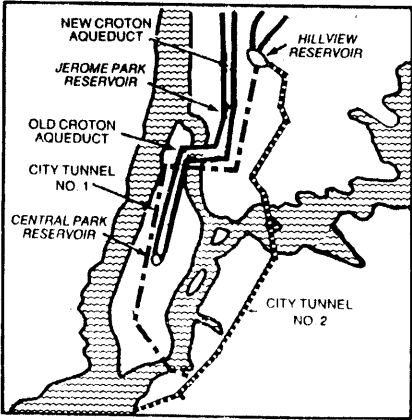
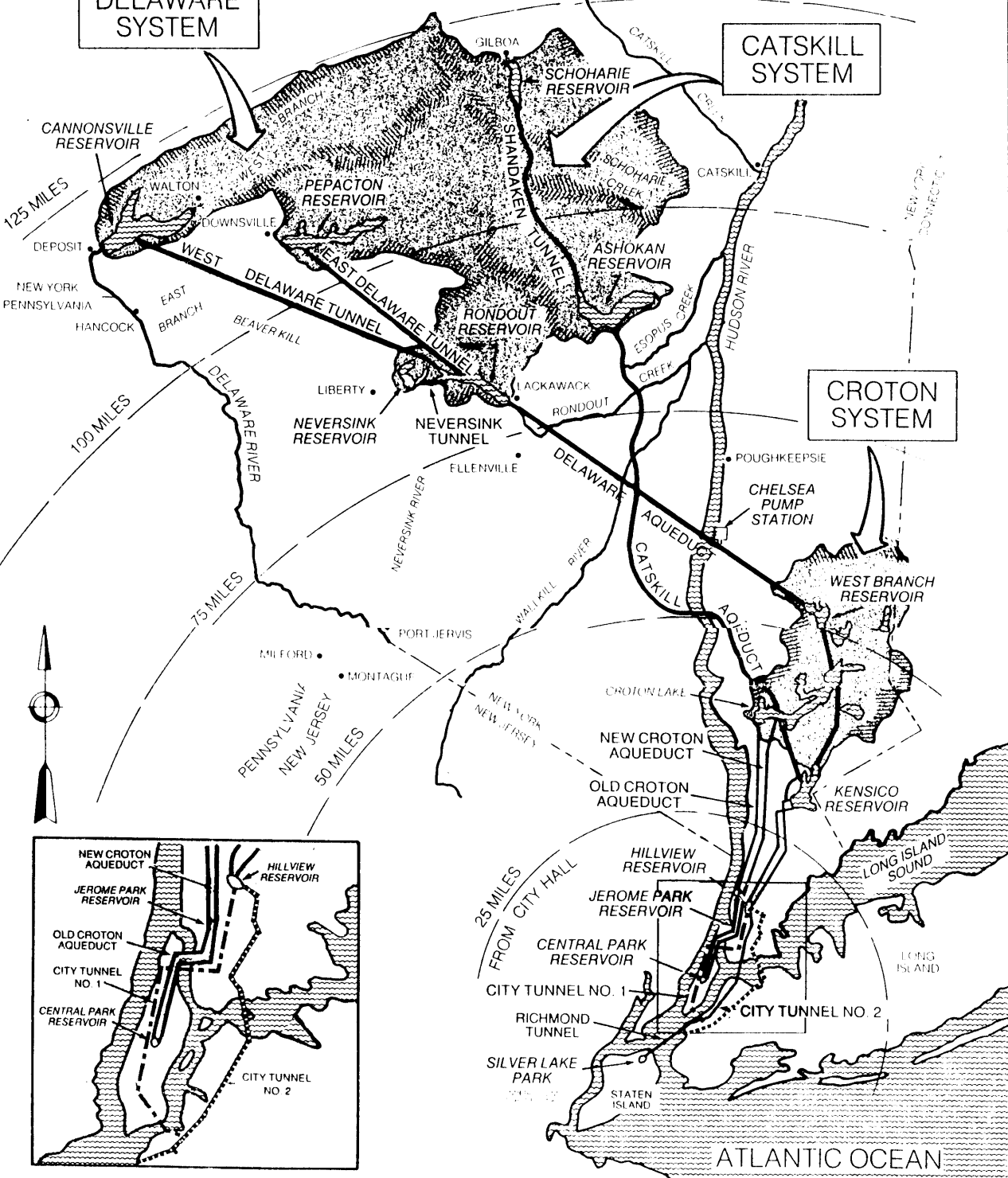


NEW YORK CITY DRAINAGE AREAS AND SEWAGE TREATMENT PLANTS

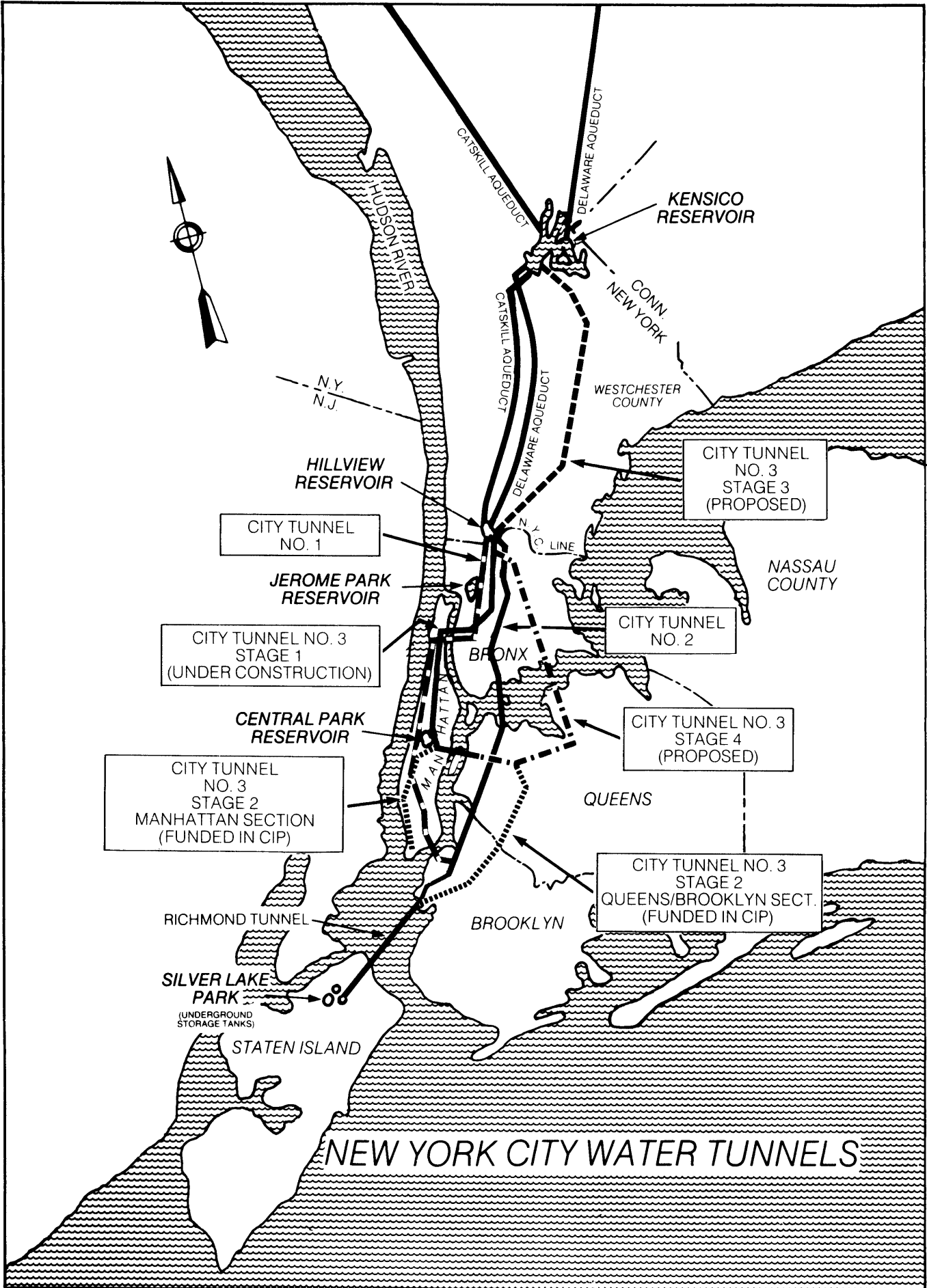
DELAWARE SYSTEM

CATSKILL SYSTEM

CROTON SYSTEM



NEW YORK CITY WATER SUPPLY SYSTEM



**REPORT ON THE FORECASTED CASH FLOWS
OF THE WATER AND SEWER SYSTEM
SERVING THE CITY OF NEW YORK**

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

RE: New York City Municipal Water Finance Authority
Water and Sewer System Revenue Bonds
Fiscal 1993 Series A

Dear Mr. Page:

We have examined the forecasted cash flows of the New York City Municipal Water Finance Authority (the "Authority") for the Fiscal Years ending June 30, 1992 through June 30, 1996. The forecast includes provisions for the financing of improvements to the City of New York (the "City") water and sewer system (the "System") in accordance with the capital plan for Fiscal Years 1992 through 1996 as reflected in the CIP (as hereinafter defined). 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 amount of Water and Sewer System Revenue Bonds (the "Outstanding Bonds"), the Authority's proposed Fiscal 1993 Series A Bonds (the "Series A Bonds") and additional Bonds whose issue by the Authority during the five years ending June 30, 1996 is anticipated.

The System and proposed improvements and additions to the System under the Capital Improvement Program for Fiscal Years 1992-2001 (the "CIP") were independently evaluated and confirmed by Metcalf & Eddy of New York, Inc. ("Metcalf & Eddy") in a separate "Report on the Engineering Feasibility of the Water and Sewer System Serving the City of New York". Our opinion and conclusions on the forecasted cash flows take into account the conclusions of Metcalf & Eddy, regarding the adequacy of planned funding levels for the CIP and operation and maintenance during the forecast period.

The estimated financing required for the Fiscal Year ending June 30, 1992 includes construction and related costs, funding of certain reserve funds (the "Reserve Funds") and costs of issuance. Debt service on the Authority's bonds is to be paid from revenues of the System.

The accompanying forecasted cash flows of the System for the annual periods ending June 30, 1992 through 1996 are based upon assumptions of the Authority. We participated in the gathering of other information, and assembled the accompanying forecasted cash flows based upon those assumptions. The forecasted cash flows reflect the Authority's best estimate, based on present circumstances, of the expected conditions and its expected course of action. Statements of financial position and results of operations are not presented.

Our examination of the accompanying forecasted cash flows of the System for the annual periods ending June 30, 1992 through June 30, 1996 was made in accordance with standards for examination of a forecast established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. Our procedures included analysis of the records and reports of the City, the Authority and the New York City Water Board (the "Board") and inquiries of management regarding the assumptions employed in developing the accompanying forecasted cash flows.

The interest rates, principal payments, costs of Fiscal Years 1992-1996 as reflected in the CIP, estimated financing in future years and other financing assumptions are described in the section entitled "Summary of Significant Forecast Assumptions." If actual interest rates, principal payments, costs of Fiscal Years

1992-1996 and funding requirements for the Series A Bonds and anticipated future bond issues are different from those assumed, the amount of the bond issues and debt service requirements would need to be adjusted accordingly from those indicated in the forecasted cash flows.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants and the underlying assumptions provide a reasonable basis for the accompanying forecasted cash flows.

Furthermore we have reached the following conclusions:

- The assumption of an increase in water and sewer user payments in Fiscal Year 1993 compared to Fiscal Year 1992 is reasonable based upon the previously enacted aggregate rate increase of 9.8% effective July 1, 1992. Further, the assumption of future increases in water and sewer payments based upon water and sewer rate increases of 11.5% in Fiscal Year 1994, 12.8% in Fiscal Year 1995 and 11.8% in Fiscal Year 1996 is reasonable. In arriving at these conclusions an important consideration has been the Board's enactment of previous rate increases to meet the revenue requirements of the System. In addition, current System rates compare favorably to major cities in the United States.
- The ongoing universal metering program for the System's flat-rate accounts may impact the actual rate increases necessary to achieve the assumed increases in water and sewer user payments in future years. A discussion regarding the impact of the metering program on billings and collections is included in the Summary of Significant Forecast Assumptions.
- With the assumed annual increases in user payments identified above, the accompanying forecasted cash flows indicate that sufficient funds would be generated during the forecast period to meet the System's debt service requirements associated with the Outstanding Bonds and the proposed Series A Bonds, the debt service requirements of anticipated future bond issues as set forth in the Summary of Significant Forecast Assumptions, and the operating costs and working capital needs.

There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Very truly yours,

ERNST & YOUNG
August 13, 1992

FORECASTED CASH FLOWS

The following table sets forth the forecasted cash flows for the System. The assumptions used to prepare this table are presented under "Summary of Significant Forecast Assumptions" immediately following the table.

Forecasted Cash Flows					
Fiscal Years 1992 through 1996					
(Thousands)					
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Operating Revenues:					
Water and Sewer User Payments	\$ 983,313	\$1,033,793	\$1,133,054	\$1,268,800	\$1,409,177
Upstate Revenue	4,250	5,500	6,600	6,864	7,139
Miscellaneous Revenue	7,000	7,350	7,718	8,103	8,509
Other Revenues:					
Miscellaneous Interest Income	17,000	17,000	17,000	17,000	17,000
Interest income on Authority funds	40,047	30,146	34,136	44,419	55,979
Current Revenues available for Debt Service					
Service	1,051,610	1,093,789	1,198,508	1,345,186	1,497,804
Carry forward revenues(1)	39,735	128,340	49,984	5,114	259
Gross System Revenues	1,091,345	1,222,129	1,248,492	1,350,300	1,498,063
Debt Service:					
Outstanding Bonds(2)	287,887	265,816	266,935	267,988	268,225
Fiscal 1993 Series A Bonds	—	59,049	66,263	66,264	66,266
Anticipated future Bonds	—	20,699	100,397	187,953	292,735
Less: Capitalized Interest	(36,703)	(13,816)	(16,250)	(16,667)	(15,000)
Total Debt Service	251,184	331,748	417,345	505,538	612,226
Revenues less Debt Service	840,161	890,381	831,147	844,762	885,837
Operating Expenses:					
Authority/Board Operations	6,866	8,269	3,426	3,596	3,875
Water System O&M	175,127	206,585	198,530	205,394	210,324
Wastewater System O&M	272,329	433,109	429,918	446,790	513,337
Sewage Sludge Charges	52,560	—	—	—	—
Indirect Expenses	22,025	22,091	22,918	24,065	25,268
Water/wastewater judgments and claims	5,360	5,628	5,909	6,205	6,515
Total Operating Expenses	534,267	675,682	660,701	686,050	759,319
Less: State Grants	(3,375)	(25,752)	(14,267)	(13,817)	(51,943)
Net Operating Expenses	530,892	649,930	646,434	672,233	707,376
Rental payment to The City of New York	180,929	190,467	179,599	172,270	177,654
Total Expenses	711,821	840,397	826,033	844,503	885,030
Net Surplus (3)	\$ 128,340	49,984	5,114	259	807
Debt Service Coverage (4)	2.07	1.34	1.32	1.33	1.29

(1) Actual carry forward revenues available for 1992 are \$71.335 million. The forecasted cash flows reflect an allowance of \$31.6 million for refunds to customers for overpayments in prior years.

(2) In Fiscal Years 1993 through 1996, debt service includes the effects of the refunding of Outstanding Bonds.

(3) Net Surplus amounts at the end of each fiscal year are carried forward to the following fiscal year.

(4) Debt Service Coverage is computed using Current Revenues available for Debt Service less Net Operating Expenses, divided by Total Debt Service.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Basis of Presentation.

The accompanying forecasted cash flows are based on current estimates of Fiscal Year 1992 revenues and expenditures and assumptions of the Authority concerning future events and circumstances and the most likely courses of action to be taken by the Authority, the Board and the City. It includes estimates of future operating expenses as estimated by the City in April, 1992. The forecast is the best estimate of the cash flows to be expected for Fiscal Year 1992 and from future operations of the System. Debt service assumptions include financing required by the capital plan for Fiscal Years 1992 through 1996 of the CIP and for expenditures on ongoing capital contracts commenced prior to the CIP. Unanticipated events and circumstances are likely to occur subsequent to the date of the forecast which will cause actual cash flows to be different from the forecasted cash flows. Such differences may be material. The significant assumptions used in preparing the accompanying forecasted cash flows are explained below.

Operating Revenues.

Water and Sewer User Payments: Water and Sewer User Payments include the payments received from customers of the System within the City (including The City of New York). For the first time, in 1986 the City was charged for its use of water and sewer services. In Fiscal Year 1992, the City's charge was computed to be \$22.1 million.

Payments have been estimated based upon: (a) a constant user base, (b) reduced levels of water consumption by metered customers in Fiscal Years 1993 and 1994 due to a recent period of below normal rainfall, (c) water consumption levels typically experienced under normal (non-drought) operating conditions in Fiscal Years 1995 and 1996, (d) the previously adopted wastewater rate increase for Fiscal Year 1993, (e) anticipated increases in water and wastewater user rates of 11.5%, 12.8% and 11.8% per year in each of Fiscal Years 1994 through 1996 and (f) the annual billing of flat-rate accounts on the same schedule each fiscal year. The assumption of a constant user base has been made for revenue purposes, recognizing that the physical characteristics of the user base are normally undergoing some degree of change as buildings are renovated, demolished or new construction takes place.

An extended period of below normal rainfall over the watershed has resulted in the depletion of current storage in the reservoirs to below normal levels. As a result, a Drought Watch was declared on September 25, 1991 and a Drought Warning was declared on November 8, 1991. Due to a dramatic increase in reservoir storage levels during the Spring of 1992, both the Drought Warning and Drought Watch were lifted on July 17, 1992.

The forecasted cash flows currently anticipate that water consumption by metered customers in Fiscal Year 1993 and Fiscal Year 1994 will be less than water use by such customers in Fiscal Year 1992 due to water conservation initiatives. Before giving effect to changes in the customer base and rates and charges, it is presently assumed that billings to metered customers in Fiscal Years 1993 and 1994, respectively, will be 8% and 4% lower than Fiscal Year 1992 due to the effects of such initiatives.

Preliminary information concerning actual Fiscal Year 1992 revenues and expenditures indicates that the Net Surplus amount to be carried forward to Fiscal Year 1993 will be higher than the amount which is currently shown. If the Fiscal Year 1992 Net Surplus increases, the future water and sewer rate increases are likely to be adjusted from the percentages which are shown.

Historical revenues from user payments for Fiscal Year 1987 through Fiscal Year 1991 are as follows:

Historical Revenues

Fiscal Year	Actual Revenues
1987	\$454,192,000
1988	517,999,000
1989	637,702,000
1990	729,828,000
1991	800,177,000

All revenues from user payments reflect current payments and arrears assumed to be principally from the previous fiscal year. In Fiscal Years 1987 through 1991, the majority of the annual revenues from user payments have been received in the first quarter of each Fiscal Year.

The assumed increase in user payments over the 1992 through 1996 period is predicated on the ability of the Board to raise rates each year. In Fiscal Year 1989, the Board increased the additional family flat rate charge by 87.8% and sewer charges from 70% to 75% of the water charge for all customers. The system-wide effect of the rate adjustments was equivalent to an approximate 14% increase in water and sewer rates. At the beginning of Fiscal Year 1990, the Board increased the additional family charge by 59%, increased the charge for sewer services from 75% of the water charge to 88% of the water charge and further increased all metered and unmetered water rates across the board by 7.8%. Effective January 1, 1990, the Water Board increased sewer rates from 88% of the water charge to 112% of the water charge and increased all water rates by 9%. Effective July 1, 1991, sewer rates were increased to 136% of the water charge, and all water rates increased by 6.4%. Effective July 1, 1992, water rates remain unchanged while sewer rates are increased to 159% of the water charge. An issue in assessing the ability to increase rates further is how such rates compare with those of other comparable cities and how the assumed user rate increases compare with the anticipated rate of inflation. Current user costs for water and sewer services are generally less than the average costs for water and sewer services in other cities. See "Comparison of Current New York City Water and Sewer Rates to those of Other Cities" for additional information concerning the user base, the existing rate structure and current methods of billing and collection.

Upstate Revenue: The City is required by State law to make water available for sale to communities in upstate counties in which sources of supply or transmission facilities for providing water to the City are located. State law and individual agreements between communities and the System regulate the sale and pricing of such water. Such law and agreements limit the ability to raise rates for upstate water sales. Payments are made based upon the metered gallonage sold and specified rates per volume of use which are generally less than System rates for customers in the City. Upstate usage beyond the per capita usage rate for the City requires that the excess be billed at the user rate level for the City. Upstate water consumption averaged 124 mgd for 1991.

The Water Board adopted an increase in water rates for upstate customers effective July 1, 1992. Certain upstate customers have filed a challenge to the rate increase with NYSDEC. The new water rate is expected to generate additional revenue for the City's Water System and Wastewater System in Fiscal Year 1993 and each year thereafter. In addition, the Board indicated its intent to increase upstate water rates further in the future after it reviews the findings of ongoing studies authorized by the Board and the County of Westchester.

Miscellaneous Revenue: Miscellaneous revenue includes user fees for specific services provided, such as the review, inspection and approval of connections to the System as well as industrial surcharges for sewage treatment. Industrial surcharges are computed based upon the quantity and quality of the sewage being discharged with those users discharging higher-than-normal-strength sewage paying a surcharge under the current system of charges.

Other Revenues.

Miscellaneous Interest Income: Miscellaneous interest income includes interest paid on overdue accounts by users of the System. Effective July 1, 1992, overdue water and sewer accounts bear interest at the same rate as unpaid City real estate taxes. Both arrears payments and interest rates can fluctuate from year to year. Miscellaneous interest income in Fiscal Years 1992-1996 is anticipated to be relatively constant.

Interest Income on Authority Funds: Interest income results from investment of balances in the Construction Fund and certain reserve funds. Investment of the proceeds of the Series A Bonds and anticipated future bond issues has been assumed at interest rates at 6%.

Debt Service.

Outstanding Bonds: The debt service payments for the Outstanding Bonds reflect the principal amount of approximately \$3.079 billion. Except with respect to the Capital Appreciation Bonds, interest is to be paid semi-annually, with principal paid on an annual basis. Principal amounts for Capital Appreciation Bonds reflect the original principal amounts thereof.

The Series A Bonds: The debt service payments for the Series A Bonds reflect a principal amount of \$1,040,704,592.35.

Anticipated Future Bond Issues: Debt service payments on anticipated future Bond issues of the Authority reflect a 30 year term with level annual payments. The interest rates utilized in computing the anticipated debt service payments are 7.0% for the bonds anticipated to be issued in the first half of Fiscal Year 1993, 7.5% for the bonds anticipated to be issued in the second half of Fiscal Year 1993, and 8.0% for all remaining anticipated future bond issues. Varying principal amounts are necessary to meet the annual capital funding needs as reviewed by Metcalf & Eddy. The principal amounts include funds necessary for construction, Reserve Funds, and the costs of issuance, as forecasted by the City in April 1992. The assumed principal amounts are as follows:

<u>Fiscal Year</u>	<u>Anticipated Future Bond Issues</u>	<u>Principal Amount</u>
1993		\$ 674,480,726
1994		854,869,747
1995		1,036,631,574
1996		<u>1,207,959,886</u>
Total		<u>\$3,773,941,933</u>

Debt service amounts for anticipated future Bond issues in the forecasted cash flows reflect the assumption of two Bond issues each Fiscal Year of equal principal amounts with October 15 and April 15 issue dates.

Authority/Board Operations: The operating expenses of the Authority and the Board include administrative costs associated with the day to day operation of the Authority and the Board. In Fiscal Years 1992 and 1993, Authority/Board operations costs include an allowance for the development and installation of a new water/sewer billing system.

In Fiscal Year 1991, the operating costs of the Authority and the Board included for the first time the annual fees to be paid to the New York State Environmental Facilities Corporation in connection with the Authority and Board's participation in the State Revolving Fund Program. Such fees will increase annually during the forecast period from \$0.8 million in Fiscal Year 1992 to \$1.7 million in Fiscal Year 1996.

Operating Expenses.

Water System Operation and Maintenance: 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 DEP which are allocated between the Water System and the Sewer System.

The operating costs of the Water System are divided into Personal Services (“PS”) costs and Other Than Personal Services (“OTPS”) costs. PS costs include direct salary costs plus fringe benefit and pension costs.

OTPS costs include property taxes paid to upstate communities for watershed properties as well as chemicals, electricity and other expenses. All but a small percentage of the Water System functions by gravity so that electricity costs necessary to maintain normal water distribution are relatively small. In drought conditions additional pumping, and thus increased electricity costs, is necessary for optimal distribution of water available from the System.

Some of the major OTPS cost components and the amounts by Fiscal Year include:

Major OTPS Cost Components—Water
(thousands)

	<u>1988</u> (Actual)	<u>1989</u> (Actual)	<u>1990</u> (Actual)	<u>1991</u> (Actual)	<u>1992</u> (Forecast)
Property Taxes	\$36,513	\$39,412	\$41,200	\$43,977	\$45,592
Chemicals	4,409	6,420	7,010	6,867	6,100
Electricity	2,878	1,854	2,723	3,011	3,977
Electricity-Drought	—	866	375	—	—
Total	<u>\$43,800</u>	<u>\$48,552</u>	<u>\$51,308</u>	<u>\$53,855</u>	<u>\$55,669</u>

Combined PS and OTPS costs are assumed to increase at an estimated rate of 5% per year for the forecast period. Certain other cost adjustments are reflected in the forecasted cash flows as adjustments are made to specific operating programs based upon System needs.

Wastewater System Operation and Maintenance: 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 PS costs and OTPS costs. PS costs include direct salary costs plus fringe benefits and pension costs.

OTPS costs include electricity for the wastewater treatment plants, pump stations and service yards, chemicals, and other expenses. Electricity, which represents a significant expense in operating the treatment plants and pump stations, is supplied primarily by the Power Authority of the State of New York. Two of the major OTPS cost components and the amounts by Fiscal Year include:

Major OTPS Cost Components—Wastewater
(thousands)

	<u>1988</u> (Actual)	<u>1989</u> (Actual)	<u>1990</u> (Actual)	<u>1991</u> (Actual)	<u>1992</u> (Forecast)
Electricity	\$16,707	\$19,661	\$18,341	\$19,723	\$24,400
Chemicals	6,380	6,642	6,853	6,821	5,700
Total	<u>\$23,087</u>	<u>\$26,303</u>	<u>\$25,194</u>	<u>\$26,544</u>	<u>\$30,100</u>

Combined PS and OTPS costs are assumed to increase at an estimated rate of 5% per year for the forecast period. Certain other cost adjustments are reflected in the forecasted cash flow as adjustments are made to specific operating programs based upon System needs.

Universal Metering Program: The City and the Board are implementing a comprehensive program to convert all flat-rate customer accounts to metered accounts by the end of Fiscal Year 1998. This program began in Fiscal Year 1988. The City is responsible for obtaining the services of private contractors for purchase, installation and testing with the exception of certain large buildings which may retain their own contractors for meter installations. In addition, the City will replace many existing meters over the ten-year period.

The annual costs of the universal metering program are anticipated to be provided from revenues each year during the ten-year program. The costs, which are included in the operations and maintenance expenses in the forecasted cash flows, reflect anticipated meter purchasing costs, meter installation and testing costs, the cost of improvements to the billing and collection system and certain additional operating costs of the City.

The indictment on November 7, 1991 of Vanguard Meter Services Inc., which has received fifteen of the twenty-five installation contracts awarded to date under this program, is not expected to affect the achievement of the current schedule of conversion. There is no shortage of qualified firms to carry out future contracts; twelve firms have bid for metering contracts, six of which have been awarded at least one. Provisions in existing contracts with Vanguard provide certain protections to DEP in the event of a default.

Sludge Disposal: Pursuant to the Marine Protection, Research and Sanctuaries Act of 1972 ("MPRSA") as amended by the Ocean Dumping Ban Act of 1988 (the "Ban Act") DEP was permitted to dispose of all of the sludge generated by its sewage treatment plants in the Atlantic Ocean 106 miles offshore (the "106 Mile Site"). The Ban Act prohibits the ocean disposal of sludge after August 14, 1989 without a permit from the United States Environmental Protection Administration ("USEPA"). DEP entered into a Consent Decree And Enforcement Agreement ("Consent Decree") with the United States and the State of New York on August 1, 1989 and was granted a permit to continue to use the 106 Mile Site on condition that the City develop alternative sludge disposal technologies and cease all ocean disposal by June 30, 1992 which deadline was met.

The Consent Decree requires the implementation of interim measures and a long-term program to end ocean disposal. As part of the interim measures, DEP is operating facilities to dewater its sludge and reduce its volume. Sludge dewatering is a necessary first step in the process of ending ocean disposal and is consistent with any interim or long-term alternative sludge disposal program. DEP has entered into contracts with various private firms for the disposal of its dewatered sludge.

The Consent Decree also requires DEP to explore long-term solutions for sludge disposal which may rely on additional DEP facilities or private firms and to implement long-term solutions capable of processing 50% of the City's sludge by December 31, 1995 and 100% by June 30, 1998. DEP is planning the design and construction of long-term disposal facilities to process over 400 dry tons per day of sludge. The technologies to be used and the number and type of facilities required were identified in the City's Long Range Sludge Management Plan, published in May of 1991.

Ocean disposal fees and penalties imposed by the Ban Act and the Consent Decree amounted to approximately \$13.7 million in Fiscal Year 1990 and \$21.6 million in Fiscal Year 1991. DEP expects such fees and penalties will be approximately \$52.6 million in Fiscal Year 1992.

The Ban Act and the Consent Decree provide that 85% of the fees and penalties payable shall be deposited into a Trust Account and shall be available to reimburse the City for costs incurred in developing alternative sludge disposal facilities. A portion of the balance of the fees and penalties accruing shall be paid to USEPA with the remainder divided equally between the New York State Water Pollution Control Revolving Fund and the New York State Clean Oceans Fund. Amounts paid to the Clean Oceans Fund are also available to reimburse the costs of developing alternative sludge management programs. Because most land based applications of sludge will require dewatering the sludge from 3% to at least 20% solid, the DEP has begun construction on eight dewatering facilities which cost approximately \$850 million to construct, excluding engineering costs. The Consent Decree stipulates that the City construct long term sludge disposal facilities with the capacity to handle 50% of the City's dewatered sludge by 1995 and the remaining 50% by 1998. Until that time, the dewatered sludge will be disposed of by private vendors. The forecasted cash flows include \$17.5 million in Fiscal Year 1992 and \$125 million a year thereafter in Wastewater System O&M for

interim sludge disposal contracts. The CIP includes \$1.1 billion for the construction of long term sludge disposal facilities. This plan includes three technologies; thermal drying, chemical stabilization and composting. The cost of the interim program may change as a result of actual quantities of sludge disposed under the various contracts.

Indirect Expenses: Indirect Costs 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.

Water and Wastewater Judgments and Claims: An allowance has been made for the payment of judgments against the System or claims settled by the City. Records of the City indicate that annual tort judgments and claims payments have averaged approximately \$1.59 million per year over Fiscal Years 1987 through 1991.

The forecasted cash flow assumes an allowance of \$5.360 million for tort judgments and claims in Fiscal Year 1992 with future allowances increased at the rate of 5% per year. It is recognized that actual judgments and claims payments will vary in each Fiscal Year depending upon the number of settlements, types of claims and other factors.

Construction contract claims are not included in the allowance assumed above but are paid as a normal part of capital construction costs. Historically, virtually all final claims settled have been significantly less than initial claims filed.

State Grants: In Fiscal Year 1991, DEP began the investigation for the remediation of five hazardous sites within the City. The 1986 Environmental Quality Bond Act provides for State reimbursement of up to 75 percent of these costs. Subsequent to remediation, DEP plans to provide processed sludge as intermediate and final landfill cover. The costs for remediation are included in the forecasted expenses for the wastewater system. Estimates of remediation expenses and grant amounts during the forecast period reflect current expectations of the cash flow needs associated with the remediation work.

Rental Payment to The City of New York

Pursuant to a lease agreement (the "lease") between the City and the Board, the City can request a rental payment from the Board in each fiscal year 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 the principal and interest payable on bonds of the Authority within such Fiscal Year. In Fiscal Year 1990, the City increased the rental payment it required from the Board to the allowable maximum under the lease which may not be amended without the consent of the Trustee. This increase eliminated the previous City subsidy to the System. In future years, it is assumed that the City will continue to request the allowable maximum under the lease.

Customer Refunds

Approximately \$31.6 million has been set aside from carry forward revenues available for Fiscal Year 1992 Water and Sewer User Payments in anticipation of the estimated cost of one-time customer refunds.

The City has recently approved a change in policy pursuant to which the City will attempt to contact real estate taxpayers who are entitled to refunds and will issue repayments to eliminate outstanding account balances. Historically, it was the responsibility of City real estate taxpayers, as well as water and sewer system customers, to recognize and claim outstanding balances or credits due to previous overpayments or other factors. The Board has adopted the City's new refund policy and has refunded approximately \$30.95 million through May 22, 1992.

Water and Sewer Rates

A survey was performed by Ernst & Young in 1992 for purposes of identifying rate structures used by major cities and establishing typical rates for three classes of users: single-family residential, commercial and industrial. Based upon data provided by 24 cities, typical user rates were computed as follows:

Comparison of Current Annual New York City Water and Sewer Rates to those of Other Cities

<u>Customer Class</u>	<u>Range of User Costs(1)</u>	<u>Average Cost</u>	<u>N.Y. City Costs(2)</u>	<u>N.Y. City Ranking(3)</u>
Single-Family Residential	\$ 171 to 652	\$ 387	\$ 350	9
Commercial	1,737 to 6,658	3,522	3,497	14
<u>Industrial</u>	<u>132,564 to 693,871</u>	<u>320,232</u>	<u>349,719</u>	<u>15</u>

- (1) Charges reflect rate schedules in effect in March 1992.
- (2) The New York City charges reflect Fiscal Year 1993 rates in effect as of July 1, 1992.
- (3) The lowest rate in each category is ranked 1.

Assumptions were made relative to typical daily water consumption and sewage discharge for each of the above listed customer classifications with the assumptions applied uniformly to the rate structure of each city. The use of a constant per gallon charge in the City as opposed to quantity discounts is the principal reason for the change in the City's ranking between customer classifications.

Current Water and Sewer Rate Structure and Customer Base: The current rate structure for water and sewer services is based upon two forms of billing computation: metered consumption and a non-metered rate structure where flat-rate bills are computed on the basis of property frontage, fixtures in the household and other factors. Currently, there are approximately 426,000 metered customers and 381,000 flat-rate customers of the System. Both water and sewer services are provided to approximately 397,000 metered customers and approximately 367,000 flat-rate customers. The remaining customers primarily receive only sewer services with water service provided by the Jamaica Water Supply Company. Commercial and industrial customers are required to have meters. The remaining metered customers comprise a variety of customer classifications including some single-family residences.

The City and the Board are implementing the universal metering of all flat-rate customers as described under Universal Metering Program. With the gradual transition to a rate structure and billing system based upon water consumption, changes in the timing of the receipt of revenues and collection efficiency may occur. As individual flat-rate accounts are metered, revenues from such users may increase or decrease somewhat depending upon how closely the flat-rate billing factors previously used compare to the actual metered water consumption of the user. Based upon historical data, some decrease in collection efficiency will most likely be experienced as accounts are metered. This is due to the fact that flat rate bills are mailed to the property tax payer while metered bills are sent to the property address. While the estimated increases in user rates are defined for Fiscal Years 1994-96, the actual rate increases necessary to achieve the needed increase in user payments may vary from the percentage increases in user payments depending upon the changes in revenue receipts experienced with universal metering, among other factors.

The customer base contains many different types of users. Based upon 1987 billing data, the principal customer classifications and the percentage of billed user charges by classification include:

System Customer Base

<u>Customer Classification</u>	<u>Percent of Billings</u>
Single-Family Dwellings	9.6%
Two-Family Dwellings	10.3
Walkup Apartments (1)	19.0
Elevator Apartments (1)	25.7
Factory and Industrial Buildings	5.2
Stores	8.3
Office Buildings	5.6
Utility Properties	2.8
Loft Buildings	2.6
Hospitals and Health Facilities	1.5
Hotels	2.3
Other	7.1
Total	<u>100.0%</u>

(1) Certain accounts and billings under this type of account relate to commercial establishments located in apartment buildings.

With the implementation of the universal metering program, metered customers will provide an increasing percentage of System revenues over time. The Water Board is currently evaluating long-term rate structure revisions which could include both fixed and consumption-based annual charges.

At the present time, sewer charges are computed as a percentage of the water charges established for water usage for both metered and flat-rate customers.

DESCRIPTION OF THE BILLING AND COLLECTION SYSTEM

The billing and collection functions for the System are administered for the Board by three entities within the City: the Bureau of Water and Energy Conservation in DEP, the Department of Finance (the "DOF") and the Office of the Comptroller.

The Bureau of Water and Energy Conservation collects the data used to generate bills to customers. Through its field offices in each Borough of the City and its central offices in Queens, it is responsible for the reading of meters and checking of meter accuracy as well as the maintenance of current information for those customers on the flat-rate system of billing. Data files for flat-rate customers are updated through inspections by Bureau of Water Register personnel. The Bureau of Water and Energy Conservation also collects certain over-the-counter payments for water and sewer services.

The Bureau of Water and Energy Conservation organizes metered consumption data and flat-rate information and forwards all such data to DOF which prepares and mails bills to customers for water and sewer services. Each customer's account is identified by a unique Borough/block/lot number developed through property tax records. DOF bills customer accounts, records these billings and is primarily responsible for the collection process, including procedures for handling delinquent accounts. DOF also administers billing adjustments and works with the Bureau of Water and Energy Conservation to handle customer inquiries. Although shutoffs are infrequent, DOF advises the Bureau of Water and Energy Conservation when a shutoff of services is required for nonpayment of bills.

Payment of bills is made to the Board's account at Chemical Bank, which records payments and forwards the recorded data and receipts to the Board. Customer payments are received either directly by Chemical

Bank or through hand-delivered payments to Borough offices of DOF, which are deposited to the Board's account at Chemical Bank. Acting on behalf of the Board, the Office of the City Comptroller records the cash receipts from the System.

Ongoing improvements to the billing and collection system include increased automation in both DOF and the Bureau of Water and Energy Conservation to permit better analysis of customer data and to facilitate error recognition, and the use of optical scanning cards as a quality control measure for meter readings and to improve processing efficiency.

BACKGROUND

The Rate Consultant

Ernst & Young is the Rate Consultant to the Authority. Ernst & Young is a national accounting, tax and management consulting firm which is headquartered in New York City. The Firm has provided consulting services including feasibility studies, rate studies and organizational analyses to numerous clients in the water and wastewater industry—this includes well over 100 medium size and large jurisdictions.

Ernst & Young's Services for the Water and Sewer System

During the period of August, 1983 to December, 1985 Ernst & Young, pursuant to a contract with DEP, undertook certain analyses which were documented in a financial feasibility study. In connection with the financial feasibility study, Metcalf & Eddy performed certain engineering analyses of the water and sewer system as a subcontractor to Ernst & Young. The financial feasibility study included financial and management analyses of the operating requirements and capital improvement programs of the system. Ernst & Young performed an evaluation of historical revenues and expenditures, the customer base, the billing and collection systems and the organization and management structure for the delivery of water and services. Ernst & Young also developed a computer model for analyzing the impact of operating and capital programs on user charges, surveyed comparative user charges of other major cities and reviewed the financial feasibility study assumptions and estimates.

Since 1986, Ernst & Young has served as Rate Consultant to the Authority. As Rate Consultant, the firm assesses the adequacy of System revenues to meet the planned expenditures of the System. The firm's procedures include analysis of the records and reports of the City, the Authority and the Water Board and evaluation of management's assumptions and estimates. A computer model is used to facilitate the assessment of System revenues. Ernst & Young has also examined the forecasted cash flows of the System in connection with prior bond issues of the Authority.

APPENDIX C

CERTAIN INFORMATION CONCERNING THE CITY OF NEW YORK

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CERTAIN INFORMATION CONCERNING THE CITY OF NEW YORK

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

Operating Results**Fiscal Years 1991 and 1992**

Fiscal Year 1991 marked the eleventh consecutive year that the City has achieved operating results balanced in accordance with Generally Accepted Accounting Principles ("GAAP"). Such balance was accomplished through the implementation of significant actions required to address substantial shortfalls in revenues and increased expenditures which were not previously anticipated in the City's forecast.

During Fiscal Years 1990 and 1991, the City implemented various actions to offset a projected budget deficit of \$3.2 billion for Fiscal Year 1991, including \$822 million of tax increases and substantial expenditure reductions, which resulted from declines in City revenue sources and increased public assistance needs, due to the recession. As used herein, "operating results" refers to the City's General Fund revenues and transfers reduced by expenditures and transfers. Since the 1978 Fiscal Year, the City's annual financial statements, prepared in conformity with GAAP, have been audited by certified public accountants.

The most recent quarterly modification to the City's financial plan for the 1992 fiscal year, which was submitted to the New York State Financial Control Board (the "Control Board") on June 18, 1992 (the "1992 Modification"), projects a balanced budget in accordance with GAAP for the 1992 fiscal year after taking into account a discretionary transfer of \$489 million to the 1993 fiscal year as the result of a 1992 fiscal year surplus. In order to achieve a balanced budget for the 1992 fiscal year, during the 1991 fiscal year, the City proposed various actions for the 1992 fiscal year to close a projected gap of \$3.3 billion in the 1992 fiscal year. This \$3.3 billion gap resulted from, among other things, additional projected tax revenue shortfalls of approximately \$1.4 billion in the 1992 fiscal year, due primarily to weaknesses in personal income tax withholding and sales tax receipts; proposed State aid for the City which was \$564 million less than the amount projected by the City; approximately \$400 million of projected increases in legally mandated expenditures, including public assistance and Medicaid expenditures; and \$73 million of increased debt service costs. The gap-closing measures for the 1992 fiscal year proposed during the 1991 fiscal year, and outlined in the City's financial plan for fiscal years 1992 through 1995 submitted to the Control Board on July 12, 1991 included receipt of \$605 million from tax increases, including increases in the real property tax and personal income tax; \$184 million of projected reduced debt service costs; approximately \$1.5 billion of proposed service reductions, including a reduction in the number of City employees through attrition and layoffs; proposed productivity savings of \$545 million; revenue initiatives of \$213 million, including improved tax audit collections; \$84 million resulting from the proposed consolidation and restructuring of agency operations; and other non-tax revenue measures totaling \$250 million.

1993-1996 Financial Plan

On June 11, 1992, the City submitted to the Control Board the Financial Plan for the 1993 through 1996 fiscal years ("Financial Plan"), which relates to the City, the Board of Education ("BOE") and the City University of New York ("CUNY") and is based on the Executive Budget and Budget Message for the City's

1993 fiscal year (the "Executive Budget"). The Executive Budget and the 1993-1996 Financial Plan project revenues and expenditures for the 1993 fiscal year balanced in accordance with GAAP.

The 1993-1996 Financial Plan sets forth actions to close a previously projected gap of approximately \$1.2 billion in the 1993 fiscal year. The gap-closing actions for the 1993 fiscal year include \$489 million of discretionary transfers from a City surplus in the 1992 fiscal year and \$100 million to be made available by the Municipal Assistance Corporation ("MAC"). Additional gap-closing actions include \$188 million of reduced costs or increased revenues resulting from productivity initiatives; other revenue actions totaling \$26 million, administrative overhead reductions totaling \$45 million; service reductions totaling \$229 million; reduced debt service costs of \$10 million resulting from a reduction in the City's capital program; and an additional \$129 million in savings from restructuring the delivery of City services.

The Financial Plan also sets forth projections and outlines a proposed gap-closing program for the 1994 through 1996 fiscal years to close projected budget gaps of \$1.6 billion, \$1.7 billion and \$2.2 billion, respectively, in the 1994 through 1996 fiscal years. These actions include \$300 million of transitional funding in the 1994 fiscal year from the refundings of certain City bonds held by MAC; \$200 million in increased Federal assistance in the 1994 fiscal year; a continuation of the personal income tax surcharge, resulting in revenues of \$120 million, \$385 million, and \$408 million in the 1994 through 1996 fiscal years, respectively; a proposed increase in the non-residential earnings tax and certain excise taxes, the imposition of new City taxes on wine and tobacco products (other than cigarettes) and on certain carbon fuels and the recapture of unredeemed bottle deposits, totaling \$177 million, \$177 million and \$187 million, in the 1994 through 1996 fiscal years, respectively; savings from the Governor's proposed State cost containment and assumption of Medicaid costs program, the proposed "New York, New York" program involving various mandate relief measures and the reallocation of State education aid among various localities, aggregating \$364 million, \$508 million and \$571 million in the 1994 through 1996 fiscal years, respectively; and increased revenues and reduced expenditures resulting from productivity initiatives, administrative and overhead reductions, service reductions, reduced debt service costs and savings from restructuring the delivery of City services.

Various actions proposed in the Financial Plan, including the proposed continuation of the personal income tax surcharge, the proposed City tax program, the Medicaid and "New York, New York" programs and the proposed reallocation of State aid, are subject to approval by the Governor and approval by the State Legislature, and the proposed increase in Federal aid is subject to approval by Congress and the President. The State Legislature failed to approve the proposed Medicaid and "New York, New York" programs and the proposed reallocation of State aid in the last session. The Financial Plan assumes that these proposals will be approved by the State Legislature during the 1993 fiscal year. In addition, MAC has set conditions upon its cooperation in the City's realization of the proposed \$300 million in transitional funding contained in the Financial Plan for the 1994 fiscal year. If these actions cannot be implemented, the City will be required to take other actions to decrease expenditures or increase revenues to maintain a balanced financial plan.

The City Comptroller issued a report on June 16, 1992 that projected a possible budget gap in fiscal year 1993 of approximately \$233 million and identified additional risks of approximately \$80 million. The report also identified additional risks to the City budget of approximately \$80 million. The report concluded that potential savings and other resources exist to offset such possible budget gap and additional risks.

The City Comptroller issued a report on July 21, 1992 that projected potential budget gaps in fiscal 1994 through 1996 of approximately \$1.3 billion, \$1.2 billion and \$1.3 billion, respectively, after taking into account the City's gap-closing program. The report also warned that the City might have to appropriate an additional amount to BOE of up to approximately \$300 million, \$90 million and \$120 million in each of such years, respectively, pursuant to the Stavisky-Goodman Act. The report warned further that the resolution of a Stavisky-Goodman risk in any one fiscal year could increase such risks for future fiscal years. The report also identified additional risks to BOE's budget of approximately \$225 million in each of fiscal years 1994 through 1996. The City Comptroller suggested that budgetary savings could be generated in fiscal year 1993 to reduce the budget problems she projects for fiscal year 1994 and suggested that all such savings be earmarked for such purpose.

On July 29, 1992, the staff of the Control Board issued a report on the Financial Plan. The staff concluded that the actions outlined in the Financial Plan will not achieve structural balance, and that the City will be required to take additional steps annually to assure balance. The staff's analysis indicated that potential gaps of over \$1.1 billion, \$788 million and \$876 million remained for the 1994, 1995 and 1996 fiscal years, respectively, after taking into account the City's gap-closing program, and without including the possibility of labor costs in excess of those assumed in the Financial Plan. The gaps for the 1994, 1995 and 1996 fiscal years resulted primarily from a potential \$57 million increase in each year in overtime costs; risks relating to revenues and expenditures at BOE, totaling \$80 million in the 1993 fiscal year and rising to \$310 million by the 1996 fiscal year; uncertainties relating to savings of \$55 million anticipated in the Financial Plan for the 1993 fiscal year resulting from a proposed reorganization of OTB; uncertainties relating to \$300 million of transitional funding and \$200 million of proposed federal aid in the 1994 fiscal year and approval by the State Legislature of previously rejected proposed tax increases, totaling \$177 million in the 1994 fiscal year and rising to \$187 million in the 1996 fiscal year; and uncertainties relating to unspecified City actions totaling \$147 million in the 1994 fiscal year and rising to \$192 million in the 1996 fiscal year.

The City has reached collective bargaining agreements with the United Federation of Teachers (the "UFT"), District Council 37 of the American Federation of State, County and Municipal Employees ("District Council 37"), Local 237 of the International Brotherhood of Teamsters ("Local 237"), the Communications Workers of America ("CWA"), Policemen's Benevolent Association ("PBA"), United Sanitation Men's Association and other small unions, which cover approximately 78% of the City's workforce for the 1991 fiscal year and a portion of the 1992 fiscal year. The collective bargaining agreements included total increases of between 4.08% and 5.8%, a portion of which was funded from funds previously allocated for collective bargaining increases, with the remainder from a combination of State funds and reduced contributions to certain pension funds based on revised earnings assumptions on such funds' assets.

The 1992 Modification and the 1993-1996 Financial Plan incorporate certain assumptions regarding the costs of collective bargaining agreements to be negotiated in the future. For all employees whose unions have not reached collective bargaining agreements with the City for the 1991 fiscal year, the 1992 Modification and the 1993-1996 Financial Plan include funds for an incremental 1.5% increase in the 1992 fiscal year and a 1.5% increase carried forward from the 1991 fiscal year, with no increase in the 1993 and 1994 fiscal years and a 1.5% increase in each of the 1995 and 1996 fiscal years. In addition, the Financial Plan assumes no additional wage increases for UFT, District Council 37, Local 237, CWA and other employees whose unions have settled following the expiration of their respective agreements with the City in fiscal year 1992 until the 1995 and 1996 fiscal years for which a 1.5% increase is assumed, and that any wage increases in fiscal years 1992, 1993 and 1994 would be funded through "gain-sharing" agreements at no additional cost to the City. Each 1% wage increase for all employees upon expiration at various times during the 1992 fiscal year of their respective collective bargaining agreements would cost the City an additional \$82 million in fiscal year 1992 and \$142 million in each of the 1993 through 1996 fiscal years above the amounts provided for in the 1992 Modification and the 1993-1996 Financial Plan. These additional costs assume that all employees whose unions have not reached collective bargaining agreements with the City for the 1991 fiscal year reach settlements consistent with the 1.5% wage increases assumed in the Financial Plan and with contract lengths similar to District Council 37, Local 237 and CWA. The terms of eventual wage settlements could be determined through the impasse procedure in the New York City Collective Bargaining Law, which can impose a binding settlement.

As a result of the national and regional economic recession, the State's projections of tax revenues for its 1991 and 1992 fiscal years were substantially reduced. In addition, the Governor's Executive Budget for the State's 1993 fiscal year commencing April 1, 1992, identified a potential budgetary imbalance for the State's 1993 fiscal year of \$4.8 billion (after providing for repayment of \$531 million of short-term deficit notes). Consequently, the State took various actions for its 1992 and 1993 fiscal years, which included reductions in State aid to localities from amounts previously projected. If additional revenue shortfalls or spending increases occur during the State's 1993 fiscal year or subsequent years beyond current projections, such developments could result in reductions in State aid to localities, including the City. The first quarterly update of the 1992-93 State Financial Plan was released on July 30, 1992. The update included modest revisions to both the

anticipated receipts and disbursements set forth in the 1992-93 State Financial Plan formulated on April 13, 1992. The State Division of the Budget stated that the revisions reflected in the first quarterly update will not have a material adverse effect on the State's ability to maintain a balanced 1992-93 State Financial Plan and, in fact, projected a \$4 million positive balance for the State's General Fund (the major operating fund of the State) at fiscal year end. The Division of the Budget has cautioned, however, that its projections are subject to certain risks, including adverse decisions in pending litigations involving Federal Medicaid reimbursements and payments by hospitals and health maintenance organizations, changes in the timing of Federally mandated estimated tax payments that would require parallel changes at the State level, and further deterioration in the national economy.

Seasonal and Capital Financing Needs

Since the beginning of Fiscal Year 1981, the City has obtained all of its seasonal financing through short-term borrowings in the public credit markets. To date in Fiscal Year 1993, the City has issued \$1.4 billion of notes.

The City anticipates long-term financing needs of approximately \$6.8 billion during Fiscal Year 1993, to be funded principally through City public bond issuances and the issuance of water and sewer revenue bonds by the Authority.

Fiscal Oversight Mechanisms

The City utilizes financial monitoring, reporting and control systems, including the Integrated Financial Management System and a comprehensive Capital Projects Information System, which provide comprehensive current and historical information regarding the City's financial condition. This information, which is independently evaluated by the Mayor's Office of Management and Budget and the Office of the Comptroller, provides a basis for City action required to maintain a balanced budget and continued financial stability. The Mayor's Office of Management and Budget and the Office of the Comptroller continuously monitor the City's financial condition. Since 1978, pursuant to State law, the City has annually prepared a four-year financial plan, which is reviewed on a quarterly basis. The requirement to submit four-year financial plans and budgets for review and, during a Control Period, as defined in the New York State Financial Emergency Act for the City of New York (the "Financial Emergency Act"), approval to various oversight bodies, including the Control Board, were in response to the severe financial difficulties and loss of access to the public credit market encountered by the City in 1975. In addition, the Municipal Assistance Corporation For The City of New York was organized in 1975 to provide financing assistance for the City and also to exercise certain oversight and review functions with respect to the City's finances.

On June 30, 1986, the City satisfied the statutory conditions for termination of the Control Period. The City, in compliance with its obligations under the Financial Emergency Act, will continue to submit four-year financial plans, terms of proposed borrowings, and certain contracts and other operating information to the Control Board for its review. However, with the termination of the Control Period the Control Board's powers of prior approval have been suspended. If the City were to experience certain adverse financial circumstances, including the occurrence of the substantial likelihood and imminence of the occurrence of an annual operating deficit of more than \$100 million or the loss of access to the public credit markets to satisfy the City's capital and seasonal financing requirements, the Control Board would be required by State law to exercise powers, among others, of prior approval of City financial plans, proposed borrowings and certain contracts.

Economic Activity, 1969-1990

For at least a decade prior to the end of the fiscal crisis in the mid-seventies, New York City's economy lagged behind the nation, as evidenced by certain of the broad economic indicators. The City's economy improved after that crisis and, through 1987, certain of the key economic indicators posted steady growth.

However, over the past three years, the rate of economic growth in the City has slowed substantially and the City's economy is currently in a recession, as evidenced by declining economic activity, sluggish increases in wage rates and income and stagnant retail sales.

Trends of certain major economic indicators for the City and the nation are shown in the following table.

	Trends of Major Economic Indicators 1969-1990						
	Levels				Average Annual Percent Change		
	1969	1976	1988	1990	1969-76	1976-88	1988-90
NYC							
Population (1) (millions)	7.9	7.4	7.4	7.3	(0.8)	0.0	(0.2)
Employment (2) (millions)	3.8	3.2	3.6	3.6	(2.4)	1.0	(0.5)
Personal Income (3) (billions)	\$38.6	\$58.1	\$143.4	164.9	6.0	7.8	7.1
Real Per Capita Personal Income (4)	\$12,757.4	\$12,871.1	\$15,766.9	\$16,222.6	0.1	1.7	1.4
United States							
Population (1) (millions)	202.7	218.1	245.1	250.0	1.0	1.0	1.0
Employment (2) (millions)	70.4	79.4	105.5	110.0	1.7	2.4	2.1
Personal Income (3) (in billions)	\$773.7	\$1,446.3	\$4,075.9	\$4,679.8	9.3	9.0	7.2
Real Per Capita Personal Income (4)	\$10,385.9	\$11,648.3	\$14,051.7	\$14,318.6	1.8	1.5	0.9

(1) 1970, 1980 and 1990 figures are based on final census count. All other years are estimates. Source: U.S. Department of Commerce, Bureau of the Census.

(2) Payroll employment based on Bureau of Labor Statistics ("BLS") establishment survey. Source: U.S. Department of Labor, Bureau of Labor Statistics and New York State Department of Labor, Division of Research and Statistics.

(3) In current dollars. Income by place of residence. Source: U.S. Department of Commerce, Bureau of Economic Analysis.

(4) In average dollars for 1982-1984.

Population Characteristics

The City has been the most populous city in the United States since 1810. The City's population is almost as large as the combined population of the next three most populous cities in the United States.

The population of the City grew steadily through 1950, remained relatively stable between 1950 and 1970 in the aggregate and declined substantially, for the first time in its history, during the 1970's. The Bureau of Census final 1990 census results show moderately increasing population for the City since 1980.

POPULATION OF NEW YORK CITY

Year	Total Population	Distribution of Population by County (Borough)					
		1970=100	Bronx (The Bronx)	Kings (Brooklyn)	New York (Manhattan)	Queens (Queens)	Richmond (Staten Island)
1960	7,781,984	98.6	1,424,815	2,627,319	1,698,281	1,809,578	221,991
1970	7,895,563	100.0	1,471,701	2,602,012	1,539,233	1,987,174	295,443
1980 (1)	7,071,639	89.6	1,168,972	2,231,028	1,428,285	1,891,325	352,029
1984 (2)	7,224,100	91.5	1,181,500	2,278,300	1,467,300	1,928,900	367,100
1985 (2)	7,260,900	92.0	1,190,600	2,291,100	1,477,700	1,930,800	370,700
1986 (2)	7,322,100	92.7	1,209,600	2,310,800	1,494,200	1,933,100	374,400
1987 (2)	7,345,000	93.0	1,222,800	2,313,300	1,501,900	1,929,900	377,100
1988 (2)	7,352,700	93.1	1,223,400	2,314,300	1,509,900	1,925,100	380,000
1990 (1)	7,322,564	92.7	1,203,789	2,300,664	1,487,536	1,951,598	378,977

(1) Final census count, which may reflect an undercount of a significant number of persons and is subject to modification as a result of certain litigation with the Bureau of the Census.

(2) 1984-1988 based on mid-year population estimate of the Bureau of the Census as of May 1992.

NOTE: Does not include an undetermined number of undocumented aliens.

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

The following table sets forth the distribution of the City's population by age between 1960 and 1990.

DISTRIBUTION OF POPULATION BY AGE
(In Thousands)

Age	1960		1970		1980		1990	
		% of Total		% of Total		% of Total		% of Total
Under 5	687	8.8	616	7.8	471	6.7	510	7.0
5 to 17	1,478	19.0	1,619	20.5	1,295	18.3	1,177	16.1
18 to 24	663	8.5	889	11.3	826	11.7	778	10.6
25 to 34	1,056	13.6	1,076	13.6	1,203	17.0	1,369	18.7
35 to 44	1,071	13.8	916	11.6	834	11.8	1,117	15.2
45 to 64	2,013	25.9	1,832	23.2	1,491	21.1	1,419	19.4
65 and Over	814	10.4	948	12.0	952	13.4	953	13.0

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

Employment Trends

From 1969 to 1977, economic activity in the City declined sharply while the U.S. economy expanded, despite two national recessions (1969 to 1970 and 1973 to 1975) during this period. Locally, total employment dropped 16.1 percent from 3,798,000 jobs to 3,188,000 jobs, or 2.2 percent per year over the eight-year period. The manufacturing industry accounted for nearly half of the City's total employment loss during this period. Employment in the FIRE sector declined by about 1.4 percent per year, while service sector employment remained relatively constant.

The ripple effects of the decline in the manufacturing and FIRE sectors on the City's economy, along with stagnation in the services sector, caused declines during the 1969 to 1977 period in other sectors sensitive to the health of the rest of the local economy. Conversely, from 1969 to 1977, U.S. real GDP rose on average 2.6 percent per year and employment increased at an average annual rate of 2.0 percent. Thus, as the nation emerged from the OPEC-induced recession in 1973 to 1975, a continuing local economic decline plunged the City into a fiscal crisis that led it to the brink of bankruptcy.

Employment trends in the City began to rebound during the final quarter of 1977, and continued to increase over prior year levels through March 1982. In the second half of 1982, the City's economy began to reflect the national recession, and the City experienced its first job loss after four years of job gains. During 1983, the City's economy began to recover from the recession with employment growth in most sectors.

Due to the strong growth in the FIRE and service sectors, total City employment rose 1.2 percent a year to reach 3,590,000 in 1987, the highest level in a decade and a half. FIRE employment during this period grew by 2.9 percent per year; service sector employment rose 3.5 percent per year; wholesale and retail trade employment increased 0.3 percent per year; government employment grew 1.3 percent per year; and construction employment increased 6.3 percent per year. Meanwhile, employment in the manufacturing, transportation and public utilities sectors continued to decline.

The stock market crash of 1987 caused significant job losses and stalled the City's growth in 1988. After increases of 40,000 jobs a year from 1977 to 1987, City employment increased by only 15,000 jobs, or 0.4 percent, in 1988, all of which was attributable to growth in government employment. During 1989, the City's economy continued to show declines in employment in the FIRE and manufacturing sectors and weak growth in government employment. The next year, 1990, the national economic downturn began and the City experienced losses of 42,000 jobs, or 1.2 percent. These losses continued into 1991 with job losses of 104,000 or 5.4 percent. In April 1992, employment in the City had decreased by approximately 142,000 jobs since the previous April.

Non-Agricultural Payroll Employment: Establishment Survey

Non-agricultural employment trends in the City are shown in the table below.

CHANGES IN PAYROLL EMPLOYMENT IN NEW YORK CITY
(In Thousands)

Industry Sector	Peak Employment (1)		Average Annual Employment						
	Year	Level	1985	1986	1987	1988	1989	1990	1991
Private Sector									
Non-Manufacturing	1989	2,647.2	2,523.9	2,575.9	2,630.1	2,638.8	2,647.2	2,621.1	2,473.1
Services (2)	1990	1,149.0	1,038.5	1,076.2	1,108.4	1,123.1	1,147.2	1,149.4	1,097.8
Wholesale and Retail Trade	1969	749.1	638.1	638.5	637.6	634.3	630.2	608.3	561.1
Finance, Insurance and Real Estate	1987	549.7	507.6	529.3	549.7	542.4	530.5	519.6	497.2
Transportation and Public Utilities	1969	323.9	232.0	217.3	214.9	218.4	218.1	229.1	218.9
Contract Construction	1962	139.1	106.3	113.7	118.8	120.1	120.8	114.9	98.0
Mining	1967	2.5	1.2	0.8	0.7	0.5	0.3	0.3	0.2
Manufacturing	1960	946.8	407.7	391.5	379.6	370.1	359.5	337.5	307.6
Durable	1960	303.6	112.2	106.5	100.0	97.7	94.3	88.0	77.3
Non-Durable	1960	643.2	295.5	285.0	279.6	272.4	265.2	249.5	230.3
Government (3)	1990	607.6	556.6	573.5	580.4	596.1	601.5	607.6	591.8
Total Non-Agricultural	1969	3,797.7	3,488.1	3,540.6	3,590.0	3,605.0	3,608.2	3,566.2	3,372.5

(1) For the period 1960 through 1991.

(2) Data for 1981 to present include a phased-in addition of family care attendants employed by social service agencies who previously were hired directly by the individual receiving such services and who were therefore excluded by definitional reasons from tabulations in prior years.

(3) Excludes military establishments.

NOTE: Details may not add up to totals due to rounding. Payroll employment is based upon reports of employer payroll data ("establishment data"), which exclude the self-employed and workers employed by private households or agriculture, forestry and fishery.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics and State of New York, Department of Labor, Division of Research and Statistics.

RECENT MONTHLY TRENDS
(Total Payroll Employment In Thousands)

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1985	3,427.3	3,439.6	3,462.5	3,464.1	3,485.6	3,483.9	3,487.4	3,495.0	3,491.7	3,512.8	3,547.6	3,559.1
1986	3,480.5	3,492.2	3,524.0	3,525.0	3,536.9	3,552.5	3,543.9	3,535.3	3,544.0	3,566.5	3,585.2	3,600.7
1987	3,523.3	3,537.8	3,568.5	3,577.9	3,588.6	3,610.6	3,582.0	3,584.5	3,588.7	3,615.3	3,641.1	3,661.8
1988	3,557.8	3,575.3	3,609.4	3,603.9	3,603.8	3,625.1	3,578.3	3,583.0	3,595.4	3,611.2	3,651.4	3,665.0
1989	3,566.9	3,584.6	3,611.2	3,617.5	3,622.2	3,641.5	3,592.5	3,584.6	3,594.7	3,601.6	3,623.9	3,657.6
1990	3,555.9	3,563.1	3,588.9	3,578.2	3,601.7	3,606.0	3,549.4	3,553.9	3,556.2	3,540.1	3,548.4	3,553.1
1991	3,390.0	3,388.8	3,408.8	3,396.9	3,398.9	3,409.1	3,356.5	3,342.4	3,337.8	3,347.2	3,351.4	3,342.7
1992	3,237.2	3,238.9	3,256.2	3,256.4	3,263.2	3,277.3						

Employment, Labor Force and Unemployment: Current Population Survey

Changes in the employment status of the City's resident labor force are shown in the following table.

EMPLOYMENT STATUS OF THE RESIDENT POPULATION OF NEW YORK CITY

Year	Civilian Labor Force			Labor Force Participation Rate(1)		Unemployment Rate(2)	
	Total	(In Thousands) Employed	Unemployed	New York City	United States	New York City	United States
1982	3,093	2,798	296	55.2%	64.0%	9.6%	9.7%
1983	3,047	2,759	288	53.8	64.0	9.4	9.6
1984	3,081	2,806	275	53.9	64.4	8.9	7.5
1985	3,227	2,965	261	56.1	64.8	8.1	7.2
1986	3,220	2,983	237	55.5	65.2	7.4	7.0
1987	3,244	3,058	186	55.6	65.6	5.7	6.2
1988	3,194	3,037	157	54.9	65.9	N/A	5.5
1989 (3)	3,441	3,201	240	58.8	66.4	7.0	5.3
1990	3,339	3,111	228	57.0	66.4	6.8	5.5
1991	3,307	3,023	284(4)	56.4	66.0	8.6	6.8

RECENT MONTHLY TRENDS

Unemployment Rate

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1985 ...	8.2%	9.6%	9.0%	9.1%	8.4%	7.4%	6.9%	7.7%	8.1%	8.4%	7.3%	7.1%
1986 ...	7.3	8.4	7.9	8.7	7.9	7.3	7.9	6.9	6.6	6.9	6.1	6.2
1987 ...	7.4	6.0	5.8	5.2	5.4	6.0	6.0	5.1	4.5	5.8	6.6	5.0
1988 (3)	5.3	4.2	4.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1989 (3)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6.5	7.0
1990 ...	7.0	6.5	6.8	5.9	6.9	6.0	7.2	6.2	7.9	7.7	7.4	6.3
1991 ...	7.4	7.3	8.1	8.9	8.9	8.7	8.8	9.3	7.7	8.5	10.2	9.3
1992(4)	10.4	10.9	10.3	9.5	10.5	11.5						

(1) Percentage of civilian non-institutional population, age 16 and over, in labor force, employed or seeking employment.

(2) Percentage of civilian labor force unemployed; excludes those persons unable to work and discouraged workers (i.e., persons not actively seeking work because they believe no suitable work is available).

(3) From April 1988 through October 1989, the monthly Current Population survey was discontinued. The annual 1989 employment information for the City represents year-end (December) data.

(4) Preliminary.

Note: Monthly and semi-annual data are not seasonally adjusted. Because these estimates are based on a sample rather than a full count of population, these data are subject to sampling error. Accordingly, small differences in the estimates over time should be interpreted with caution. The Current Population Survey includes wage and salary workers, domestic and other household workers, self-employed persons, and unpaid workers who work 15 hours or more during the survey week in family businesses.

SOURCE: U.S. Department of Labor, U.S. Bureau of Labor Statistics ("BLS").

Personal Income

While per capita personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, has increased in recent years and remains higher than the average for the United States, it fell from 1950 through 1979 as a proportion of both the national and New York metropolitan area levels. This relative decline in per capita income of City residents was partially because the incomes of households moving into the City were substantially lower than those of departing households, which relocated mostly to the City's suburbs. From 1982 to 1990 (the most recent year for which local personal income data are available), New York City personal income averaged 7.6 percent growth compared to 7.2 percent for the nation, caused primarily by the prosperity in the City's financial sector.

The following table sets forth recent information regarding personal income in the City.

PERSONAL INCOME IN NEW YORK CITY(1)

Year	Personal Income			Per Capita Personal Income					
	NYC Total (in billions)	Average Annual % change		NYC	Average Annual % change		New York City as a percent of		
		NYC	U.S.(2)		NYC	U.S.(2)	U.S.(2)	Suburban Counties(3)	Metropolitan Area(4)
1983.....	\$ 99.4	8.3%	6.4%	\$13,860	7.3%	5.5%	114.6%	82.9%	93.0%
1984.....	109.3	10.0	9.4	15,134	9.2	8.5	115.3	82.1	92.9
1985.....	116.1	6.1	7.0	15,983	5.6	6.0	114.9	80.7	92.4
1986.....	123.0	6.0	6.1	16,798	5.1	5.1	114.9	79.1	92.1
1987.....	131.3	6.8	6.7	17,880	6.4	5.7	115.6	77.4	91.5
1988.....	143.4	9.2	8.1	19,501	9.1	7.1	117.7	77.0	91.2
1989(5).....	154.5	7.7	7.9	21,051	7.9	6.8	119.0	76.6	91.3
1990.....	164.6	6.5	6.5	22,475	6.8	5.5	120.5	77.4	91.7

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

(2) Excludes income earned abroad.

(3) Suburban Counties consists of the counties of Nassau, Putnam, Rockland, Suffolk, and Westchester in New York State.

(4) Based on Standard Metropolitan Statistical Area (SMSA) which includes New York City, Putnam, Rockland, Westchester and Bergen counties.

(5) The 1989 population estimate used to obtain the per capita figures is the average of the 1988 and 1990 data of population for such years from the U.S. Department of Commerce, Bureau of Census.

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

Sectoral Distribution of Employment and Income

Data on the sectoral distribution of employment and income reflect a growing concentration of FIRE and services employment and a shrinking manufacturing base in the City relative to the nation. Within FIRE and services, the expanding trend is especially more marked in finance, business and related professional services. There are important implications of this structural shift from the manufacturing to the FIRE and services sectors. First, average employee income in finance and related business and professional services has been considerably higher than in manufacturing. Although the employment share of the FIRE sector increased by 2 percentage points during 1977 to 1989, its earnings share increased by about 9 percentage points, which reflects its high per employee income. However, the sudden shock in the financial industry of the October 1987 stock market crash had a disproportionately adverse effect on the City's employment and income relative to the nation. Payroll employment data indicates that through December 1990 the City's FIRE sector lost 46,000 jobs since the October 1987 crash, significantly offsetting the employment gains in other sectors. The City's and the nation's employment and income by industry sector are set forth in the following table.

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS(1)

Sector	Employment				Earnings(2)			
	1977		1991		1977		1990	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
Private Sector								
Non-Manufacturing	67.2%	57.8%	73.3%	66.0%	70.7%	56.7%	78.6%	64.5%
Services (3)	24.6	18.5	32.6	26.1	26.0	19.6	33.7	26.9
Wholesale and Retail trade	19.5	22.5	16.6	23.3	16.7	16.6	12.3	16.0
Finance, Insurance and Real Estate	13.0	5.4	14.7	6.4	14.4	5.6	21.9	7.2
Transportation and Public Utilities	8.1	5.7	6.5	5.3	11.2	7.5	6.9	6.8
Contract Construction	2.0	4.7	2.9	4.3	2.3	5.9	3.5	6.0
Mining	0.0	1.0	0.0	0.6	0.1	1.5	0.1	1.1
Manufacturing	16.9	23.9	9.1	17.0	15.6	26.1	8.0	19.4
Durable	5.1	14.1	2.3	9.8	4.5	16.6	2.0	12.1
Non-Durable	11.8	9.8	6.8	7.2	11.1	9.5	6.0	7.4
Government (4)	15.9	18.3	17.5	17.0	13.7	17.2	13.4	16.1
Total Non-agricultural	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- (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 New York City is 1989 preliminary data.
- (3) Services include miscellaneous establishments.
- (4) Excludes military establishments.

SOURCE: The two primary sources of employment and earnings information are U.S. Dept. of Labor, BLS, and U.S. Dept. of Commerce, Bureau of Economic Analysis ("BEA"), respectively.

Consumer Prices

The following table presents information on consumer price trends for the New York-Northeastern New Jersey and four other metropolitan areas and the nation.

CHANGES IN CONSUMER PRICE INDEX: SELECTED AREAS

Area(1)	All Items-Urban Areas													
	Percent Increase Over Prior Year													
	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
New York-NE.														
N.J. (2)	7.4	7.6	11.3	9.8	5.8	4.7	5.0	3.7	3.3	5.1	4.9	5.6	6.1	4.5
Philadelphia, Pa.-														
N.J.	6.8	8.3	13.1	10.2	4.9	2.9	4.7	4.5	2.5	4.8	4.8	4.8	5.9	4.7
Chicago, Ill.-														
Northwestern														
Ind.	5.7	7.9	14.4	9.6	6.8	4.0	3.8	3.8	2.1	4.1	3.9	5.1	5.4	4.1
San Francisco-														
Oakland(3)	5.1	9.9	15.1	13.0	6.9	1.0	5.8	4.0	3.0	3.5	4.4	4.9	4.5	4.4
L.A.-Long														
Beach,														
Anaheim,														
Calif.	5.2	10.6	15.8	9.7	6.0	1.8	4.6	4.6	3.3	4.2	4.6	5.1	5.9	4.1
U.S. city average	5.9	9.1	13.5	10.4	6.2	3.2	4.4	3.5	1.9	3.7	4.1	4.8	5.4	4.2

- (1) Area is generally the SMSA, exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the U.S. Office of Management and Budget in 1973. Cities in the respective areas had a population of one million or more according to 1990 census.
- (2) Since January 1987, the New York area coverage has been expanded. The New York-Northeastern New Jersey area comprises the five boroughs of New York City, Nassau, Suffolk, Westchester, Rockland, Putnam, and Orange Counties in New York State; Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, and Union Counties in New Jersey; and Fairfield County and parts of Litchfield and New Haven Counties in Connecticut.
- (3) The Consumer Price Index for San Francisco-Oakland was reported bi-monthly prior to 1987.

SOURCE: U.S. Department of Labor, BLS.

Information on consumer price trends in the New York-Northeastern New Jersey metropolitan areas for certain items is set forth in the table below.

BY EXPENDITURE CLASS

Expenditure Class	Annual Average % Increase 1981-91		% Increase 1991		% Increase June 1992 over June 1991	
	U.S.	New York-NE. N.J.	U.S.	New York-NE. N.J.	U.S.	New York-NE. N.J.
All Items	4.1	4.9	4.2	4.5	3.1	3.4
Food and Beverages	3.9	4.5	3.6	3.3	0.4	-0.2
Housing	4.0	5.0	3.9	4.6	3.2	4.2
Apparel and Upkeep	3.1	2.6	3.7	2.2	3.2	1.5
Transportation	2.9	3.3	2.8	3.9	2.6	2.0
Medical Care	7.9	8.3	8.7	8.2	7.5	7.9
Entertainment	4.4	4.8	4.5	3.9	2.8	5.9
Other Goods and Services	7.6	8.2	8.0	8.1	6.8	8.2

NOTE: Monthly data are not seasonally adjusted.

SOURCE: U.S. Department of Labor, BLS.

Historically the New York Area inflation rate does not conform very well with the national inflation rate. Since 1960, the difference in the New York Area rate from the national rate varied from 1.6 percentage points higher in 1970 to 2.6 percentage points lower in 1979. Prices in the metropolitan area rose at a rate higher than the nation during the periods 1960 to 1966, 1968 to 1972 and 1983 to the present. During 1967 and the period from 1973 to 1982 prices in the area rose either at par with or more slowly than the nation and many of the 15 metropolitan areas for which CPI data are maintained.

Since 1983, the local Consumer Price Index increased more than the national average, rising 4.6 percent per year on average through 1989 versus 3.6 percent per year for the nation. This was a reversal of the trend in the 1970s and early 1980s, when local inflation lagged the national rate by a percentage point. In 1989, local inflation measured 5.6 percent compared to the national 4.8 percent rate. In 1990, prices at the local and national levels experienced a sharp increase over 1989, climbing 6.1 percent and 5.4 percent, respectively. In 1991, local prices rose 4.5 percent or 0.3 percent higher than the U.S. The premium of the New York area inflation rate over the national rate was 0.6 percent in April 1992, with local inflation running at a rate of 3.6 percent compared to a national rate of 3.2 percent.

Public Assistance

Between 1960 and 1972, the number of persons in the City who were recipients of some form of public assistance more than tripled, from 324,200 to 1,265,300. The bulk of the long-term increase occurred in the Aid to Families with Dependent Children ("AFDC") program, which more than quadrupled during that period.

Between 1972 and 1982 the number of recipients, including those in the Supplemental Security Income ("SSI") program, declined fairly steadily, except for temporary increases noted in 1975 and 1976, when the City was experiencing the effects of a national recession. From 1983 until 1987, the number of recipients increased, reflecting lingering effects of the 1982 recession. While figures for 1988 and 1989 indicate a decrease in public assistance recipients, the number of recipients has increased throughout 1990, 1991 and thus far in 1992.

Public assistance and SSI recipients rose as a proportion of total City population from 4.2% in 1960 to 16.5% in 1975. Between 1975 and 1985, that proportion decreased to 15.8% of total population.

The following table sets forth the number of persons receiving public assistance in the City.

PERSONS RECEIVING PUBLIC ASSISTANCE IN NEW YORK CITY
(Annual Averages In Thousands)

<u>Year(1)</u>	<u>Total</u>	<u>Average Annual Change (%)</u>	<u>Home Relief</u>	<u>AFDC</u>	<u>AFDA Unemployed Parent</u>	<u>AFDC Predetermination Grant</u>
1985	926.1	0.8	174.0	731.1	21.0	—
1986	911.5	(1.6)	174.3	717.6	19.6	—
1987	871.5	(4.4)	162.0	694.2	15.3	—
1988	840.1	(3.6)	155.8	671.2	13.0	—
1989	817.9	(2.6)	149.3	642.0	12.0	14.6(2)
1990	858.3	4.9	139.7	641.4	12.8	64.5
1991	939.4	9.5	166.5	677.5	15.0	80.4

(1) Figures do not include aged, disabled or blind persons who were transferred from public assistance to the SSI program, which is primarily Federally funded. According to the U.S. Department of Health and Human Services, the SSI program supported, as of December of each year, a total of 227,068 persons in 1979; 223,934 persons in 1980; 217,274 persons in 1981; 207,484 persons in 1982; 206,330 persons in 1983; 211,728 persons in 1984; 217,852 persons in 1985; 223,404 in 1986 and 227,918 in 1987.

NOTE: Due to a change in statistical measurements, the decline in public assistance recipients for 1987 may be slightly overstated.

RECENT MONTHLY TRENDS
(Total Recipients In Thousands)

<u>Year</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
1985.....	923.9	921.0	931.2	935.7	924.5	925.1	925.8	930.5	922.6	927.6	922.0	922.9
1986.....	920.2	917.8	918.9	919.7	916.5	913.0	915.6	906.8	904.9	907.8	897.6	898.9
1987.....	894.8	890.1	893.9	894.0	889.5	885.9	873.5	859.3	854.0	845.2	831.2	847.0
1988.....	839.4	852.2	856.8	865.1	852.6	846.3	838.9	836.3	826.2	825.9	820.1	822.3
1989.....	813.4	816.2	821.1	816.7	815.3	815.0	813.0	820.7	817.8	825.1	824.3	823.0
1990.....	823.6	827.6	839.0	841.7	849.7	859.6	859.8	871.4	871.7	880.2	883.1	892.3
1991.....	895.9	899.9	914.0	923.2	929.2	936.8	945.1	953.8	955.2	969.5	972.8	977.2
1992.....	988.8	985.4	987.1	989.1	994.4	999.7						

NOTE: Due to a change in statistical measurements, the figures for 1987 maybe slightly overstated.

SOURCE: The City of New York, Human Resources Administration, Office of Budget and Fiscal Affairs, Division of Statistics.

Business Activity Index

The City has a highly diversified economic base, and sustains a substantial volume of business activity in the service industry, wholesale and retail trade, and manufacturing.

The largest aggregate of economic activity in the City is the corporate headquarters complex, together with ancillary services. The City is the location of a large number of major corporate headquarters, and is the leading center for corporate services, such as commercial and investment banking, law, accounting and advertising. While the City experienced a substantial number of business relocations during the previous decade, the number of relocations declined significantly after 1976, although declines in front office employment continued. During 1977 and 1982 employment rebounded, primarily in the banking and securities industry. Most of the corporations which relocated moved to sites within the City's metropolitan area, and continue to rely in large measure on services provided by businesses which are still located in the City.

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retailing, among other fields. The City is a major seaport and a 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 in number substantially over the past decade,

are found in all sectors of the City's economy, but are concentrated in trade, manufacturing sales offices, tourism and finance. Foreign banking activities have increased significantly since the early 1970's and have continued to grow rapidly through the 1980's. Real estate purchases in the United States disclosed by foreigners are heavily concentrated in the City in terms of dollar value. 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 157 missions to the United Nations and the 88 foreign consulates.

The Business Activity Index ("BAI") for the City, which is a measure of the overall health of the economy, reflects both long-term trends in the City's economic base and short-term fluctuations in the performance of the national economy. Due to a partial erosion of its economic base, the City was particularly vulnerable to national economic downturns, while lagging behind in times of national expansion during the 1970's. The impact of the national economic recession of 1974-1975 was particularly severe. From a peak of 111 early in 1973, the BAI for the City declined to a low of 96 during the spring of 1975. The effects of the 1980 and 1981-1982 national recessions were less severe to the City's economy. The table below shows the City and State BAI for the past several years.

BUSINESS ACTIVITY INDEX

(Annual Average: 1977 = 100)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992(1)</u>
New York City . .	109	112	116	121	124	125	126	122	120
New York State	114	119	124	129	135	137	137	135	135

(1) Through April, 1992.

SOURCE: State of New York, Department of Commerce, Division of Economic Research and Statistics.

NOTE: The Business Activity Index comprises seven basic business activities, which include: factory output; retail; service; wholesale; construction; transportation; communications and public utilities; and finance, insurance and real estate.

Many factors have been cited as placing the City during the early 1970's at a competitive disadvantage as a business location in relation to its suburbs and the Sunbelt region and contributing to the erosion of the City's economic base. Among these factors were the City's tax burden, energy costs, labor costs, office space market and cost of living.

The combined state and local tax burden on residents of the City is one of the highest among all cities in the United States. In the 1988 fiscal year, average per capita City taxes were \$1,812 and average per capita State taxes paid by residents of the state were \$1,462, a combined tax burden of \$3,274 per capita. Nationwide, per capita local taxes averaged \$698 and per capita state taxes averaged \$1,074 for the 1988 fiscal year for a combined tax burden of \$1,772.

The cost of energy in the City is one of the highest in the nation, particularly for electricity. In May 1991, electric costs in the City for industrial users was ranked the third highest among electric utility service areas in the nation.

From 1977 through most of 1982, the office space market tightened in response to an increase in demand. At the end of 1982 and in early 1983, construction activity increased and the office market softened. Recent data from Cushman and Wakefield indicate that the office market in the City, particularly in the downtown area where older, poorly maintained buildings have been vacated, has been softening due to an increased availability of office space with the overall vacancy rate in Manhattan at approximately 18.6 percent.

A major world center for culture and the arts, the City is the nation's leading tourist center and tourism is a major revenue producing industry in the City. In 1979, the City hosted a record number of tourists and business visitors, 17.5 million, who injected nearly \$2.3 billion into the local economy and filled the City's hotels to 81 percent of capacity. Despite current economic conditions worldwide, tourism continues as one of the City's major economic strengths. Based on revised estimates, during 1988, 25.5 million people visited the City, a sharp rise over 1987; and spent a total of \$9.76 billion, a 9.7 percent increase from 1987. A rise in

overseas visitor business occurred, with the number of foreign visitors increasing to over 4.6 million in 1988, a 15 percent increase from 1987. Overseas visitors continued to increase for the fourth consecutive year after three years of declines in visitor business from abroad. The number of conventions increased to 973 in 1988 from 965 in 1987, and the number of delegates attending stood at 3.0 million in 1988.

The table below shows the number of visitors to the City and the City's hotel occupancy rate for each year since 1980.

NUMBER OF VISITORS AND HOTEL OCCUPANCY RATE IN NEW YORK CITY

<u>Year</u>	<u>Visitors(1) (in Millions)</u>	<u>Hotel Occupancy Rate(2) Annual Average of Monthly Rates</u>
1980	17.1	78.4%
1981	17.0	72.8
1982	16.9	69.7
1983	17.1	71.9
1984	17.2	75.1
1985	17.1	72.2
1986	17.4	76.0
1987	19.8*	76.2
1988	25.5*	76.7
1989	25.4*	74.5
1990	25.3*	72.6
1991	N/A	67.1

(1) SOURCE: New York City Convention & Visitors Bureau, Inc.

(2) SOURCE: Pannell, Kerr, Forster & Company, Statistics and Trend of Hotel and Motor Hotel Survey and Report.

* 1987 through 1990 figures have been revised and are inconsistent with the rest of this series.

Retail Sales

The City is a major retail trade market and has the greatest volume of retail sales of any city in the nation. After a very large increase in 1980, retail sales growth in New York City moderated in 1981 and almost came to a standstill in 1982, which was a recession year. Between 1984 and 1986, retail sales, particularly of durable goods, grew at an increased rate, outpacing the nation in 1985 and 1986. Retail sales increased a paltry 0.36% in 1987 mainly because consumers shifted their purchases into 1986 (sales increased 14.6%) to take advantage of the expiring sales tax deductibility on federal income tax returns. The October 1987 stock market crash had a temporary dampening effect on retail sales, but in 1988 retail sales increased by 10.0 percent. The 1989 and 1990 figures, however, indicate declines of 0.3% and 1.5%, respectively, over the previous years' figures. The April 1992 figures indicate a decrease of 10.7 percent over April 1991.

Trends in the City's retail sales are shown in the table below.

RETAIL SALES IN NEW YORK CITY

Year	Total Retail Sales (in billions)		Annual Percent Change					
			Total Retail Sales		Non-Durable(1)		Durable(2)	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
1982	26.4	1,068.2	NA	2.9	NA	2.6	NA	3.4
1983	24.0	1,168.2	9.8	9.4	5.5	6.1	20.0	16.4
1984	30.9	1,284.6	6.3	10.0	4.5	6.9	10.0	16.2
1985	33.8	1,374.5	9.4	7.0	6.4	5.5	15.3	9.7
1986	39.6	1,450.1	17.3	5.5	9.1	3.7	32.1	8.7
1987	39.6	1,539.4	(0.1)	6.2	0.8	6.1	(1.5)	6.2
1988	43.3	1,644.0	9.5	6.8	9.0	5.6	10.2	8.8
1989	43.2	1,747.0	(0.2)	6.3	3.1	7.4	(5.3)	4.3
1990	42.9	1,826.2	(0.7)	4.5	5.4	6.5	(10.8)	1.3
1991	41.4	1,843.9	(3.6)	1.0	0.7	2.2	(12.1)	(1.2)

(1) Includes food stores, eating and drinking places, gasoline stations, liquor stores, drug stores, fuel dealers, florists, hay-grain-feed stores, farm and garden supply stores, stationery stores, newsstands and news dealers, cigar stores and ice dealers and general merchandise and apparel stores.

(2) Includes building materials, hardware, garden supply and mobile home dealers, automotive dealers, and furniture, home furnishings and equipment stores.

Source: U.S. Department of Commerce, Bureau of the Census, Current Business Reports, Monthly Retail Trade.

Infrastructure

The physical infrastructure of a city, its systems of water supply, sewers, bridges, streets and mass transit, is the underlying component of its economic base and is vital to its economic health.

The City owns and operates an upstate reservoir system covering in excess of 1,950 square miles. Water is carried to the City by a transmission system, consisting of three aqueducts, two tunnels and over 5,700 miles of trunk and distribution lines. The City has undertaken construction of a third water tunnel project to enhance the delivery capabilities and proper maintenance of the City's distribution system. In addition to supplying the needs of its residents and businesses, the City is required by State law to sell water to municipalities in counties where its water supply facilities are located. The City and its upstate watershed areas are subject to periodic drought conditions, which led the City to impose mandatory water conservation measures during 1965, 1981 and 1985.

The sewer system contains approximately 6,300 miles of sewer lines and the City's water pollution system includes 14 operating treatment facilities. The City's road network consists of some 6,200 miles of streets and arterial highway, and more than 1,300 bridges and tunnels.

The Department of Sanitation operates the City's one landfill. The capacity of the Fresh Kills site is expected to last until approximately 2015. The City's Ten-Year Capital Plan reflects the estimated costs of capital improvements necessary to maximize current waste disposal capacity and to provide for the construction of six resource recovery plants at an estimated cost of \$2.4 billion. The City has also entered into an administrative settlement with the State Department of Environmental Conservation which will require the City to spend approximately \$200 million over ten years to install pollution control systems at Fresh Kills landfill.

The City's mass transit system includes a subway system which covers over 238 route-miles with 469 stations and is the most extensive underground system in the world. The concentration of employment in the City and its metropolitan area in the Manhattan central business district increases the importance of the City's mass transit system to the City's economy. Two-fifths of all workers residing in the New York area use public transportation to reach their workplace, the largest proportion among 26 large areas surveyed. New York City's subway system continues to undergo its most extensive overhaul since it was completed 50 years ago.

The City has developed a ten-year capital program for the period 1992-2001 which projects available capital funds over this period of \$47.1 billion, of which approximately 92% will be financed through City sources. A portion of these funds is for rehabilitation or replacements of various elements of the infrastructure.

Housing

The housing stock in the City in 1987 consisted of 2,840,257 housing units, excluding units in special places, primarily institutions such as hospitals and universities. The 1987 housing inventory represented an increase of 36,988 units, or 1.3%, since 1984. While the total population of the City declined by 10.4% between 1970 and 1980, housing in the City remains in short supply. A concurrent trend toward smaller sized households resulted in a decrease during the 1970's of only 1.7% in the total number of resident households. The following table presents the housing inventory in the City. The following table presents the housing inventory in the City.

HOUSING INVENTORY IN NEW YORK CITY (Housing Units in Thousands)

<u>Ownership/Occupancy Status</u>	<u>1981</u>	<u>1984</u>	<u>1987</u>
Total Housing Units	2,792	2,803	2,840
Owner Units	755	807	837
Owner-Occupied	746	795	817
Conventional Home	581	598	576
Cooperative (1)	165	197	242
Vacant for Sale	9	12	19
Rental Units	1,976	1,940	1,932
Renter-Occupied	1,934	1,901	1,884
Vacant for Rent	42	40	47
Vacant, Not Available For Sale Or Rent (2)	62	56	72

(1) Includes condominiums.

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

SOURCES: Stegman, Michael A., *Housing and Vacancy Report: New York City*. The City of New York Department of Housing Preservation and Development (New York: April 1988).

The 1987 Housing and Vacancy Survey indicates that rental housing units predominate in the City. Of all occupied housing units in 1987, 30.2 percent were conventional home-ownership units, cooperatives or condominiums and 69.8% were rental units. Most of the recent growth in owner-occupied units has come from the conversion of existing rental units to cooperatives rather than through the new construction of housing for sale to occupants in the City. The vacancy rate for rental housing was 2.46% in 1987, and median rent consumed 29% of the gross income of tenants. The housing condition of occupied rental units improved greatly since 1984, with a decrease in the proportion of rental units in dilapidated or deficient condition. Only 2% of renter-occupied housing units were located in dilapidated structures, and 14% were in structures with at least three serious maintenance deficiencies.

After a significant decline during the early 1970's, a slight recovery in housing construction occurred between 1975 and 1979. However, in 1980, new housing construction declined again. Of all new housing units constructed in the City between 1975 and 1978, over two-thirds were government financed or government aided; of privately financed housing units, nearly half received full or partial tax exemptions. Rehabilitation of existing housing units and conversions of housing units from other uses, through private financing and City-administered Federal funds or tax abatement programs, has increased substantially in recent years, and is now a significant segment of the City's housing market.

Construction

Office building construction in the Manhattan Central Business District is undergoing a substantial decline after experiencing significant growth during the 1980's. Between 1954 and 1968 an annual average of more than 4.7 million square feet of new office space was completed. An unusual surge of construction activity occurred between 1969 and 1972, when 61 new office building completions added a total of 51.2 million square feet of office space to the market, during a period of substantial decline in employment in the City. Construction activity declined after 1972, and by 1979 only 110,000 square feet of office space entered the market as a result of building completions.

During the late 1970's demand for office space, as a result of increased employment in the services and finance sectors of the City's economy and an increase in office space per employee, reduced the vacancy rate in the office space market from an estimated 15% in 1972 to 2% in 1981. The vacancy rate rose to 5.4% in 1983, 7.1% in 1984 and 8.2% in 1985 due to the strong upswing in construction activity. This trend continued during 1986 indicating a vacancy rate of 8.4%. In 1987 construction in the City had increased while commercial rents declined. Vacancy rates have continued to rise as a result of the 1987 stock market crash and subsequent retrenchment of the FIRE and services sectors. By the end of 1990, vacancy rates for the Manhattan commercial market were close to 17%, as office construction continued and very little new space was occupied. As of April 1992, the overall office vacancy rate in Manhattan stood at 18.6 percent.

With respect to housing construction between 1975 and 1979, the number of building permits for new housing units and the value of all new construction increased, indicating that a partial recovery in construction activity in the City occurred, although at a level much reduced from the 1962 peak. During 1980, permits were issued for 7,800 new housing units, compared to 14,524 issued in 1979, and the value of all new construction rose to \$1.063 billion, up from \$589 million in 1979.

Since 1988, office building and housing construction activity has slowed substantially.

Real Estate Valuation

The following tables present data on a fiscal year basis regarding recent trends in the assessed valuation of taxable real property in the City.

TRENDS IN ASSESSED VALUATION OF TOTAL TAXABLE REAL PROPERTY IN NEW YORK CITY (In Millions)

County (Borough)	Fiscal Year						
	1987	1988	1989	1990	1991	1992	1993
Bronx (The Bronx)	\$ 3,336	\$ 3,444	\$ 3,670	\$ 3,973	\$ 4,330	\$ 4,516	\$ 4,719
Kings (Brooklyn)	7,623	7,892	8,363	9,023	9,723	9,896	9,950
New York (Manhattan)	32,027	35,183	38,928	42,889	47,227	48,755	49,143
Queens (Queens)	9,931	10,310	10,807	11,543	12,386	12,666	12,776
Richmond (Staten Island) . . .	2,172	2,283	2,374	2,627	2,669	2,635	2,590
Total	<u>\$55,089</u>	<u>\$59,112</u>	<u>\$64,142</u>	<u>\$70,054</u>	<u>\$76,334</u>	<u>\$78,468</u>	<u>\$79,179</u>

NOTE: Details may not add up to totals due to rounding. Totals do not include the value of certain property eligible for the veterans' real property tax exemption.

SOURCE: The City of New York, Department of Finance, Bureau of Real Property Assessment.

**ASSESSED VALUATION OF TOTAL TAXABLE REAL ESTATE BY
COMPONENTS FOR NEW YORK CITY**

Type of Property	Fiscal Year 1988		Fiscal Year 1989		Fiscal Year 1990		Fiscal Year 1991		Fiscal Year 1992		Fiscal Year 1993	
	Assessed Value (In Millions)	Percentage Of Taxable Real Estate	Assessed Value (In Millions)	Percentage Of Taxable Real Estate	Assessed Value (In Millions)	Percentage Of Taxable Real Estate	Assessed Value (In Millions)	Percentage Of Taxable Real Estate	Assessed Value (In Millions)	Percentage Of Taxable Real Estate	Assessed Value (In Millions)	Percentage Of Taxable Real Estate
One-Family Dwellings	\$ 3,530.0	6.0%	\$ 3,721.9	5.8%	\$ 3,911.4	5.6%	\$ 4,054.6	5.3%	\$ 4,100.5	5.2%	\$ 4,092.4	5.2%
Two-Family Dwellings	2,794.3	4.7	2,920.7	4.5	3,051.9	4.4	3,146.6	4.1	3,156.4	4.0	3,100.2	3.9
Walk-Up Apartments	4,101.5	6.9	4,488.6	7.0	5,019.8	7.2	5,597.6	7.3	6,209.4	7.9	6,576.8	8.3
Elevator Apartments	11,183.5	18.9	12,094.6	18.9	13,176.9	18.8	14,622.4	19.2	15,152.8	19.3	15,517.8	19.6
Warehouses	582.8	1.0	668.1	1.0	767.1	1.1	895.5	1.2	926.8	1.2	989.8	1.3
Factory and Industrial Buildings	1,176.6	2.0	1,263.8	2.0	1,429.1	2.0	1,629.5	2.1	1,688.7	2.2	1,702.9	2.2
Garages and Gasoline Stations	702.6	1.2	779.0	1.2	883.5	1.3	1,028.6	1.3	1,107.3	1.4	1,191.3	1.5
Hotels	1,081.7	1.8	1,218.9	1.9	1,429.7	2.0	1,610.7	2.1	1,775.4	2.3	1,821.7	2.3
Hospitals and Health	371.0	0.6	400.9	0.6	374.6	0.5	391.6	0.5	402.6	0.5	425.2	0.5
Theatres	145.3	0.2	151.5	0.2	165.5	0.2	186.4	0.2	177.4	0.2	186.9	0.2
Store Buildings	3,218.5	5.4	3,898.2	6.1	4,479.3	6.4	5,289.0	6.9	4,221.1	5.4	4,416.4	5.6
Loft Buildings	1,989.3	3.4	2,135.4	3.3	2,467.1	3.5	2,524.1	3.3	2,398.1	3.1	2,317.8	2.9
Churches, Synagogues, Etc.	29.9	0.1	30.9	0.1	30.5	0	54.3	0.1	41.1	0.1	53.8	0.1
Asylums and Homes	40.3	0.1	48.7	0.1	53.4	0.1	70.8	0.1	78.8	0.1	94.5	0.1
Office Buildings	16,780.7	28.4	18,493.0	28.8	20,980.8	29.9	23,410.5	30.7	24,134.5	30.8	23,907.6	30.2
Places of Public Assembly	96.6	0.2	99.6	0.2	107.9	0.2	123.1	0.2	135.3	0.2	138.3	0.2
Outdoor Recreation Facilities	69.4	0.1	75.0	0.1	85.4	0.1	80.6	0.1	82.7	0.1	84.5	0.1
Condominiums	1,252.8	2.1	2,144.4	3.3	2,812.9	4.0	3,345.2	4.4	3,963.1	5.1	4,322.8	5.5
Residence Multi-Use	206.3	0.3	228.7	0.4	267.5	0.4	318.1	0.4	1,004.5	1.3	1,034.6	1.3
Transportation Facilities	27.1	0	24.4	0	26.5	0	32.5	0	32.2	0	35.4	0
Utility Bureau Properties	0.1	0	0.1	0	0.1	0	0	0	0	0	0	0
Vacant Land	538.6	0.9	613.5	1.0	758.8	1.1	811.7	1.1	839.1	1.1	906.8	1.1
Educational Structures	86.3	0.1	106.4	0.2	119.4	0.2	138.6	0.2	142.9	0.2	170.1	0.2
Selected Government Installations	6.9	0	2.5	0	2.4	0.0	3.8	0	4.4	0	8.1	0
Miscellaneous	218.4	0.4	219.0	0.3	227.9	0.3	285.7	0.4	303.0	0.4	275.7	0.3
Real Estate of Utility Corporations and Special Franchises	8,881.2	15.0	8,311.8	13.0	7,424.6	10.6	6,682.1	8.8	6,389.4	8.1	5,807.8	7.3
Total	\$59,111.6	100.0%	\$64,141.7	100.0%	\$70,053.9	100.0%	\$76,333.6	100.0%	\$78,467.6	100.0%	\$79,179.1	100.0%

NOTE: Details may not add up to totals due to rounding. Totals do not include the value of certain property eligible for the veterans' real property tax exemption.
SOURCE: The City of New York, Department of Finance, Bureau of Real Property Assessment.

No single taxpayer accounts for 10% or more of the City's real property tax. For the 1993 fiscal year, the assessed valuation of real estate of utility corporations is \$3.7 billion. The following table presents the 40 non-utility, non-residential properties having the greatest assessed valuation in the 1993 fiscal year as indicated in the tax rolls.

Largest Real Estate Taxpayers (1)

<u>Property</u>	<u>1993 Fiscal Year Assessed Valuation</u>	<u>Property</u>	<u>1993 Fiscal Year Assessed Valuation</u>
Pan Am Building	\$247,800,000	Paramount Plaza	\$133,650,000
55 Water Street Building	243,000,000	J.C. Penney Building	130,500,000
Empire State Building	213,750,000	Citicorp Center Condos (Lexington Avenue) ..	130,500,000
Exxon Building	213,750,000	666 Fifth Avenue	128,600,000
Stuyvesant Town	185,028,500	American Express Plaza	127,920,000
One Liberty Plaza	178,270,000	Celanese Building	127,000,000
American Brands	176,080,000	Kalikow Building	123,750,000
International Building	175,500,000	Simon & Schuster Building	122,400,000
Sperry Rand Building	174,240,000	Carpet Center	122,370,000
General Motors Building	172,530,000	Manufacturers Hanover Plaza	121,500,000
McGraw-Hill Building	171,000,000	Shearson Lehman Operation Center	119,700,000
Equitable Tower	164,619,993	Burlington House	119,000,000
One Penn Plaza	162,240,000	Continental Illinois Center	111,250,000
Time Life Building	157,500,000	Produce Exchange	110,700,000
Morgan Guaranty Trust	157,000,000	Bank of America Plaza	109,320,000
The Chase Manhattan Building	156,150,000	Citicorp Center Condos (Park Avenue)	108,000,000
Equitable Life Center	149,000,000	595 Lexington Avenue	103,954,000
Bristol-Myers	144,314,000	Park Avenue Plaza	103,640,000
Solow Building	141,750,000	Chemical Bank Building	102,600,000
One New York Plaza	136,350,000	Park Avenue Atrium	98,287,000

(1) Excludes real estate of public utilities.

SOURCE: The City of New York, Department of Finance, Bureau of Real Property Assessment.

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GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS

GLOSSARY

The following are definitions of certain terms contained in the Agreement, the Lease and the General Resolution and not otherwise defined in this Official Statement:

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

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

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

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

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

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

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.

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 by such Variable Rate Bonds on such date of calculation.

Debt Service Reserve Requirement: As of any date of calculation, and for any Fiscal Year, the amount equal to the maximum Adjusted Aggregate Debt Service in the current or any future Fiscal Year on all Bonds Outstanding provided, however, that, with respect to any Bonds secured by a Special Credit Facility, the Supplemental Resolution authorizing such Bonds may provide that the Debt Service Reserve Requirement for such Bonds be an amount not in excess of the maximum Adjusted Debt Service payable on such Bonds in the current or any future Fiscal Year.

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: The obligations described in clause (ii) of the definition of Investment Securities below.

Financial Guaranties: One or more of the following: (i) irrevocable, unconditional and unexpired letters of credit issued by a banking institution the senior long-term debt obligations of which (or the holding company of 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 Inc. or AA or better by Standard & Poor's Corporation or (ii) an irrevocable and unconditional policy or policies of insurance in full force and effect and issued by a municipal bond insurer the obligations insured by which are eligible for a rating of Aa or better by Moody's Investors

Service Inc. or AA or better by Standard & Poor's Corporation; in each case providing for the payment of sums for the payment of Principal Installments of and interest on Bonds in the manner provided in Section 508 of the Resolution; and providing further that any such Financial Guaranty must be drawn upon, on a date which is at least thirty 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 thirtieth day 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.

Investment Securities: 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 a Rating Agency;

(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 with its principal place of business within the State and having a 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 a Rating Agency designated by the Authority in its highest rating category for comparable types of obligations; and

(vi) any repurchase agreement which is fully collateralized by any one or more of the securities described in clause (ii) (A) above; provided, however, that any such repurchase agreement shall (A) not be for a period in excess of 90 days, (B) provide that the Authority or the Trustee (or the agent thereof, which shall not be the seller) shall take physical possession of such collateral or the Authority or the Trustee shall be named the record owner thereof in the records of the Federal Reserve Bank of New York and (C) be entered into only with (x) a bank or trust company organized under the laws of the State or the United States, which is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation, having capital of not less than \$50,000,000 or (y) a government bond dealer reporting to, trading with and recognized as a primary dealer by, the Federal Reserve Bank of New York.

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

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 D.

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

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

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

Outstanding: When used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

- (a) any Bonds cancelled 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: Ernst & Young or such other 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.

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: (a) All the rents, fees, charges, payments and other income and receipts derived by the Board from users of the System, and (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), together with all operating aid therefor from any governmental entity, Federal, State or local, to the Board, 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 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.

Supplemental Resolution: A resolution of the Authority authorizing the issuance of a Series of Bonds or otherwise amending or supplementing the Resolution, adopted in accordance with Article VIII.

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 to the date of such tender.

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

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

SUMMARY OF CERTAIN DOCUMENTS

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

Summary of the Agreement

Financing of Water Projects. The Authority agrees to use its best efforts to finance all or a part of the Cost of all Water Projects described in Appendix A to the Agreement. In consideration for the Authority's

issuance of the Bonds, the Board gives, grants, conveys and transfers to the Authority all of its right, title and interest in the Revenues, including without limitation, all of its rights to collect and receive said Revenues subject only to provisions of the Act, the Agreement and the Resolution permitting the application of said Revenues to the purposes therein set forth. The Board itself incurs no indebtedness under the terms of the Agreement, Lease, Resolution or any other document executed in connection therewith. (*Sections 2.1, 2.2 and 2.4*)

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

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

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

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

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

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

(i) For each Series of Bonds which is Outstanding during the current Fiscal Year, an amount equal to the product obtained by multiplying (a) the difference between (1) the amount of interest due or projected to be due on the next succeeding Bond Payment Date for such 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, 1991 (or July 1 of any Fiscal Year thereafter), 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 to purposes provided for in Section 4.2 or to the Costs of Water Projects, but shall be retained therein to the extent required by the Annual Budget. *(Section 4.5)*

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

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

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

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

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

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

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

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

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

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

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

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

Annual Budget. On May 1 of each year (or on such later date as the Authority, the Board and the City may agree) the Authority shall deliver to the Board a certified copy of the Authority Budget for the ensuing Fiscal Year showing the Cash Flow Requirement for such Fiscal Year. Based upon the information contained in (a) the Authority Budget, (b) the City's certification pursuant to Section 8.3 of the Lease and (c) the

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

Tax Exemption. The City, the Authority and the Board have covenanted that so long as any Bonds shall be Outstanding, none 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. *(Section 6.5(b))*

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

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

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

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

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

Financing through State Revolving Fund. In connection with the financing of Water Projects by the Authority with funds provided from the State Revolving Fund, the City may enter into a Project Financing

Agreement or Agreements among DEC, the Corporation and the Authority and make in any such agreement certain representations, warranties, covenants and agreements. *(Section 6.16)*

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

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

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

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

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

Conflicts. The Agreement provides that its provisions shall not change or in any manner alter the terms of the Resolution, or the security, rights or remedies of the Trustee or the Bondholders. In the event any provision of the Agreement conflicts at any time, or in any manner, with the provisions of the Resolution or

any Bond, the provisions of the Resolution or Bond shall be controlling and conflicting provisions of the Agreement shall be disregarded. (*Section 12.1*)

Summary of the Lease

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

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

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

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

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

Operation and Maintenance of the Leased Property. The City shall administer and operate the Leased Property, maintain the Leased Property in good and safe order and condition and make all repairs therein. The City's duty to "maintain" and "repair" shall include all necessary repairs, replacements, renewals, alterations

and additions, whether structural, non-structural, ordinary or extraordinary and its duty to “administer” shall include, without limitation, the enforcement of regulations of the Board and the City relating to the use of the System. However, the Lease shall not impose any obligation or liability upon the City for the administration, operation, maintenance and repair of the System not previously imposed upon it in connection with its prior operation and maintenance of the System. Both the Board and the City shall use all reasonable care to prevent the occurrence of waste, damage or injury to the Leased Property. The System shall be used and operated and maintained in accordance with all applicable laws, rules and regulations. *(Sections 4.1, 4.2 and 4.3)*

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

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

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

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

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

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

services, of any City officers and employees provided on a full-time or part-time basis to the Board. (Section 8.1)

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

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

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

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

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

Summary of the Resolution

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, 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 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 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 withdraw from such Account the amount of any excess therein over the applicable Debt Service Reserve Requirement as of the date of such withdrawal and deposit the moneys so withdrawn into (i) the Arbitrage Rebate Fund, the amount established by the Authority to be required by the Code to be rebated to the Department of the Treasury and (ii) the Surplus Fund, the amount of any excess then remaining in the Debt Service Reserve Fund over the applicable Debt Service Reserve Requirement. If, as of February 1 of each year, the amount in any Account in the Debt Service Reserve Fund is less than the applicable Debt Service Reserve Requirement and, to the extent that such deficiency has not been made up by May 1 of such year by either (i) deposits pursuant to Section 505, Section 510 or Section 510-a of the Resolution or (ii) an increase in the market value of the Investment 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 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 (including 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)*

Tax Covenants. The Resolution provides that the Authority shall not permit the use of the proceeds of the Bonds (or other funds of the Authority): (i) to purchase securities or obligations the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148 of the Internal Revenue Code of 1986 (the "Code") or (ii) in a manner which would result in the exclusion of any Bond from the treatment afforded by Section 103 of the Code. The Authority shall also provide for any required rebate to the United States. *(Section 705)*

Accounts and Periodical Reports and Certificates. The Authority shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions under the Resolution and which, together with all other books and papers of the Authority, shall at all reasonable times be subject to the inspection of the Trustee or the representative, duly authorized in writing, of the holder or holders of not less than 25% in principal amount of the Bonds then Outstanding. *(Section 706)*

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*)

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 the interest on which, when due, without reinvestment, will provide moneys which, together with the moneys deposited shall be sufficient, to pay when due the principal or Redemption Price (if applicable) and interest due and to become due on said Bonds and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Bonds that the deposit required above has been made with the Trustee and that said Bonds are deemed paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, on such Bonds (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption); provided that any notice published for Bonds constituting less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, to the extent necessary, apply moneys to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments thereto.

The Trustee shall, if so directed by the Authority prior to the maturity date of Bonds deemed to have been paid which are not to be redeemed prior to their maturity date or prior to the publication of the above notice of redemption for Bonds deemed paid and to be redeemed, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and purchase such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; provided, however, that the moneys and Defeasance Obligations remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Bonds.

Defeasance of Variable Rate Bonds. The Resolution provides that for the purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, by the deposit of moneys, or Defeasance Obligations and moneys (if any), the interest due on such Bonds shall be calculated at the maximum rate permitted; provided, however, that if, as a result of such Bonds

having borne interest at less than the maximum rate for any period, the total amount of moneys and Investment Securities on deposit with the Trustee for the payment of interest on such Bonds exceeds the total amount required to be deposited with the Trustee, the Trustee shall, if requested by the Authority, pay the amount in excess to the Authority free and clear of any lien or pledge securing the Bonds or otherwise existing under the Resolution.

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

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FORM OF OPINION OF BOND COUNSEL

August , 1992

New York City Municipal
Water Finance Authority
75 Park Place, 6th Floor
New York, New York 10007

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$1,040,704,592.35 aggregate principal amount of Water and Sewer System Revenue Bonds, Fiscal 1993 Series A (the "1993 Series A Bonds") by the New York City Municipal Water Finance Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"), created and existing under and pursuant to the Constitution and statutes of the State, including the 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").

The 1993 Series A Bonds are issued under and pursuant to the Act and a resolution of the Authority adopted November 14, 1985 entitled "Water and Sewer System General Revenue Bond Resolution," as supplemented by a resolution adopted August 6, 1992 entitled "Eighteenth Supplemental Resolution Authorizing the Issuance of \$1,040,704,592.35 Water and Sewer System Revenue Bonds, Fiscal 1993 Series A" (the "Eighteenth Supplemental Resolution") authorizing the 1993 Series A Bonds (such Water and Sewer System General Revenue Bond Resolution as supplemented and amended through the Eighteenth Supplemental Resolution being herein called the "Resolution"). Capitalized terms used herein and not otherwise defined shall have the respective 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 later of (a) the fortieth anniversary of the effective date of the Lease or (b) the date on which all bonds, notes or other obligations of the Authority have been paid in full or provision for such payment shall have been made in accordance with the instruments under which they were issued. Pursuant to the Act, the Authority, the Board and the City have entered into a financing agreement, dated as of July 15, 1985, as amended (the "Financing Agreement"), relating to, among other things, the financing of Water Projects.

The 1993 Series A 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 1993 Series A Bonds are being issued for the purposes set forth in the Resolution.

The Authority is authorized to issue Bonds, in addition to the 1993 Series A Bonds, only upon the terms and conditions set forth in the Resolution, and such Bonds, when issued, shall, with the 1993 Series A Bonds and with all other such Bonds theretofore issued, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

The 1993 Series A Bonds are dated August , 1992 and will mature on June 15 in the years and in the respective principal amounts, and will bear interest at the respective rates per annum, set forth below:

Current Interest Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>
1993	\$12,720,000	3.10%	2006	\$13,200,000	6.10%
1994	11,430,000	4.10	2007	25,610,000	6.15
1995	11,900,000	4.35	2008	19,480,000	6
1996	12,420,000	4.60	2009	20,000,000	6
1997	12,990,000	4.85	2010	21,195,000	6
1998	13,620,000	5.10	2011	23,545,000	5½
1999	14,315,000	5¼	2012	30,000,000	5¾
2000	15,065,000	5.40	2013	30,000,000	5¾
2001	15,880,000	5.55	2017	299,000,000	6
2002	10,515,000	5.70	2018	70,500,000	5¾
2003	11,115,000	5.80	2019	50,000,000	5¾
2004	11,755,000	5.90	2020	202,000,000	5½
2005	12,450,000	6			

Capital Appreciation Bonds

<u>Maturity</u>	<u>Original Principal Amount</u>	<u>Approximate Yield</u>	<u>Price Per \$5,000 Maturity Amount</u>	<u>Maturity</u>	<u>Original Principal Amount</u>	<u>Approximate Yield</u>	<u>Price Per \$5,000 Maturity Amount</u>
2002	\$6,807,847.05	5.70%	\$2,876.15	2007	\$ 4,852,113.30	6.10%	\$2,049.90
2003	6,334,920.45	5.85	2,676.35	2008	7,866,176.25	6.10	1,930.35
2004	5,911,582.50	5.95	2,497.50	2009	10,992,586.15	6.15	1,802.95
2005	5,505,878.70	6.05	2,326.10	2010	10,346,609.00	6.15	1,697.00
2006	5,152,603.95	6.10	2,176.85	2011	6,229,275.00	6.15	1,597.25

Interest on the 1993 Series A Bonds (other than the Capital Appreciation Bonds) is payable on December 15, 1992 and semiannually thereafter on June 15 and December 15 in each year. Interest on the Capital Appreciation Bonds will be compounded on each June 15 and December 15, commencing December 15, 1992, and will be payable only at maturity or upon redemption.

The 1993 Series A Bonds are subject to redemption in the manner and upon the terms and conditions set forth in the Resolution. The 1993 Series A Bonds are issuable in the form of fully registered bonds in the denomination of \$5,000 or integral multiples thereof except that the Capital Appreciation Bonds will be issued in denominations of \$5,000 aggregate principal and interest payable at maturity or any integral multiple therein.

We are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State, duly created and existing under the laws of the State with the right and lawful authority and power to enter into the Financing Agreement, to adopt the Resolution and to issue the 1993 Series A Bonds.

2. The Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is the legal, valid and binding agreement of the Authority enforceable in accordance with its terms. The Resolution creates the valid pledge it purports to create of the Revenues and any moneys or securities on deposit in the Funds and Accounts created thereby, subject only to the provisions of the Resolution and the Financing Agreement permitting the application thereof for or to the purposes and on

the terms and conditions permitted thereby, including the making of any required payments to the United States with respect to arbitrage earnings.

3. The 1993 Series A Bonds have been duly and validly authorized and issued. The 1993 Series A 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 1993 Series A Bonds are payable solely from the Revenues and other amounts pledged to such payment under the Resolution. The 1993 Series A Bonds are not a debt of the State, the City or the Board and neither the State, the City, the Board nor any other political subdivision of the State is liable thereon.

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

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

7. The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain requirements which must be met subsequent to the issuance and delivery of the 1993 Series A Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the 1993 Series A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the 1993 Series A Bonds. The Authority has covenanted in the Resolution that it shall not permit the purchase of securities or obligations the acquisition of which would cause any 1993 Series A Bond to be an "arbitrage bond" as defined in Section 148 of the Code, that it shall not permit the use of the proceeds of the 1993 Series A Bonds in a manner which would result in the loss of the exclusion of the interest on the 1993 Series A Bonds from gross income for Federal income tax purposes and that it shall provide for any required rebate to the United States.

In our opinion, under existing law, and assuming compliance with the aforementioned covenant, interest on the 1993 Series A Bonds is excluded from gross income for Federal income tax purposes. The 1993 Series A Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Code and, therefore, the interest on the 1993 Series A Bonds will not be treated as a preference item for purposes of computing the federal alternative minimum tax imposed by Section 55 of the Code. However, we note that a portion of the interest on 1993 Series A Bonds owned by corporations may be subject to the federal alternative minimum tax, which is based in part on adjusted current earnings.

We are further of the opinion that the difference between the principal amount of the Capital Appreciation Bonds and the other 1993 Series A Bonds maturing from 2008 to 2020, inclusive (collectively, the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of the Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the 1993 Series A Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of a Discount Bond acquired at such initial offering price by an initial purchaser of such Discount Bond will be increased by the amount of such accrued original issue discount.

8. Interest on the 1993 Series A Bonds is exempt, under existing law, from personal income taxes of the State of New York and its political subdivisions, including The City of New York.

We have examined an executed 1993 Series A Bond, and, in our opinion, the form of said bond and its execution are regular and proper. However, we have not verified, and express no opinion as to the accuracy of, any "CUSIP" identification number which may be printed on any of the 1993 Series A Bonds.

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

Except as stated in paragraphs 7 and 8 above, we express no opinion as to the Federal or state tax consequences of the ownership or disposition of the 1993 Series A 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 the 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 Financing Agreement and the Lease with respect to the Board and the City.

Very truly yours,

**FINANCIAL STATEMENTS
OF
NEW YORK CITY WATER AND
SEWER SYSTEM**

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Certified Public Accountants

345 Park Avenue
New York, NY 10154

Independent Auditors' Report

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

We have audited the accompanying combined balance sheets of the New York City Water and Sewer System as of June 30, 1991 and 1990, 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 New York City Water and Sewer 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 generally accepted auditing standards. 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 at June 30, 1991 and 1990, and the results of its revenues, expenses, and changes in retained earnings, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic 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 taken as a whole.

KPMG Peat Marwick

October 24, 1991



NEW YORK CITY WATER AND SEWER SYSTEM

Combined Balance Sheets

June 30, 1991 and 1990

(in thousands)

	<u>1991</u>	<u>1990</u>	<u>Liabilities and Equity</u>	<u>1991</u>	<u>1990</u>
<u>Assets</u>					
Utility plant in service, less accumulated depreciation of \$2,349,032 in 1991 and \$2,271,230 in 1990 (notes 3, 4 and 6)			Long-term liabilities:		
Construction work in progress	\$ 3,659,478	2,688,124	Bonds payable less current portion (notes 3 and 8)	\$ 3,400,639	2,482,224
	<u>4,051,151</u>	<u>4,370,918</u>	Discount on bonds payable	(345,567)	(316,574)
			Payable to The City of New York (note 7)	<u>116,171</u>	<u>72,342</u>
			Total long-term liabilities	<u>3,171,243</u>	<u>2,237,992</u>
Current assets:			Current liabilities:		
Unrestricted cash and cash equivalents (note 5)	17,794	24,574	Accounts payable and accrued expenses	17,336	7,786
Investments (note 5)	7,397	-	Revenues received in advance	71,275	60,530
Accounts receivable:			Current portion of bonds payable (notes 3 and 8)	45,730	37,985
Billed, less allowance for uncollectible water and sewer receivables of \$92,207 in 1991 and \$32,338 in 1990	185,242	138,809	Refunds payable to customers	<u>30,400</u>	<u>-</u>
Unbilled	72,642	53,202	Total current liabilities	<u>164,741</u>	<u>106,301</u>
Receivable from The City of New York (note 7)	11,960	3,615	Total liabilities	<u>3,335,984</u>	<u>2,344,293</u>
Accrued interest receivable	81	16			
Other receivables	15	4	Equity:		
Other assets	<u>74,513</u>	<u>14,716</u>	Contributed capital, net of allocated depreciation	5,251,968	5,224,112
Total current assets	<u>369,644</u>	<u>234,936</u>	Retained earnings	<u>282,579</u>	<u>206,476</u>
Restricted assets (notes 5 and 9):			Total equity	<u>5,534,547</u>	<u>5,430,588</u>
Cash and cash equivalents	377,621	198,637			
Investments	355,618	243,592	Commitments and contingencies (notes 6 and 10)		
Accrued interest receivable	<u>6,203</u>	<u>2,143</u>			
Deferred bond and financing expenses	<u>739,442</u>	<u>444,372</u>			
Total assets	<u>\$ 8,870,531</u>	<u>7,774,881</u>	Total liabilities and equity	<u>\$ 8,870,531</u>	<u>7,774,881</u>

See accompanying notes to combined financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

Combined Statements of Revenues, Expenses
and Changes in Retained Earnings

Years ended June 30, 1991 and 1990

(in thousands)

	<u>1991</u>	<u>1990</u>
Operating revenues:		
Water supply and distribution	\$ 402,860	402,028
Sewer collection and treatment	487,895	382,067
Other operating revenues	<u>17,527</u>	<u>20,319</u>
Total operating revenues	<u>908,282</u>	<u>804,414</u>
Operating expenses:		
Operation and maintenance (notes 3 and 6)	656,409	583,600
Administration and general (notes 3 and 6)	<u>1,625</u>	<u>551</u>
	<u>658,034</u>	<u>584,151</u>
Excess of operating revenues over operating expenses before depreciation and amortization	250,248	220,263
Depreciation and amortization	<u>94,036</u>	<u>76,118</u>
Operating income	156,212	144,145
Non-operating revenues (expenses):		
Interest expense	(199,756)	(145,368)
Investment income	<u>49,912</u>	<u>35,911</u>
Net income	6,368	34,688
Retained earnings, beginning of year	206,476	101,362
Depreciation allocated to contributed capital	<u>69,735</u>	<u>70,426</u>
Retained earnings, end of year	\$ <u>282,579</u>	<u>206,476</u>

See accompanying notes to combined financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

Combined Statements of Cash Flows

Years ended June 30, 1991 and 1990

(in thousands)

Cash flows from operating activities:	<u>1991</u>	<u>1990</u>
Operating income	\$ 156,212	144,145
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	94,036	76,118
Changes in assets and liabilities:		
(Increase) in accounts and other receivables and accrued interest receivable	(65,868)	(39,355)
(Increase) decrease in receivable from The City	(8,345)	820
(Increase) in other assets	(59,797)	(14,716)
(Decrease) increase in payable to The City	43,829	(136,246)
(Decrease) increase in accounts payable and accrued expenses	9,550	(1,977)
(Decrease) increase in revenues received in advance	10,745	(2,732)
Increase in refunds payable to customers	<u>30,400</u>	<u>-</u>
Total adjustments	<u>54,550</u>	<u>(118,088)</u>
Net cash provided by operating activities	<u>210,762</u>	<u>26,057</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(740,916)	(451,820)
Contributed capital	97,591	153,543
Proceeds from issuing bonds, notes and other borrowings, net of issue costs	943,728	437,885
Repayments of bonds, notes and other borrowings	(65,080)	(26,620)
Interest paid on bonds, notes and other borrowings	<u>(199,756)</u>	<u>(145,368)</u>
Net cash provided by (used in) capital and related financing activities	<u>35,567</u>	<u>(32,380)</u>
Cash flows from investing activities:		
Deficiency of proceeds from sales and maturities of investments, net of purchases	(124,037)	(66,390)
Interest on investments	<u>49,912</u>	<u>35,911</u>
Net cash used in investing activities	<u>(74,125)</u>	<u>(30,479)</u>
Net increase (decrease) in cash and cash equivalents	172,204	(36,802)
Cash and cash equivalents, beginning of year	<u>223,211</u>	<u>260,013</u>
Cash and cash equivalents, end of year	<u>\$ 395,415</u>	<u>223,211</u>

Reconciliation of Cash and Cash Equivalents Per Statement of Cash Flows to the Balance Sheet

	Assets		Total
	Unrestricted	Restricted	
Cash and cash equivalents at June 30, 1989	\$ 7,153	252,860	260,013
Net increase (decrease)	<u>17,421</u>	<u>(54,223)</u>	<u>(36,802)</u>
Cash and cash equivalents at June 30, 1990	24,574	198,637	223,211
Net increase (decrease)	<u>(6,780)</u>	<u>178,984</u>	<u>172,204</u>
Cash and cash equivalents at June 30, 1991	<u>\$ 17,794</u>	<u>377,621</u>	<u>395,415</u>

See accompanying notes to combined financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

June 30, 1991 and 1990

(1) Organization

The New York City Water and Sewer System (the "System") provides water supply and distribution, and sewage collection, treatment, and disposal for The City of New York ("The City"). The System, as presented in the accompanying combined financial statements, which began operations on July 1, 1985, consists 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 was 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 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 bonds and to place the System on a self-sustaining basis.

The physical operation and capital improvements of the System are performed by The City Department of Environmental Protection subject to contractual agreements with the Authority and Board.

In accordance with Governmental Accounting Standards Board Codification Section 2100, the Board and the Authority are combined for general purpose external reporting purposes since the Board and Authority are fiscally interdependent. Both are included in The City's financial statements as component units for reporting purposes and are reported as an enterprise fund of The City.

(2) Summary of Significant Accounting Policies

The accompanying financial statements of the System have been prepared on the accrual basis of accounting wherein revenues are recognized when earned and expenses recognized when incurred. 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, repurchase agreements, certificates of deposit, open time deposits, and commercial paper and are carried at cost, which approximates market. For purposes of the statement 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.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(2), Continued

(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.

(d) Utility Plant in Service

Utility plant in service acquired through purchase or internal construction is recorded at cost net of retirements. Contributed utility plant in service is recorded at its estimated historical cost based on appraisals or other methods when historical cost is not available, net of depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives as follows:

	<u>Years</u>
Buildings	40-50
Water supply and waste water treatment systems	15-50
Water distribution and sewage collection systems	15-75
Equipment	5-35

Depreciation on contributed utility plant in service is allocated to contributed capital after the determination of net income.

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are charged to utility plant in service.

(e) Operating Revenues

Revenues are based on billing rates imposed by the Board based upon customers' water and sewer usage. The System records estimated unbilled revenue at its year end.

(f) Deferred Revenues

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

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(2), Continued

(g) Contributed Capital

In accordance with the lease, The City transferred its water- and sewer-related physical assets at historical cost, net of depreciation, and all work in progress, at cost, to the Board at July 1, 1985. Capital improvements financed by sources other than the proceeds of Authority revenue bonds (e.g., capital grants) are recorded as additions to contributed capital.

Changes in contributed capital for the fiscal years ended June 30, 1991 and 1990 are as follows:

	<u>1991</u>	<u>1990</u>
	(in thousands)	
Contributed capital, beginning of year	\$ 5,224,112	5,140,995
Plant and equipment contributed	97,591	153,543
Depreciation allocated to contributed capital	<u>(69,735)</u>	<u>(70,426)</u>
Contributed capital, end of year	\$ <u>5,251,968</u>	<u>5,224,112</u>

(3) Financing Agreement

The Financing Agreement (the "Agreement") provides that the Authority will issue bonds to finance the cost of capital investment in the water and sewer system serving The City. It also sets forth the funding of the debt service costs of the Authority, operating costs of the water and sewer system, and the rental payment to The City.

(4) Utility Plant in Service

Utility plant in service at June 30, 1991 and 1990 comprised:

	<u>1991</u>	<u>1990</u>
	(in thousands)	
Buildings	\$ 5,543	5,555
Water supply and waste water treatment systems	2,768,009	1,769,578
Water distribution and sewage collection systems	3,184,976	3,128,185
Equipment	<u>49,982</u>	<u>56,036</u>
	6,008,510	4,959,354
Less accumulated depreciation	<u>2,349,032</u>	<u>2,271,230</u>
	\$ <u>3,659,478</u>	<u>2,688,124</u>

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(5) Investments, Cash Equivalents and Cash Deposits

The Water and Sewer General Revenue Bond Resolution (the "Resolution") authorizes the investment of bond proceeds. The guidelines issued by the Office of the New York State Comptroller, and the Resolution establish the criteria for permissible investments of the System. The System may invest in Federal government obligations or any subdivision or instrumentality thereof, obligations of the State of New York or any subdivision or instrumentality thereof provided that they are in the two highest rating categories of a rating agency, bankers' acceptances or certificates of deposit issued by a New York State commercial bank with capital or surplus in excess of \$100 million, corporate securities or commercial paper rated highest by a rating agency when compared to similar-type securities, or repurchase agreements that are collateralized by obligations of the Federal government.

Investments and deposits held by the System at June 30, 1991 and 1990 comprised:

	<u>1991</u>	<u>1990</u>
	(in thousands)	
Unrestricted cash, cash equivalents and investments (plus accrued interest)	\$ 25,272	24,590
Restricted cash, cash equivalents and investments (plus accrued interest)	<u>739,442</u>	<u>444,372</u>
	<u>\$ 764,714</u>	<u>468,962</u>
This amount is comprised of:		
Carrying amount of deposits (includes CDs)	75,297	73,130
Investments (plus accrued interest)	<u>689,417</u>	<u>395,832</u>
	<u>\$ 764,714</u>	<u>468,962</u>

Cash Deposits

The System's bank depositories are designated by the New York City Banking Commission consisting of the comptroller, the mayor, and the finance commissioner. Independent bank rating agencies are used in part to assess the financial soundness of each bank, and the System's 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. Additionally, no amounts can be deposited with any bank in excess of the greater of (i) 2% of its capital or (ii) the amount insured by the Federal Deposit Insurance Corporation (the "FDIC"). The System had \$75.297 million and \$73.170 million on deposit at June 30, 1991 and 1990, respectively. All funds on deposit at June 30, 1991 and 1990 were covered by Federal depository insurance or collateralized with securities held by the pledging financial institution's trust department, which are not in the System's name.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(5), Continued

Investments

The System's investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1, the lowest risk, includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3, the highest risk, includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the System's name.

Investments held by the System at June 30, 1991 and 1990 were all classified as Category 1 investments, and are comprised of:

	<u>1991</u>		<u>1990</u>	
	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>
	(in thousands)			
U.S. Treasury securities	\$ 356,142	356,409	232,066	231,523
Federal agency issues	-	-	11,527	11,468
Repurchase Agreements	<u>327,222</u>	<u>327,892</u>	<u>148,237</u>	<u>150,910</u>
	\$ <u>683,364</u>	<u>684,301</u>	<u>391,830</u>	<u>393,901</u>

(6) Lease Agreement

The Board has entered into a long-term 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 has 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;

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(6), Continued

- (b) an amount sufficient to reimburse The City for capital costs incurred by The City for the construction of capital improvements to the leased property which are not paid or reimbursed from any other source, to the extent requested by The City;
- (c) an amount sufficient to pay the cost of billing and other services provided by The City;
- (d) an amount sufficient to pay the cost of legal services provided by The City;
- (e) an amount sufficient to reimburse The City for the costs of the services of any city officer and employee provided on a full-time or part-time basis to the Board; and
- (f) the amount of any reconciliation payments, as defined.

In addition to the payments described above, the Board pays rent to The City to the extent requested by The City in each fiscal year in an amount not to exceed the greater of (a) the principal and interest payable on general obligation bonds issued by The City for water and sewer purposes certified by The City to be paid within such fiscal year or (b) 15% of principal and interest payable on the bonds of the Authority to be paid within such fiscal year. After all amounts certified by The City have been paid and all other required payments have been made, any surplus funds received by the Board in the current fiscal year are to be placed into the Board's O&M reserve account.

A summary of operation and maintenance costs at June 30, 1991 and 1990 is as follows:

	<u>1991</u>	<u>1990</u>
Water transmission and distribution	\$ 141,923,390	136,936,165
Sewer collection systems	217,837,654	193,865,770
Customer accounting	7,551,813	6,291,393
City agency support cost	13,623,657	14,174,441
Fringe benefits	45,459,945	45,398,845
Judgments and claims	808,244	766,290
Provision for uncollectible water and sewer charges	<u>59,869,199</u>	<u>12,176,564</u>
	487,073,902	409,609,468
Rental payments to The City	<u>169,335,348</u>	<u>173,990,492</u>
	\$ <u>656,409,250</u>	<u>583,599,960</u>

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(7) Payable to and Receivable from The City of New York

As of June 30, 1991 and 1990, all construction work in progress recorded by the Board, which has not been reimbursed to The City, has been recorded as a payable to The City of New York, net of the amount of any State or Federal capital grants received by The City. In addition, funds paid to The City for the installation of meters, in accordance with the new metering program, not yet expended by The City at June 30, 1991, were recorded as a receivable from The City of New York.

(8) Bonds Payable

The New York City Municipal Water Finance Authority issues revenue bonds to finance a portion of the costs of the capital improvements program to the System, fund certain reserves, and pay costs of issuance.

Bonds payable comprise the following for the year ended June 30, 1991:

	Balance at June 30, 1990	Issued (in thousands)	Retired	Balance at June 30, 1991
1986 Fiscal Series A - 5.625% to 9.25% Serial and Term Bonds maturing in varying installments through 2015	\$ 29,675	-	2,390	27,285
1986 Fiscal Series B - 4.60% to 7.875% Serial and Term Bonds maturing in varying installments through 2016	190,860	-	2,615	188,245
1987 Fiscal Series A - 4.00% to 7.00% Serial and Term Bonds maturing in varying installments through 2017	378,855	-	3,565	375,290
1987 Fiscal Series B - 4.25% to 8.25% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2017	189,027	-	3,740	185,287
1988 Fiscal Series A - 6.00% to 9.00% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2017	286,972	-	4,495	282,477
1988 Fiscal Series B - 5.30% to 7.80% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2018	302,545	-	5,780	296,765
1989 Fiscal Series A - 5.90% to 7.70% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2018	328,885	-	5,575	323,310
1989 Fiscal Series B - 5.75% to 7.75% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2019	326,385	-	4,890	321,495
1990 Fiscal Series A - 6.00% to 7.375% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2019	313,505	-	4,935	308,570
1990 Fiscal Series B - 6.60% to 7.60% Serial and Term Bonds maturing in varying installments through 2020	173,500	-	-	173,500
1991 Fiscal Series A - 6.00% to 7.50% Serial, Term and Capital Appreciation Bonds maturing in varying installments through 2020	-	300,230	4,095	296,135
1991 Fiscal Series B - 5.80% to 7.25% Serial and Term Bonds maturing in varying installments through 2012	-	336,400	23,000	313,400
1991 Fiscal Series C - 6.20% to 7.75% Serial and Term Bonds maturing in varying installments through 2020	-	354,610	-	354,610
Total debt payable	\$ 2,520,209	991,240	65,080	3,446,369

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(8), Continued

With respect to all series, the Board has agreed to maintain rates and charges to provide revenues at levels sufficient to pay principal and interest requirements. All series are special obligations of the Authority payable solely from and secured by a pledge of and lien on the gross revenue of the System, as defined.

In fiscal year 1987 the authority defeased \$162.2 million of 1986 Fiscal Series A revenue term bonds by placing proceeds of refunding bonds issued, in an irrevocable escrow account to provide for all future debt service payments. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the authority's financial statements. As of June 30, 1991, none of the defeased bonds had been retired from the assets of the escrow account.

Debt service requirements to maturity at June 30, 1991 are as follows:

<u>Year ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(in thousands)		
1992	\$ 45,730	225,780	271,510
1993	56,925	215,314	272,239
1994	60,590	211,657	272,247
1995	64,605	207,655	272,260
1996	68,985	203,286	272,271
Five years ending June 30, 2001	320,544	996,052	1,316,596
Thereafter	<u>2,828,990</u>	<u>2,038,038</u>	<u>4,867,028</u>
Total	\$ <u>3,446,369</u>	<u>4,097,782</u>	<u>7,544,151</u>

(9) Restricted Assets

Certain cash and investments, plus accrued interest, of the System are restricted as follows:

<u>Board</u>	<u>1991</u>	<u>1990</u>
	(in thousands)	
Operation and maintenance reserve account	\$ 85,814	48,227
 <u>Authority</u>		
Debt service account	41,644	28,642
Construction account	328,041	161,123
Debt service reserve account	<u>283,943</u>	<u>206,380</u>
	\$ <u>739,442</u>	<u>444,372</u>

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

Notes to Combined Financial Statements

(10) Commitments and Contingencies

Construction

The System has unliquidated contractual commitments of approximately \$1.5 billion and \$1.2 billion at June 30, 1991 and 1990, respectively, for water and sewer projects.

Contingencies

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.

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, 1991, claims in excess of \$2.4 billion were outstanding against The City for which The City estimated its potential future liability to be \$223 million. This amount is included in The City's General Long-Term Obligations Account Group. The potential future liability is The City's best estimate based on available information. The estimate may be revised as further information is obtained and as pending cases are litigated.

(11) Subsequent Event

On September 25, 1991, the Authority sold \$583,155,000 Fiscal 1992 Series A Water and Sewer System Revenue Bonds for the purposes of financing a portion of the cost of the capital renovation and improvements program of the System, fund certain reserves, pay costs of issuance and to advance refund a portion of the Authority's outstanding Water and Sewer System Revenue Bonds, Fiscal 1987 Series B and Fiscal 1988 Series A.

NEW YORK CITY WATER AND SEWER SYSTEM

Combined Schedule of Cash Receipts and Disbursements

Years ended June 30, 1991 and 1990

(in thousands)

	<u>1991</u>	<u>1990</u>
Cash receipts:		
Water supply and distribution	\$ 329,720	351,182
Sewer collection and treatment	397,593	318,713
Other operating revenues	15,244	20,454
Revenues received in advance	70,858	59,932
Investment income	<u>49,478</u>	<u>34,715</u>
Total cash receipts	<u>862,893</u>	<u>784,996</u>
Cash disbursements:		
Operation and maintenance	648,013	582,998
Administration and general	1,029	707
Interest expense	<u>178,693</u>	<u>137,039</u>
Total cash disbursements	<u>827,735</u>	<u>720,744</u>
Excess of cash receipts over cash disbursements before financing sources (uses)	<u>35,158</u>	<u>64,252</u>
Financing sources:		
Proceeds from bond sales, net of issuance costs	<u>931,420</u>	<u>429,636</u>
Total financing sources	<u>931,420</u>	<u>429,636</u>
Financing uses:		
Restricted assets	293,067	10,936
Investments	7,397	-
Construction payments	605,913	438,911
Repayment of bonds	65,080	26,620
Transfers to New York City	<u>1,901</u>	<u>-</u>
Total financing uses	<u>973,358</u>	<u>476,467</u>
Excess (deficit) of cash receipts over cash disbursements	(6,780)	17,421
Unrestricted cash and cash equivalents, beginning of year	<u>24,574</u>	<u>7,153</u>
Unrestricted cash and cash equivalents, end of year	\$ <u>17,794</u>	<u>24,574</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM
Combining Balance Sheet Schedule
June 30, 1991
(in thousands)

Schedule II

	New York City			
	Water Board	Municipal Water Finance Authority	Elimi- nations	Total
Assets:				
Utility plant in service, less accumulated depreciation of \$2,349,032	\$ 3,659,478	-	-	3,659,478
Construction work in progress	<u>4,051,151</u>	-	-	<u>4,051,151</u>
	<u>7,710,629</u>	-	-	<u>7,710,629</u>
Current assets:				
Unrestricted cash and cash equivalents	16,716	1,078	-	17,794
Investments	7,397	-	-	7,397
Accounts receivable:				
Billed, less allowance for uncollectible water and sewer receivables of \$92,207	185,242	-	-	185,242
Unbilled	72,642	-	-	72,642
Receivable from The City of New York	11,960	-	-	11,960
Accrued interest receivable	81	-	-	81
Other receivables	13	2	-	15
Other assets	<u>74,513</u>	-	-	<u>74,513</u>
Total current assets	<u>368,564</u>	<u>1,080</u>	-	<u>369,644</u>
Restricted assets:				
Cash and cash equivalents	47,815	329,806	-	377,621
Investments	36,821	318,797	-	355,618
Accrued interest receivable	<u>1,178</u>	<u>5,025</u>	-	<u>6,203</u>
	<u>85,814</u>	<u>653,628</u>	-	<u>739,442</u>
Revenue requirement to be billed by and received from The New York City Water Board	-	2,047,351	(2,047,351)	-
Deferred bond and financing expenses	-	<u>50,816</u>	-	<u>50,816</u>
Total assets	<u>\$ 8,165,007</u>	<u>2,752,875</u>	<u>(2,047,351)</u>	<u>8,870,531</u>
Liabilities and equity:				
Long-term liabilities:				
Bonds payable less current portion	-	3,400,639	-	3,400,639
Discount on bonds payable	-	(345,567)	-	(345,567)
Revenue requirements payable to The New York City Municipal Water Finance Authority	2,047,351	-	(2,047,351)	-
Payable to The City of New York	<u>12,095</u>	<u>104,076</u>	-	<u>116,171</u>
Total long-term liabilities	<u>2,059,446</u>	<u>3,159,148</u>	<u>(2,047,351)</u>	<u>3,171,243</u>
Current liabilities:				
Accounts payable and accrued expenses	564	16,772	-	17,336
Revenue received in advance	71,275	-	-	71,275
Current portion of bonds payable	-	45,730	-	45,730
Refunds payable to customers	<u>30,400</u>	-	-	<u>30,400</u>
Total current liabilities	<u>102,239</u>	<u>62,502</u>	-	<u>164,741</u>
Total liabilities	<u>2,161,685</u>	<u>3,221,650</u>	<u>(2,047,351)</u>	<u>3,335,984</u>
Equity:				
Contributed capital, net of allocated depreciation	5,251,968	-	-	5,251,968
Retained earnings (deficit)	<u>751,354</u>	<u>(468,775)</u>	-	<u>282,579</u>
Total equity	<u>6,003,322</u>	<u>(468,775)</u>	-	<u>5,534,547</u>
Commitments and contingencies				
Total liabilities and equity	<u>\$ 8,165,007</u>	<u>2,752,875</u>	<u>(2,047,351)</u>	<u>8,870,531</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM
Combining Balance Sheet Schedule
June 30, 1990
(in thousands)

Schedule III

	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
Assets:				
Utility plant in service, less accumulated depreciation of \$2,271,230	\$ 2,688,124	-	-	2,688,124
Construction work in progress	<u>4,370,918</u>	-	-	<u>4,370,918</u>
	<u>7,059,042</u>	-	-	<u>7,059,042</u>
Current assets:				
Unrestricted cash and cash equivalents	23,852	722	-	24,574
Accounts receivable:				
Billed, less allowance for uncollectible water and sewer receivables of \$32,338	138,809	-	-	138,809
Unbilled	53,202	-	-	53,202
Receivable from The City of New York	3,615	-	-	3,615
Accrued interest receivable	16	-	-	16
Other receivables	2	2	-	4
Other assets	<u>14,716</u>	-	-	<u>14,716</u>
Total current assets	<u>234,212</u>	<u>724</u>	<u>-</u>	<u>234,936</u>
Restricted assets:				
Cash and cash equivalents	48,226	150,411	-	198,637
Investments	-	243,592	-	243,592
Accrued interest receivable	<u>-</u>	<u>2,143</u>	<u>-</u>	<u>2,143</u>
	<u>48,226</u>	<u>396,146</u>	<u>-</u>	<u>444,372</u>
Revenue requirement to be billed by and received from The New York City Water Board	-	1,531,426	(1,531,426)	-
Deferred bond and financing expenses	<u>-</u>	<u>36,531</u>	<u>-</u>	<u>36,531</u>
Total assets	<u>\$ 7,341,480</u>	<u>1,964,827</u>	<u>(1,531,426)</u>	<u>7,774,881</u>
Liabilities and equity:				
Long-term liabilities:				
Bonds payable less current portion	-	2,482,224	-	2,482,224
Discount on bonds payable	-	(316,574)	-	(316,574)
Revenue requirements payable to The New York City Municipal Water Finance Authority	1,531,426	-	(1,531,426)	-
Payable to The City of New York	<u>5,678</u>	<u>66,664</u>	<u>-</u>	<u>72,342</u>
Total long-term liabilities	<u>1,537,104</u>	<u>2,232,314</u>	<u>(1,531,426)</u>	<u>2,237,992</u>
Current liabilities:				
Accounts payable and accrued expenses	14	7,772	-	7,786
Revenue received in advance	60,530	-	-	60,530
Current portion of bonds payable	<u>-</u>	<u>37,985</u>	<u>-</u>	<u>37,985</u>
Total current liabilities	<u>60,544</u>	<u>45,757</u>	<u>-</u>	<u>106,301</u>
Total liabilities	<u>1,597,648</u>	<u>2,278,071</u>	<u>(1,531,426)</u>	<u>2,344,293</u>
Equity:				
Contributed capital, net of allocated depreciation	5,224,112	-	-	5,224,112
Retained earnings (deficit)	<u>519,720</u>	<u>(313,244)</u>	<u>-</u>	<u>206,476</u>
Total equity	<u>5,743,832</u>	<u>(313,244)</u>	<u>-</u>	<u>5,430,588</u>
Commitments and contingencies				
Total liabilities and equity	<u>\$ 7,341,480</u>	<u>1,964,827</u>	<u>(1,531,426)</u>	<u>7,774,881</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Schedule of Revenues, Expenses
and Changes in Retained Earnings

Year ended June 30, 1991

(in thousands)

	<u>New York City</u>			
	Municipal			
	Water	Finance	Elimi-	
	Board	Authority	nations	<u>Total</u>
Operating revenues:				
Water supply and distribution	\$ 402,860	-	-	402,860
Sewer collection and treatment	487,895	-	-	487,895
Other operating revenues	<u>15,420</u>	<u>2,107</u>	<u>-</u>	<u>17,527</u>
Total operating revenues	<u>906,175</u>	<u>2,107</u>	<u>-</u>	<u>908,282</u>
Operating expenses:				
Operation and maintenance	656,409	-	-	656,409
Administration and general	<u>939</u>	<u>686</u>	<u>-</u>	<u>1,625</u>
	<u>657,348</u>	<u>686</u>	<u>-</u>	<u>658,034</u>
Excess of operating revenues over operating expenses before depreciation and amortization	248,827	1,421	-	250,248
Depreciation and amortization	<u>89,328</u>	<u>4,708</u>	<u>-</u>	<u>94,036</u>
Operating income (loss)	<u>159,499</u>	<u>(3,287)</u>	<u>-</u>	<u>156,212</u>
Non-operating revenue (expense):				
Interest expense	-	(199,756)	-	(199,756)
Investment income	<u>2,400</u>	<u>47,512</u>	<u>-</u>	<u>49,912</u>
	<u>2,400</u>	<u>(152,244)</u>	<u>-</u>	<u>(149,844)</u>
Net income (loss)	161,899	(155,531)	-	6,368
Retained earnings (deficit), beginning of year	519,720	(313,244)	-	206,476
Depreciation allocated to contributed capital	<u>69,735</u>	<u>-</u>	<u>-</u>	<u>69,735</u>
Retained earnings (deficit), end of year	\$ <u>751,354</u>	<u>(468,775)</u>	<u>-</u>	<u>282,579</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM
 Combining Schedule of Revenues, Expenses
 and Changes in Retained Earnings

Year ended June 30, 1990

(in thousands)

	<u>New York City</u>			<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	<u>Eliminations</u>	
Operating revenues:				
Water supply and distribution	\$ 402,028	-	-	402,028
Sewer collection and treatment	382,067	-	-	382,067
Other operating revenues	<u>20,319</u>	<u>-</u>	<u>-</u>	<u>20,319</u>
Total operating revenues	<u>804,414</u>	<u>-</u>	<u>-</u>	<u>804,414</u>
Operating expenses:				
Operation and maintenance	583,600	-	-	583,600
Administration and general	<u>274</u>	<u>277</u>	<u>-</u>	<u>551</u>
	<u>583,874</u>	<u>277</u>	<u>-</u>	<u>584,151</u>
Excess (deficit) of operating revenues over operating expenses before depreciation and amortization	220,540	(277)	-	220,263
Depreciation and amortization	<u>71,280</u>	<u>4,838</u>	<u>-</u>	<u>76,118</u>
Operating income (loss)	<u>149,260</u>	<u>(5,115)</u>	<u>-</u>	<u>144,145</u>
Non-operating revenue (expense):				
Interest expense	-	(145,368)	-	(145,368)
Investment income	<u>663</u>	<u>35,248</u>	<u>-</u>	<u>35,911</u>
	<u>663</u>	<u>(110,120)</u>	<u>-</u>	<u>(109,457)</u>
Net income (loss)	149,923	(115,235)	-	34,688
Retained earnings (deficit), beginning of year	299,371	(198,009)	-	101,362
Depreciation allocated to contributed capital	<u>70,426</u>	<u>-</u>	<u>-</u>	<u>70,426</u>
Retained earnings (deficit), end of year	\$ <u>519,720</u>	<u>(313,244)</u>	<u>-</u>	<u>206,476</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Schedule VI

Combining Cash Flows Schedule

Year ended June 30, 1991

(in thousands)

	<u>New York City</u>		
	Water Board	Municipal Finance Authority	Total
Cash flows from operating activities:			
Operating income (loss)	\$ 159,499	(3,287)	156,212
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	89,328	4,708	94,036
Changes in assets and liabilities:			
(Increase) in accounts and other receivables and accrued interest receivable	(65,868)	-	(65,868)
(Increase) in receivable from The City	(8,345)	-	(8,345)
(Increase) in other assets	(59,797)	-	(59,797)
Increase in payable to The City - other payables	6,417	37,412	43,829
Increase in accounts payable and accrued expenses	550	9,000	9,550
Increase in revenues received in advance	10,745	-	10,745
Increase in payable to Finance Authority (receivable from Water Board)	515,925	(515,925)	-
Increase in refunds payable to customers	30,400	-	30,400
Total adjustments	519,355	(464,805)	54,550
Net cash provided by (used in) operating activities	678,854	(468,092)	210,762
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(740,916)	-	(740,916)
Contributed capital	97,591	-	97,591
Proceeds from issuing bonds, notes and other borrowings, net of issue costs	-	943,728	943,728
Repayments of bonds, notes and other borrowings	-	(65,080)	(65,080)
Interest paid on bonds, notes and other borrowings	-	(199,756)	(199,756)
Net cash provided by (used in) capital and related financing activities	(643,325)	678,892	35,567
Cash flows from investing activities:			
Deficiency of proceeds from sales and maturities of investments, net of purchases	(45,477)	(78,560)	(124,037)
Interest on investments	2,400	47,512	49,912
Net cash used in investing activities	(43,077)	(31,048)	(74,125)
Net increase (decrease) in cash and cash equivalents	(7,548)	179,752	172,204
Cash and cash equivalents, beginning of year	72,078	151,133	223,211
Cash and cash equivalents, end of year	\$ 64,530	330,885	395,415

Reconciliation of Cash and Cash Equivalents Per Statement of Cash Flows to the Balance Sheet

	<u>Assets</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and cash equivalents - beginning	\$ 24,574	198,637	223,211
Net increase (decrease)	(6,780)	178,984	172,204
Cash and cash equivalents - ending	\$ 17,794	377,621	395,415

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Schedule VII

Combining Cash Flows Schedule

Year ended June 30, 1990

(in thousands)

	<u>New York City</u>		
	Water Board	Municipal Water Finance Authority	<u>Total</u>
Cash flows from operating activities:			
Operating income (loss)			
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	\$ 149,260	(5,115)	144,145
Depreciation and amortization	71,280	4,838	76,118
Changes in assets and liabilities:			
(Increase) in accounts and other receivables and accrued interest receivable	(39,355)	-	(39,355)
Decrease in receivable from The City	820	-	820
(Increase) in other assets	(14,716)	-	(14,716)
Increase (decrease) in payable to The City	4,389	(140,635)	(136,246)
Decrease in accounts payable and accrued expenses	(26)	(1,951)	(1,977)
Decrease in revenues received in advance	(2,732)	-	(2,732)
Increase in payable to Finance Authority (receivable from Water Board)	155,974	(155,974)	-
Total adjustments	175,634	(293,722)	(118,088)
Net cash provided by (used in) operating activities	324,894	(298,837)	26,057
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(451,820)	-	(451,820)
Contributed capital	153,543	-	153,543
Proceeds from issuing bonds, notes and other borrowings, net of issue costs	-	437,885	437,885
Repayments of bonds, notes and other borrowings	-	(26,620)	(26,620)
Interest paid on bonds, notes and other borrowings	-	(145,368)	(145,368)
Net cash provided by (used in) capital and related financing activities	(298,277)	265,897	(32,380)
Cash flows from investing activities:			
Deficiency of proceeds from sales and maturities of investments, net of purchases	-	(66,390)	(66,390)
Interest on investments	663	35,248	35,911
Net cash provided by (used in) investing activities	663	(31,142)	(30,479)
Net increase (decrease) in cash and cash equivalents	27,280	(64,082)	(36,802)
Cash and cash equivalents, beginning of year	44,798	215,215	260,013
Cash and cash equivalents, end of year	\$ 72,078	151,133	223,211

Reconciliation of Cash and Cash Equivalents Per Statement of Cash Flows to the Balance Sheet

	<u>Assets</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and cash equivalents - beginning	\$ 7,153	252,860	260,013
Net increase (decrease)	17,421	(54,223)	(36,802)
Cash and cash equivalents - ending	\$ 24,574	198,637	223,211

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Schedule of Cash Receipts and Disbursements

Year ended June 30, 1991

(in thousands)

	<u>New York City</u>		<u>Elimi-</u> <u>nations</u>	<u>Total</u>
	<u>Water</u> <u>Board</u>	<u>Municipal</u> <u>Water</u> <u>Finance</u> <u>Authority</u>		
Cash receipts:				
Water supply and distribution	\$ 329,720	-	-	329,720
Sewer collection and treatment	397,593	-	-	397,593
Other operating revenues	15,244	-	-	15,244
Revenues received in advance	70,858	-	-	70,858
Investment income	<u>1,214</u>	<u>48,264</u>	<u>-</u>	<u>49,478</u>
Total cash receipts	<u>814,629</u>	<u>48,264</u>	<u>-</u>	<u>862,893</u>
Cash disbursements:				
Operation and maintenance	648,013	-	-	648,013
Administration and general	387	642	-	1,029
Interest expense	<u>-</u>	<u>178,693</u>	<u>-</u>	<u>178,693</u>
Total cash disbursements	<u>648,400</u>	<u>179,335</u>	<u>-</u>	<u>827,735</u>
Excess (deficit) of cash receipts over cash disbursements before financing sources (uses)	<u>166,229</u>	<u>(131,071)</u>	<u>-</u>	<u>35,158</u>
Financing sources:				
Proceeds from sale of bonds, net of offering costs	-	931,420	-	931,420
Transfers from Board, net	<u>-</u>	<u>127,600</u>	<u>(127,600)</u>	<u>-</u>
Total financing sources	<u>-</u>	<u>1,059,020</u>	<u>(127,600)</u>	<u>931,420</u>
Financing uses:				
Restricted assets	36,467	256,600	-	293,067
Investments	7,397	-	-	7,397
Construction payments	-	605,913	-	605,913
Repayment of bonds	-	65,080	-	65,080
Transfers to Authority, net	127,600	-	(127,600)	-
Transfers to New York City	<u>1,901</u>	<u>-</u>	<u>-</u>	<u>1,901</u>
Total financing uses	<u>173,365</u>	<u>927,593</u>	<u>(127,600)</u>	<u>973,358</u>
Excess (deficit) of cash receipts over cash disbursements	<u>(7,136)</u>	<u>356</u>	<u>-</u>	<u>(6,780)</u>
Unrestricted cash and cash equiva- lents, beginning of year	<u>23,852</u>	<u>722</u>	<u>-</u>	<u>24,574</u>
Unrestricted cash and cash equiva- lents, end of year	\$ <u>16,716</u>	<u>1,078</u>	<u>-</u>	<u>17,794</u>

See accompanying independent auditors' report.

NEW YORK CITY WATER AND SEWER SYSTEM

Combining Schedule of Cash Receipts and Disbursements

Year ended June 30, 1990

(in thousands)

	<u>New York City</u>			
	<u>Water</u>	<u>Municipal</u>	<u>Finance</u>	
	<u>Board</u>	<u>Water</u>	<u>Authority</u>	<u>Elimi-</u>
				<u>nations</u>
				<u>Total</u>
Cash receipts:				
Water supply and distribution	\$ 351,182	-	-	351,182
Sewer collection and treatment	318,713	-	-	318,713
Other operating revenues	20,454	-	-	20,454
Revenues received in advance	59,932	-	-	59,932
Investment income	<u>774</u>	<u>33,941</u>	<u>-</u>	<u>34,715</u>
Total cash receipts	<u>751,055</u>	<u>33,941</u>	<u>-</u>	<u>784,996</u>
Cash disbursements:				
Operation and maintenance	582,998	-	-	582,998
Administration and general	301	406	-	707
Interest expense	<u>-</u>	<u>137,039</u>	<u>-</u>	<u>137,039</u>
Total cash disbursements	<u>583,299</u>	<u>137,445</u>	<u>-</u>	<u>720,744</u>
Excess (deficit) of cash receipts over cash disbursements before financing sources (uses)	<u>167,756</u>	<u>(103,504)</u>	<u>-</u>	<u>64,252</u>
Financing sources:				
Proceeds from sale of bonds, net of offering costs	-	427,735	-	427,735
Transfers from Board, net	-	142,301	(142,301)	-
Transfers from New York City	<u>1,901</u>	<u>-</u>	<u>-</u>	<u>1,901</u>
Total financing sources	<u>1,901</u>	<u>570,036</u>	<u>(142,301)</u>	<u>429,636</u>
Financing uses:				
Restricted assets	10,554	382	-	10,936
Construction payments	-	438,911	-	438,911
Repayment of bonds	-	26,620	-	26,620
Transfers to Authority, net	<u>142,301</u>	<u>-</u>	<u>(142,301)</u>	<u>-</u>
Total financing uses	<u>152,855</u>	<u>465,913</u>	<u>(142,301)</u>	<u>476,467</u>
Excess of cash receipts over cash disbursements	16,802	619	-	17,421
Unrestricted cash and cash equiva- lents, beginning of year	<u>7,050</u>	<u>103</u>	<u>-</u>	<u>7,153</u>
Unrestricted cash and cash equiva- lents, end of year	\$ <u>23,852</u>	<u>722</u>	<u>-</u>	<u>24,574</u>

See accompanying independent auditors' report.

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APPENDIX G

TABLE OF APPRECIATED PRINCIPAL AMOUNTS FOR CAPITAL APPRECIATION BONDS
 (Expressed per \$5,000 maturity payment amount)
 Capital Appreciation Bonds due

Date	15-Jun-2002	15-Jun-2003	15-Jun-2004	15-Jun-2005	15-Jun-2006	15-Jun-2007	15-Jun-2008	15-Jun-2009	15-Jun-2010	15-Jun-2011
13-Aug-92	2,876.15	2,676.35	2,497.50	2,326.10	2,176.85	2,049.90	1,930.35	1,802.95	1,697.00	1,597.25
15-Dec-92	2,931.46	2,729.16	2,547.62	2,373.56	2,221.63	2,092.07	1,970.06	1,840.34	1,732.20	1,630.38
15-Jun-93	3,015.01	2,808.99	2,623.41	2,445.36	2,289.39	2,155.88	2,030.15	1,896.94	1,785.46	1,680.51
15-Dec-93	3,100.93	2,891.15	2,701.46	2,519.34	2,359.22	2,221.63	2,092.07	1,955.27	1,840.37	1,732.19
15-Jun-94	3,189.31	2,975.72	2,781.83	2,595.55	2,431.18	2,289.39	2,155.88	2,015.39	1,896.96	1,785.45
15-Dec-94	3,280.21	3,062.76	2,864.59	2,674.06	2,505.33	2,359.22	2,221.63	2,077.37	1,955.29	1,840.36
15-Jun-95	3,373.70	3,152.35	2,949.81	2,754.96	2,581.74	2,431.18	2,289.39	2,141.25	2,015.42	1,896.95
15-Dec-95	3,469.85	3,244.56	3,037.57	2,838.29	2,660.48	2,505.33	2,359.22	2,207.09	2,077.39	1,955.28
15-Jun-96	3,568.74	3,339.46	3,127.94	2,924.15	2,741.63	2,581.74	2,431.18	2,274.96	2,141.27	2,015.41
15-Dec-96	3,670.46	3,437.14	3,221.00	3,012.61	2,825.25	2,660.48	2,505.33	2,344.92	2,207.12	2,077.38
15-Jun-97	3,775.07	3,537.68	3,316.83	3,103.74	2,911.42	2,741.63	2,581.74	2,417.03	2,274.99	2,141.26
15-Dec-97	3,882.66	3,641.16	3,415.50	3,197.63	3,000.22	2,825.25	2,660.48	2,491.36	2,344.94	2,207.11
15-Jun-98	3,993.32	3,747.66	3,517.11	3,294.36	3,091.73	2,911.42	2,741.63	2,567.97	2,417.05	2,274.98
15-Dec-98	4,107.13	3,857.28	3,621.75	3,394.02	3,186.02	3,000.22	2,825.25	2,646.93	2,491.38	2,344.94
15-Jun-99	4,224.18	3,970.11	3,729.50	3,496.69	3,283.20	3,091.73	2,911.42	2,728.33	2,567.99	2,417.04
15-Dec-99	4,344.57	4,086.23	3,840.45	3,602.46	3,383.34	3,186.02	3,000.22	2,812.23	2,646.95	2,491.37
15-Jun-2000	4,468.40	4,205.76	3,954.71	3,711.44	3,486.53	3,283.20	3,091.72	2,898.70	2,728.35	2,567.98
15-Dec-2000	4,595.75	4,328.78	4,072.36	3,823.71	3,592.87	3,383.34	3,186.02	2,987.84	2,812.25	2,646.95
15-Jun-2001	4,726.73	4,455.39	4,193.52	3,939.38	3,702.45	3,486.53	3,283.20	3,079.72	2,898.72	2,728.34
15-Dec-2001	4,861.45	4,585.71	4,318.27	4,058.55	3,815.38	3,592.87	3,383.34	3,174.42	2,987.86	2,812.24
15-Jun-2002	5,000.00	4,719.85	4,446.74	4,181.32	3,931.75	3,702.45	3,486.53	3,272.04	3,079.74	2,898.72
15-Dec-2002		4,857.91	4,579.04	4,307.81	4,051.67	3,815.38	3,592.87	3,372.66	3,174.44	2,987.85
15-Jun-2003		5,000.00	4,715.26	4,438.12	4,175.24	3,931.75	3,702.45	3,476.37	3,272.06	3,079.73
15-Dec-2003			4,855.55	4,572.37	4,302.59	4,051.67	3,815.38	3,583.27	3,372.67	3,174.44
15-Jun-2004			5,000.00	4,710.69	4,433.82	4,175.24	3,931.75	3,693.46	3,476.38	3,272.05
15-Dec-2004				4,853.19	4,569.05	4,302.59	4,051.66	3,807.04	3,583.28	3,372.67
15-Jun-2005				5,000.00	4,708.41	4,433.82	4,175.24	3,924.11	3,693.47	3,476.38
15-Dec-2005					4,852.01	4,569.05	4,302.59	4,044.77	3,807.05	3,583.28
15-Jun-2006					5,000.00	4,708.41	4,433.82	4,169.15	3,924.12	3,693.47
15-Dec-2006						4,852.01	4,569.05	4,297.36	4,044.78	3,807.04
15-Jun-2007						5,000.00	4,708.41	4,429.51	4,169.16	3,924.11
15-Dec-2007							4,852.01	4,565.72	4,297.37	4,044.78
15-Jun-2008							5,000.00	4,706.12	4,429.51	4,169.16
15-Dec-2008								4,850.83	4,565.72	4,297.36
15-Jun-2009								5,000.00	4,706.12	4,429.51
15-Dec-2009									4,850.83	4,565.72
15-Jun-2010									5,000.00	4,706.12
15-Dec-2010										4,850.83
15-Jun-2011										5,000.00

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Municipal Bond Insurance Policy

APPENDIX H

AMBAC Indemnity Corporation
c/o CT Corporation Systems
222 W. Washington Ave., Madison, WI 53703
Administrative Office:
One State Street Plaza, New York, NY 10004

Issuer:

Policy Number:

Bonds:

Premium:

AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AMBAC will make such payments to the Insurance Trustee within 5 days following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's rights to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all of the Bondholders' rights to payment on registered bonds to the extent of the insurance disbursements so made.

As used herein the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any redemption, prepayment or acceleration premium which at any time may become due in respect of any Bond, nor against risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the counter-signature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer



AMBAC Indemnity Corporation
c/o CT Corporation Systems
222 West Washington Avenue
Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza
New York, New York 10004

Endorsement

Policy issued to:

Attached to and forming part of

Effective Date of Endorsement

The Policy to which this endorsement is attached and of which it forms a part is hereby amended by the insertion of the following language:

"Notwithstanding anything contained herein to the contrary, when any Bonds are issued in book entry form, the Insurance Trustee shall disburse that portion of the principal and interest on such Bonds Due for Payment but unpaid by reason of Nonpayment to a Bondholder only upon evidence satisfactory to the Insurance Trustee of the Bondholder's right to receive payment of the principal or interest then Due for Payment and that such right has been effectively transferred to AMBAC on the books maintained for such purpose. Upon such disbursement AMBAC shall become the owner of such Bond, appurtenant coupon or right of payment of principal or interest on such Bond and shall be fully subrogated to all the Bondholder's rights thereunder, including the Bondholder's right to payment thereof."

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, the Company has caused its Corporate Seal to be hereto affixed and these presents to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding on the Company by virtue of countersignature by its duly authorized agent.

AMBAC Indemnity Corporation

President



Secretary

Authorized Representative



AMBAC Indemnity Corporation
c/o CT Corporation Systems
222 West Washington Avenue
Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza
New York, New York 10004

Endorsement

Policy issued to:

Attached to and forming part of

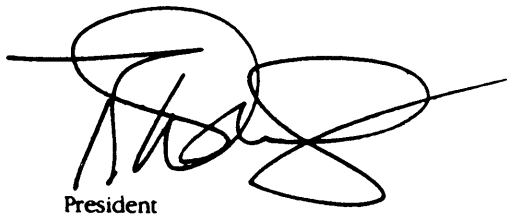

Effective Date of Endorsement:

The Policy to which this Endorsement is attached and of which it forms a part is hereby amended to provide that AMBAC will make payments of that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer within one (1) day following notification to AMBAC of Nonpayment.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, the Company has caused its Corporate Seal to be hereto affixed and these presents to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding on the Company by virtue of countersignature by its duly authorized agent.

AMBAC Indemnity Corporation


President
Secretary

Authorized Representative



AMBAC Indemnity Corporation
c/o CT Corporation Systems
222 West Washington Avenue
Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza
New York, New York 10004

Endorsement

Policy issued to:

Attached to and forming part of

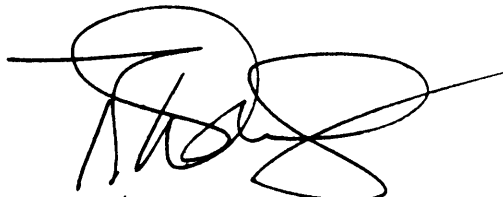

Effective Date of Endorsement:

The insurance provided by this Policy is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, the Company has caused its Corporate Seal to be hereto affixed and these presents to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding on the Company by virtue of countersignature by its duly authorized agent.

AMBAC Indemnity Corporation


President
Secretary

Authorized Representative

Financial Guaranty Insurance
Company
175 Water Street
New York, NY 10038-4972
(212) 607-3000
(800) 352-0001



A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number:

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officers in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Senior Vice President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
Citibank, N.A., as Fiscal Agent

SM: Service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation
Form E-0002 (8/90)

Financial Guaranty Insurance
Company
175 Water Street
New York, NY 10038-4972
(212) 607-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer:

Policy Number:

Control Number:

Bonds:

Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to Citibank, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a

SM: Service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation

Financial Guaranty Insurance
Company
175 Water Street
New York, NY 10038-4972
(212) 607-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officers in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Senior Vice President

Effective Date:

Authorized Representative

Citibank, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



FINANCIAL GUARANTY INSURANCE POLICY

Municipal Bond Investors Assurance Corporation
Armonk, New York 10504

Policy No. XXXXXX

Municipal Bond Investors Assurance 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 [INSERT NAME OF PAYING AGENT] 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); 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 AMOUNT]
[LEGAL TITLE OF OBLIGATIONS]

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 Citibank, N.A., 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 Citibank, N.A., Citibank, N.A. 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].

MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION

President

Attest:

Assistant Secretary

