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WILLIAM C. THOMPSON, JR.
COMPTROLLER

September 24, 2009

Mr. Alan Moss, Chairman
and Members of the New York City Water Board
New York City Water Board
59-17 Junction Blvd.
Flushing, New York 11373

Dear Chairman Moss and Members of the New York City Water Board:

I write to express my deep concern regarding the slow progress and the troubling direction of the rate study being conducted by Booz Allen Hamilton at the request of the New York City Water Board. As you reconvene with an important fall calendar, I urge you to pay close attention to this study and its significant implications for ratepayers citywide.

As you know, I strongly advocated for restructuring New York City water rates to promote a transparent, fair and rational rate structure. I was therefore hopeful in June 2008, when the Water Board promised to undertake a study of this issue. Like many others however, I was deeply disappointed to learn that the study, which was to have been completed in time for the FY 2010 water rate determination process, had barely been started by this past spring.

A late study is better than no study at all, but as you pursue this effort, I believe certain principles are critical to your review. Most important is to ensure that the water rate study identify costs that are appropriate to the system and develop a means to distribute those costs fairly among the users of the water and sewer system. An equally important principle is that sufficient resources be allotted to the water and sewer system to meet its mission of providing clean water in an environmentally and financially sustainable way.

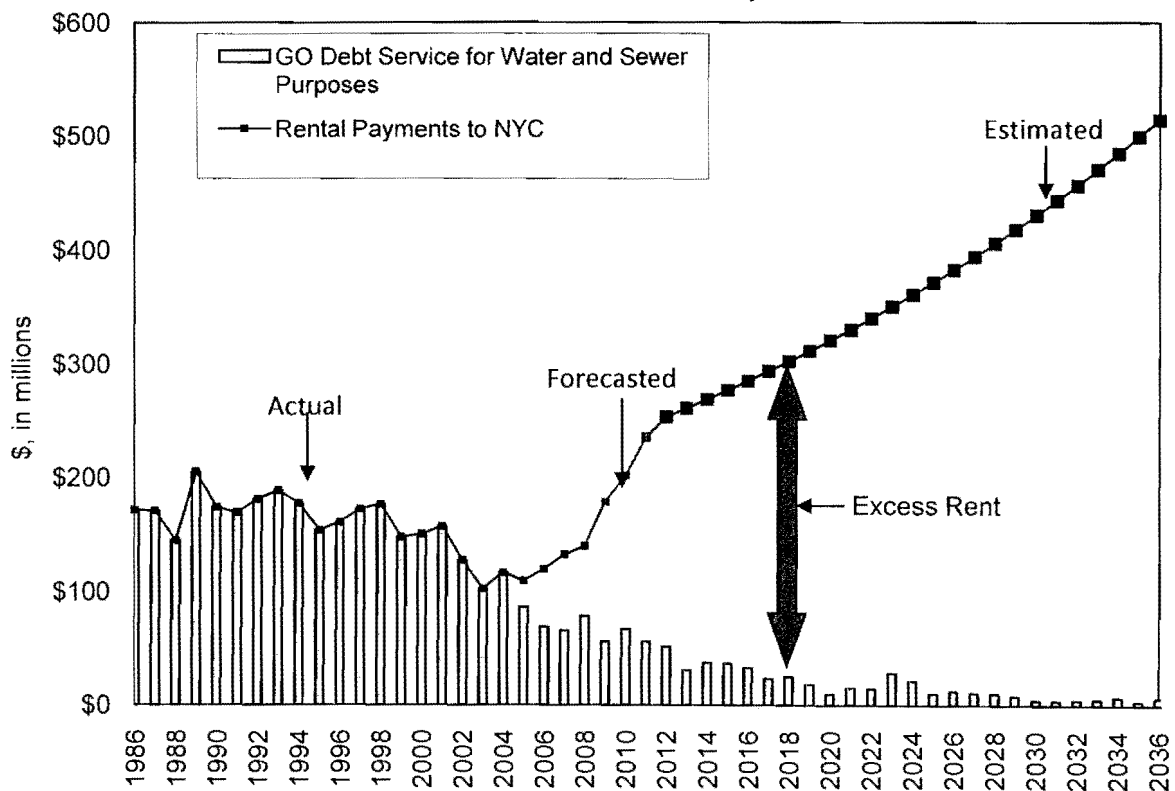
Unfortunately, upon reviewing the preliminary findings that were presented at the last Water Board meeting, I have profound doubts as to whether the study is working towards these goals with the objectivity and thoroughness that City ratepayers expect and deserve.

As you know, I have been particularly critical of the rental payment made by the Board to the City of New York because the process unfairly penalizes water rate payers. The rental

payment was initially set in fiscal year 1986 to cover the City's outstanding G.O. water-related debt, with a provision that allowed these payments to be determined as a

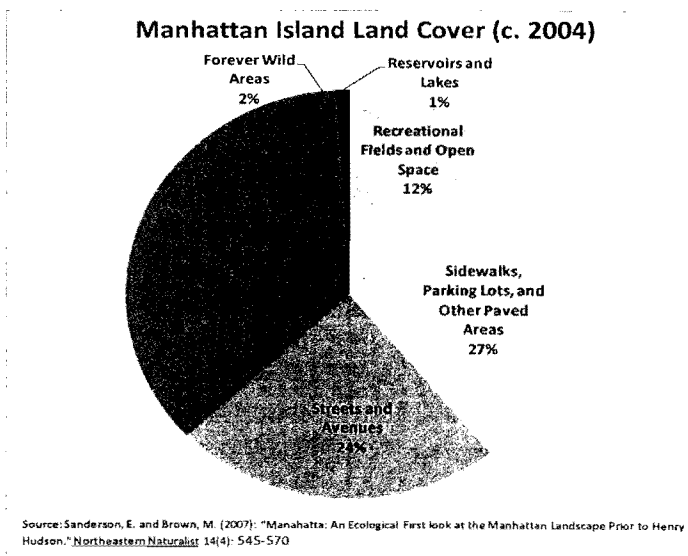
percentage of Water Authority debt once the debt reached a certain level. When the rental payment was established, the federal government was still an important contributor to the capital costs of local water systems. It is unlikely that the creators of the City's current water rate structure foresaw the elimination of these significant federal contributions, which expanded the system's capital debt and thus exacerbated the substantial escalations in local water and sewer rates. However, since 2005, these rental payments have far exceeded the underlying G.O. debt service, and this "excess rent," which is essentially a backdoor tax, grows substantially each year as the Water Authority's debt burden climbs.

Water Authority Rental Payments to City Actual and Estimated, 1986-2036



The preliminary findings of the Booz Allen study appear to be biased toward supporting the status quo with respect to this back door tax. Nowhere does it challenge, as I do, the basic premise that the existence of rental payments elsewhere makes ours acceptable. Instead, it presents a chart showing that other systems also make transfer payments to municipalities without even providing the detail needed to evaluate the comparison. (For example, it doesn't show the full New York Water transfer, just the "excess rent" portion, and fails to identify what the transfer payments in other jurisdictions include.) Furthermore, justification for the payment is presented based on services such as liquidity and liability provided by the City to the water system that would otherwise be uncompensated. This concept of uncompensated services was not cited in the original lease provision setting out the rent formula, nor was compensation for these services sought by the City during the period when rental payments were determined by G.O. debt service. I am troubled that this concept has suddenly become a justification for the excess rent.

A second example of how the preliminary Booz Allen study appears to only superficially address core issues is the presentation on Combined Sewer Overflow or CSO. In New York City, the very substantial capital and operating cost of treating CSO is shouldered completely by water and sewer ratepayers despite the fact that much run-off is attributable to City streets and sidewalks. Indeed, a recent study of the Manhattan land surfaces, for example, found that one-quarter of all land in that borough is covered by streets. Therefore public streets presumably account for at least one-quarter of the borough's storm water runoff, yet the treatment cost is absorbed solely by water system customers.



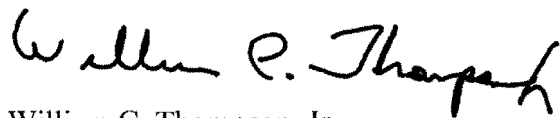
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Lastly, and in the interest of transparency, I ask that my office and City ratepayers be provided an opportunity to review the results of the water system comparison survey before the rate study is finalized. This is especially important because there remain methodological concerns with the survey itself that deserve scrutiny, including how other water systems were selected for purposes of comparison and the basis upon which comparability is achieved between systems.

The current rate study may influence the creation of a new water rate structure that will affect ratepayers for years to come. It is therefore critically important that this study be both transparent and credible.

The members of the Water Board must ensure that this rate study upholds the standards and objectivity that the public deserves from this effort and I have directed my staff to continue monitoring this matter closely.

Very truly yours,

A handwritten signature in black ink that reads "William C. Thompson, Jr." The signature is written in a cursive style with a large, prominent initial 'W'.

William C. Thompson, Jr.