PRELIMINARY OFFICIAL STATEMENT DATED MARCH 23, 2015

NEW ISSUE

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Fiscal 2015 GG Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Fiscal 2015 GG Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Fiscal 2015 GG Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof, including The City of New York. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Fiscal 2015 GG Bonds. See "TAX MATTERS."

$475,000,000*
New York City
Municipal Water Finance Authority

Water and Sewer System Second General Resolution Revenue Bonds
Fiscal 2015 Series GG

Dated: Date of Delivery **Due: June 15, as shown on the inside cover**

The Fiscal 2015 GG Bonds will be issued as registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York which will act as securities depository for the Fiscal 2015 GG Bonds. Purchases of beneficial interests in such Fiscal 2015 GG Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing the ownership interest in the Fiscal 2015 GG Bonds purchased by them. See "APPENDIX G — BOOK-ENTRY-ONLY FORM."

Interest on the Fiscal 2015 GG Bonds will accrue from their date of delivery and will be payable semiannually on each June 15 and December 15, commencing June 15, 2015. The Fiscal 2015 GG Bonds will be issued in authorized denominations of $5,000 and integral multiples thereof. The Fiscal 2015 GG Bonds are subject to redemption prior to maturity as described herein. The proceeds of the Fiscal 2015 GG Bonds are expected to be applied to (i) refund certain Outstanding First Resolution Bonds and (ii) pay certain costs of issuance.

The Fiscal 2015 GG Bonds are special obligations of the Authority, payable solely from and secured by a pledge of and subordinate lien on the gross revenues of the System. The Authority has no taxing power. The Fiscal 2015 GG Bonds are not a debt of the State of New York, The City of New York or the New York City Water Board and none of the State of New York, The City of New York or the New York City Water Board is liable on the Fiscal 2015 GG Bonds.

The Fiscal 2015 GG Bonds are offered when and if issued by the Authority and received by the Underwriters and subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, New York, New York. It is anticipated that the Fiscal 2015 GG Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about April 9, 2015.

Raymond James

Barclays Capital **Citigroup** **Ramirez & Co., Inc.**

BofA Merrill Lynch **Fidelity Capital Markets** **Goldman, Sachs & Co.**
Jefferies **J.P. Morgan** **Loop Capital Markets, LLC**
Morgan Stanley **RBC Capital Markets** **Rice Financial Products Company**
Roosevelt & Cross Incorporated **Siebert Brandford Shank & Co., L.L.C.** **TD Securities**
US Bancorp **Wells Fargo Securities**

BMO Capital Markets **Cabrera Capital Markets, LLC** **CastleOak Securities, L.P.**
Lebenthal & Co., LLC **Northern Trust** **The Williams Capital Group, L.P.**

April , 2015

* Preliminary, subject to change.

$475,000,000*
New York City
Municipal Water Finance Authority

Water and Sewer System Second General Resolution Revenue Bonds
Fiscal 2015 Series GG

$ Serial Bonds

Due June 15*	Principal Amount	Interest Rate	Price or Yield	Cusip Number(1)
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2037				

$ % Term Bonds due June 15, 20 , Yield %*, CUSIP No.(1)

* Preliminary, subject to change.

(1) Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Fiscal 2015 GG Bonds and the Authority and the Underwriters do not make any representation with respect to such numbers nor undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Fiscal 2015 GG Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Fiscal 2015 GG Bonds.

New York City Municipal Water Finance Authority
255 Greenwich Street, 6th Floor
New York, New York 10007
212-788-5889

New York City Water Board
59-17 Junction Boulevard, 8th Floor
Flushing, New York 11373-5108
718-595-4032

Authority Consultants

Bond Counsel	*Orrick, Herrington & Sutcliffe LLP*
Consulting Engineer	*AECOM USA, Inc.*
Financial Advisors	*Lamont Financial Services Corporation*
	Drexel Hamilton, LLC
	Acacia Financial Group, Inc.
Rate Consultant	*Amawalk Consulting Group LLC*

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the Fiscal 2015 GG Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesperson or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of any of the Fiscal 2015 GG Bonds and if given or made, such information or representation must not be relied upon. Information contained on the Authority's web page, on the City's web site, or on any other web page is not a part of this Official Statement. Neither the delivery of this Official Statement nor the sale of any of the Fiscal 2015 GG Bonds implies that there has been no change in the affairs of the Authority, the Board or the City or the other matters described herein since the date hereof.

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

The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

Deloitte & Touche LLP, the Authority's independent auditor has not reviewed, commented on or approved, and is not associated with, this Official Statement. The report of Deloitte & Touche LLP relating to the Authority's financial statements for the fiscal years ended June 30, 2014 and 2013, which is a matter of public record, is included in this Official Statement. However, Deloitte & Touche LLP has not performed any procedures on any financial statements or other financial information of the Authority, including without limitation any of the information contained in this Official Statement, since the date of such report and has not been asked to consent to the inclusion of its report in this Official Statement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE FISCAL 2015 GG BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

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SUMMARY STATEMENT

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

Use of Proceeds:	The proceeds of the Authority's Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2015 Series GG (the "Fiscal 2015 GG Bonds") are expected to be applied (i) to refund certain Outstanding First Resolution Bonds and (ii) to pay certain costs of issuance.
Description of the Bonds:	The Fiscal 2015 GG Bonds are being issued by the Authority in the principal amount of $475,000,000* pursuant to its Water and Sewer System Second General Revenue Bond Resolution, adopted on March 30, 1994, as amended (the "Second Resolution"), and its Supplemental Resolution No. 111 adopted on March , 2015. The Fiscal 2015 GG Bonds are issued in book-entry-only form and in authorized denominations of $5,000 and integral multiples of $5,000 in excess thereof.
Redemption Provisions:	The Fiscal 2015 GG Bonds are subject to redemption as described herein.
The System:	The Water System provides approximately 1,010 million gallons per day (mgd) of water to approximately 835,000 accounts in the City. It supplies water to approximately 9 million people, of which approximately 8.2 million are in the City and the balance are in Westchester, Putnam, Orange and Ulster Counties. The Sewer System is comprised of an extensive network of sewage collection and treatment facilities that treat approximately 1,250 mgd of wastewater. Under the Act, the Lease and the Agreement, the Board is obligated to pay the operating expenses of the System. The City is obligated to operate and maintain the System regardless of payment by the Board.

* Preliminary, subject to change.

Revenue Bond Coverage (Cash Basis):

	Historical (1)			Projected (1)(2)	
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	(Millions of Dollars)				
Revenues Available for First Resolution Debt Service	$3,277.7	$3,512.7	$3,728.9	$3,728.4	$3,842.2
Authority Expenses	41.1	43.4	43.2	46.9	49.2
Revenues Available for First and Second Resolution Debt Service	3,236.6	3,469.3	3,685.7	3,681.5	3,793.0
Water Board Expenses (3)	6.4	8.3	24.4	39.2	43.2
Net Operating Expenses (4)	1,174.1	1,223.6	1,149.3	1,400.2	1,466.8
Cash Financed Capital Construction	—	—	225.0	225.0	225.0
Cash Defeasance of Debt	235.6	300.0	399.1	100.0	—
Base Rental Payment	225.0	228.0	211.8	232.1	267.2
O&M Reserve Deposit	12.5	(0.9)	8.9	11.1	7.2
Total Expenses (5)	1,694.7	1,802.4	2,061.7	2,054.5	2,058.5
Total First Resolution Bond Debt Service	442.6	340.5	295.5	301.5	340.9
Net Debt Service on Subordinated Indebtedness (6)	642.9	620.0	479.3	470.3	606.4
Non-Recurring Cash Receipts / Escrow Release			92.7	(1.8)	(35.1)
Net Surplus	497.5	750.0	985.0	903.9	871.6
First Resolution Debt Service Coverage	7.41x	10.32x	12.62x	12.37x	11.27x
First and Second Resolution Debt Service Coverage (6)(7)	2.98x	3.61x	4.76x	4.77x	4.00x
Rate Increase	7.5%	7.0%	5.6%	3.4%(8)	4.9%

Totals may not add due to rounding.

(1) Historical figures, which are derived from the accounting records used to prepare the statements of cash flows contained in the annual financial statements, and projected figures are shown on a cash basis.

(2) Projections are as of May 23, 2014.

(3) Beginning in FY 2013, Water Board expenses include the costs incurred under a new contract for the service line protection program.

(4) Includes credits for excess prior year payments to the City. Not including Authority and Board expenses.

(5) Includes Authority Expenses.

(6) Includes interest on Commercial Paper Notes and reflects offset of carryforward revenues and subsidies provided by the New York State Environmental Facilities Corporation.

(7) Revenues for coverage purposes are net of Authority expenses.

(8) Actual rate increase in FY 2015.

Total Authority Debt Outstanding: As of the date of this Official Statement, the Authority has approximately $5.3 billion of First Resolution Bonds (defined below), and $24.7 billion of Second Resolution Bonds (defined below) Outstanding, including $561 million in bond anticipation notes issued to the New York State Environmental Facilities Corporation (the "Corporation"). See "CAPITAL IMPROVEMENT AND FINANCING PROGRAM—Debt Service Requirements." In addition, the Authority currently has a $600 million commercial paper program.

Capital Program: The City's Preliminary Ten Year Capital Strategy, which is updated every two years, was released on February 9, 2015 (the "Preliminary Ten Year Capital Strategy"). The Preliminary Ten Year Capital Strategy is expected to be updated with the Mayor's Executive Budget in April 2015. Such update may result in changes to the total amount of projected capital commitments. The Preliminary Ten Year Capital Strategy includes the projected contractual commitments for capital improvements to the System for Fiscal Years 2016 through 2025. The City's Current Capital Plan (the "Current Capital Plan"), which covers Fiscal Years 2015 through 2019, was published on February 9, 2015, is typically updated three times each Fiscal Year and is consistent with the Preliminary Ten Year Capital Strategy for Fiscal Years 2016 through 2019. Projected contractual commitments for capital improvement costs to the System for Fiscal Years 2015 through 2025 are reflected in the Capital Improvement Program (the "CIP"), which consists of the Current Capital Plan and the last six years of the Preliminary Ten Year Capital Strategy. The CIP is designed to maintain a satisfactory level of service, to improve operation of the System and to address future System requirements.

Bond Financing Program:

The following table shows, as of May 23, 2014, total Bonds expected to be issued, excluding refunding bonds, from Fiscal Year 2015 to Fiscal Year 2019.

FY 2015	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**Period Total**
		(Millions of Dollars)			
$1,616.0	$1,350.0	$1,242.0	$1,264.0	$1,168.0	$6,640.0

As of the date of this Official Statement, during Fiscal Year 2015 the Authority has issued $936.1 million of Second Resolution Bonds, not including refunding bonds and draws on bond anticipation notes.

Security for the Second Resolution Bonds:

Revenue Pledge:

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

Rate Covenant:

The Board has covenanted to establish and collect rates, fees and charges sufficient in each Fiscal Year so that Revenues collected in such Fiscal Year will be at least equal to the sum of 115% of Aggregate Debt Service on all First Resolution Bonds Outstanding and on any Projected Series of First Resolution Bonds (excluding Refundable Principal Installments for the payment of which funds are held in trust) payable in such Fiscal Year, and 100% of the Operating Expenses and Required Deposits (which includes debt service on the Second Resolution Bonds and other Subordinate Indebtedness) to the extent required to be paid from Revenues for such Fiscal Year.

Additional Bonds Test:

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

	Required Deposits for the payment of Outstanding Second Resolution Bonds and certain other Subordinated Indebtedness). Second Resolution Refunding Bonds may be issued under the Second Resolution either upon satisfaction of such conditions or other conditions.
No Debt Service Reserve Fund:	The Fiscal 2015 GG Bonds will not be secured by the Debt Service Reserve Fund.
Summary of Certain Legal Opinions:	Bond Counsel has rendered opinions to the effect that, in the event of a bankruptcy of the City, (i) a court, exercising reasonable judgment after full consideration of all relevant factors, would not hold that the Revenues are property of the City and would not order the substantive consolidation of the assets and liabilities of either the Board or the Authority with those of the City and (ii) the Board, in the event the City should reject the Lease, would be entitled to remain in possession of the System for the balance of the Lease term. Bond Counsel has also opined that under current law neither the Board nor the Authority qualifies as a debtor under the United States Bankruptcy Code.
Rates:	Rates, fees and charges are imposed by the Board and are not subject to regulatory approval except for those rates charged to a limited class of upstate users representing approximately 1.8% of Revenues.
The Authority:	The Authority, a separate legal entity established in 1984, has the power to (i) issue bonds, bond anticipation notes and other obligations for the purpose of financing the renovation and improvement of the System, (ii) refund its bonds and notes and general obligation bonds of the City issued for water or sewer purposes, (iii) require the Board to fix rates sufficient to pay the costs of operating and financing improvements to the System and (iv) require the City to maintain the System adequately. The Authority has no taxing power.
The Board:	The Board, a separate legal entity established in 1984, has leased the System from the City. It is authorized to fix and collect rates, fees and charges adequate to pay the cost of operating and financing the System.
The Agreement:	Pursuant to the Agreement, the Authority has agreed to finance capital projects for the System, both current work and work commenced in prior years, through the issuance of bonds, notes or other indebtedness secured by revenues of the System.
The Lease:	Pursuant to the Lease, the Board has acquired the System from the City for a term continuing until provision has been made for the repayment of all Outstanding First Resolution Bonds, Second Resolution Bonds or other indebtedness of the Authority.

OFFICIAL STATEMENT

$475,000,000*
NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY
WATER AND SEWER SYSTEM SECOND GENERAL RESOLUTION REVENUE BONDS
FISCAL 2015 SERIES GG

INTRODUCTORY STATEMENT

General

The purpose of this Official Statement is to set forth certain information pertaining to the New York City Municipal Water Finance Authority (the "Authority"), a public benefit corporation duly created and existing under the New York City Municipal Water Finance Authority Act, as amended (the "Act"); the New York City Water Board (the "Board"), a public benefit corporation created and existing under Chapter 515 of the Laws of 1984, both of which laws were enacted by the Legislature of the State of New York (the "State"); and the Authority's Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2015 Series GG (the "Fiscal 2015 GG Bonds"). Capitalized terms used in this Official Statement and not defined herein shall have the meanings ascribed thereto in "APPENDIX C—GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS—Glossary."

Pursuant to a lease agreement (the "Lease") between the Board and The City of New York (the "City"), dated as of July 1, 1985, as amended, the Board has leased from the City its facilities for the collection, transmission and distribution of water (the "Water System") and its facilities for the collection, treatment and disposal of sewage (the "Sewer System") (collectively, the "System"). As required by the Act and the Lease, the System is operated and maintained by the Department of Environmental Protection of the City ("DEP"). The Board has also entered into a financing agreement, dated as of July 1, 1985, as amended (the "Agreement"), with the Authority and the City for the financing of capital improvements to the System through the issuance of bonds, notes and other obligations under the Authority's Water and Sewer System General Revenue Bond Resolution adopted on November 14, 1985, as amended (the "First Resolution" and, bonds issued thereunder the "First Resolution Bonds"), or subordinate obligations of the Authority under its Second Resolution (defined below). Pursuant to the Lease and the Agreement, the Board has agreed to levy and collect rates, fees and charges. Pursuant to the Lease, the City may, with the prior written consent of the Board, grant interests in the Leased Property which, in the reasonable judgment of the Board, do not interfere with the operation and maintenance of the System and the collection of the Revenues from the System.

The Fiscal 2015 GG Bonds will be issued by the Authority pursuant to its Water and Sewer Second General Revenue Bond Resolution adopted on March 30, 1994, as amended (the "Second Resolution"), and its Supplemental Resolution No. 111 adopted on March , 2015 (the "Fiscal 2015 GG Supplemental Resolution"). All bonds issued under the Second Resolution are referred to herein as "Second Resolution Bonds." The Second Resolution and the Fiscal 2015 GG Supplemental Resolution are collectively referred to herein as the "Resolutions". The Bank of New York Mellon serves as trustee under the Resolutions (in such capacity, the "Trustee") and will continue to serve as Trustee unless a successor is appointed in accordance with the Second Resolution.

The Second Resolution Bonds are special obligations of the Authority, payable solely from and secured by a pledge of amounts on deposit in the Subordinated Indebtedness Fund established by the First Resolution and all moneys or securities in any of the funds and accounts established under the Second Resolution, subject only to provisions of the Second Resolution and the Agreement relating to the use and application thereof. The Board has covenanted in the Agreement to maintain rates, fees and charges at sufficient levels to produce in each twelve-month period beginning on July 1 (a "Fiscal Year") an amount equal to 115% of the Aggregate Debt Service and Projected Debt Service on the First Resolution Bonds to become due in such Fiscal Year on all First Resolution Bonds, plus 100% of the

* Preliminary, subject to change

operation and maintenance expenses of the System certified by the City and of Required Deposits (which includes the debt service on the Second Resolution Bonds and other subordinate debt) to the extent required to be paid from Revenues. The Agreement requires a report of the Rate Consultant setting forth its recommendations as to any revisions of the rates, fees and charges necessary or advisable to meet the requirements of the rate covenant. The Board is obligated to take necessary action to cure or avoid any deficiency. See "SECURITY FOR THE SECOND RESOLUTION BONDS—Rate Covenant." The Agreement also requires a Consulting Engineer to review the operation and maintenance of the System, and further requires the City to operate and maintain the System in accordance with the advice and recommendations of the Consulting Engineer. See "SECURITY FOR THE SECOND RESOLUTION BONDS."

Rates, fees and charges are imposed by the Board and are not subject to regulatory approval under current law except for the rates charged to a limited class of upstate users, representing approximately 1.7% of Revenues. See "RATES AND BILLINGS."

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

Financial Projection Assumptions

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

The financial projections contained in this Official Statement, including bond financings, operating and maintenance expenses, debt service, revenues, sources and uses of funds, and forecasted cash flows and rate increases, were prepared as of May 23, 2014, and are expected to be updated annually. Actual financial results will differ from these projections.

PLAN OF FINANCE

A portion of the proceeds of the Fiscal 2015 GG Bonds is expected to be applied to purchase or redeem the First Resolution Bonds of the Series, maturing on the dates and in the aggregate principal amounts set forth in "APPENDIX I — TABLE OF REFUNDED BONDS" (the "Refunded Bonds"). Pursuant to an Escrow Agreement between the Authority and The Bank of New York Mellon (the "Escrow Trustee"), the Authority will deposit cash and/or Defeasance Securities in trust with the Escrow Trustee. A portion of the proceeds will be used to purchase Refunded Bonds on the closing date of the Fiscal 2015 GG Bonds. The Defeasance Securities will bear interest at such rates and will mature at such times and in such amounts so that, together with any uninvested cash held by the Escrow Trustee, sufficient moneys will be available to make full and timely payment on the principal of, and interest on, the Refunded Bonds on the respective redemption dates (the "Redemption Dates") set forth in "APPENDIX I — TABLE OF REFUNDED BONDS". Upon such irrevocable deposit, the Refunded Bonds will be deemed to be no longer Outstanding and will no longer be entitled to the benefit of the pledge and lien established by the First Resolution or to payment from Revenues of the System. The Authority will direct the Trustee to pay the principal of and interest on the Refunded Bonds on the respective Redemption Dates unless the Refunded Bonds have been previously purchased and retired. See "APPENDIX I — TABLE OF REFUNDED BONDS".

USE OF PROCEEDS

The proceeds of the Fiscal 2015 GG Bonds are anticipated to be applied in the following manner:

Deposit to Escrow Account for Refunded Bonds	$
Underwriters' Discount	
Costs of Issuance	
Total Uses of Proceeds	
Less Net Original Issue Premium	
Par Amount of the Fiscal 2015 GG Bonds	$

THE FISCAL 2015 GG BONDS

General

The Fiscal 2015 GG Bonds initially delivered to the Underwriters will be dated the date of their delivery. The Fiscal 2015 GG Bonds will mature on and will bear interest at the rates shown on the inside cover of this Official Statement. Interest on the Fiscal 2015 GG Bonds will be payable on each June 15th and December 15th, commencing June 15, 2015.

Principal and purchase price of, redemption premium, if any, and interest on, the Fiscal 2015 GG Bonds will be payable in lawful moneys of the United States of America. The Fiscal 2015 GG Bonds will be issued only as fully registered bonds without coupons in minimum denominations of $5,000 and integral multiples thereof. The Record Date is the first day of a calendar month in which there occurs a Bond Payment Date.

Book-Entry-Only

The Fiscal 2015 GG Bonds will be issued as registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Fiscal 2015 GG Bonds. Purchases of beneficial interest in such Fiscal 2015 GG Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing the ownership interest in the Fiscal 2015 GG Bonds purchased by them. See "APPENDIX G—BOOK-ENTRY-ONLY FORM."

Redemption

Optional Redemption. The Fiscal 2015 GG Bonds are subject to redemption prior to maturity at the election or direction of the Authority, from any moneys available therefor on and after June 15, 20 , in whole or in part, in such manner as determined by the Authority and within a maturity by lot at the redemption price of par plus accrued interest to the redemption date.

Sinking Fund Redemption. The Fiscal 2015 GG Bonds maturing on June 15, 20 are subject to mandatory redemption prior to maturity in part, by lot, in such manner as the Trustee may reasonably determine, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date, on June 15 in the years and in the respective principal amounts, as follows:

Year	Amount
†	

† Final Maturity

Purchased Bonds. The Authority may from time to time direct the Trustee to purchase Fiscal 2015 GG Bonds subject to Sinking Fund Installments with moneys in the Debt Service Fund, at a price not greater than par, plus accrued interest to the date of such purchase, and apply such Fiscal 2015 GG Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of the immediately succeeding Sinking Fund Installment on such Fiscal 2015 GG Bonds. The Authority may also purchase or redeem Fiscal 2015 GG Bonds subject to Sinking Fund Installments prior to maturity with other moneys available to do so. If it does so, the amount of such purchase or redemption will be credited against future Sinking Fund Installments in any order as the Authority may direct. To the extent that 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 Fiscal 2015 GG Bonds will be reduced for such year.

Notice of Redemption

Notice of redemption is to be given by first class mail, postage prepaid, at least 20 days prior to the date fixed for redemption, to the registered owners of Fiscal 2015 GG Bonds to be redeemed at their addresses shown on the books of registry. So long as Cede & Co., as nominee of DTC, is the registered owner of the Fiscal 2015 GG Bonds, notice of redemption is to be sent to DTC at least 20 days prior to the date fixed for redemption or such shorter period as may be provided by DTC. No assurance can be given by the Authority that DTC and DTC participants will promptly transmit notices of redemption to Beneficial Owners.

If, on any redemption date, moneys for the redemption of the Fiscal 2015 GG Bonds to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available therefor on such date, and if notice of redemption has been mailed, then interest on the Fiscal 2015 GG Bonds to be redeemed will cease to accrue from and after the redemption date and such Fiscal 2015 GG Bonds will no longer be considered to be Outstanding under the Second Resolution.

The notice of redemption may provide that the Fiscal 2015 GG Bonds will be due and payable on the redemption date only if moneys sufficient to accomplish such redemption are held by the Trustee on the scheduled redemption date.

SECURITY FOR THE SECOND RESOLUTION BONDS

Revenues

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

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

Beginning on the first day of each month the Board is required to pay to the Trustee under the First Resolution the Revenues in the Local Water Fund, for deposit in the Revenue Fund established under the First Resolution until the amount so deposited equals the Minimum Monthly Balance and the Required Deposits for such month. The Minimum Monthly Balance is the amount required to accumulate the funds necessary for timely payment of all debt service on Outstanding Bonds. Required Deposits are the amounts required to be paid from Revenues for deposit to the Authority Expense Fund (including both periodic and termination payments under Interest Rate Exchange Agreements (see "APPENDIX D — FINANCIAL STATEMENTS — Note 5")), the Debt Service Reserve Fund and the Subordinated Indebtedness Fund, including amounts required for payment of the Second Resolution Bonds and other subordinate debt. See "APPENDIX C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Agreement — Minimum Monthly Balance."

After the Board makes the deposits described above to the First Resolution Revenue Fund in such month from the balance remaining in the Local Water Fund, the Board is required, after paying monthly Board Expenses, to pay the City 1/12 of the Operating Expenses for such Fiscal Year. After making such payments, any amounts remaining in the Local Water Fund in each month are paid proportionately (a) to the Trustee for deposit in the First Resolution Revenue Fund until the total of all amounts deposited in the First Resolution Revenue Fund equals the Cash Flow Requirement for such Fiscal Year and (b) to the City until all amounts required to be paid to the City for Operating Expenses for such Fiscal Year have been paid. Pursuant to the Second Resolution, amounts deposited into the First Resolution Revenue Fund in any Fiscal Year in excess of the amounts required to be deposited into the First Resolution's Debt Service Fund, Authority Expense Fund, Debt Service Reserve Fund, and Arbitrage Rebate Fund are to be deposited into the Subordinated Indebtedness Fund established under the First Resolution until the amount on deposit therein, together with the amounts on deposit in the Revenue Fund and Debt Service Fund established under the Second Resolution, equals the Aggregate Debt Service for such Fiscal Year on Second Resolution Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations. For a more complete description of the required payments from the Local Water Fund, see "APPENDIX C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the First Resolution" and "Summary of the Agreement."

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

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

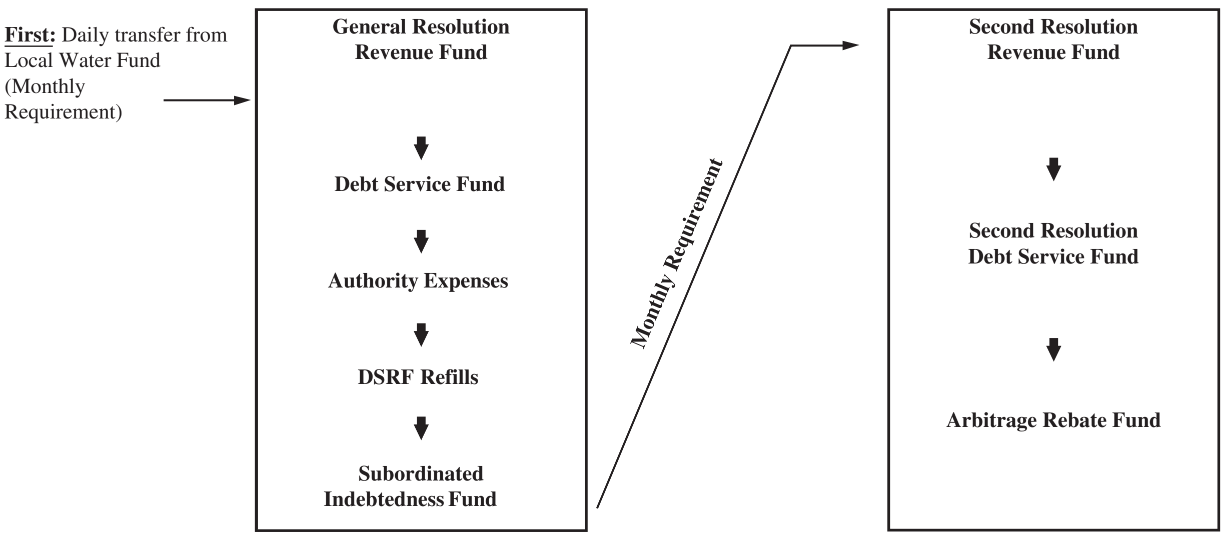
Amounts on deposit in the Revenue Fund established under the Second Resolution are to be paid to the following funds established under the Second Resolution in the following order of priority: first, to the Debt Service Fund; second, if no First Resolution Bonds are then Outstanding, to the Authority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

The Fiscal 2015 GG Bonds will be on a parity with all other outstanding Second Resolution Bonds heretofore and hereafter issued. The Fiscal 2015 GG Bonds are payable from and secured by a pledge of

(a) amounts on deposit in the Subordinated Indebtedness Fund, subject, however, to the first lien on such amounts in favor of First Resolution Bonds and (b) except as described below under the heading "Debt Service Reserve Fund," all moneys or securities in any of the funds and accounts established under the Second Resolution, except the Arbitrage Rebate Fund. See "APPENDIX C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Second Resolution" and "Summary of the Agreement."

Pursuant to the Agreement, the First Resolution and the Second Resolution, the Revenues received by the Board will be applied in the manner set forth in the following chart. The information contained in such chart is qualified by reference to the Agreement, the First Resolution and the Second Resolution.

Consolidated Flow of Funds



Second: Daily transfer from Local Water Fund (Monthly Requirement) →	• Water Board Expenses
Third: Daily transfer from Local Water Fund (Monthly Requirement) →	• System Operations and Maintenance
Fourth: Daily transfer from Local Water Fund (Up to Annual Requirement) →	Pro rata to: • First Resolution Revenue Fund: for annual Debt Service, Authority expenses, DSRF, Subordinate Indebtedness (Second Resolution) • System Operations and Maintenance
Fifth - Seventh: Daily transfer from Local Water Fund (After Debt Service is set aside; typically funded during the last few months of the fiscal year) →	• City lease payment, operating and maintenance reserve replenishment, surplus including pay as you go capital

Debt Service Reserve Fund

No deposit will be made to the Debt Service Reserve Fund established under the Second Resolution upon the issuance of the Fiscal 2015 GG Bonds, and the Fiscal 2015 GG Bonds will not be secured by any amounts on deposit in such Debt Service Reserve Fund in the future. For a discussion of the Debt Service Reserve Fund established under the Second Resolution, see "APPENDIX C — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS — Summary of the Second Resolution — Debt Service Reserve Fund."

Rate Covenant

The Board has covenanted in the Agreement to establish, fix, revise and collect rates, fees and charges for the use of, or the services furnished by the System, adequate, together with other available funds, to provide for (i) the timely payment of Principal Installments of and interest on all First Resolution Bonds, and the principal of and interest on any other indebtedness of the Authority (which includes Second Resolution Bonds and other subordinate debt) payable from Revenues, (ii) the proper operation and maintenance of the System, (iii) all other payments required for the System not otherwise provided for, and (iv) all other payments required pursuant to the Agreement and the Lease.

Without limiting the generality of the foregoing, the Board has covenanted to establish and collect rates, fees and charges sufficient in each Fiscal Year so that Revenues collected in such Fiscal Year will be at least equal to the sum of 115% of Aggregate Debt Service and Projected Debt Service on all First Resolution Bonds payable in such Fiscal Year, and 100% of the Operating Expenses and Required Deposits (including debt service on Second Resolution Bonds and other subordinate debt) required to be paid from Revenues for such Fiscal Year (the "Rate Covenant"). For information about the treatment of Refundable Principal Installments under the Rate Covenant, see "— Refundable Principal Installments" below.

Under the First Resolution and the Second Resolution, the Authority is required to submit to the Board by May 1 of each year the Authority Budget for the ensuing Fiscal Year showing the itemized estimated Cash Flow Requirement for such Fiscal Year. At the beginning of each month, the Authority is to recalculate the Cash Flow Requirement for the then current Fiscal Year and to submit any revisions to the Authority Budget required as a consequence to the Board. The Authority Budget and Cash Flow Requirement are to be used by the Board to set rates, fees and charges.

The Board has covenanted in the Agreement to review the adequacy of rates, fees and charges at least annually. If such annual review, or the report of the Rate Consultant required pursuant to the Agreement, indicates that the rates, fees and charges are or will be insufficient to meet the requirements of the Rate Covenant described above, the Board will promptly take the necessary action to cure or avoid any such deficiency. In addition, under the Agreement, the City, which is responsible for billing, collecting and enforcing collections of rates and charges established by the Board, has agreed that it will diligently pursue all actions necessary to cure or avoid any such deficiency.

The Board has covenanted in the Agreement that it will not furnish or supply or cause to be furnished or supplied any product, use or service of the System free of charge or at a nominal charge, and will enforce (or cause the City to enforce) the payment of any and all amounts owing to the Board for use of the System, except to the extent required by the Act, as in effect on July 24, 1984.

Additional Second Resolution Bonds

The Authority may issue additional Second Resolution Bonds to pay for capital improvements to the System, to pay or provide for the payment of First Resolution Bonds, Second Resolution Bonds, bond anticipation notes, including commercial paper notes, to refund general obligation bonds of the City issued for water or sewer purposes and to fund certain reserves. Under the Second Resolution such additional Second Resolution Bonds may be issued on a parity with all Outstanding Second Resolution Bonds only upon satisfaction of certain requirements including receipt by the Trustee of a certificate by an Authorized Representative of the Authority to the effect that the Revenues for either of the last two Fiscal Years immediately preceding the Fiscal Year in which such Second Resolution Bonds are to be issued were at least equal to the sum of 110% of the Aggregate Debt Service on Outstanding First Resolution Bonds, Second Resolution Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations during such Fiscal Year (excluding from Aggregate Debt Service the amount thereof paid from a source other than Revenues), and 100% of the sum of the Operating Expenses of the System certified by the City and the Required Deposits for such Fiscal Year (excluding Required Deposits for the payment of Outstanding Second Resolution Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations).

The Authority may issue additional Second Resolution Bonds for the purpose of refunding Outstanding Bonds without satisfaction of the requirements described above only if:

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

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

See "Appendix C — Glossary and Summary of Certain Documents — Summary of the Second Resolution."

Authority Debt

At the date of this Official Statement, the Authority has approximately $5.3 billion aggregate principal amount of Outstanding First Resolution Bonds (Capital Appreciation Bonds are included at their full accreted value at maturity). In addition, at the date of this Official Statement, the Authority has approximately $24.7 billion aggregate principal amount of Outstanding Second Resolution Bonds, including $561 million in bond anticipation notes issued to the New York State Environmental Facilities Corporation. Of such First Resolution Bonds and Second Resolution Bonds, approximately $4.7 billion are adjustable rate demand bonds, none of which is insured. The Authority has no auction rate bonds outstanding. Interest Rate Exchange Agreements are used to hedge $401 million of the Authority's adjustable rate demand bonds (see "Appendix D — Financial Statements — Note 5").

Second Resolution Bonds are payable from, among other sources, and secured by a pledge of, amounts on deposit in the Subordinated Indebtedness Fund, subject to the first lien on such amounts in favor of the First Resolution Bonds. Amounts on deposit in the Subordinated Indebtedness Fund will be available, to the extent not utilized for First Resolution Bonds, to pay debt service on Second Resolution Bonds.

The Authority's adjustable rate demand bonds are all supported by liquidity facilities with various financial institutions in the form of standby bond purchase agreements. None of the standby bond purchase agreements supporting adjustable rate demand bonds provides for acceleration or a mandatory term out of bonds purchased thereunder, but all have provisions for the rates to be adjusted upward (up to 25% in the case of bonds held by a liquidity provider) in the event of the inability to remarket such bonds. For further information regarding agreements supporting the Authority's adjustable rate demand bonds see Appendix F hereto, which also includes liquidity agreements for $200 million of commercial paper.

The Authority is currently authorized to have outstanding up to $600 million of commercial paper notes, including up to $400 million of the Extendable Municipal Commercial Paper Notes described below (collectively, the "Commercial Paper Notes"). The Commercial Paper Notes are special obligations of the Authority, the proceeds of which are used to pay the costs of capital improvements to the System. The Commercial Paper Notes, Series One are secured by a standby line of credit agreement which provides liquidity for such Commercial Paper Notes. The Authority has authorized its Extendable Municipal Commercial Paper Notes, Series Seven and Extendable Municipal Commercial Paper Notes, Series Eight (collectively, the "EMCP Notes"). Principal of and interest on the EMCP Notes are not secured by any liquidity or credit facility and are payable from remarketing proceeds and the proceeds of additional EMCP Notes, First Resolution Bonds or Second Resolution Bonds. If payment of an EMCP Note is not made on its stated maturity date, which may not be more than 90 days after its date of issuance, the maturity date will be automatically extended to a date that is 270 days after the EMCP Note's issuance. Payment of the interest accrued through the stated maturity date will be deferred until the extended maturity date. Upon extension, the EMCP Note will bear interest on the principal and deferred interest at a rate determined by a formula that is based upon a percentage of the SIFMA Municipal Index, which changes weekly, plus an upward adjustment that ranges from an additional 100 basis points to 400 basis points depending upon the ratings on the EMCP Notes. At the current ratings, the adjustment would be 100 basis points. Interest on the extended EMCP Notes is payable monthly. The principal, deferred interest and accrued and unpaid interest on the extended EMCP Notes is payable on the extended maturity date.

Interest on the Commercial Paper Notes is secured by the Revenues of the System and the moneys and investments from time to time on deposit in the Subordinated Indebtedness Fund and the funds and accounts established under the respective commercial paper resolutions authorizing their issuance. However, the pledge of the Revenues and the moneys and investments from time to time on deposit in the Subordinated Indebtedness Fund is subject and subordinate to the pledge thereof made by the First Resolution for the benefit of the holders of First Resolution Bonds and on parity with the pledge securing the Second Resolution Bonds. Principal of the Commercial Paper Notes is secured solely by the proceeds of bonds issued to repay the Commercial Paper Notes.

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

Refundable Principal Installments

As permitted by the Second Resolution, the Authority has designated the maturities of certain Bonds as "Refundable Principal Installments." The table below shows the series, maturity dates and principal amounts of those Bonds. A "Refundable Principal Installment" is an installment of principal which the Authority intends to pay with moneys that are not Revenues. In calculating Adjusted Debt Service for purposes of the additional bonds test and Debt Service Reserve Fund Requirement under the Second Resolution, the stated principal amount of a Refundable Principal Installment is treated as if it were payable over a period extending from the due date of such Refundable Principal Installment through the last date on which it could have been authorized to be paid under the Act. The assumed amortization is calculated based upon equal annual payments of principal and interest over such period, with interest at the actual interest cost of the Series of Bonds that include the Refundable Principal Installment. The Adjusted Debt Service will continue to be calculated in this manner through the Fiscal Year in which each Refundable Principal Installment is stated to be due, unless the Authority has not made provision for its payment from sources other than Revenues by the time it adopts its budget for the Fiscal Year in which a Refundable Principal Installment is stated to be due. If provision has not been made by that time, Adjusted Debt Service for the Fiscal Year in which the Refundable Principal Installment comes due will include the full amount of the Refundable Principal Installment. See "CAPITAL IMPROVEMENT AND FINANCING PROGRAM — Debt Service Requirements."

Refundable Principal Installments

Series	Maturity Date (June 15)	Principal Amount
2012 Series DD	2018	$ 35,000,000
2012 Series DD	2027	15,000,000
2012 Series GG	2017	25,000,000
2012 Series GG	2019	25,000,000
2014 Subseries CC-2	2018	65,000,000
2014 Subseries CC-2	2019	45,000,000
Total		$210,000,000

For purposes of the Board's rate covenant, Refundable Principal Installments may be excluded from Debt Service to the extent they are payable from funds held in trust therefor. See "— Rate Covenant."

Derivatives

In an effort to reduce its borrowing costs over the life of its bonds, the Authority has entered into interest rate exchange agreements. For more information on the Authority's interest rate exchange agreements, see "APPENDIX D — FINANCIAL STATEMENTS — Note 5."

Covenant of the State

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

THE AUTHORITY

Purpose and Powers

The Authority is a public benefit corporation created pursuant to the Act. Among its powers under the Act, the Authority may borrow money, issue debt and enter into the Agreement, and refund its bonds and notes and general obligation bonds of the City issued for water or sewer purposes. Additionally, the Authority has the power to require that the Board charge and collect sufficient rates to pay the costs of operating and financing the System and to enforce the obligation of the City to adequately operate and maintain the System, regardless of reimbursement by the Board of costs incurred by the City for operation and maintenance.

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

Membership

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

The current members of the Board of Directors are:

Member	Occupation
Dean A. Fuleihan (1)	Director of Management and Budget of the City
Joseph J. Martens (1)	Commissioner of Environmental Conservation of the State
Jacques Jiha (1)	Commissioner of Finance of the City
Emily Lloyd (1)	Commissioner of Environmental Protection of the City
Marc V. Shaw (2)	Senior Vice Chancellor, City University of New York
Max Von Hollweg (2)	Retired Partner, Sidley Austin LLP

(1) *Ex officio.*
(2) Appointed by the Mayor.

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

Alan L. Anders, Chief Executive Officer

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

Thomas G. Paolicelli, Executive Director

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

Robert L. Balducci, Comptroller

Mr. Balducci was appointed Comptroller in May 2014, after having served as Deputy Comptroller since March 2011 and as Assistant Comptroller from December 2008 to March 2011. He is a graduate of Baruch College of the City University of New York.

Nameca Sharma, Assistant Comptroller

Ms. Sharma was appointed Assistant Comptroller in February 2015. Ms. Sharma has been employed in the Accounting Department of the Authority since November 2007. She is a graduate of York College of the City University of New York and is a Certified Public Accountant currently licensed to practice in the State of New York.

Prescott D. Ulrey, Secretary

Mr. Ulrey was appointed Secretary in October 2013, after serving as Assistant Secretary since February 1998. Mr. Ulrey also serves as General Counsel to the Office of Management and Budget of the City. He is a graduate of the University of California at Berkeley, the Fletcher School of Law and Diplomacy of Tufts University and Columbia Law School.

Jeffrey M. Werner, Assistant Secretary

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

Albert Rodriguez, Assistant Secretary

Mr. Rodriguez was appointed Assistant Secretary in October 2013. He is a graduate of the University of New Mexico and Columbia Law School. He also serves as Chief of the Municipal Finance Division of the New York City Law Department and as Secretary of the Water Board.

Charles C. Barkley, Deputy Treasurer

Mr. Barkley was appointed Deputy Treasurer in February 2015. Prior to joining the Authority, Charles served as Financial Risk Manager with the Office of the New York City Comptroller's Bureau of Asset Management, overseeing financial and operational risk for the City's combined pension assets. He has a Master's in Business Administration from Fordham University, a Master's in Public Administration from John Jay College and is designated as both a Certified Treasury Professional and a Certified Government Financial Manager.

THE BOARD

Purpose and Powers

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

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

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

Membership

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

The current members of the Board are:

Member	Occupation
Alfonso L. Carney, Jr., Chair	Principal, Rockwood Partners LLC
Tawan Davis	Chief Investment Officer and President, Peebles Capital Partners
Joseph G. Finnerty III	Partner, DLA Piper
Adam Freed	Consultant, Sustainability Practice, Bloomberg Associates
Jonathan E. Goldin	General Counsel, Goldin Associates
Arlene M. Shaw	Associate, Schulte Roth & Zabel LLP

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

Steven Lawitts, Executive Director

Mr. Lawitts was appointed Executive Director in May 2006. He was appointed First Deputy Commissioner of DEP in August 2014. Mr. Lawitts previously served as Chief Financial Officer from January 2010 to August 2014, as Acting Commissioner from November 2008 to January 2010, and as First Deputy Commissioner from May 2006 to October 2008. Prior to joining DEP, Mr. Lawitts served as Senior Vice President at the New York City School Construction Authority for three years. Mr. Lawitts previously served as Deputy Commissioner of the New York City Department of Sanitation for nearly ten years. Prior to that, Mr. Lawitts served sixteen years in the transportation industry, including the MTA (where he was Chief Financial Officer of the Long Island Railroad), Conrail and Amtrak. Mr. Lawitts is a graduate of Columbia College and received a Master of Business Administration from Columbia University.

Mathilde O. McLean, Treasurer

Ms. McLean was appointed Treasurer in June 2010. Prior to joining DEP, Ms. McLean worked as a financial consultant to the New York State Environmental Facilities Corporation, an Assistant

Vice President at Citigroup in the Municipal Securities Division Infrastructure Group, and a Consultant with Public Financial Management. Ms. McLean is a graduate of Dartmouth College and received a Master of Business Administration from Columbia University. She is also a CFA charterholder.

Greg L. Ascierto, Deputy Treasurer

Mr. Ascierto was appointed Deputy Treasurer in September 2011. He has worked for the Water Board since 1993, serving as counsel since 2000. Mr. Ascierto received a Juris Doctor from Brooklyn Law School and a Bachelor's of Science from the University of Buffalo.

Albert Rodriguez, Secretary

Mr. Rodriguez was appointed Secretary in October 2013. He is a graduate of the University of New Mexico and Columbia Law School. He also serves as Chief of the Municipal Finance Division of the New York City Law Department and as an Assistant Secretary to the Authority.

THE DEPARTMENT OF ENVIRONMENTAL PROTECTION

Organization

Over 5,500 DEP staff members are assigned to the System. Approximately 800 people within the System staff are assigned to the design and construction of ongoing capital projects, including projects within the CIP, as hereinafter defined, and approximately 400 provide administrative and support services to both System and non-System staff. There are approximately 200 additional employees within the DEP staff whose duties are not related to water and sewer service and whose cost is not included as a System cost.

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

DEP is managed by a Commissioner, who is appointed by the Mayor. It is organized into seven functional areas: (1) Utility Operations, (2) Capital Program Delivery, (3) Sustainability and Regulatory Compliance, (4) Financial Management, Administration and Customer Service, (5) Legal Affairs, (6) Police and Security, and (7) Executive.

Utility Operations consists of three operating Bureaus: the Bureau of Wastewater Treatment; the Bureau of Water Supply; and the Bureau of Water and Sewer Operations.

Capital Program Delivery is managed by the Bureau of Engineering, Design and Construction, which manages the design and construction of major capital projects, including major water transmission facilities, water treatment facilities, wastewater treatment and disposal facilities, wastewater pumping stations and stormwater/Combined Sewer Overflow facilities.

Sustainability and Regulatory Compliance is managed by the Sustainability group, which is responsible for the development and implementation of environmental policy and strategy, including water and air quality, the noise code, and other quality of life issues. Sustainability includes the Office of Green Infrastructure, the Bureau of Environmental Planning and Analysis and the Bureau of Environmental Compliance.

The First Deputy Commissioner oversees the Budget Office, the Bureau of Customer Services, Labor Relations and Discipline, Organizational Development, the Office of the Agency Chief Contracting Officer, Information Technology, Engineering, Audit, Fleet Management, Energy, Environmental Health and Safety, and other administrative divisions.

Legal Affairs is responsible for handling DEP's legal matters. The Bureau of Police and Security is responsible for protecting the City water supply and the associated critical infrastructure from terrorism, pollution and crime. Executive includes the Commissioner and Chief of Staff, as well as Green Policy and the Bureau of Public Affairs.

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

Emily Lloyd, Commissioner

Ms. Lloyd was appointed Commissioner in March 2014. Commissioner Lloyd previously served as Commissioner of DEP from 2005 through 2008. Prior to returning to DEP in 2014, Commissioner Lloyd served as the Administrator of Prospect Park and President of the Prospect Park Alliance. From 2008 through 2011, she served as Chief Operating Officer of Trinity Real Estate. Prior to joining DEP in 2005, Commissioner Lloyd served as Executive Vice President for Columbia University for ten years, as Executive Vice President for Government and Community Affairs and Executive Vice President for Administration. Commissioner Lloyd has devoted much of her professional career to public service. She has also served as Commissioner of the New York City

Department of Sanitation, Director of Business Development and General Manager of Aviation Customer Services for the Port Authority of New York and New Jersey, and Commissioner for Traffic and Parking for the City of Boston. Ms. Lloyd is a graduate of Wellesley College and received a Master of City Planning from the University of Pennsylvania. She also was a Loeb Fellow at Harvard University, has served on a variety of boards and commissions and is a lifetime Fellow of the National Academy of Public Administration.

Steven Lawitts, First Deputy Commissioner

Mr. Lawitts was appointed First Deputy Commissioner in August 2014. Mr. Lawitts previously served as Chief Financial Officer from January 2010 to August 2014, as Acting Commissioner from November 2008 to January 2010, and as First Deputy Commissioner from May 2006 to October 2008. Prior to joining DEP, Mr. Lawitts served as Senior Vice President at the New York City School Construction Authority for three years. Mr. Lawitts previously served as Deputy Commissioner of the New York City Department of Sanitation for nearly ten years. Prior to that, Mr. Lawitts served sixteen years in the transportation industry, including the MTA (where he was Chief Financial Officer of the Long Island Railroad), Conrail and Amtrak. Mr. Lawitts is a graduate of Columbia College and received an MBA from Columbia.

Nancy Cianflone, Deputy Commissioner

Ms. Cianflone was appointed Deputy Commissioner, Bureau of Customer Services in January 2015. Prior to joining DEP, Ms. Cianflone was the Director of Program Development and Governance at National Grid where she was responsible for Consumer Advocacy and Low Income Programs, Escalated Complaints, and regulatory relationships for all National Grid jurisdictions. During her 33-year tenure at National Grid (formerly Brooklyn Union and KeySpan Energy Corp), Ms. Cianflone held positions in Rates and Regulatory Affairs, Government Relations, Internal Auditing, Credit and Collections, Consumer Analysis, Call Center training, quality assurance and communications. Ms. Cianflone is a graduate of St. Francis College (Brooklyn) and received her MBA from Pace University.

David M. Cohen, Esq., Deputy Commissioner

Mr. Cohen was appointed Deputy Commissioner for Labor Relations and Discipline in May 2014. He previously had served as Deputy Commissioner – Labor Counsel of the New York City Police Department since January 2007. Mr. Cohen was Assistant Vice President for Employee and Labor Relations at Columbia University from 1996-2006, was a human resources consultant from 1989-1996, and served as Labor Counsel of the Metropolitan Transportation Authority and Director of Labor Relations for the Long Island Rail Road from 1984-1989. He was an attorney with the U.S. Government prior to 1984. Mr. Cohen received a Bachelor of Science in Industrial and Labor Relations from Cornell University and a Juris Doctor from George Washington University.

Angela Licata, Deputy Commissioner

Ms. Licata was appointed Deputy Commissioner for Sustainability in December 2011. She has been with DEP since 1988 and has served in numerous positions most recently as Deputy Commissioner of the Bureau of Environmental Planning and Analysis. Ms. Licata is a graduate of Harpur College, Binghamton University.

Kevin McBride, Deputy Commissioner

Mr. McBride was appointed Deputy Commissioner of the Bureau of Police and Security in May 2009. Mr. McBride joined DEP from the New York City Police Department where he has served for over 30 years and holds the rank of Deputy Chief. While with the NYPD he served in several command capacities with extensive experience in operational, investigatory and managerial assignments. Mr. McBride holds a Bachelor of Science in Business from the University of the State of New York and a Master of Public Administration from Marist College.

John Petito, P.E., Acting Deputy Commissioner

Mr. Petito was appointed Acting Deputy Commissioner of the Bureau of Wastewater Treatment in November 2014. He has worked for the City of New York since 1979, being with DEP for all but two years. Mr. Petito has held numerous positions in the bureau, most recently as Assistant Commissioner of Operations. His other positions included Director of Plant Operations, Division Chief of Systems Engineering, and Division Chief of Biosolids Engineering and Planning. Mr. Petito has a Bachelor of Engineering Degree from Manhattan College and is a registered Professional Engineer in New York State as well as a New York State Certified Grade 4A Wastewater Treatment Operator.

Diana Jones Ritter, Deputy Commissioner

Ms. Ritter was appointed Deputy Commissioner of Organizational Development in January 2013. Ms. Ritter oversees DEP's talent management systems and functions including Human Resources, Recruiting and Training. Ms. Ritter has over 28 years of governmental experience including as Managing Director of the Metropolitan Transportation Authority, Commissioner of the New York State Office of Mental Retardation and Developmental Disabilities, and in various positions with the New York State Office of the Comptroller. Ms. Ritter is a graduate of Morgan State University, Baltimore, Maryland.

James Roberts, P.E., Deputy Commissioner

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

John Rousakis, General Counsel

John Rousakis was appointed General Counsel in February 2012. Prior to joining DEP, Mr. Rousakis was Counsel in the Energy, Natural Resources and Environment Group of the law firm of O'Melveny & Myers LLP and an Associate in the Environmental Group of the law firm of Morgan, Lewis & Bockius LLP. He also served as Counsel to the Chair of the New York State Assembly Environmental Conservation Committee. Mr. Rousakis holds a Juris Doctor degree from the New York University School of Law and a Bachelor of Science in Engineering from Princeton University.

Paul Rush, P.E., Deputy Commissioner

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

Vincent Sapienza, P.E., Deputy Commissioner

Mr. Sapienza was appointed Deputy Commissioner of the Bureau of Engineering Design and Construction in November 2014. Mr. Sapienza previously served as the Deputy Commissioner of the Bureau of Wastewater Treatment from September 2009 to November 2014. Since joining DEP in 1983, Mr. Sapienza has held numerous positions in the Bureau of Wastewater Treatment as Assistant Commissioner of Wastewater Treatment, Director of Regulatory Compliance, Chief of North Operations, Chief of Operations Support and Chief of Program Development. Mr. Sapienza is a graduate of Columbia University's School of Engineering and Applied Science and received a Master of Business Administration from Hofstra University. He is a Professional Engineer.

Labor Relations

During the last decade, there have been no strikes or major work stoppages of DEP employees affecting the System. Approximately 95% of DEP's employees are members of labor unions which represent such employees in collective bargaining with the City. The majority of DEP employees who are members of unions are members of District Council 37 of the American Federation of State, County and Municipal Employees ("DC 37"). On August 5, 2014, the City reached a collective bargaining agreement with DC 37 for the collective bargaining round covering the period 2010-2017 (the "DC 37 Settlement"). The DC 37 Settlement is consistent with the pattern reflected in the UFT Settlement, as described below. Those DEP employees who are not members of labor unions have generally received salary and benefit increases consistent with DC 37.

On June 3, 2014, the City and the United Federation of Teachers reached a collective bargaining agreement covering the 2008-2010 round of collective bargaining and the round covering the period 2010-2017 (the "UFT Settlement"). Projected operation and maintenance expenses in this Official Statement assume that settlements with approximately 2,700 unsettled DEP employees will be consistent with the pattern set by the UFT Settlement, with the exception of approximately 750 sewage treatment workers whose contract expired at the end of the 2006-08 round of collective bargaining, for whom the assumptions have been adjusted to reflect a preliminary wage determination from the City Comptroller's Office which covers the 2008-10 round of collective bargaining and extends through fiscal year 2011. There can be no assurances that settlements with unsettled DEP employees will be consistent with the UFT Settlement.

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

CAPITAL IMPROVEMENT AND FINANCING PROGRAM

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

The City's Preliminary Ten Year Capital Strategy, which is updated every two years, was released on February 9, 2015 (the "Preliminary Ten Year Capital Strategy"). The Preliminary Ten Year Capital Strategy is expected to be updated with the Mayor's Executive Budget in April 2015. Such update may result in changes to the total amount of projected capital commitments. The Preliminary Ten Year Capital Strategy includes the projected contractual commitments for capital improvements to the System for Fiscal Years 2016 through 2025. The City's Current Capital Plan (the "Current Capital Plan"), which covers Fiscal Years 2015 through 2019, was published on February 9, 2015, is typically updated three times each Fiscal Year and is consistent with the Preliminary Ten Year Capital Strategy for Fiscal Years 2016 through 2019.

Projected capital commitments to the System for Fiscal Years 2015 through 2025 are reflected in the Capital Improvement Program (the "CIP"), which consists of the Current Capital Plan and the last six years of the Preliminary Ten Year Capital Strategy. The dollar amounts in the CIP are a projection of contractual obligations to be entered into during each Fiscal Year and not a projection of capital expenditures . See "CAPITAL IMPROVEMENTS AND FINANCING PROGRAM — Sources and Uses of Capital Funds" for projected capital expenditures.

The CIP establishes long range programmatic goals for the System and reflects a review of the present condition and long-term needs of the plant and equipment constituting the System. The CIP incorporates the replacement cycle for System facilities, extensions to the present service area, and programs to enhance and optimize the operation of the System. Allowances are included in the CIP for emergency repair and replacement. The value of the actual work done in any given year will differ from that outlined in the CIP.

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

Although Amawalk Consulting, the Authority's rate consultant, has not performed a detailed independent review of the capital program elements and has not made an engineering evaluation of the System, Amawalk Consulting has concluded that the gross level of anticipated commitments through Fiscal Year 2025 as reflected in the CIP appears to be reasonable compared to other large water and wastewater utilities.

The CIP is presented in the following table:

CAPITAL IMPROVEMENT PROGRAM
(Thousands of Dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
CITY FUNDS												
WATER SUPPLY AND TRANSMISSION												
Conveyance/Water For the Future	$ 622,970	$ 11,000	$ —	$ 132,000	$ 130,000	$ —	$ —	$ —	$ —	$ —	$ —	$ 895,970
City Tunnel No. 3, Stage 1	27,237	—	—	18,500	83,000	—	—	45,000	—	193,000	—	366,737
City Tunnel No. 3, Stage 2	15,510	4,439	7,000	—	28,344	2,000	—	5,000	—	—	—	62,293
Miscellaneous Programs	—	1,000	—	—	—	20,000	20,000	—	20,000	—	20,000	81,000
Subtotal	**665,717**	**16,439**	**7,000**	**150,500**	**241,344**	**22,000**	**20,000**	**50,000**	**20,000**	**193,000**	**20,000**	**1,406,000**
WATER DISTRIBUTION												
Croton Filtration Project	25,075	59,219	—	15,000	23,386	—	—	—	—	—	—	122,680
Dam Safety Program	224,693	5,989	48,200	—	20,000	118,000	13,000	13,500	13,500	—	—	456,882
Trunk Distribution and Main Extension	10,157	63,833	2,812	32,525	—	—	17,090	2,166	1,000	14,197	—	143,780
Trunk Distribution and Main Replacement	309,683	396,132	183,812	200,203	86,781	80,492	49,923	89,721	87,500	114,885	68,000	1,667,132
Water Quality Preservation	112,952	222,086	112,820	98,934	245,733	479,685	61,575	25,750	23,750	139,350	43,250	1,565,885
Extensions	27,343	24,321	1,190	29,026	300	—	—	—	—	—	—	82,180
Other System Improvements	27,621	51,362	36,576	4,980	73,813	20,689	8,570	21,907	4,158	—	—	249,676
Subtotal	**737,524**	**822,942**	**385,410**	**380,668**	**450,013**	**698,866**	**150,158**	**153,044**	**129,908**	**268,432**	**111,250**	**4,288,215**
WATER POLLUTION CONTROL												
Consent Decree Upgrading & Construction	(10,449)	13,100	17,000	8,000	2,000	—	—	8,000	77,000	—	—	114,651
Plant Upgrading & Reconstruction	309,227	307,562	372,607	570,790	250,668	510,658	96,159	107,000	137,695	76,541	68,862	2,807,769
Sludge Disposal	(1,000)	—	—	—	—	—	—	—	—	—	—	(1,000)
Plant Component Stabilization (1)	173,862	31,354	48,076	—	2,350	50,000	131,535	—	—	—	—	437,177
Green Infrastructure Program	30,860	76,621	61,997	114,212	63,254	117,066	104,986	50,819	45,819	32,819	32,088	730,541
Water Quality Mandates	165,066	162,671	80,460	40,300	55,000	19,000	254,500	254,250	254,250	232,250	188,750	1,706,497
Subtotal	**667,566**	**591,308**	**580,140**	**733,302**	**373,272**	**696,724**	**587,180**	**420,069**	**514,764**	**341,610**	**289,700**	**5,795,635**
SEWERS												
Replacement or Augmentation	168,809	261,357	155,670	85,292	77,194	93,982	34,940	33,410	12,700	32,138	14,000	969,492
Extensions to Accommodate New Development	77,211	103,165	131,562	42,538	32,560	13,500	3,731	45,601	23,000	13,260	12,426	498,554
Programmatic Replacement and Reconstruction	26,512	98,149	—	—	—	—	—	—	—	—	—	124,661
Replacement of Chronically Failing Components	194,323	85,065	83,971	134,971	93,392	125,748	74,137	92,359	58,700	71,459	57,101	1,071,226
Bluebelt Program	—	—	53,795	68,957	39,522	10,000	65,415	70,355	10,000	10,000	10,000	338,044
Trunks	2,667	19,676	10,360	1,660	—	—	2,670	—	—	—	—	37,033
Subtotal	**469,522**	**567,412**	**435,358**	**333,418**	**242,668**	**243,230**	**180,893**	**241,725**	**104,400**	**126,857**	**93,527**	**3,039,010**
EQUIPMENT												
Conservation	31,231	19,021	43,540	6,000	5,238	—	—	18,000	22,000	8,843	—	153,873
Management Information Systems	2,817	2,935	180	480	—	—	7,787	—	7,000	—	—	21,199
Facility Purchases & Reconstruction	21,656	6,328	19,698	6,500	22,280	13,500	3,500	7,000	3,500	2,000	3,500	109,462
Utility Relocation	35,070	21,860	26,100	30,000	30,000	20,000	28,662	25,000	20,000	20,000	20,000	276,692
Vehicles and Equipment	3,518	8,736	1,500	6,500	1,000	1,000	11,000	8,885	628	1,000	1,000	44,767
Subtotal	**94,292**	**58,880**	**91,018**	**49,480**	**58,518**	**34,500**	**50,949**	**58,885**	**53,128**	**31,843**	**24,500**	**605,993**
TOTAL CITY FUNDS	**2,634,621**	**2,056,981**	**1,498,926**	**1,647,368**	**1,365,815**	**1,695,320**	**989,180**	**923,723**	**822,200**	**961,742**	**538,977**	**15,134,853**
STATE, FEDERAL, AND PRIVATE FUNDS												
Plant Upgrading & Reconstruction	20,855	110,389	—	156,000	—	—	—	—	—	—	—	287,244
Plant Component Stabilization	10,184	—	—	—	—	—	—	—	—	—	—	10,184
Trunk Distribution and Main Replacement	1,828	—	—	—	—	—	—	—	—	—	—	1,828
Dam Safety Program	(378)	—	—	—	—	—	—	—	—	—	—	(378)
Other System Improvements	23,009	—	—	—	—	—	—	—	—	—	—	23,009
TOTAL NON-CITY FUNDS	**55,498**	**110,389**	**—**	**156,000**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**321,887**
TOTAL FUNDS	**$2,690,119**	**$2,167,370**	**$1,498,926**	**$1,803,368**	**$1,365,815**	**$1,695,320**	**$989,180**	**$923,723**	**$822,200**	**$961,742**	**$538,977**	**$15,456,740**

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

Water Supply and Transmission

Conveyance and Water Supply/Water for the Future. DEP is engaged in research to develop alternate conveyance conduits and/or water supplies for the City in order to provide more dependability within the Water System, including the Rondout-West Branch Tunnel. The alternate water supplies or conveyances could be used during drought situations, to augment the City's daily water supply, or during repairs and inspections of existing aqueducts and tunnels.

DEP has completed an evaluation of alternatives to mitigate leaks in the Rondout-West Branch Tunnel and has elected to construct an approximately three mile long bypass tunnel which will allow DEP to repair the leaks. The cost of the bypass tunnel and associated conservation and alternative supply measures is estimated to be $1.1 billion. For additional information, see "THE SYSTEM — The Water System — Water Collection and Distribution — *The Rondout-West Branch Tunnel.*"

Tunnel 3. Stages I and II of Tunnel 3 include completion of the Brooklyn/Queens and Manhattan segments. Stage I became operational in July 1998 and has improved the reliability of the transmission system. The Manhattan segment of Stage II was completed in October 2013. Completion of the Brooklyn/Queens segment of Stage II will improve services to Staten Island, Brooklyn and Queens. See "THE SYSTEM — The Water System — Water Collection and Distribution."

Water Distribution

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

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

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

Water Quality Preservation. The City provides for improvements to the upstate watersheds including projects undertaken pursuant to the FADs (as hereinafter defined) in the Catskill and Delaware watersheds such as the acquisition of environmentally sensitive property, the creation of community wastewater management systems in areas where because of historic development patterns, individual septic systems do not provide adequate treatment, and retrofits to capture and treat stormwater from developed areas. See "THE SYSTEM — The Water System — Governmental Regulation," "THE SYSTEM — Overview," and "THE SYSTEM — The Water System — Water Collection and Distribution."

Water Pollution Control

Consent Decree Upgrading and Construction. The Clean Water Act (as hereinafter defined) and several consent decrees and orders between DEP and the New York State Department of Environmental Conservation ("NYSDEC") require improvements to the City's wastewater treatment infrastructure. The plant upgrades include the retrofitting of eight plants to achieve additional nitrogen treatment and upgrades at the Newtown Creek plant to improve plant operations. DEP is also required to implement measures to address discharges through the City's combined sewer overflow ("CSO") outfalls which, during periods of heavy rainfall, release a combination of stormwater and sewage that bypasses treatment into the City's waterways. See "THE SYSTEM — The Sewer System — Governmental Regulation."

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

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

Green Infrastructure. The Green Infrastructure Program is an approach to managing storm water and improving water quality by reducing the frequency of Combined Sewer Overflow ("CSO") events through the construction of rainwater capture facilities such as bioswales and green roofs.

Water Quality Mandates. The United States Environmental Protection Agency ("USEPA") and NYSDEC have imposed various water quality requirements on DEP, including mandates to mitigate CSOs, mandates to reduce chlorine discharge at waste water treatment plants and mandates to reduce storm water runoff in areas of the City served by separate sewers designed to carry only storm water. DEP is working with USEPA and NYSDEC to address these mandates.

Sewers

Replacement or Augmentation. This program provides for projects that expand the capacity of the Sewer System.

Extensions. The City constructs sewers to replace septic tanks in populated areas to avoid health problems associated with viruses, bacteria and other sewage-related pollutants and minimizes stormwater flooding.

Programmatic Replacement and Reconstruction. This program provides for replacement and reconstruction of storm sewers for the alleviation of flooding.

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

Bluebelt Program. The Bluebelt System is a cost effective storm water management system that connects natural drainage corridors, such as streams and wetlands, to conventional storm sewers to reduce local flooding.

Equipment

Conservation. This program provides for the installation and replacement of water meters in residential and commercial properties.

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

Historical Capital Program

The following table presents capital commitments and capital expenditures of the System for Fiscal Years 2010 through 2014. Capital commitments are contractual obligations entered into during the Fiscal Year while capital expenditures represent cash payments made during the Fiscal Year.

System Capital Commitments and Expenditures
(Millions of Dollars)

	FY 2010		FY 2011		FY 2012		FY 2013		FY 2014	
Commitments	System Funds(1)	All Funds(2)	System Funds(1)	All Funds(2)	System Funds(1)	All Funds(2)	System Funds(1)	All Funds(2)	System Funds(1)	All Funds(2)
Water Supply and Transmission (3)	$ 89	$ 89	$ 1	$ 1	$ 97	$ 97	$ 316	$ 316	$ 21	$ 21
Water Distribution	660	660	602	602	578	590	402	402	343	345
Water Pollution Control	1,315	1,530	354	361	571	570(4)	454	456	412	408(4)
Sewers	127	134	178	190	366	368	279	288	300	302
Equipment	137	237	100	98(4)	59	59	65	58(4)	84	84
Total	$2,328	$2,650	$1,235	$1,252	$1,671	$1,684	$1,516	$1,521	$1,160	$1,160

	FY 2010		FY 2011		FY 2012		FY 2013		FY 2014	
Expenditures (5)	System Funds(1)	All Funds(2)(6)	System Funds(1)	All Funds(2)(6)	System Funds(1)	All Funds(2)(6)	System Funds(1)	All Funds(2)(6)	System Funds(1)	All Funds(2)(6)
Water Supply and Transmission (3)	$ 71	$ 72	$ 118	$ 131	$ 132	$ 123(4)	$ 90	$ 102	$ 158	$ 153(4)
Water Distribution	1,334	1,343	1,196	1,150(4)	943	918(4)	718	696(4)	600	555(4)
Water Pollution Control	1,118	838(4)	1,128	1,126(4)	957	995	718	699(4)	548	516(4)
Sewers	196	203	174	177	184	200	247	254	274	287
Equipment	146	170	216	240	120	169	91	92	71	67(4)
Total	$2,865	$2,626	$2,832	$2,824	$2,336	$2,405	$1,864	$1,843	$1,651	$1,578

Totals may not add due to rounding.

(1) System Funds include the proceeds of Authority bonds sold directly to the public and those privately placed with the Corporation under the revolving fund program and System revenues.

(2) All Funds include federal and State capital grants.

(3) Includes capital costs for improvements to upstate water pollution control plants which were paid for with the proceeds of Authority bonds but which are reported as operating expenses in the System's financial statements because such plants are owned by municipalities outside the City.

(4) Cancellation of a non-City contract caused the All Funds commitment level to fall below the System Funds level.

(5) System Funds are shown on a modified cash basis and reflect cash expended for System capital commitments, excluding federal and State grant-funded expenditures. All Funds, which include federal and State grant-funded expenditures, are shown on an accrual basis.

(6) All Funds exclude expenditures for pollution remediation costs of $250 million in Fiscal Year 2010, $19 million in Fiscal Year 2011, $23 million in Fiscal Year 2012, $8 million in Fiscal Year 2013 and $23 million in Fiscal Year 2014, which are reported in the System's financial statements as operating costs.

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 (i) proceeds of bonds sold directly to the public and privately placed with New York State Environmental Facilities Corporation (the "Corporation") in connection with the revolving loan fund program described below, (ii) federal and State capital grants, and (iii) cash-financed capital construction paid from System revenues. See "Debt Service Requirements" below.

Future Financing. The Authority estimates that nearly 100% of the System's capital costs will be paid from: (i) proceeds of bonds and other forms of indebtedness sold to the public and privately placed with, or supported by, the Corporation and (ii) System revenues. Implementation of the CIP is dependent upon the Authority's ability to market its securities successfully in the public credit markets. For purposes of forecasting revenue requirements for the System, the principal amount of bonds estimated to be issued for capital purposes as of May 23, 2014, excluding refunding bonds, in each of the Fiscal Years 2015 through 2019 averages approximately $1.3 billion per year. Projected Authority capital spending reflects commitments from both current and prior years. See the table entitled "Sources and Uses of Capital Funds" below.

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

The Corporation has entered into an agreement to provide the Authority with approximately $217.5 million in funds made available for certain projects through the American Reinvestment and Recovery Act of 2009 (the "Recovery Act") and the Corporation has entered into an agreement to provide the Authority with $30 million in funds made available for certain projects through the Clean Water State Revolving Fund. To date, the Authority has received approximately $231.8 million. The Authority expects to receive the remaining funds over the current and next fiscal years. The projected issuance of Authority debt in Fiscal Years 2015 through 2019 does not assume the receipt of such funds. Once fully drawn and the financed projects are completed, the loan principal will be forgiven.

The Corporation has entered into agreements to provide the Authority with $690 million in funds for certain projects through the Clean Water State Revolving Fund. The Authority issued $320 million of its Fiscal 2014 Series 3 and $370 million of its fiscal 2015 Series 1 bond anticipation notes to the Corporation. The Authority has drawn $329.5 million on the notes. The Authority expects to draw down the remaining balance of the notes over the next two years.

Sources and Uses of Capital Funds

The following table presents the projected sources and uses of the funds for the System as of May 23, 2014. See "INTRODUCTORY STATEMENT — Financial Projection Assumptions."

Sources and Uses of Capital Funds
(Millions of Dollars)

Line No.	Description	2015	2016	2017	2018	2019	Period Total
	Sources of Funds						
1	Proceeds from Sale of Bonds (1)(2)	$ 1,616.0	$ 1,350.0	$ 1,242.0	$ 1,264.0	$ 1,168.0	$ 6,640.0
2	Proceeds from Commercial Paper Notes	1,321.0	1,289.0	1,186.0	1,208.0	1,116.0	6,120.0
3	Total Sources of Funds	2,937.0	2,639.0	2,428.0	2,472.0	2,284.0	12,760.0
	Uses of Funds						
4	Refunding of Prior Bonds (2)	320.0	0.0	0.0	0.0	0.0	320.0
5	Deposit to Construction Fund	1,321.0	1,289.0	1,186.0	1,208.0	1,116.0	6,120.0
6	Retirement of Commercial Paper Notes (1)	1,221.0	1,289.0	1,186.0	1,208.0	1,116.0	6,020.0
7	Other (3)	75.0	61.0	56.0	56.0	52.0	300.0
8	Total Uses of Funds	2,937.0	2,639.0	2,428.0	2,472.0	2,284.0	12,760.0
	Construction Fund						
9	Beginning Balance	250.0	350.0	350.0	350.0	350.0	250.0
10	Transfer from Proceeds from Commercial Paper Notes	1,321.0	1,289.0	1,186.0	1,208.0	1,116.0	6,120.0
11	Cash Financed Capital Construction (4)	225.0	225.0	225.0	250.0	300.0	1,225.0
12	Total Available Construction Funds (1)	1,796.0	1,864.0	1,761.0	1,808.0	1,766.0	7,595.0
13	Less: Total Capital Spending (5)	(1,446.0)	(1,514.0)	(1,411.0)	(1,458.0)	(1,416.0)	(7,245.0)
14	Ending Balance	$ 350.0	$ 350.0	$ 350.0	$ 350.0	$ 350.0	$ 350.0

(1) The Authority expects to receive $18 million from the Corporation through the Clean Water State Revolving Fund program, which is not included in this table.
(2) Fiscal Year 2015 includes refunding of $320 million of Bond Anticipation Notes issued to the Corporation.
(3) Includes issuance costs and Debt Service Reserve Fund requirements.
(4) Funds projected for Cash Financed Capital Construction may also be used for the defeasance of bonds.
(5) Capital spending reflects commitments from current and prior years.

The following table shows projected debt service requirements, including payments on outstanding bonds and on future bonds projected to be issued as of May 23, 2014. For additional information, see "— Debt Service Requirements."

Future Debt Service Requirements
(Millions of Dollars)

Line No.	Description	Bond Issues	2015	2016	2017	2018	2019
	First Resolution Debt Service						
1	Outstanding Bonds		$ 291.9	$ 313.3	$ 332.1	$ 322.8	$ 355.3
	Anticipated Future Bonds						
2	Fiscal Year 2015 Bonds	$350.0	9.6	19.3	19.3	19.3	19.3
3	Fiscal Year 2016 Bonds	279.0	0.0	8.4	16.7	16.7	16.7
4	Fiscal Year 2017 Bonds	251.0	0.0	0.0	8.5	17.1	17.1
5	Fiscal Year 2018 Bonds	257.0	0.0	0.0	0.0	8.7	17.5
6	Fiscal Year 2019 Bonds	231.0	0.0	0.0	0.0	0.0	7.9
7	Total First Resolution Debt Service		301.5	340.9	376.6	384.6	433.7
	Subordinated Obligations						
	Second Resolution Authority Debt Service (1)						
8	Outstanding Authority Bonds Issued to the Public		880.7	1,000.8	929.6	953.3	939.1
	Anticipated Future Second Resolution Bonds						
9	Fiscal Year 2015 Bonds	966.0	25.0	52.8	52.8	52.8	52.8
10	Fiscal Year 2016 Bonds	771.0	0.0	22.2	46.6	46.6	46.6
11	Fiscal Year 2017 Bonds	691.0	0.0	0.0	22.3	46.3	46.3
12	Fiscal Year 2018 Bonds	707.0	0.0	0.0	0.0	22.8	47.4
13	Fiscal Year 2019 Bonds	637.0	0.0	0.0	0.0	0.0	20.6
14	Interest Payments on Commercial Paper Notes		18.0	25.5	25.5	25.5	25.5
15	Outstanding Second Resolution Bonds Issued to EFC		479.0	475.8	471.9	460.3	448.5
	Anticipated Future Second Resolution EFC Bonds						
16	Fiscal Year 2015 Bonds	300.0	8.2	20.5	20.5	20.5	20.5
17	Fiscal Year 2016 Bonds	300.0	0.0	8.9	21.7	21.7	21.7
18	Fiscal Year 2017 Bonds	300.0	0.0	0.0	10.1	23.6	23.6
19	Fiscal Year 2018 Bonds	300.0	0.0	0.0	0.0	10.1	23.6
20	Fiscal Year 2019 Bonds	300.0	0.0	0.0	0.0	0.0	10.1
21	Less: Current EFC Subsidy (2)		(92.3)	(88.3)	(84.1)	(79.9)	(75.7)
22	Less: Future EFC Subsidy (3)		(3.0)	(8.0)	(15.0)	(21.0)	(28.0)
23	Actual Debt Service on Subordinated Indebtedness		1,315.6	1,510.3	1,501.9	1,582.6	1,622.4
24	Less: Carryforward Revenues		(845.3)	(903.9)	(871.6)	(870.0)	(838.9)
25	Net Debt Service on Subordinated Indebtedness		470.3	606.4	630.3	712.6	783.5
26	Total Debt Service Payable from Current Revenues (Line 7+Line 25) (4)		$ 771.8	$ 947.2	$1,006.9	$1,097.2	$1,217.2

(1) Debt service does not reflect federal interest subsidy payments on Build America Bonds. Federal subsidy payments on outstanding Build America Bonds are included as Revenues. See "Financial Operations — Projected Revenues."

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

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

(4) Includes Total First Resolution Debt Service plus net Debt Service on Subordinated Indebtedness.

For purposes of these projections, the Authority has assumed that interest rates on future Authority First Resolution Bonds and Authority Second Resolution Bonds issued to the public will be 5.5% for Fiscal Year 2015, 6% for Fiscal Year 2016 and 6.8% for Fiscal Year 2017 and each year thereafter. Interest rates on future Authority Second Resolution Bonds issued to the Corporation will be 5.45% for Fiscal Year 2015, 5.95% for Fiscal Year 2016, and 6.75% for Fiscal Year 2017 and each year thereafter prior to expected interest rate subsidies. The Authority has further assumed that existing and future adjustable rate bonds and Commercial Paper Notes bear interest at an average rate of 3% for Fiscal Year 2015 and 4.25% for Fiscal Year 2016 and each year thereafter.

Debt Service Requirements

The following schedule sets forth as of the date of this Official Statement the amount required during each Fiscal Year (ending June 30) shown below for the payment of the principal of and the interest (including the Accreted Value of all Capital Appreciation Bonds) on Outstanding Authority First Resolution Bonds and Authority Second Resolution Bonds assuming that all adjustable rate bonds bear interest at an average rate of 0.25% for Fiscal Year 2015, 3% for Fiscal Year 2016 and 4.25% for each Fiscal Year thereafter with interest computed on the basis of a 30-day month and a 360-day year. The schedule does not include debt service on any outstanding Commercial Paper Notes.

Debt Service Requirements

FY Ending June 30	Debt Service on Outstanding First Resolution Bonds(1)	Debt Service on Outstanding Second Resolution Bonds(2)(3)(4)	Fiscal 2015 Series GG Bonds		Debt Service on Second Resolution Bonds, including Fiscal 2015 GG Bonds(2)(3)(4)	Debt Service on First and Second Resolution Bonds(1)(2)(3)(4)
			Principal	Interest		
2015	$ 227,219,800	$ 1,310,179,773	$	$	$	$
2016	248,596,900	1,483,439,941				
2017	267,389,994	1,412,544,422				
2018	258,132,606	1,427,124,060				
2019	290,648,356	1,407,119,898				
2020	351,105,381	1,508,802,383				
2021	338,131,306	1,474,880,372				
2022	357,707,575	1,487,533,509				
2023	432,731,050	1,405,458,565				
2024	455,976,975	1,369,023,470				
2025	303,920,725	1,488,817,889				
2026	264,307,925	1,601,499,967				
2027	344,667,925	1,505,038,471				
2028	347,077,000	1,502,717,585				
2029	280,339,538	1,560,774,766				
2030	450,386,338	1,396,134,536				
2031	251,852,188	1,573,003,061				
2032	446,313,275	1,435,562,235				
2033	572,278,350	1,269,142,475				
2034	137,611,175	1,718,102,183				
2035	339,266,175	1,510,549,352				
2036	354,040,838	1,525,480,596				
2037	700,680,838	1,183,079,044				
2038	627,920,088	1,241,912,316				
2039	457,206,088	1,428,924,236				
2040	435,604,650	1,469,930,236				
2041	22,312,500	1,880,954,473				
2042	22,312,500	1,891,088,851				
2043	22,312,500	1,876,227,885				
2044	222,312,500	1,668,291,399				
2045	338,812,500	1,368,960,023				
2046	—	748,366,723				
2047	—	1,544,469,661				
2048	—	256,310,786				
2049	—	446,903,811				
2050	—	479,903,811				
2051	—	10,778,811				
2052	—	8,342,306				
2053	—	6,294,710				
Total	$10,169,175,556	$49,883,668,593	$	$	$	$

Totals may not add up due to rounding.

(1) Includes debt service on the Authority's First Resolution Bonds expected to be refunded with the proceeds of the Fiscal 2015 Series GG Bonds.

(2) Net of projected subsidy from the Corporation.

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

(4) Assumes that the outstanding Fiscal 2012 Series DD Bonds, Fiscal 2012 Series GG Bonds and Fiscal 2014 Subseries CC-2 Bonds, which are Refundable Principal Installments, will be amortized as provided in the definition of Adjusted Debt Service rather than paid in full at maturity. See "SECURITY FOR THE SECOND RESOLUTION BONDS—Refundable Principal Installments" for additional information.

FINANCIAL OPERATIONS

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

Revenues

The following table presents, on a cash basis, the System revenues received during Fiscal Years 2010 through 2014, as derived from the accounting records utilized in preparation of the statement of cash flows, which is contained in the annual financial statements for Fiscal Years 2010 through 2014.

System Revenues
(Millions of Dollars)

Line No.	Description	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Operating Revenues					
1	User Payments (1)	$2,391.4	$2,839.7	$3,063.3	$3,278.8	$3,499.2
2	Upstate Revenues	40.9	64.7	60.9	69.6	73.5
3	Subtotal Service Revenue	2,432.3	2,904.5	3,124.2	3,348.5	3,572.7
4	Miscellaneous Revenues (2)	118.1	18.3	22.9	47.9	39.8
5	Subtotal Operating Revenue	2,550.4	2,922.7	3,147.0	3,396.4	3,612.5
	Nonoperating Revenues					
6	Interest Income on System Funds (3)	71.6	52.2	45.0	32.3	46.2
7	Federal Subsidy on Build America Bonds	12.0	65.4	75.5	72.2	70.1
8	Subtotal Nonoperating Revenues	83.6	117.6	120.5	104.5	116.3
9	Total Revenues	$2,634.0	$3,040.3	$3,267.5	$3,500.9	$3,728.8

Totals may not add due to rounding.

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

(2) Miscellaneous Revenues does not include subsidy payments from the Corporation on First Resolution Bonds or Second Resolution Bonds. Miscellaneous Revenues includes fees paid for a variety of services such as new connections to the System and fees paid for the review of developers' plans.

(3) Includes interest income on the Construction Fund, Debt Service Fund, the Debt Service Reserve Fund, the Subordinated Debt Service Fund, the Revenue Fund and interest earned in escrow accounts for economically defeased debt.

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

Expenses

The following table presents System expenses for Fiscal Years 2010 through 2014 on a cash basis which have been derived from the budget records utilized in preparation of the annual certificates of cash equivalents. These expenses represent operation, maintenance and general expenses excluding the lease rental payment to the City.

System Expenses
(Millions of Dollars)

Description	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Authority Expenses	$ 29.4	$ 33.4	$ 41.1	$ 43.4	$ 43.2
Water Board Expenses	9.1	3.9	6.4	8.3	24.4
Water Operations (1)					
Personal Services (2)	199.9	168.6	185.6	192.2	199.3
Other Than Personal Services (3)	294.0	298.1	313.9	315.8	352.2
Total Water Operations	493.9	466.7	499.5	508.0	551.5
Wastewater Operations (1)					
Personal Services (2)	589.8	322.1	358.2	355.5	348.9
Other Than Personal Services (3)	276.1	253.0	253.0	343.0	295.5
Total Wastewater Operations	865.9	575.1	611.2	698.5	644.4
Indirect Expenses (4)	87.3	62.1	78.2	62.4	69.1
Judgments and Claims	8.0	8.0	8.0	8.0	8.0
Net Operating Expenses	1,455.1	1,111.9	1,196.9	1,276.9	1,273.0
Less: Trust Account Release	(98.8)	—	—	—	—
Less: Credit for Excess Prior Year Payment to the City	(13.3)	(88.2)	(22.8)	(53.4)	(123.7)
Net Operating Expense Payments	1,343.0	1,023.7	1,174.1	1,223.6	1,149.3
Cash Defeasance	—	259.3	235.6	300.0	399.1
Cash Financed Capital Construction	—	—	—	—	225.0
Base Rental Payment to the City of New York	163.0	218.9	225.0	228.0	211.8
O&M Reserve Fund increase/(decrease)	(4.0)	—	12.5	(0.9)	8.9
Total Expense	$1,540.5	$1,539.2	$1,694.6	$1,802.3	$2,061.7

Totals may not add due to rounding.

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

Projected Revenues

As indicated in the table below, "Subtotal Service Revenue" is projected as of May 23, 2014 to increase from approximately $3.6 billion in Fiscal Year 2015 to approximately $4.1 billion in Fiscal Year 2019 due to projected rate increases in those Fiscal Years. Upstate revenues are projected to increase from approximately $68.7 million in Fiscal Year 2015 to approximately $88.8 million in Fiscal Year 2019. This revenue growth is due to expected increases in the cost of water supply services.

City-wide water consumption in Fiscal Year 2014 was about 0.8% lower than consumption in Fiscal Year 2013. City-wide consumption in the first eight months of Fiscal Year 2015 is about 1.7% lower than consumption during the same period in Fiscal Year 2014.

For the first eight months of Fiscal Year 2015, water and sewer payments were approximately $61.3 million or 2.4% higher than projected in May 2014 for this seven month period.

The projected revenues assume that in Fiscal Year 2015 through Fiscal Year 2019, water consumption will decline at the rate of 1.5% per year.

Miscellaneous Revenues include an allowance for payments by the City which reflect the return to the System of a portion of the prior year Base Rental Payment paid to the City pursuant to the Lease. Amounts will vary with changes to the Base Rental Payment, which is based on debt service. The projected amount to be returned in Fiscal Year 2015 is $32.9 million and the projected amount to be returned in Fiscal Year 2019 is $28.5 million.

Projected Revenues
(Millions of Dollars)

Line No.	Description	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Operating Revenues					
1	User Payments (1)	$3,511.2	$3,633.9	$3,768.4	$3,907.7	$4,053.5
2	Upstate Revenues	68.7	67.9	75.3	83.8	88.8
3	Subtotal Service Revenue	3,579.9	3,701.7	3,843.7	3,991.5	4,142.3
4	Miscellaneous Revenues (2)	49.4	40.4	44.8	46.1	48.4
5	Subtotal Operating Revenue	3,629.3	3,742.2	3,888.6	4,037.6	4,190.7
	Nonoperating Revenues					
6	Interest Income on System Funds (3)	29.0	30.0	31.0	30.0	29.0
7	Federal Subsidy on Build America Bonds	70.1	70.1	70.1	70.0	69.9
8	Subtotal Nonoperating Revenue	99.1	100.1	101.1	100.0	98.9
9	Total Revenues	$3,728.4	$3,842.2	$3,989.6	$4,137.6	$4,289.6

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

(1) Includes late payment charges.
(2) Miscellaneous Revenues do not include subsidy payments from the Corporation on Second Resolution Bonds. Miscellaneous Revenues includes fees paid for a variety of services such as new connections to the System, fees paid for the review of developers' plans and payments from the City to return a portion of the prior year Base Rental Payment to the City pursuant to the Lease.
(3) Includes interest income on the Construction Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Subordinated Debt Service Fund.

Projected Operating and Maintenance Expenses

The table set forth below shows, for Fiscal Years 2015 through 2019, the System's projected operation and maintenance expenses as of May 23, 2014. See "INTRODUCTORY STATEMENT — Financial Projection Assumptions."

Projected Operation and Maintenance Expense
(Millions of Dollars)

Line No.	Description	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1	Authority Operations	$ 46.9	$ 49.2	$ 51.7	$ 54.3	$ 57.0
2	Board Operations	39.2	43.2	47.5	52.2	57.4
3	Net Authority Expense for the Defeasance of Debt	100.0	0.0	0.0	0.0	0.0
	Water Operations					
4	Personal Services	209.2	223.5	230.2	237.1	244.2
5	Other Than Personal Services	376.7	398.5	410.4	422.7	435.4
6	Total Water Operations	585.9	621.9	640.6	659.8	679.6
	Wastewater Operations					
7	Personal Services	389.6	416.5	429.0	441.9	455.1
8	Other Than Personal Services	397.4	400.9	412.9	425.3	438.1
9	Total Wastewater Operations	787.0	817.4	841.9	867.2	893.2
10	Indirect Expenses	19.4	19.4	19.4	19.4	19.4
11	Judgments and Claims	8.0	8.0	8.0	8.0	8.0
12	Net Operating Expense Payments	1,586.3	1,559.1	1,609.1	1,660.9	1,714.6
13	Deposits to O&M Reserve Fund	11.1	7.2	7.4	6.0	7.9
14	Rental Payment to the City of New York	232.1	267.2	271.3	284.6	297.9
15	Cash Financed Capital Construction	225.0	225.0	225.0	250.0	300.0
16	Total Expenses	$2,054.5	$2,058.5	$2,112.8	$2,201.5	$2,320.5

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

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

Authority Operations. Administrative expenses of the Authority shown on Line 1 of the table above, include annual fees required by the Corporation in connection with the Authority's participation in the State Revolving Fund Program. These fees are projected to be $12.4 million in Fiscal Year 2015 and are expected to increase in future years as the outstanding principal of bonds issued to the Corporation increases. Other expenses of the Authority include but are not limited to payments under interest rate exchange agreements (net of receipts), fees related to adjustable rate bonds, Commercial Paper Notes and the management of investments and arbitrage rebate payments.

Board Operations. The expenses of the Board shown on line 2 of the table above include payments for lock box services as well as professional services for the following: Operational Excellence Program, the service line protection program, collections and rates and charges.

Personal Services Cost. Personal services costs for both water operations and wastewater operations include direct salary costs plus fringe benefit and pension costs. The projected personal services costs for Fiscal Years 2015 through 2019 reflect assumptions based on recent labor settlements and reflect an allowance for fringe benefit and pension costs which are expected to be 51% of salaries and wages in Fiscal Year 2015 and each year thereafter. For information on assumptions with respect to labor settlements, see "THE DEPARTMENT OF ENVIRONMENTAL PROTECTION — Labor Relations."

Water Operations. The operating costs of the Water System include direct operation and maintenance costs applicable to one or more functional areas of the Water System and the distribution system as well as certain indirect operating costs of the DEP which are allocated between the Water

System and the Sewer System. The operating costs of the Water System are divided into personal services costs and other than personal services costs.

Other than personal services costs include property taxes paid to upstate communities for watershed properties as well as chemicals, electricity, and other expenses. All but a small percentage of the Water System functions by gravity so that electricity costs necessary to maintain normal water transmission and distribution are relatively small.

Property tax payments for City-owned watershed lands are expected to be approximately $160.2 million in Fiscal Year 2015. Property taxes on all watershed properties, except the UV Facility, are assumed to increase at the rate of 3% annually through Fiscal Year 2019.

DEP adds chemicals, including fluoride and chlorine, to drinking water and uses other chemicals in the treatment of wastewater. In Fiscal Year 2015, the anticipated cost of chemicals for the System is approximately $53.4 million.

In accordance with the watershed protection agreement, DEP will implement additional programs which will enhance the ability of the City and the communities located in the watershed area to protect the quality of the water supply. The projected other than personnel expenses for Fiscal Year 2015 include $46.7 million for programs related to filtration avoidance including the operation and maintenance of wastewater treatment facilities in the watershed. The budgeted amounts will increase in subsequent years. Such programs also include certain capital investments which are contained within the CIP. The forecasted operation and maintenance expenses for the Water System reflect operation and maintenance costs due to the Watershed Agreement.

In Fiscal Year 2015, operation and maintenance expenses for the Croton Filtration Plant and the UV Facility are projected to be a total of $34.7 million. This amount includes allowances for police and security but excludes property taxes for the UV Facility. Operating expenses for these plants, exclusive of property taxes on the UV Facility, are assumed to increase in Fiscal Year 2016 through Fiscal Year 2019 at the rate of 3% annually.

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

Other than personal services costs, excluding property taxes, are assumed to increase at an estimated rate of 3% per year for the forecast period. Other than personal service costs include electricity for the water pollution control plants, pump stations and service yards, chemicals, and other expenses. Electricity, which represents a significant expense in operating the treatment plants and pump stations, is supplied primarily by the Power Authority of the State of New York. The budgeted costs for heat, light and power for the Water System and the Sewer System in Fiscal Year 2015 are approximately $101.5 million. The vast majority of such expenses are for electricity for the Sewer System. The projected allowance for fuel oil and gasoline in Fiscal Year 2015 is $22.9 million. Another major component of other than personal services costs for the Sewer System is biosolids management, which is projected to be $37.2 million in expenses in Fiscal Year 2015.

Projected operating expenses for the System do not include provisions for the payment of any additional potential fines or penalties. See "THE SYSTEM." In the event that fines or penalties are required to be paid, operating expenses will increase in the year in which such payments are made.

Other Expenses. Other expenses of the System include indirect expenses and judgments and claims. Indirect expenses, shown on Line 10 of the table, reflect costs allocated to the System for support provided by various City agencies and departments. Services provided include budget preparation and review, cost and revenue accounting, billing and collection, and legal support. The method of allocating these costs to the System is based upon costs initially allocated to DEP and subsequently divided between those attributable to water and sewer and those costs associated with other activities of DEP.

The costs allocated to DEP as a whole are derived from the total costs of City support agencies and departments and a formalized cost allocation plan which distributes the costs to affected departments and agencies. DEP's billing and collection expenses are included in the operation and maintenance costs of the Water System and the Wastewater System.

Projected Financial Operations

The following table shows a summary of the forecasted cash flows for the Authority as of May 23, 2014 for Fiscal Year 2015 through Fiscal Year 2019. See "CAPITAL IMPROVEMENT AND FINANCING PROGRAM — Debt Service Requirements." See "RATES AND BILLINGS — Rates — Projected Rates." The projected rate increases described herein under "RATES AND BILLINGS — Rates" have been assumed in order to meet projected cash expenditures in compliance with the Rate Covenant. See "FINANCIAL OPERATIONS — Projected Revenues." As shown on Line 33 of the table, positive net surpluses are projected to be maintained throughout the reporting period. Actual carryforward revenues applied to Fiscal Year 2015 were $985 million. Line 34 illustrates the projected coverage of Authority First Resolution debt service by current revenues available for debt service. Line 35 illustrates the projected coverage of First Resolution and Second Resolution debt service by current revenues available for debt service less Authority expenses.

As of August 31, 2014, funds to pay 100% of Fiscal Year 2015 projected debt service payments are being held by the Authority's Trustee or have been paid as interest on its bonds and Commercial Paper Notes.

Forecasted Cash Flows
(Millions of Dollars)

Line No.	Description	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Operating Revenues					
1	Water and Sewer User Payments	$3,511.2	$3,633.9	$3,768.4	$3,907.7	$4,053.5
2	Upstate Revenue	68.7	67.9	75.3	83.8	88.8
3	Miscellaneous Revenue	49.4	40.4	44.8	46.1	48.4
	Nonoperating Revenues					
4	Interest on Funds	29.0	30.0	31.0	30.0	29.0
5	Federal Subsidy on Outstanding Build America Bonds	70.1	70.1	70.1	70.0	69.9
6	Current Revenues Available for Debt Service	3,728.4	3,842.2	3,989.6	4,137.6	4,289.6
	First Resolution Debt Service					
7	Outstanding Bonds	291.9	313.3	332.1	322.8	355.3
8	Anticipated Future Bonds	9.6	27.6	44.5	61.8	78.4
9	Total First Resolution Debt Service	301.5	340.9	376.6	384.6	433.7
	Debt Service on Subordinated Indebtedness (1)					
10	Outstanding Second Resolution Bonds issued to the public	880.7	1,000.8	929.6	953.3	939.1
11	Anticipated Future Second Resolution Bonds issued to the public	25.0	75.0	121.7	168.5	213.6
12	Interest Payments on Commercial Paper Notes	18.0	25.5	25.5	25.5	25.5
13	Outstanding Second Resolution Bonds issued to EFC	479.0	475.8	471.9	460.3	448.5
14	Anticipated Future Second Resolution EFC Bonds	8.2	29.5	52.3	75.9	99.5
15	Less: EFC Subsidy and Capitalized Interest on Subordinated Bonds	(95.3)	(96.3)	(99.1)	(100.9)	(103.7)
16	Actual Debt Service on Subordinated Indebtedness	1,315.6	1,510.3	1,501.9	1,582.6	1,622.4
17	Less: Carryforward Revenues	(845.3)	(903.9)	(871.6)	(870.0)	(838.9)
18	Net Debt Service on Subordinated Indebtedness	470.3	606.4	630.3	712.6	783.5
19	Total Debt Service Payable from Current Revenues (line 9 + line 18)	771.8	947.2	1,006.9	1,097.2	1,217.2
	Operating Expenses					
20	Authority Operations	46.9	49.2	51.7	54.3	57.0
21	Board Operations	39.2	43.2	47.5	52.2	57.4
22	Net Authority Expense for the Defeasance of Debt	100.0	—	—	—	—
23	Water System	585.9	621.9	640.6	659.8	679.6
24	Wastewater System	787.0	817.4	841.9	867.2	893.2
25	Indirect Expense	19.4	19.4	19.4	19.4	19.4
26	Judgments and Claims	8.0	8.0	8.0	8.0	8.0
27	Net Operating Expenses	1,586.3	1,559.1	1,609.1	1,660.9	1,714.6
28	Deposits to O&M Reserve Fund	11.1	7.2	7.4	6.0	7.9
29	Rental Payment to the City of New York	232.1	267.2	271.3	284.6	297.9
30	Defeasance/Cash Financed Capital Construction (2)	225.0	225.0	225.0	250.0	300.0
31	Total Expenses	2,054.5	2,058.5	2,112.8	2,201.5	2,320.5
32	Cash Released from Escrow	(1.8)	(35.1)	—	—	—
33	Net Surplus (line 6-line 19-line 31-line 32)	$ 903.9	$ 871.6	$ 870.0	$ 838.9	$ 751.9
34	First Resolution Debt Service Coverage (line 6/line 9)	12.37x	11.27x	10.59x	10.76x	9.89x
35	First and Second Resolution Debt Service Coverage ((line 6-line 20)/line 19)	4.77x	4.00x	3.91x	3.72x	3.48x

Source: Amawalk Consulting.

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

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

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

RATES AND BILLINGS

Rates

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

The System's rates and charges are largely exempt from federal and State regulation. Water rates, fees and charges for water supply are the responsibility of the Board and are not subject to further approval or regulation except for rates for upstate users. Currently 1.8% of System Revenues are collected from such upstate users. Sewer charges are established by the Board as a percentage of water charges. The Board uses data compiled from meter readings for billings and to determine the effectiveness of City-mandated conservation measures.

The following table sets forth the changes in rates for water and sewer service since 2005:

History of Water and Sewer Rate Increases

Effective Date	Increase in Flat-Rate Water/Metered Water	Metered Water Rate (per ccf)(1)	Sewer Rate
July 1, 2005	3.00	1.65	159% of water charge
July 1, 2006	9.40	1.81	159% of water charge
July 1, 2007	11.50	2.02	159% of water charge
July 1, 2008	14.50	2.31	159% of water charge
July 1, 2009	12.90	2.61	159% of water charge
July 1, 2010	12.90	2.95	159% of water charge
July 1, 2011	7.50	3.17	159% of water charge
July 1, 2012	7.00	3.39	159% of water charge
July 1, 2013	5.60	3.58	159% of water charge
July 1, 2014	3.35	3.70	159% of water charge

(1) ccf: 100 cubic feet.

Projected Rates. Although the Board sets rates for an annual period, it may increase rates during such period, as required. As of May 23, 2014, forecasted debt service, operating and other costs for the System indicated that the anticipated future rate increases to be set by the Board for water and sewer services combined are 4.9% in Fiscal Years 2016, 2017, 2018 and 2019. The rate increase for customers in the City for Fiscal Year 2016 is expected to be proposed on March 27, 2015. Final adoption of the City rate increase is expected on May 8, 2015. Final adoption of the upstate rate increase is expected in June 2015.

Basic Sewer Charge. For all properties connected to the Sewer System, or legally required to be connected after receiving proper notice, there is a charge imposed equal to a fixed percentage of the property's water charge. Since July 1, 1992, the sewer charge has remained at 159% of the water charge.

Sewer Allowances. Certain commercial customers use water in their products and thus return less waste to the Sewer System than their water consumption might indicate. Upon application and approval, these commercial users are entitled to an effective rate reduction which reflects the proportion of water which is retained in their products or evaporated and not returned as sewage.

Sewer-only Customer Charges. In the case of premises which receive water service from alternative sources, a sewer charge is determined by DEP. For the current Fiscal Year, the sewer charge to such premises is equal to 159% of the dollar amount that would be charged for water usage if it were supplied by the Water System.

Upstate Water Rates. Rates for water supply service provided to municipalities and water districts located north of the City are established in accordance with the provisions of the Water Supply Act of 1905 (the "1905 Act"). The 1905 Act provides that such rates shall be based on the System's actual cost of service. The sale of water and the rates and charges for these accounts are regulated by State law as well as by individual agreements between these communities and the City. Each contract provides for the metering of water sales to individual communities and the application of a specific charge per unit of metered volume. In those instances where the community per capita consumption exceeds that of the City, the specified rate of charge for the excess (the "Excess Rate") is the rate charged for retail service in the City. As of July 1, 2014, water taken from either the Croton or Catskill/Delaware systems will be charged at a rate of $1,573.61 per million gallons for daily per capita amounts not in excess of daily per capita consumption within the City. On October 30, 2013, several upstate communities initiated a challenge to the Fiscal Year 2014 Excess Rate before the Public Service Commission. See "LITIGATION" for additional information.

Comparative Charges. The following table presents comparative annual water and sewer charges in 30 large cities based upon a survey conducted in February 2015 by Amawalk Consulting Group LLC. Using a ranking system where 1 represents the lowest rates, the City's ranking relative to these cities is: for Single-Family Residential —17, for Commercial — 19, and for Industrial — 22.

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

	Single Family Residential			Commercial			Industrial	
	City	**Annual Charge**		**City**	**Annual Charge**		**City**	**Annual Charge**
1	Memphis	$ 405	1	Memphis	$ 5,372	1	Memphis	$ 353,783
2	Phoenix	$ 471	2	St. Louis	$ 6,848	2	St. Louis	$ 568,326
3	Chicago	$ 610	3	Chicago	$ 7,626	3	Milwaukee	$ 605,927
4	Miami-Dade	$ 670	4	San Antonio	$ 8,173	4	Dallas	$ 619,527
5	Denver	$ 671	5	Dallas	$ 8,377	5	Indianapolis	$ 667,385
6	San Antonio	$ 730	6	Milwaukee	$ 8,806	6	Denver	$ 675,171
7	Milwaukee	$ 737	7	Phoenix	$ 8,964	7	San Antonio	$ 700,271
8	Dallas	$ 783	8	Denver	$ 9,090	8	Louisville	$ 820,412
9	St. Louis	$ 805	9	Fort Worth	$10,197	9	Philadelphia	$ 826,203
10	Fort Worth	$ 817	10	Indianapolis	$10,597	10	Chicago	$ 853,432
11	Los Angeles	$ 894	11	San Jose	$10,609	11	Columbus	$ 858,762
12	Columbus	$ 949	12	Louisville	$10,935	12	Fort Worth	$ 865,574
13	Louisville	$ 959	13	Houston	$11,099	13	Jacksonville	$ 905,132
14	Houston	$ 977	14	Columbus	$11,289	14	San Jose	$ 927,881
15	San Jose	$ 990	15	Jacksonville	$11,821	15	Charlotte	$ 976,714
16	Charlotte	$ 992	16	San Diego	$11,835	16	Detroit	$1,000,431
17	**New York**	**$1,025**	17	Charlotte	$11,899	17	Houston	$1,017,010
18	Philadelphia	$1,059	18	Los Angeles	$12,183	18	Phoenix	$1,052,850
19	Detroit	$1,061	19	**New York**	**$12,812**	19	Baltimore	$1,057,206
20	Jacksonville	$1,072	20	Philadelphia	$14,253	20	San Diego	$1,115,527
21	Indianapolis	$1,088	21	Baltimore	$14,487	21	Los Angeles	$1,185,784
22	Baltimore	$1,144	22	Miami-Dade	$14,578	22	**New York**	**$1,281,150**
23	Boston	$1,218	23	Cleveland	$15,519	23	Washington, D.C.	$1,341,692
24	San Diego	$1,246	24	San Francisco	$16,079	24	Cleveland	$1,537,959
25	Washington, D.C.	$1,270	25	Boston	$16,733	25	Austin	$1,560,843
26	Cleveland	$1,332	26	Detroit	$18,361	26	San Francisco	$1,575,376
27	Austin	$1,432	27	Austin	$19,000	27	Miami-Dade	$1,606,569
28	San Francisco	$1,714	28	Washington, D.C.	$22,590	28	Boston	$1,843,609
29	Atlanta	$2,064	29	Seattle	$27,718	29	Seattle	$2,356,163
30	Seattle	$2,247	30	Atlanta	$29,123	30	Atlanta	$2,940,887
	Average	**$1,048**		**Average**	**$13,232**		**Average**	**$1,123,252**

(1) User charges are based upon information provided by the identified cities and standardized assumptions regarding water consumption, wastewater discharge, stormwater drainage area and other factors. Actual charges in each city will vary in accordance with local usage patterns. There may be significant differences in typical single family residential usage among cities which results in charges that are different than shown above. Some cities bill for sewer use on the basis of winter water consumption which could affect sewer billings if a customer's use was not uniform throughout the year. Sewer charges include stormwater charges in those cities where separate stormwater fees are assessed. Some cities use property tax revenue or other revenues to pay for part of the cost of water, wastewater or stormwater services. In such situations, the user charges will not reflect the full cost of water, wastewater or stormwater services. Some cities impose charges that become part of the cost of water/sewer services. Water/sewer bills in some cities are subject to sales taxes, gross receipts taxes and/or other fees.

(2) Charges for all cities reflect rate schedules in effect in February 2015.

(3) Charges for single family residential are based on usage of 80,000 gallons per year, charges for commercial are based on usage of 1,000,000 gallons per year and charges for industrial are based on usage of 100,000,000 gallons per year.

Accounts, Billing and Collection

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

The System has approximately 835,000 water and sewer accounts, nearly all of which are for water and sewer service. Approximately 91% of the System's water and sewer customers are residential. The remainder are commercial and industrial users, with industrial users accounting for only a small portion of water and sewer usage.

Since 1988, the basis for service charges for residential properties has been in a continuous process of transition from a flat-rate basis of annual billing to a meter-based billing system which relies on the actual measurement of usage. Part of this transition has included a Universal Metering Program for all properties to be metered to improve water conservation, water supply system management, and rate equity. As of March 2015, approximately 98% of all water and sewer accounts had meters installed. Since July 2000, unmetered properties which have not taken steps to install a meter have been required to pay a surcharge doubling their annual water and sewer charge. A surcharge was levied on approximately 5,000 accounts in their most recent bills. Commercial accounts are required by the Board and the City to have meters installed for all water services, and substantially all of these accounts are in compliance with this requirement.

As of March 2015, approximately 793,000 accounts, representing 95% of total accounts and 75% of total revenues, are billed on a metered basis. Most meter-based charges are billed quarterly, except for some larger accounts that are read and billed monthly.

Approximately 42,000 accounts, representing 5% of total accounts and 25% of total revenues, are billed annually through a flat-rate system. These accounts are charged for water either on a per unit charge as part of the Multi-Family Conservation Program ("MCP") or through a frontage-based billing system, which is a computation that incorporates, among other factors, the width of the front of the building, the number of stories, the number of dwelling units, and the number of water-using fixtures (such as bathtubs, showers and toilets) in the building. Flat-rate bills are normally sent annually to customers prior to the start of each Fiscal Year and are due at the end of the first month of the Fiscal Year. On May 4, 2012, the Board adopted a modified MCP, pursuant to which the majority of the accounts that had been billed on the frontage basis were converted to charges that are based a fixed rate per dwelling unit per year. Currently, approximately 27,000 accounts are billed on MCP. All accounts enrolled in the MCP either have meters and high-efficiency plumbing fixtures installed currently or have until June 30, 2016 to install approved meters and high-efficiency plumbing fixtures. Accounts which fail to install a meter by the deadline will be removed from the MCP and subject to increased charges on future bills. Failure to comply with the high-efficiency plumbing fixture requirement will result in an automatic conversion to metered charges.

In addition to the Universal Metering Program, DEP has also continued to inspect and replace meters on a regular basis. Since 2010, DEP has installed more than 431,000 new water meters of less than 2 inches in diameter, and in 2012, DEP initiated a replacement program for its large water meters of 2 inches or more in diameter. Through February 2015, a total of 28,000 large meters have been replaced. Approximately 7,000 additional large meters are targeted for replacement by December 2015.

Since 2009, DEP has also implemented an automated meter reading system that utilized New York City's wireless network. To date, DEP has installed over 817,000 automatic meter reading transmitters, representing 97% of DEP's installation target, and the automated meter reading system has been activated for those accounts that have had transmitters installed. All customers whose accounts have been upgraded for automated meter reading can now view their daily water consumption via DEP's website; this consumption information is automatically updated at least four times per day. With an increasing percentage of automatic meter readers installed, DEP has seen a corresponding decrease in estimated bills, from 17.4% of bills in January 2009 to 3.1% of bills in February 2015.

Certain institutions are exempt under State law from the payment of all or a portion of their water and sewer charges depending upon usage. These institutions include religious corporations and certain educational institutions, charitable institutions, homes for the aged, hospitals and other non-profit or charitable corporations.

DEP manages its account and billing information through its Customer Information System ("CIS"), which incorporates both frontage and metered accounts. DEP identified weaknesses in the ability of CIS to identify and report account errors and corrections on a comparable basis over time. DEP has implemented solutions for the primary issues with CIS's financial reporting capabilities: a new report has been developed to show accounts receivable and a more accurate methodology has been implemented to age accounts receivable; any bill cancellations are now split into water and sewer charges; and the substantial completion of the AMR installations has allowed for consumption to be posted at year-end (as it was on June 30, 2014) so that the consumption and charges during each fiscal year can be accurately attributed.

The Board and DEP have undertaken initiatives to enhance the collection of water and sewer billings. In October 2007, the Board authorized and approved modifications to the regulations governing service terminations, including reducing the dollar amount and the delinquent period thresholds for determining an account's eligibility for service termination and narrowing the period of time during the year when water cannot be shut off. DEP has issued water shut-off notices to single family residential customers pursuant to the Board's regulations governing service terminations. Although most customers receiving such notices pay their bills or enter into payment agreements, DEP has terminated service for a small number of single family residential properties. The Board also adopted updated policies regarding the denial of access and new policies regarding theft of service, effective July 1, 2009.

In December 2007, the City Council and the Mayor reauthorized the City's lien sale program which had expired in 2006, and expanded it to allow the City, on behalf of the Board, to sell, with certain exceptions, liens from unpaid water and sewer charges on multi-family houses and commercial businesses, independent of the existence of property tax liens. The lien sale program authorization expired on December 31, 2010, was renewed in March 2011 and expired again on December 31, 2014. In January and February 2015, respectively, the City Council and the Mayor authorized a renewal of the lien sale program through December 31, 2016.

DEP has contracted with a collection agency to assist in collecting delinquent accounts. The collection agency targets single family residential customers which are not covered by DEP's lien authorization. By aggressively pursuing collections rather than the termination of delinquent single family residential accounts, DEP hopes to reduce the number of service terminations each year. The selected collection agency began work in July 2013. DEP has provided the collection agency with information relating to approximately 7,000 randomly selected accounts, which collectively owe $18.9 million. An additional 8,180 accounts were shared with the collection agency at the end of calendar year 2014. Approximately $7 million has been collected as a result of this program to date.

The Board, at its annual meeting on May 21, 2010, authorized a pilot program to bill stand-alone parking lots, which historically had not received a water bill, for the stormwater runoff they produce. The pilot program for stand-alone parking lots requires lot owners with no water service to pay a charge for the stormwater runoff they produce or else demonstrate that they are addressing stormwater on site with green infrastructure or other measures. Under this pilot program, DEP is currently billing approximately 590 stand-alone parking lots on an annual basis at a rate of $0.0628 per square foot of property area for wastewater service. A credit is available for parking lot owners who demonstrate the ability to capture stormwater and prevent it from entering the wastewater system.

As a result of Sandy (defined below), which hit the City on October 29, 2012, DEP temporarily delayed or suspended certain payments due in relation to accounts which were severely affected by the storm. Approximately 66 properties, which the City's Department of Buildings had determined were severely damaged or destroyed by the storm continue to be reviewed by DEP.

THE SYSTEM

Overview

DEP supplies water and sewer service to the Boroughs of the Bronx, Brooklyn, Manhattan, Queens, and Staten Island, an area of over 300 square miles, and serves approximately 8.2 million people. The Water System provides an average of approximately 1,010 mgd of water in the City. Water consumption has decreased since 1980 when an average of approximately 1,500 mgd was provided by the Water System. The City is also required by State law to sell water in counties where its water supply facilities are located and where it currently provides water to approximately 1 million additional people. The amount of water that can be safely drawn from a watershed during the worst period in the drought of record is the "Dependable Yield." DEP has determined that the System could have furnished an average of 1,290 mgd during the drought of record in the mid-1960s. During periods of normal rainfall, watersheds supply more than the Dependable Yield.

The Sewer System collects and treats an average of approximately 1,250 mgd of wastewater. Sewer service is provided to virtually the entire City, except for parts of the Borough of Staten Island and the Borough of Queens communities of Breezy Point and Douglas Manor. Sewer service is also provided to certain upstate communities in System watershed areas.

According to AECOM, the System is in adequate condition (the highest rating category). See "APPENDIX A — LETTER OF AECOM USA, INC., CONSULTING ENGINEERS."

DEP protects the System, including water supply structures and facilities through a DEP police force of approximately 200 officers and secures facilities through locks, fences and other physical barriers to prevent access by unauthorized persons.

The Water System

Water Collection and Distribution

Water for the System can be drawn from three upstate reservoir systems (the Croton, Catskill and Delaware Systems) and a system of wells in Queens that were acquired as part of the City's acquisition of the Jamaica Water Supply Company ("Jamaica Water"). The three upstate water collection systems include 19 storage reservoirs and three controlled lakes with a total storage capacity of approximately 580 billion gallons. They were designed and built with various interconnections to increase flexibility by permitting exchange of water from one system to another. This feature mitigates localized droughts and takes advantage of excess water in any of the three watersheds. DEP is continuing to enhance its infrastructure to increase its operational flexibility.

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

Approximately 95% of the total water supply is delivered to buildings by gravity. Only about 5% of the water is regularly pumped by DEP to maintain the desired pressure. When drought conditions exist, additional pumping is required.

See "New York City Water Supply System" map in Appendix H.

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

Collecting Reservoirs

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

Totals may not add due to rounding.

(1) Capacity above minimum operating level.

Balancing Reservoirs and Distribution Facilities

Name	Storage Capacity (billion gallons)	Original In-Service Date
Balancing Reservoirs		
Kensico	30.6	1915
Hillview	0.9	1915
Total Balancing Reservoirs	31.5	
Distribution Facilities		
Central Park (offline)	1.0	1862
Jerome Park	0.8	1905
Silver Lake (tanks)	0.1	1970
Total Distribution Facilities	1.9	
Total Storage Capacity	33.4	

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

Water System Dependable Yield and Capacity

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

(1) Capacity above minimum operating level.

The total volume of water used each year by the City and upstate customers includes water consumed by metered and unmetered customer accounts, water used in firefighting, leakage and other uses. The following table summarizes the total quantities of water delivered each year to the City and upstate customers for Fiscal Year 2010 through Fiscal Year 2014.

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

Year	City Use	Upstate	Total
2010	370,685	40,797	411,482
2011	377,953	42,682	420,635
2012	369,241	39,713	408,954
2013	369,863	40,143	410,006
2014	366,951	40,485	407,436

Totals may not add due to rounding.

The Croton System, when operating at full capacity, had provided approximately 10% of the City's daily water supply under normal conditions and up to 30% of the daily water supply during drought conditions. The Croton System has been used only on a very limited basis since 2004. Once the Croton Filtration Plant is in operation, currently anticipated for May 2015, the Croton System will be available to supplement the Catskill/Delaware Systems as needed. Until then, absent exigent circumstances, the Croton System will not be used. DEP's decision to filter Croton System water, and to limit the use of the Croton System until the treatment plant is on line, was based on water quality issues, including past exceedances of regulations for disinfection by-products (specifically haloacetic acids), turbidity, and color. Long-term use of the Croton System will be determined by DEP's operational needs. See "— Governmental Regulation — *Croton Filtration*." The Croton System consists of 12 reservoirs and three controlled lakes on the Croton River, its three branches and three other tributaries. The water in the Croton System flows from upstream reservoirs through natural streams to downstream reservoirs, terminating at the New Croton Reservoir. The watershed which supplies the Croton System has an area of 375 square miles. It lies primarily within the State, approximately 45 miles north of lower Manhattan, with a small portion in the State of Connecticut.

The Catskill System watersheds occupy sparsely populated areas in the central and eastern portions of the Catskill Mountains. The Catskill and Delaware Systems together currently provide the City's entire daily water supply. Water in the Catskill System comes from the Esopus and Schoharie Creek watersheds, located approximately 100 miles north of lower Manhattan and 35 miles west of the Hudson River. The Catskill System is comprised of the Schoharie Reservoir (formed by the Gilboa Dam across Schoharie Creek) and Ashokan Reservoir (formed by the Olivebridge Dam across Esopus Creek) and the Catskill Aqueduct. Schoharie Reservoir water is delivered to the Esopus Creek via the Shandaken Tunnel, from which it then travels to the Ashokan Reservoir.

Gilboa Dam is comprised of an earthen dam and a concrete gravity dam, with the concrete portion also acting as the spillway. In 2005, an engineering analysis of the dam showed that the spillway had lost some mass over time and that the dam did not meet NYSDEC safety guidelines applicable to the reconstruction of existing dams. In December 2006, DEP completed a series of interim steps to bring the dam into compliance with NYSDEC safety guidelines for the reconstruction of existing dams.

Although there is no evidence that the dam is facing imminent risk of failure, DEP determined that the rehabilitation of the dam should be advanced. The estimated cost to complete the rehabilitation of the dam is $286 million, $250 million of which is funded in the CIP.

The Delaware System is located approximately 125 miles north of lower Manhattan. Three Delaware System reservoirs collect water from a sparsely populated region on the branches of the Delaware River: Cannonsville Reservoir (formed by the Cannonsville Dam on the West Branch of the Delaware River); Pepacton Reservoir (formed by the Downsville 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). Water from these three reservoirs is diverted to Rondout Reservoir, formed by the Merriman Dam across Rondout Creek, a tributary to the Hudson River.

In addition, wells in Queens, which have been offline since 2007 due to the availability of higher quality water from the Catskill and Delaware Systems, are capable of providing approximately 1% of the City's daily water supply. The wells could be used to provide more of the daily supply if required to meet water supply needs. Unlike the rest of the City's water supply, which is a surface and gravity-supplied system originating in a network of upstate reservoirs, well water is pumped from extensive underground aquifers. DEP is currently planning improvements to the ground water system which will augment the supply of water from underground aquifers.

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

Current demand/flow projections show that if conservation programs, including metering, toilet replacement, hydrant locking, leak detection, and public information remain effective, there will be no immediate need for the City to find additional long-term water supply sources to meet normal demand. However, with the construction of the Rondout-West Branch bypass tunnel, there will be a short-term need to find additional water supply sources and/or manage demand. See "—Water for the Future" and "— Rondout-West Branch Tunnel."

Water for the Future. DEP's Water for the Future program consists of repair and replacement of portions of the Rondout-West Branch Tunnel, described below, as well as water supply augmentation projects required to ensure an adequate water supply to the City during the shutdown of the Rondout-West Branch Tunnel. Water supply augmentation includes rehabilitation of the City's groundwater system in southeast Queens, rehabilitation of the Catskill Aqueduct, and demand management measures to encourage in-City water conservation, including retrofits on City owned facilities.

Rondout-West Branch Tunnel. The Rondout-West Branch Tunnel is a section of the Delaware Aqueduct which can convey up to 890 mgd, and typically delivers an annual average of 600 mgd, more than 50% of the City's daily water supply. The tunnel carries water 45 miles from the Delaware System under the Hudson River and into West Branch Reservoir. It has the highest pressures and the highest velocities in the Water System. A portion of the tunnel crosses a fractured rock formation, which is potentially subject to greater stress than the deep rock tunnels located in the City. DEP regularly assesses the condition and integrity of the System's tunnels and aqueducts to determine the extent and effect of water loss and, since the early 1990s, DEP has monitored the condition of the Rondout-West Branch Tunnel. As a result of DEP's flow tests, visual observations and other analyses, it has been determined that approximately 15 mgd to 36 mgd of water is being lost from the tunnel and is surfacing in the form of springs or seeps in the area. This amounts to a loss of approximately 4% of the daily volume of water provided by the tunnel under peak flow conditions. The situation in the tunnel and amount of water loss is stable. In the opinion of the professional engineering firm retained by DEP in conjunction with that investigation, there is very little immediate risk of failure of the tunnel. To address the leak, DEP is undertaking its Water for the Future program, which includes construction of an approximately three mile long bypass tunnel. Connection of the bypass to the existing tunnel is expected to require that the tunnel be shut down for one 6 to 10 month period or two or three shut downs of shorter duration, starting in 2022, during which periods supply augmentation is expected to be needed. The estimated cost to complete the design and construction of the shafts and tunnel bypass and to implement updated water supply augmentation projects and water conservation measures is estimated to be $1.1 billion, $1 billion of which is included in the CIP.

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

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

Richmond Tunnel. Connecting to Tunnel 2 in Brooklyn is the ten-foot diameter, five-mile long Richmond Tunnel, which was completed in 1970 and carries water 900 feet beneath Upper New York

Bay to Staten Island. The Richmond Tunnel, the Richmond Distribution Chamber, the Richmond Aqueduct and the underground Silver Lake Tanks were designed to improve the water supply facilities of Staten Island. The underground storage tanks (among the world's largest) have a combined capacity of 100 million gallons and replaced the Silver Lake Reservoir (now Silver Lake).

Tunnel 3. Tunnel 3 is presently under construction and will increase capacity to meet a growing demand in the eastern and southern areas of the City. It will also permit inspection and rehabilitation of Tunnels 1 and 2, and provide water delivery alternatives to the City in the event of disruption in Tunnel 1 or 2. Tunnel 3 is being built in four stages. Stage I commenced operation in July 1998. It follows a 13-mile route which extends south from Hillview Reservoir in Yonkers under Central Park Reservoir in Manhattan, and east under the East River and Roosevelt Island to Long Island City in Queens. Stage II, when completed, will extend from the end of Stage I to supply Queens, Brooklyn and the Richmond Tunnel, and from the valve chamber at Central Park into lower Manhattan. The Manhattan segment of Stage II was completed in October 2013. The Stage III project is now referred to as the "Kensico-City Tunnel." Stage IV is intended to deliver additional water to the eastern parts of the Bronx and Queens. It would extend southeast from the northern terminus of Stage I in the Bronx to Queens and then southwest to interconnect with the Queens portion of Stage II. Stage IV will enable the system to maintain full service even if Tunnel 1 or 2 were shut down. The estimated cost of work on Tunnel 3 is expected to be incurred in the years beyond the CIP.

Kensico-City Tunnel. The Kensico-City Tunnel will extend from the Kensico Reservoir to the interconnecting chamber of Tunnel 3, Stage I, south of Hillview Reservoir. The estimated cost to design and construct the tunnel is expected to be between $4 billion and $6 billion, which would be incurred in the years beyond the CIP.

Drought Response Measures

From time to time the Water System experiences drought conditions caused by significantly below-normal precipitation in the watershed areas. The last drought was in 2002. As of March 19, 2015, the System's reservoirs were filled to 73.5% of capacity. Normal levels at this time of year are approximately 92.8% of capacity.

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

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

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

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

Governmental Regulation

The System is subject to federal, State, interstate and municipal regulation. At the federal level regulatory jurisdiction is vested in USEPA; at the State level in NYSDEC and NYSDOH; at the interstate level in the DRBC and the Interstate Environmental Commission, and at the municipal level in DEP, the New York City Department of Health and Mental Hygiene ("NYCDOH"), DOB and the Department of Small Business Services, and to a limited degree, in municipalities and districts located in eight counties north of the City. Water quality protection regulations are enforced within the watershed areas north of the City through a network of overlapping governmental jurisdictions including NYSDEC, NYSDOH, DEP, and county, municipal and district police, engineers and inspectors. The various jurisdictions maintain physical security, take water samples, monitor construction activities and wastewater treatment in the watershed, and generally oversee the physical condition of, activity on and 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 Watershed Regulations. Regulatory enforcement within City limits is almost exclusively accomplished through City personnel. Provisions incorporating and augmenting the substance of the federal Safe Drinking Water Act ("SDWA"), related regulations and the Sanitary Code, are contained in the Health Code, Watershed Regulations and the City's Building and Building Construction Codes. These provisions are enforced by personnel from DEP, NYCDOH and DOB.

Drinking Water Regulations/Filtration and Watershed Protection. Pursuant to the SDWA, USEPA has promulgated nationwide drinking water regulations which specify the maximum levels of contaminants allowed in drinking water and which govern the construction, operation, and maintenance of the System. USEPA has also promulgated filtration treatment regulations, known as the federal Surface Water Treatment Rule ("SWTR"), which prescribe guidelines concerning protection and treatment of surface water supplies. Enforcement of many of the related regulations promulgated under the SDWA, including the SWTR, has been delegated by USEPA to the NYSDOH. See "— Croton Filtration" and "— Catskill/Delaware Filtration Avoidance."

Croton Filtration. The City is constructing a full scale water treatment facility to filter Croton System water as mandated by the terms of a 1998 federal court consent decree, as supplemented in 2002, 2005 and 2014 (the "Croton Filter Consent Decree").

The Croton Filter Consent Decree sets forth milestones, including start-up of the Croton Water Treatment Plant and commencement of operations of the facility on May 17, 2015. It is anticipated that the total remaining cost to complete the Croton filtration plant will be $75 million, $51.7 million of which is included in the CIP. Under the Consent Decree, DEP will be required to pay $65 million if it fails to meet the new May 17, 2015 milestone for commencement of operations. Additionally, DEP is mandated to construct a permanent golf club house. The cost of such club house is not yet finalized, though $46 million is included in the CIP for its construction. Construction of portions of the filtration plant are substantially complete, and DEP has received interim completed works approvals from the NYSDOH authorizing operation of the plant at its full design capacity.

Catskill/Delaware Filtration Avoidance. With respect to the Catskill and Delaware systems, the City believes that it will continue to be able to meet the criteria for non-filtered supplies under the SWTR.

Since 1993, USEPA has been issuing Filtration Avoidance Determinations ("FADs") pursuant to which the City is not required to filter water from the Catskill and Delaware Systems. If the City were to have to filter water from the Catskill and Delaware Systems, construction costs to provide such filtration are estimated to be greater than $6 billion. To further the City's ability to comply with the FAD, on January 21, 1997, the City entered into the Watershed Memorandum of Agreement with the State, Delaware and Catskill watershed communities, USEPA, and several environmental groups (the "Watershed Memorandum of Agreement"). The Watershed Memorandum of Agreement supplemented the City's existing watershed protection program with approximately $400 million in additional funding for economic-environmental partnership programs with upstate communities.

In July 2007, USEPA issued a new FAD (the "2007 FAD"), which supersedes previous determinations and has a term of 10 years, divided into two five-year periods. NYSDOH issued the midterm revisions in May 2014. The 2007 FAD requires the City to take certain actions to protect the Catskill and Delaware water supplies. These actions include the continuation of certain environmental and economic partnership programs established under the Watershed Memorandum of Agreement and the creation of new programs. The 2007 FAD is fully funded in the CIP.

Since 1997, the FAD has required that the City solicit property from owners of land in the watershed and acquire (with certain limited exceptions) title to or conservation easements on any solicited land if the owner accepts the City's purchase price. The 2007 FAD required the City to allocate a total of $300 million for land acquisition during its ten year term, including approximately $59 million of unspent funds remaining from moneys set aside for land acquisition under the Watershed Memorandum of Agreement and the previous FAD and $241 million in new funding. Under the midterm FAD revision, the City has allocated another $50 million for the core land acquisition program, and an additional $15 million dedicated to flood buy-outs.

On December 17, 2014, Governor Cuomo announced his intention to ban natural gas drilling using high volume hydraulic fracturing ("HVHF") in New York State, including the Catskill/Delaware watershed. NYSDEC is expected to finalize its Environmental Impact Statement ("EIS") evaluating HVHF in the near future. Once the EIS is final, New York State is expected to pass legislation banning HVHF. Low volume hydraulic fracturing is currently allowed in the watershed, and will not be banned based on this environmental review, but NYSDEC believes that it is not economically viable, and especially in light of the Statewide ban, it is unlikely that it will take place in the watershed in the foreseeable future.

LT2. In January 2006, USEPA issued the Long Term 2 Enhanced Surface Water Treatment Rule ("LT2"). The purpose of LT2 is to reduce the incidence of waterborne disease by mandating certain levels of inactivation and/or the removal of certain microorganisms from water supply systems, including the Catskill and Delaware Systems. DEP is complying with such levels through the operation of its ultraviolet treatment facility ("UV Facility"), which provides treatment for Catskill and Delaware water. LT2 also mandates that uncovered finished water storage facilities, which include the Hillview Reservoir, be covered or that water from such facilities be treated. DEP has entered into an Administrative Order with NYSDOH (the "State Hillview Administrative Order") and an Administrative Consent Order with USEPA (the "Federal Hillview Administrative Order") which mandate that the City begin work on a cover by December 31, 2018. In late August 2011, USEPA announced that as part of a periodic review of existing regulations, it would review LT2 and its requirement to cover uncovered finished storage reservoirs such as the Hillview Reservoir. See "—*Hillview Reservoir*."

Hillview Reservoir. DEP's commitments to cover the Hillview Reservoir pre-date LT2. In March 1996, DEP entered into the State Hillview Administrative Order which, as modified in 1997 and 1999, required, among other things, the City to cover the Hillview Reservoir by December 31, 2005 to reduce the possibility of E. coli bacteria entering the Water System. Pursuant to the Federal Hillview Administrative Order, the City's deadline to begin constructing the cover has been extended to December 31, 2018, with a construction completion date of May 31, 2028. The State Hillview Administrative Order has been modified to mirror the Federal Hillview Administrative Order schedule. The State and Federal Hillview Administrative Orders allow the City to seek a schedule modification based on DEP's on-going assessment of water supply facility construction priorities, although there is no assurance that any such modification would be granted.

DEP has requested that NYSDOH and USEPA extend the deadline to begin construction of the cover for an additional six years beyond the existing deadline. On February 9, 2011, the City was informed that USEPA referred the Federal Hillview Administrative Order and the City's extension request to the U.S. Department of Justice ("USDOJ"). In light of USEPA's announcement that it is reviewing LT2 and its requirement to cover uncovered finished water storage reservoirs such as Hillview Reservoir, USDOJ and the City have agreed to defer negotiations over revised dates until USEPA completes its review. DEP has notified USEPA and NYSDOH that it has suspended work related to the design and construction of the cover, which will impact DEP's ability to meet future milestones.

Currently, the cost of constructing a concrete cover over the Hillview Reservoir, as DEP originally proposed, is expected to be approximately $1.6 billion. Under the schedule set forth in the Federal Hillview Administrative Order, most of the costs related to the cover would be incurred in the years beyond the CIP. The CIP does not include funding to construct a cover, but does include $20 million for design. DEP is continuing to investigate less costly alternatives to a concrete cover, including a floating cover, which would require the consent of NYSDOH and USEPA.

Tap Water Testing Program. Pursuant to USEPA and NYSDOH regulations which require water suppliers to monitor for lead and copper that may have leached from pipes into drinking water, DEP manages an at-the-tap sampling program to determine whether tap water from the sampled sites has elevated levels of lead and copper. Regulations require that the sampling be done at consumer taps that are known to be at risk for containing lead, meaning they have lead service lines or confirmed lead in their plumbing. To reduce the leaching of metals, DEP adds orthophosphate to the water before it enters the distribution system, which promotes the formation of a protective coating inside pipes and plumbing.

Delaware System Operations. 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 authorizes the System to divert 800 mgd of water from the Delaware River Basin for use by the Water System, subject to specified conditions. At the same time, a June 1, 2013 agreement with the parties to the decree requires the System, under certain circumstances, based on the time of year, reservoir storage, anticipated inflow and water supply demand, to release water from the three reservoirs into the tributaries of the Delaware River, in support of enhanced habitat protection and flood mitigation. Enforcement of the 1954 Decree is under the jurisdiction of a River Master appointed by the Supreme Court of the United States.

Shandaken Tunnel SPDES Permit. As a result of federal litigation resulting in a determination that a State Pollutant Discharge Elimination System ("SPDES") permit is required for water transfers such as the City's transfer of water through the Shandaken Tunnel, DEP applied for and obtained a SPDES permit for the Shandaken Tunnel. As a result of state court litigation challenging the terms of the SPDES permit, DEP has applied for variances with respect to the permit's temperature and turbidity limits. Depending upon the State's action with respect to the variance application, DEP could be required to undertake costly capital projects. The City continues to believe that, consistent with USEPA's Water Transfers Rule, adopted after the federal litigation concerning the Shandaken Tunnel was concluded, the Clean Water Act permit program does not apply to transfers of untreated water (such as the Shandaken Tunnel). Accordingly, the City will continue its efforts to defend the Water Transfers Rule and oppose the requirement for obtaining a SPDES permit for this water transfer.

Catskill Alum SPDES Permit. DEP adds alum to the Catskill aqueduct upstream of the Kensico Reservoir when necessary to control turbidity levels. The diversions of water containing alum into the Kensico Reservoir are authorized under a SPDES permit for the Catskill Influent Chamber ("Catskill Alum SPDES Permit"). Among other things, the Catskill Alum SPDES permit requires DEP to take measures to reduce the use of alum. One such measure is DEP's use of the Ashokan Release Channel to release water from the Ashokan Reservoir through a release channel into the Lower Esopus Creek. This release of water from the west basin of Ashokan Reservoir helps prevent the transfer of turbid water to the east basin but can result in an increase in both flow and turbidity in the lower Esopus Creek, which some stakeholders have opposed. NYSDEC served the City with an administrative complaint in February 2011, alleging a number of violations of the Catskill Alum SPDES Permit. DEP and NYSDEC executed an administrative consent order in October 2013, which provides, among other things, that DEP will seek a modification of the Catskill Alum SPDES Permit to incorporate a protocol for operating the Ashokan Release Channel.

For more information regarding litigation relating to the Water System, see "LITIGATION."

The Sewer System

The Sewer System is comprised of the sewage collection system and the wastewater treatment facilities. See "New York City Drainage Areas and Wastewater Treatment Plants" map in Appendix H.

Sewage Collection and Treatment

The Sewer System's plants treat approximately 1,250 mgd of wastewater. The Sewer System is divided into 14 drainage areas corresponding to the 14 wastewater treatment plants and includes over 7,500 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 60% of the City is served by combined sewers. In addition to the sewage pipes, the Sewer System includes catch basins and seepage basins to prevent flooding and sewer backups.

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

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

During periods of heavy rainfall a combination of stormwater and sewage bypasses treatment and is released into the City's waterways via combined sewer overflows. The combined sewer overflow abatement program provides for studies and for design and construction of facilities to address this issue. DEP is under an NYSDEC Administrative Consent Order to reduce the volume of combined sewer overflows. See "— Governmental Regulation — Combined Sewer Overflows."

DEP's current contracts for the beneficial use of biosolids include lime stabilization in Pennsylvania and landfill cover in Virginia. DEP also landfills a portion of its biosolids at various locations to diversify disposal options and reduce costs.

Governmental Regulation

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

Wastewater Treatment Plants. The System includes six City-owned surface discharging water pollution control plants in the watershed, one City-owned subsurface discharging wastewater treatment plant in the watershed, one additional City-owned upstate surface discharging water control plant in the City of Port Jervis, and 14 in-City wastewater treatment plants.

DEP's 14 in-City wastewater treatment plants are governed by plant-specific SPDES permits. Each of the current SPDES permits includes an effluent limit for residual chlorine, among other parameters. Each permit further contains a schedule of compliance which requires each plant to undertake improvements to further reduce residual chlorine and dates for such work to be completed. The interim limit is in effect until completion of construction of facilities necessary to achieve compliance with a final effluent limit. Due to a number of issues, DEP is not in compliance with some of the milestones related to residual chlorine. See "LITIGATION" for additional information.

NYSDEC publicly noticed draft revised permits on June 26, 2013. In the draft permit, NYSDEC has proposed, among other things, final chlorine residual effluent limits for the wastewater treatment plants. However, additional requirements in the draft permits could result in NYSDEC modifying the final effluent limits to be more stringent. DEP is currently assessing the impact of the proposed permit modifications, as some could result in significant increased costs to DEP (such as the possible need to install UV at certain plants); certain other proposed modifications could result in more modest reduced costs. DEP submitted extensive comments on the draft permits on October 3, 2013 and requested adjudication of several issues.

On June 10, 2014, NYSDEC issued a notice of violation (the "WWTP NOV") based on inspections of four Wastewater Treatment Plants (North River, Port Richmond, Bowery Bay and Wards Island). The WWTP NOV was based on NYSDEC's issuance of marginal ratings at the four plants. NYSDEC requested that DEP provide for NYSDEC review and approval of a detailed schedule and scope of work for repairs of the critical equipment that was noted to be out of service in the NYSDEC inspection reports. DEP provided a detailed response, which disputed a violation, on August 8, 2014. SPDES violations are subject to a maximum penalty of $37,500 per day for each violation. NYSDEC also requested information about a malfunction of the Spring Creek CSO retention facility on April 30, 2014. NYSDEC requested a detailed report on the cause of the malfunction of the automatic controls and wet weather operating procedures, and contingencies DEP had in place. In its August 8, 2014 response to NYSDEC, DEP noted its investigation is ongoing.

For information on litigation relating to this matter, see "LITIGATION."

Harbor and Waterway Protection. According to the most recent Harbor Survey issued by DEP, the water quality in New York Harbor and surrounding rivers continues to show long-term overall improvement. The Harbor Survey is an ongoing monitoring effort of the City's waterways that has been done since 1909. The Survey monitors over a dozen water quality parameters at 70 sampling stations within New York Harbor and its tributaries. A key parameter of the overall health of aquatic systems is dissolved oxygen ("DO"). The Harbor Survey has found DO levels in most parts of the harbor at historic highs, although river-bottom DO levels are periodically below acceptable concentrations. Many local waterways, which were unfishable just 20 years ago, now meet the coliform bathing standards. These water quality improvements are primarily the result of continued wastewater treatment plant construction and upgrades, abatement and surveillance of illegal discharges, and increased capture of wet-weather flows.

In 2006, the City entered into a State Court Consent Judgment with NYSDEC (the "Nitrogen Consent Judgment") which requires DEP to upgrade five wastewater treatment plants, four of which discharge into the Upper East River and one of which discharges into Jamaica Bay, in order to reduce nitrogen discharges and comply with SPDES nitrogen limits by January 1, 2017. The Nitrogen Consent Judgment also establishes less stringent nitrogen limits during construction of the modified facility plan than those set out in the draft SPDES permits. Pursuant to a series of amendments, including the "First Amended Nitrogen Consent Judgment," executed in 2011, DEP is now committed to construct nitrogen upgrades at all four plants that discharge into Jamaica Bay and the four Upper East River plants. The cost of complying with the Nitrogen Consent Judgment, as amended by the First Amended Nitrogen Consent Judgment, is $114.5 million, $77 million of which is included in the CIP. The First Amended Nitrogen Consent Judgment also requires that DEP provide between $12.025 million and $15.025 million in funding for marshland restoration projects in Jamaica Bay. The First Amended Nitrogen Consent Judgment also resolves DEP's liability for missing certain milestones under the Nitrogen Consent Judgment and extends future milestones.

Newtown Creek/Full Secondary Treatment Requirements. The Newtown Creek wastewater treatment plant is in the process of being upgraded, pursuant to the terms of a State court consent judgment (the "Newtown Creek Consent Judgment"), agreed to by NYSDEC and DEP, as modified to require, among other things, that the plant meet the secondary treatment standards required by the Clean Water Act by May 1, 2013. This milestone was achieved on May 31, 2011. All of the System's 14 in-City wastewater treatment plants now meet secondary treatment requirements. The current estimated cost to complete the remaining work at Newtown Creek pursuant to the Newtown Creek Consent Judgment is $15 million, $12.4 million of which is funded in the CIP.

Under the Newtown Creek Consent Judgment, DEP completed certain construction work, including the installation of five new main sewage pumps ("MSPs"). Due to failures of certain of the pumps once they were in operation, DEP was not able to certify completion of the September 5, 2012 milestone in the Newtown Creek Consent Judgment, and submitted a notice of *force majeure* to NYSDEC. DEP's consultants determined that the failures were due to errors in the pump design and manufacture. DEP negotiated an agreement with the contractor and the pump manufacturer which includes a revised MSP design and a schedule for re-manufacture, re-testing and re-installation of the MSPs. NYSDEC agrees that DEP is not at fault, and has not assessed any penalties for the delay. NYSDEC and DEP are negotiating a modification of the Newtown Creek Consent Judgment, including new milestones for certification of completion of construction of the MSPs.

North River Wastewater Treatment Plant Fire/Notice of Violation. On July 20, 2011, a four-alarm fire that began in the engine room of the North River wastewater treatment plant caused a full evacuation of the plant and a shutdown of plant operations. As a result of the power interruption and related issues, the plant discharged between 225 and 270 million gallons of untreated wastewater into the Hudson River from July 20 to July 22, 2011. An independent consultant retained by DEP concluded that the most probable cause of the fire was a fastener that was over-tightened during replacement of the fuel injectors in June 2011. Additionally, the consultant made recommendations for certain modifications to prevent future similar failures which DEP is undertaking at the North River plant and its other engine plants, where appropriate, to enhance fire safety. On July 25, 2011, DEP received a request for information from the US Chemical Safety and Hazard Investigation Board ("CSB") regarding the fire, which DEP responded to. CSB has taken no further action. On August 5, 2011, NYSDEC issued a NOV for the bypass that occurred during the two-day shutdown of the plant. Based on the result of the independent consultant's findings, DEP requested a withdrawal of the NOV which NYSDEC denied. In addition, on July 15, 2013, a brief power failure at the plant caused a small release of untreated wastewater into the Hudson River. DEP has discussed these alleged violations, including associated penalties, with NYSDEC. The remaining cost to make repairs to the plant is approximately $6.3 million, $2.1 million of which is funded in the CIP.

Combined Sewer Overflows. The System is also required to develop programs to reduce pollution from combined sewer overflows ("CSOs"). In June 1992, DEP entered into an administrative consent order with the State (the "CSO Consent Order") establishing various deadlines for the construction of nine combined sewer overflow projects. The 1992 CSO Consent Order was modified in January 2005, April 2008 and August 2009. The 1992 CSO Consent Order and subsequent modifications relied primarily on the building of large underground storage tanks ("Grey Infrastructure") to capture CSOs and pump the captured flow back to nearby wastewater treatment plants.

In September 2010, DEP released a Green Infrastructure Plan (the "Plan"), that offered a new approach to reducing CSOs through a cost-effective mix of Grey Infrastructure and methods such as bioswales, tree plantings, and green roofs to either retain and/or detain flow during rain events ("Green Infrastructure"). In March 2012, DEP and NYSDEC entered into a modification to the CSO Consent Order (the "2012 Modified CSO Consent Order") that incorporates the goals of the Plan. The 2012 Modified CSO Consent Order eliminates nine projects that were contemplated by the CSO Consent Order and defers two additional projects pending completion of long term control plans. In lieu of these projects, DEP is required to construct 15 projects (a mix of Green Infrastructure and Grey Infrastructure).

Under the CSO Order, DEP is also required to submit a series of CSO long term control plans ("LTCPs"), for each CSO water body, between 2013 and 2017. LTCPs include projects designed to ensure that the water bodies comply with Clean Water Act requirements. DEP submitted the first LTCP under the 2012 Modified CSO Consent Order, for the Alley Creek watershed, in June 2012. On December 12, 2013, NYSDEC determined that the Alley Creek LTCP was not approvable as submitted because it did not comply with the requirements of the Clean Water Act; NYSDEC may seek penalties until such time as DEP submits an approvable plan. On February 21, 2014, DEP commenced a lawsuit in state court challenging this determination. If NYSDEC's interpretation of the requirements of the Clean Water Act are upheld and applied to other water bodies, the cost of compliance with the CSO Consent Order could significantly increase. DEP re-submitted the Alley Creek LTCP for NYSDEC's review and approval on June 30, 2014. NYSDEC sent a comment letter on January 23, 2015 requesting further edits, clarification, and information within 45 days.

DEP is continuing to submit LTCPs for other water bodies in accordance with the 2012 Modified CSO Consent Order. None have been approved or disapproved since the Alley Creek LTCP. In the meanwhile, on December 3, 2014, the State of New York published notice of a proposed rulemaking that would change the water quality standards applicable to Class I and Class SD waters in New York City and Suffolk County. The rule proposes to change the fecal coliform standard for these waters so that the water quality is suitable for primary contact recreation. If finalized, this rule could impose additional costs on DEP related to compliance with the new standard. Comments on the proposed rule are due on March 16, 2015.

DEP estimates the cost of complying with the 2012 Modified CSO Consent Order through the end of the CIP to be $2.3 billion, all of which is currently included in the CIP. Certain of the milestones in the 2012 Modified CSO Consent Order extend beyond the end of the CIP.

USEPA Request for Information. In January 2010, DEP received a request for information from USEPA concerning the City's 14 wastewater treatment plants and wastewater collection system. After complying with the request, DEP was informed by the USDOJ on March 29, 2011, that the matter had been referred to USDOJ for possible civil enforcement of the Clean Water Act and the regulations thereunder. USDOJ has notified DEP that it intends to pursue enforcement against DEP. DEP has had negotiations concerning this matter with USDOJ and USEPA. DEP may be required to implement additional programs related to the operation of its wastewater system as a result of USDOJ's enforcement.

Superfund Designation. DEP is a potentially responsible party for three designated Superfund sites, discussed in detail below. Under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), a responsible party may be held responsible for monies expended for response actions at a Superfund site, including investigative, planning, removal, remedial and USEPA enforcement actions. A responsible party may also be ordered by USEPA to take response actions itself. Responsible parties include, among others, past or current owners or operators of a facility from which there is a release of a hazardous substance that causes the incurrence of response costs. The nature, extent, and cost of response actions at these sites, and the contribution, if any, of discharges from the System, and the extent of DEP's liability, if any, for monies expended for such response actions, will likely not be determined for several years.

On March 2, 2010, USEPA listed the Gowanus Canal, a waterway located in Brooklyn, New York, as a federal Superfund site under CERCLA. On September 30, 2013, USEPA issued the Record of Decision ("ROD") for the Canal, setting forth requirements for dredging contaminated sediment in the Canal and covering it with a cap as well as source control requirements. The ROD requires that two CSO retention tanks be constructed as part of the source control component of the remedy. USEPA estimates that the costs of the tanks will be approximately $85 million and the overall cleanup costs (to be allocated among potentially responsible parties) will be $506 million. The City anticipates that the actual cleanup costs could substantially exceed USEPA's cost estimate. On May 28, 2014, USEPA issued a unilateral administrative order requiring the City to design major components of the remedy for the Canal, including the CSO retention tanks, remediation of the First Street basin (a currently filled-in portion of the Canal), and stormwater controls. On June 23, 2014, the City notified USEPA of its intent to commence design of the tanks but also outlined several major legal and practical problems with the unilateral administrative order. DEP is proceeding with siting and design for the proposed tanks, in accordance with the order.

On September 27, 2010, USEPA listed Newtown Creek, the waterway on the border between Brooklyn and Queens, New York, as a Superfund site. On April 6, 2010, USEPA notified the City that it considers the City a PRP under CERCLA for hazardous substances in Newtown Creek. In its Newtown Creek PRP notice letter, USEPA identified historical City activities that filled former wetlands and low lying areas in and around the Newtown Creek and releases from formerly City-owned and operated facilities, including municipal incinerators, as well as discharges from sewers and CSO outfalls as potential sources of hazardous substances in the Newtown Creek. In July, 2011, the City entered into an Administrative Settlement Agreement and Order on Consent with USEPA and five other PRPs to conduct an investigation of conditions in the Creek and evaluate feasible remedies. The investigation and feasibility study is expected to take approximately seven years. The City's share will be determined in a future allocation proceeding. The settlement does not cover any remedy that may ultimately be chosen by USEPA to address the contamination identified as a result of the investigation and evaluation.

On May 8, 2014, USEPA listed the former Wolff-Alport Chemical Company site ("Wolff-Alport Site") in Ridgewood, Queens as a Superfund site. The designation is based on radioactive contamination resulting from the operations of the Wolff-Alport Chemical Company during the 1920s to 1950s, which, among other things, disposed of radioactive thorium on-site and via the sewer system. In August 2012, USEPA, in cooperation with City and State agencies, commenced a response action to implement certain interim remedial measures at the Wolff-Alport Site to address the Site's short-term public health risks. The Superfund process will include an investigation of impacts to the Sewer System from operations at the Wolff-Alport Site.

Separate Sewers. In addition to the combined sewers, which are subject to the CSO control program, portions of the City are served by separate sewers designed to carry only stormwater. Such municipal separate storm sewer systems ("MS4s") are also subject to regulation under the Clean Water Act, and therefore require SPDES permits. Currently, the SPDES requirements for the City's separate sewers are incorporated into the SPDES permits for the 14 wastewater treatment plants. In April 2010, however, NYSDEC indicated its intention to issue a separate, Citywide MS4 permit which will impose significant new requirements. Based on comments NYSDEC received on the draft MS4 permit it issued for public comment on February 5, 2014, NYSDEC made substantial changes to the permit, in consultation with the City. NYSDEC re-noticed the permit for public comment on March 11, 2015; comments are due on April 10, 2015. The City does not yet have an estimate of the costs associated with these new requirements, which could be substantial, nor are such costs included in the CIP.

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

CLIMATE CHANGE

Since February 2011, DEP has been conducting a study of the effects of climate change on the City's wastewater and drainage systems to assess the sensitivity of DEP's infrastructure to future climatic conditions based on projections for sea level rise, storm surge, precipitation and temperature in 2050. The study includes evaluating the risks associated with a "no action" scenario versus mitigation through a mix of targeted cost-effective strategies designed to protect critical assets on-site.

On Monday, October 29, 2012 Hurricane Sandy hit the Mid-Atlantic East Coast as a tropical storm ("Sandy"). The City, along with the State and federal governments, is engaged in a major effort to address the health and safety of its residents affected by the storm and the repair and long-term stabilization of its infrastructure and other storm-damaged property. DEP is assessing damage and planning for capital repairs to certain elements of its infrastructure. The City anticipates that all of its costs relating to the storm will ultimately be paid from non-City sources, primarily the federal government.

As a result of Sandy, DEP has expanded its study to focus on the site specific nature of climate change impacts on the System, including interdependencies between DEP infrastructure and the electrical grid, and cost-effective investments that would improve the System's resiliency. DEP also incorporated FEMA's updated interim flood zone maps, which were released in January 2013 and adopted new design standards for enhancements and improvements to the System's infrastructure. DEP's study was integrated into a report, "A Stronger, More Resilient New York" (the "Report"), which was released by the City in June 2013. The Report identifies $5 billion of improvements to the System for the period from Fiscal Year 2013 through 2023. To date, DEP has committed approximately $1.1 billion towards such improvements, with $3.7 billion in the CIP. The remaining $200 million is expected to be funded from federal sources and by deferring and reprioritizing projects in the CIP without impacting service delivery. On October 29, 2013, DEP released its "NYC Wastewater Resiliency Plan," which sets forth specific strategies, consistent with the Report, to protect and strengthen wastewater treatment plants and pumping stations from the effects of climate change.

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

New York City Economy

The City, with an estimated population of approximately 8,400,000, is an international center of business and culture. Its non-manufacturing economy is broadly based, with the banking and securities, insurance, information, publishing, fashion, design, retailing, education and healthcare industries accounting for a significant portion of the City's total employment earnings. Additionally, the City is a leading tourist destination. Manufacturing activity in the City is conducted primarily in apparel and printing.

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

Economic activity in the City has experienced periods of growth and recession and can be expected to experience periods of growth and recession in the future. The City experienced a recession in the early 1970s through the middle of that decade, followed by a period of expansion in the late 1970s through the late 1980s. The City fell into recession again in the early 1990s which was followed by an expansion that lasted until 2001. The economic slowdown that began in 2001 as a result of the September 11 attack, a national economic recession, and a downturn in the securities industry came to an end in 2003. Subsequently, Wall Street activity, tourism and the real estate market drove a broad-based economic recovery until the second half of 2007. A decrease in economic activity began in the second half of 2007 and continued through the first half of 2010. The Mayor's most recent financial plan for the City's fiscal years 2015 through 2019 (the "Financial Plan") assumes that the gradual increase in economic activity that occurred in the second half of 2010 will continue through 2015.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 2003 to 2013 (the most recent year for which City personal income data are available). From 2003 to 2008, annual personal income growth averaged 5.6% and 5.3% for City and the nation, respectively. Total personal income in the nation decreased by 2.8% in 2009, and increased by 5.8%, 6.0%, 3.8% and 1.4% in 2010 through 2013, respectively. The following table sets forth information regarding personal income in the City from 2003 to 2013.

Personal Income(1)

Year	Total City ($ billions)	Per Capita City	Per Capita U.S.	Per Capita City as a Percent of U.S.
2003	$309.0	$38,358	$32,677	117.4%
2004	329.0	40,899	34,300	119.2
2005	345.5	43,114	35,888	120.1
2006	377.7	47,247	38,127	123.9
2007	415.3	51,827	39,804	130.2
2008	419.6	52,006	40,873	127.2
2009	407.9	50,167	39,379	127.4
2010	431.8	52,719	40,144	131.3
2011	457.6	55,311	42,332	130.7
2012	474.8	56,906	44,200	128.7
2013	481.6	57,290	44,765	128.0

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

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

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, fashion design, retail and education and health services fields. Over the past two decades the City has experienced a number of business cycles. From 1992 to 2000, the City added 453,900 private sector jobs (growth of 17%). From 2000 to 2003, the City lost 174,700 private sector jobs (decline of 6%). From 2003 to 2008, the City added 255,700 private sector jobs (growth of 9%). From 2008 to 2009, the City lost 103,400 private sector jobs (decline of 3%). From 2009 to 2013, the City added 310,700 private sector jobs (growth of 10%). All such changes are based on average annual employment levels through and including the years referenced. As of January 2015, total employment in the City was 4,099,700 compared to 3,984,100 in January 2014, an increase of approximately 2.90% based on data provided by the New York State Department of Labor, which is not seasonally adjusted.

The table below shows the distribution of employment from 2004 to 2014.

Employment Distribution

	Average Annual Employment (In thousands)										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Goods Producing Sectors											
Construction	111.8	113.3	118.5	127.3	132.7	120.8	112.5	112.3	116.1	122.2	127.7
Manufacturing	120.8	113.9	106.1	101.0	95.6	81.6	76.3	75.7	76.3	76.4	76.0
Service Producing Sectors											
Trade Transportation and Utilities	539.9	548.2	559.0	570.5	574.5	552.4	559.1	574.7	589.3	603.8	618.4
Information	160.2	162.8	164.9	166.9	169.5	165.3	166.0	170.9	175.8	179.6	184.5
Financial Activities	435.5	445.1	458.3	467.6	465.0	434.2	428.6	439.5	439.1	437.9	448.8
Professional and Business Services	542.0	556.0	571.9	592.3	603.5	569.4	575.8	598.3	620.4	643.6	668.9
Education and Health Services	663.9	677.4	693.3	703.9	718.1	734.0	752.4	769.2	786.2	813.2	846.6
Leisure and Hospitality	270.1	276.7	284.9	297.8	310.2	308.5	322.2	342.2	365.7	385.4	406.8
Other Services	150.5	153.2	154.3	157.7	160.8	160.3	160.6	165.2	170.4	174.9	179.5
Total Private	2,994.6	3,046.6	3,111.2	3,184.9	3,229.8	3,126.4	3,153.4	3,247.9	3,339.4	3,437.1	3,557.2
Government	554.4	555.6	555.2	559.0	564.1	567.0	558.0	550.6	546.1	544.4	545.0
Total	3,549.0	3,602.3	3,666.4	3,743.9	3,793.9	3,693.3	3,711.5	3,798.5	3,885.5	3,981.5	4,102.2

Note: Totals may not add due to rounding.

Source: New York State Department of Labor. Data are presented using the North American Industry Classification System ("NAICS").

Sectoral Distribution of Employment and Earnings

In 2013, the City's service producing sectors provided approximately 3.2 million jobs and accounted for approximately 81% of total employment. Figures on the sectoral distribution of employment in the City from 1980 to 2000 reflect a significant shift to the service producing sectors and a shrinking manufacturing base relative to the nation.

The structural shift to the service producing sectors affects the total earnings as well as the average wage per employee because employee compensation in certain of those sectors, such as financial activities and professional and business services, tends to be considerably higher than in most other sectors. Moreover, average wage rates in these sectors are significantly higher in the City than in the nation. In the City in 2013, the employment share for the financial activities and professional and business services sectors was approximately 27% while the earnings share for that same sector was approximately 47%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 26% of earnings in 2013. Due to the earnings distribution in the City, sudden or large shocks in the financial markets may have a disproportionately adverse effect on the City relative to the nation.

The City's and the nation's employment and earnings by sector for 2013 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2013(1)

	Employment		Earnings(2)	
	NYC	U.S.	NYC	U.S.
Goods Producing Sectors				
Mining	0.0%	0.6%	0.1%	1.7%
Construction	3.1	4.3	3.1	5.6
Manufacturing	1.9	8.8	1.3	9.8
Total Goods Producing	5.0	13.7	4.5	17.0
Service Producing Sectors				
Trade, Transportation and Utilities	15.2	19.0	9.3	15.4
Information	4.5	2.0	6.9	3.3
Financial Activities	11.0	5.8	26.5	9.3
Professional and Business Services	16.2	13.6	20.6	16.6
Education and Health Services	20.4	15.5	11.5	12.7
Leisure & Hospitality	9.7	10.5	5.0	4.3
Other Services	4.4	4.0	3.1	3.7
Total Service Producing	81.3	70.2	82.7	65.4
Total Private Sector	86.3	84.0	88.1	82.7
Government(3)	13.7	16.0	11.9	17.3

Note: Data may not add due to rounding or disclosure limitations. Data are presented using NAICS.

Sources: The two primary sources are the New York State Department of Labor and the U.S. Department of Commerce and the Bureau of Economic Analysis.

(1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.

(2) Includes the sum of wage and salary disbursements, other labor income and proprietor's income. The latest information available is 2013 data.

(3) Excludes military establishments.

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

The table below reflects the overall increase in the service producing sectors and the declining manufacturing base in the City from 1980 to 2000.

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

Sectoral Distribution of Employment and Earnings(1)

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

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

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

(1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.

(2) Includes the sum of wage and salary disbursements, other labor income, and proprietors' income. The latest information available for the City is 2000 data.

(3) Excludes military establishments.

Population

The City has been the most populous city in the United States since 1790. The City's population is larger than the combined population of Los Angeles and Chicago, the two next most populous cities in the nation.

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

Population

Year	Population Total
1970	7,895,563
1980	7,071,639
1990	7,322,564
2000	8,008,278
2010	8,175,133

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

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

LITIGATION

There is no action, suit, proceeding or investigation, at law or in equity, before or by any court, public board or body pending or, to the best knowledge of the Authority, threatened against or affecting the Authority to restrain or enjoin the issuance, sale or delivery of the Fiscal 2015 GG Bonds, or in any way contesting or affecting the validity of the Fiscal 2015 GG Bonds, or any proceedings of the Authority, the Board or the City taken with respect to the issuance or sale of the Fiscal 2015 GG Bonds, or with respect to the First Resolution, the Second Resolution or the pledge or application of any money or security provided for the payment of the Fiscal 2015 GG 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. Contract claims on water supply, sewer and wastewater treatment projects arise in varying amounts based on alleged change orders and related matters. While most seek under $10 million in damages, actions seeking, respectively, damages of approximately $160 million, $19 million, $11 million, $16 million, $24 million and $14 million, as well as two actions each of which seek approximately $22 million, are pending. While the probable outcome of these actions cannot be determined at this time, contract claims are expected to be funded through the CIP, which may be revised from time to time to accommodate such claims as well as other changes therein. The ultimate outcome of the proceedings described below is not currently predictable, and unfavorable determinations therein could result in substantial expenditures.

On July 18, 2007 a Con Edison steam main located at Lexington Avenue and 41st Street in Manhattan ruptured resulting in one death, dozens of personal injuries, and substantial property damage. The City was served with 350 notices of claim. About 89 lawsuits with approximately 212 plaintiffs/subrogors have been commenced and the City is a defendant, or a third-party defendant, in each. The other defendants are Con Edison, owner and operator of the steam system, and Team Industrial Services, a company hired by Con Edison to seal leaks in the main. Con Edison's investigation concluded that a sudden pressure surge known as a "waterhammer" caused the rupture, and two "steam traps" designed to drain water were clogged with an epoxy sealant injected by Team Industrial Services. Con Edison also claims the excessive water, or condensate, formed inside the main because it was submerged in cool water. The allegation against the City is that defective DEP infrastructure leaked water on the main. If plaintiffs and/or Con Edison prevail the City could incur substantial damages. The City denies the allegations and is vigorously contesting liability. On February 19, 2015, the jury in the damages portion of the first lawsuit to be tried awarded the plaintiff $12.2 million. Liability will be determined in the next phase of the trial.

In connection with the Water for the Future project, two fatalities occurred as a result of a construction accident that occurred as the prime contractor, Halmar International ("Halmar"), was constructing a mock-up of an aqueduct section at its own facility in Maywood, NY. The accident occurred on December 2, 2013, as a large section of formwork failed while the contractor was pouring concrete. According to a report prepared by the contractor's engineering consultant, the failure was the result of significant deficiencies in the formwork anchoring and bracing, which deviated significantly from the formwork design drawings. Actions have been commenced against the City in connection with the two fatalities, one of which seeks $30 million and the other of which does not specify an amount. An action seeking $10 million by a third plaintiff has also been commenced in connection with injuries sustained during the accident. The federal Occupational Safety and Health Administration ("OSHA") investigated the accident and has cited Halmar for two serious violations of workplace safety standards and proposed a fine of $14,000 against Halmar. Halmar has entered into a settlement agreement with OSHA pursuant to which it has agreed to pay a penalty of $7,000.

On October 30, 2013, several local governments and public utilities that take a supply of water from the System, the Village of Scarsdale, United Water Westchester, Inc., United Water New Rochelle, Inc., Westchester Joint Water Works, the City of White Plains, the City of Yonkers, and the Town of Greenburgh ("Petitioners"), filed a petition against the Water Board with the New York State Public Service Commission for a declaratory ruling that the rate charged by the Water Board for water supplied to Petitioners in excess of their statutory entitlement of water (the "Rate for Excess Consumption") is unreasonably high. The New York City Administrative Code permits certain enumerated municipalities and water districts to take a supply of water from the System in an amount equivalent to the daily per capita consumption of the City, at a rate determined by a formula in the Code. The Code does not expressly authorize the taking of water in excess of that amount. The Water Board believes that the Rate for Excess Consumption is reasonable and established in compliance with all statutory and regulatory requirements. The Water Board also believes that the Public Service Commission lacks jurisdiction over the dispute and is seeking to have the Petition dismissed.

The extent of the System's liability, if any, for damages relating to Sandy are not known at this time but could be material.

On January 30, 2012, NYSDEC issued a notice of violation ("NOV") alleging violations of several existing SPDES permit milestones related to facility upgrades to reduce total residual chlorine. On November 8, 2013, NYSDEC issued an administrative complaint and notice of hearing. DEP answered the complaint on January 21, 2014. DEP and NYSDEC have been seeking to resolve the NOV.

On March 12, 2014, a gas explosion occurred in East Harlem resulting in the collapse of two five-story mixed commercial/residential buildings located at 1644 and 1646 Park Avenue. Eight people were killed, and dozens more injured. Approximately 225 individuals and businesses have served notices of claim on the City, including eight for wrongful death. The remainder allege personal injury, property damage, and/or business interruption. Claimants assert generally that the City was negligent in inspecting and maintaining infrastructure, including gas and water lines. Thus far, thirty-one lawsuits have been commenced against the City. The National Transportation Safety Board is investigating the cause of the explosion. Its investigators removed and conducted laboratory analysis of sections of Con Edison's 8-inch cast iron gas main and 8-inch plastic gas pipe, sections of gas service pipes to the two buildings, and a section of the City's 12-inch water main. A separate investigation is being conducted by the New York State Department of Public Service.

On April 30, 2014 more than five inches of rain fell on the City, resulting in severe flooding in certain neighborhoods in Brooklyn and Queens. The City has been served with approximately 750 notices of claim, 16 of which so far have resulted in the filing of lawsuits, in connection with the flooding. Plaintiffs allege that the sensor system at Spring Creek CSO retention facility malfunctioned and released excess storm water back into the Sewer System and not into Jamaica Bay as designed. Plaintiffs seek to recover monetary damages for property damage and loss of personal property. If plaintiffs were to ultimately prevail, the City could be subject to substantial liability.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the Fiscal 2015 GG Bonds is subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the City and the Board by the City's Corporation Counsel. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, New York, New York.

FINANCIAL ADVISORS

Lamont Financial Services Corporation, Drexel Hamilton LLC and Acacia Financial Group, Inc. are serving as financial advisors to the Authority with respect to the sale of the Fiscal 2015 GG Bonds.

FURTHER INFORMATION

The references herein to and summaries of federal, State and local laws, including but not limited to the Code, the Constitution and laws of the State, the Act, the 1905 Act, the Clean Water Act, the SDWA, the Ban Act, the MPRSA, and documents, agreements and court decisions, including but not limited to the Lease, the Agreement, the First Resolution and the Second Resolution are summaries of certain provisions thereof. Such summaries do not purport to be complete and are qualified in their entirety by reference to such acts, laws, documents, agreements or decisions. Copies of the Lease, the Agreement, the First Resolution and the Second Resolution are available for inspection during normal business hours at the office of the Authority.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. Neither this Official Statement nor any statement which may have been made orally or in writing shall be construed as a contract or as a part of a contract with the Underwriters or any holders of the Fiscal 2015 GG Bonds.

CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12

To the extent that Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission ("SEC") under the Securities and Exchange Act of 1934, as amended (the "1934 Act"), requires the Underwriters to determine, as a condition to purchasing the Fiscal 2015 GG Bonds, that the Authority will covenant to the effect of the provisions here summarized (the "Undertaking"), and the Rule as so applied is authorized by a federal law that as so construed is within the powers of Congress, the Authority agrees with the record and beneficial owners from time to time of the Fiscal 2015 GG Bonds ("Bondholders") that it will:

(1) within 270 days after the end of the 2015 Fiscal Year and each Fiscal Year, to the Electronic Municipal Market Access System ("EMMA") (http://emma.msrb.org) established by the Municipal Securities Rulemaking Board (the "MSRB"), core financial information and operating data for the prior fiscal year, including (i) the System's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical financial and operating data concerning the System and the Revenues of the System generally of the type included in this Official Statement under the captions "CAPITAL IMPROVEMENT AND FINANCING PROGRAM," "FINANCIAL OPERATIONS," "RATES AND BILLING" and "THE SYSTEM;"

(2) provide in a timely manner not in excess of 10 Business Days after the occurrence of any event described below, notice to EMMA, of any of the following events with respect to the Fiscal 2015 GG Bonds:

(a) principal and interest payment delinquencies;

(b) non-payment related defaults if material;

(c) unscheduled draws on credit enhancement reflecting financial difficulties and substitution of credit or liquidity providers, or their failure to perform;

(d) unscheduled draws on debt service reserves reflecting financial difficulties;

(e) adverse tax opinions or the issuance by the IRS of a proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Fiscal 2015 GG Bonds or other material events affecting the tax status of the Fiscal 2015 GG Bonds;

(f) modifications to rights of security holders if material;

(g) bond calls if material, and tender offers;

(h) defeasances;

(i) release, substitution, or sale of property securing repayment of the securities if material;

(j) bankruptcy, insolvency, receivership, or similar event of the Authority;

(k) consummation of a merger, consolidation, or acquisition involving the Authority, or sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material;

(l) appointment of a successor or additional trustee or the change of name of a trustee, if material; and

(m) rating changes; and

(3) provide in a timely manner, to the MSRB, notice of any failure by the Authority to comply with clause (1) above.

With respect to event (c), the Authority has not provided for credit or liquidity enhancement with respect to the Fiscal 2015 GG Bonds and the Authority does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the securities, unless the Authority applies for or participates in obtaining the enhancement.

Event (d) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (d) may not be applicable, since no “debt service reserves” will be established for the Fiscal 2015 GG Bonds.

Event (e) is relevant only to the extent interest on the Fiscal 2015 GG Bonds was or was purported to be tax-exempt at issuance.

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

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

No Bondholder may institute any suit, action or proceeding at law or in equity (“Proceeding”) for the enforcement of the Undertaking or for any remedy for breach thereof, unless such Bondholder has filed with the Authority evidence of ownership and a written notice of and request to cure such breach, and the Authority has not complied within a reasonable time; provided, however, that any Proceeding challenging the adequacy of any information provided pursuant to paragraphs (1) and (2) above may be brought only by the Trustee for the holders of a majority in aggregate principal amount of the Fiscal 2015 GG Bonds affected thereby which at the time are Outstanding. All Proceedings may be instituted only as specified herein, in the federal or State courts located in the Borough of Manhattan, State and City of New York, and for the equal benefit of all holders of the Outstanding Bonds benefited by the same or a substantially similar covenant. No remedy may be sought or granted other than specific performance of the covenant at issue.

Any amendment to the Undertaking will take effect only if:

(a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or the Board, or type of business conducted; the Undertaking, as amended, would have complied with the requirements of the Rule at the time of sale of the Fiscal 2015 GG Bonds to the

Underwriters of such bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the Authority (such as, but without limitation, the Authority's financial advisor or bond counsel) and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the "impact" (as that word is used in the letter from the staff of the SEC to the National Association of Bond Lawyers dated June 23, 1995) of the change in the type of operating data or financial information being provided; or

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

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

INVESTMENTS

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

VERIFICATION OF MATHEMATICAL CALCULATIONS

have verified the accuracy of the arithmetical and mathematical computations concerning the adequacy of the amounts and escrow securities, including investment earnings thereon, and uninvested cash, if any, in the Escrow Account together with other funds available or scheduled to be available for such purposes to meet the anticipated redemption schedule and redemption price, and interest on the Refunded Bonds and computations supporting the conclusion of Bond Counsel that the Fiscal 2015 GG Bonds are not "arbitrage bonds" under the Code and the regulations promulgated hereunder. Such verification of the arithmetical accuracy of the mathematical computation is based upon information and assumptions supplied by the Representative of the Underwriters (as defined below under "UNDERWRITING").

RATINGS

Standard and Poor's Rating Services has rated the Fiscal 2015 GG Bonds "   ", Fitch, Inc. has rated the Fiscal 2015 GG Bonds "   ", and Moody's Investors Service, Inc. has rated the Fiscal 2015 GG Bonds "   ".

Such ratings reflect only the views of the respective rating agencies, from which an explanation of the significance of such ratings may be obtained. There is no assurance that any rating will continue for any given period of time or that any or all will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market price of the Fiscal 2015 GG Bonds. A securities rating is not a recommendation to buy, sell or hold securities.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Fiscal 2015 GG Bonds from the Authority at an aggregate price which is $ less than the initial offering price thereof. The obligations of the Underwriters are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Fiscal 2015 GG Bonds if any of the Fiscal 2015 GG Bonds are purchased. The Fiscal 2015 GG Bonds may be offered and sold to certain dealers (including dealers depositing the Fiscal 2015 GG Bonds into investment trusts) and others at prices lower than such public offering price may be changed, from time to time, by the Underwriters. The Underwriters have designated Raymond James & Associates, Inc. as their Representative.

In addition, certain of the Underwriters may have entered into distribution agreements with other broker-dealers (that have not been designated by the Authority as the Underwriters) for the distribution of the Fiscal 2015 GG Bonds at the original issue prices. Such agreements generally provide that the Underwriters will share a portion of its underwriting compensation or selling concession with such broker-dealers.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority for which they have received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the Act, the Fiscal 2015 GG Bonds are securities in which all public officials and bodies of the State and all municipalities, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, investment companies and other persons carrying on a banking business, and administrators, guardians, executors, trustees and other fiduciaries and all others persons whatsoever, who are now and may hereafter be authorized to invest in the Fiscal 2015 GG Bonds or obligations of the State, may properly and legally invest funds including capital in their control or belonging to them in such Fiscal 2015 GG Bonds. The Act further provides that the Fiscal 2015 GG Bonds are securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities for any purposes for which the deposit of bonds or other obligations of the State is or may hereafter be authorized.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS

The financial statements of the System as of and for the years ended June 30, 2014 and June 30, 2013 (the "Audited System Financial Statements") included in Appendix D to this Official Statement have been audited by Deloitte & Touche LLP, independent certified public accountants, as stated in their report appearing therein. Deloitte & Touche LLP, the Authority's independent auditor has not reviewed, commented on or approved, and is not associated with, this Official Statement. The report of Deloitte & Touche LLP relating to the Authority's financial statements for the fiscal years ended June 30, 2014 and 2013, which is a matter of public record, is included in this Official Statement. However, Deloitte & Touche LLP has not performed any procedures on any financial statements or other financial information of the Authority, including without limitation any of the information contained in this Official Statement, since the date of such report and has not been asked to consent to the inclusion of its report in this Official Statement.

ENGINEERING FEASIBILITY REPORT AND FORECASTED CASH FLOWS

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

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

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Fiscal 2015 GG Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Fiscal 2015 GG Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Fiscal 2015 GG Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Fiscal 2015 GG Bonds is less than the amount to be paid at maturity of such Fiscal 2015 GG Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Fiscal 2015 GG Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Fiscal 2015 GG Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Fiscal 2015 GG Bonds is the first price at which a substantial amount of such maturity of the Fiscal 2015 FF Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Fiscal 2015 GG Bonds accrues daily over the term to maturity of such Fiscal 2015 GG Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Fiscal 2015 GG Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Fiscal 2015 GG Bonds. Beneficial Owners of the Fiscal 2015 GG Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Fiscal 2015 GG Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Fiscal 2015 GG Bonds in the original offering to the public at the first price at which a substantial amount of such Fiscal 2015 GG Bonds is sold to the public.

Fiscal 2015 GG Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Fiscal 2015 GG Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Fiscal 2015 GG Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Fiscal 2015 GG Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Fiscal 2015 GG Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Fiscal 2015 GG Bonds may adversely affect the value of, or the tax status of interest on, the Fiscal 2015 GG Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Fiscal 2015 GG Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York), the ownership or disposition of, or the accrual or receipt of interest on, the Fiscal 2015 GG Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Fiscal 2015 GG Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Fiscal 2015 GG Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Fiscal 2015 GG Bonds. Prospective purchasers of the Fiscal 2015 GG Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Fiscal 2015 GG Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Fiscal 2015 GG Bonds ends with the issuance of the Fiscal 2015 GG Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Fiscal 2015 GG Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Fiscal 2015 GG Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Fiscal 2015 GG Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

CERTAIN LEGAL OPINIONS

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

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

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

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

NEW YORK CITY MUNICIPAL WATER
FINANCE AUTHORITY

APPENDIX A

LETTER OF
AECOM USA, INC.
CONSULTING ENGINEERS

April , 2015

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

Subject: New York City Municipal Water Finance Authority Water and Sewer System Second Resolution Revenue Bonds, Fiscal 2015 Series GG

Dear Mr. Paolicelli,

We hereby submit the opinion of AECOM USA, Inc. ("AECOM") on the condition of the Water and Sewer System serving The City of New York (the "City"). Capitalized terms used herein and not otherwise defined have the meanings ascribed to such terms in the Official Statement.

Based on the information set forth in this Official Statement, our experience and our analyses during the preparation of the 1983 feasibility study, the methodology described below and subject to the reliance and assumptions made throughout this letter, AECOM concludes that overall the Water and Sewer system (the "System") serving the City continues to be operated in a professional and prudent manner. Further, AECOM is of the opinion that:

- The condition of the System continues to receive the highest rating of our three rating categories (adequate).
- The expense allocations for Fiscal Year 2015 and the projected expense allocations for Fiscal Year 2016 are adequate for the continued reliable operation of the System.
- The Capital Improvement Program (the "CIP") for Fiscal Years 2015-2025 is responsive to the long-term operating requirements of the service area.
- Current staffing levels of the System are sufficient for proper operation and maintenance.

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

Purpose and Scope

This letter has been prepared to document the results of analyses carried out during the period of August 1983 to the present by personnel of AECOM in connection with the issuance by the New York City Municipal Water Finance Authority (the "Authority") of the Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2015 Series GG. Certain studies and analyses were performed in anticipation of the creation of the Authority and were used in developing the information in the Official Statement under the captions: "CAPITAL IMPROVEMENT AND FINANCING PROGRAM — Ten Year Capital Strategy, Current Capital Plan and the Capital Improvement Program, "THE SYSTEM — The Water System," and "THE SYSTEM — The Sewer System." The following identifies the major investigations undertaken:

- An overview of the System's service area and major facilities, including a general assessment of the capacity and condition of existing water, wastewater and drainage facilities and a review of recently completed improvements
- An analysis of the CIP for the period 2015-2025 and the funding needed to carry out the CIP and ongoing capital contracts commenced prior to the CIP
- An analysis of the management of the System and its current and anticipated operating programs

Since 1983, AECOM has provided engineering services related to the City's Water and Wastewater Operations Evaluation Study. During this period AECOM has performed an evaluation of the condition of the System, independently reviewed the capital plans for water and wastewater programs, and jointly with the rate consultant reviewed the operating programs of the New York City Department of Environmental Protection ("DEP"). The following topics were addressed in this effort:

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

Methodology

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

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

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

The Consulting Engineer

AECOM has served the water and wastewater industry for over 100 years and the City as a consulting engineer for many decades dealing with water supply, water distribution, sewage collection, and wastewater treatment. AECOM is one of the largest consulting engineering firms and is recognized in the United States and internationally as a leader in services to the water and wastewater industry.

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

Very truly yours,

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

Amawalk
Consulting Group LLC

90 Broad Street, Suite 707A, New York, NY 10004 • Tel: 212.361.0050 • Fax: 212.361.0055

April , 2015

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

Subject: New York City Municipal Water Finance Authority
Water and Sewer System Second General Resolution Revenue Bonds,
Fiscal 2015 Series GG

Dear Mr. Paolicelli:

The purpose of this letter is to summarize the conclusions of the independent analysis of the financial forecast of the Authority (the "Forecasted Cash Flows") for Fiscal Years 2015 through 2019 (the "Reporting Period") prepared by the Amawalk Consulting Group LLC in connection with the issuance by the New York City Municipal Water Finance Authority (the "Authority") of the Authority's $ Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2015 Series GG (the "Fiscal 2015 GG Bonds"). Proceeds from the Fiscal 2015 GG Bonds are expected to be used (i) to refund certain Outstanding First Resolution Bonds and (ii) to pay certain costs of issuance. In conducting the analysis, the Amawalk Consulting Group LLC has prepared the following tables which are included in this Official Statement under the headings "Capital Improvement and Financing Program" and "Financial Operations."

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

The forecast includes provisions for the financing of improvements to the City of New York (the "City") Water and Sewer System (the "System") as reflected in the Capital Improvement Program (the "CIP") for the Reporting Period. The Forecasted Cash Flows set forth the ability of the System to meet the operating costs, working capital needs and other financial requirements of the System, including the debt service requirements associated with the Outstanding Bonds issued under the Authority's General Bond Resolution (the "First Resolution") and obligations issued under the Authority's Second General Resolution (the "Second Resolution") and additional Bonds and Second Resolution Bonds whose issuance by the Authority during the five years ending June 30, 2019 is anticipated.

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

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

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

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

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

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

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

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

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

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

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

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

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

Very truly yours,

Edward J. Markus
Amawalk Consulting Group LLC

APPENDIX C

GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS

GLOSSARY

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

Definition of Certain Terms Used in the First Resolution

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

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

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

Authority Expenses: All reasonable or necessary current expenses of the Authority, including all salaries, administrative, general, commercial, engineering, advertising, public notice, auditing and legal expenses, insurance and surety bond premiums, fees paid to banks, insurance companies or other financial institutions for the issuance of Credit Facilities, consultants' fees and charges, payment to pension, retirement, health and hospitalization funds, costs of public hearings, ordinary and current rentals of equipment and other property, lease payments for real property or interests therein, expenses, liabilities and compensation of any Fiduciary and all other expenses necessary, incidental or convenient for the efficient operation of the Authority. Bond Counsel has determined that payments made under an Interest Rate Exchange Agreement are deemed Authority Expenses if the Interest Rate Exchange Agreement relates to First Resolution Bonds.

Authorized Newspaper: The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

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

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

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

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

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

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

Consulting Engineer: AECOM or such other independent engineer or engineering firm of recognized standing selected by the Authority and satisfactory to the Board.

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

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

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

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

Debt Service: For any Fiscal Year or part thereof, as of any date of calculation and with respect to any Series, means an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on Bonds of such Series, except to the extent that such interest is to be paid from amounts representing Capitalized Interest and (b) the Principal Installments of the Bonds of such Series payable during such

Fiscal Year or part thereof. Such interest and Principal Installments for such Series shall be calculated on the assumption that (x) no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment thereof upon stated maturity or upon mandatory redemption by application of Sinking Fund Installments and (y) Variable Rate Bonds will bear interest at the greater of (A) the rate or rates which were assumed by the Authority in the Authority Budget for such Fiscal Year to be borne by Variable Rate Bonds during such Fiscal Year or (B) the actual rate or rates borne during such Fiscal Year on Variable Rate Bonds Outstanding during the 12 calendar months preceding the date of calculation.

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

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

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

Financial Guaranties: One or more of the following: (i) irrevocable, unconditional and unexpired letters of credit issued by banking institutions the senior long-term debt obligations of which (or the holding company of any such banking institution) have (at the time of issue of such letter of credit) a rating of Aa2 or better by Moody's Investors Service and AA or better by Standard & Poor's Ratings Services; or (ii) an irrevocable and unconditional policy or policies of insurance in full force and effect issued by municipal bond insurers the obligations insured by which are eligible for a rating of Aa or better by Moody's Investors Service and AA or better by Standard & Poor's Ratings Services; in each case providing for the payment of sums for the payment of Principal Installments of an interest on Bonds in the manner provided in the First Resolution; and providing further that any Financial Guaranty of the type described in (i) above must be drawn upon, on a date which is at least thirty (30) days prior to the expiration date of such Financial Guaranty, in an amount equal to the deficiency which would exist if the Financial Guaranty expired, unless a substitute Financial Guaranty is acquired prior to such expiration date as provided in a related Supplemental Resolution.

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

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

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

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

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

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

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

(iv) banker's acceptances or certificates of deposit issued by a commercial bank (A) whose long-term debt obligations are rated by each Rating Agency then maintaining a rating on the Outstanding Bonds at least equal to the rating on Outstanding Bonds that are not insured or otherwise secured by a Credit Facility or a Special Credit Facility, (B) that has its principal place of business within the State and (C) that has capital and surplus of more than $100,000,000;

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

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

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

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

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

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

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

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

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

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

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

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

(a) any Bonds canceled by the Trustee at or prior to such date;

(b) any Bond (or portion thereof) for the payment or redemption of which there shall be set aside and held in trust under the First Resolution either:

(i) moneys in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest,

(ii) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as are necessary to provide moneys (whether as principal or interest) in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest, or

(iii) any combination of (i) and (ii) above,

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

(c) any Bond in lieu of or in substitution for which other Bonds have been authenticated and delivered; and

(d) any Bond deemed to have been paid as provided in Section 1201(b) of the First Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenues shall mean (a) all the rents, fees, charges, payments and other income and receipts derived by the Board from users of the System, together with all operating aid therefor from any governmental entity, federal, State or local, to the Board, (b) investment proceeds and proceeds of insurance received by the Board (other than the proceeds of insurance with respect to the damage or destruction of all or any portion of the System), (c) Subsidy Payments derived by the Authority, (d) amounts derived by the Authority from a Counterparty pursuant to an Interest Rate Exchange Agreement, and (e) investment proceeds derived from amounts on deposit in the Funds and Accounts established hereunder that are deposited or retained in the Revenue Fund or the Local Water Fund, and but shall not include (w) amounts required to be refunded because of billing or payment errors, (x) any amount attributable to any of the foregoing sources described in clause (a) which (i) is expressly excluded by the Agreement or the Lease, or (ii) is derived from a use of the System not directly related to the supply, treatment and distribution of water to the consumers thereof or the collection, disposal or treatment of sewage, (y) any amount from any governmental entity, federal, State or local, in aid of or for or with respect to the Costs of Water Projects, other than Subsidy Payments, or (z)(i) fines (excluding interest on late payments which shall constitute Revenues), (ii) amounts from the use of water to generate electricity, (iii) amounts from the State as a result of mandatory water discharges from reservoirs or (iv) amounts from the granting of easements, licenses, rights-of-way or other interests in the real property constituting a part of the System.

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

State: The State of New York.

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

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

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

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

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

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

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

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

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

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

Definition of Certain Terms Used in the Second Resolution

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

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

"Adjusted Debt Service" for any Fiscal Year, as of any date of calculation, unless used in relation to First Resolution Bonds, shall mean the sum of (a) the Debt Service for such Fiscal Year with respect to the Bonds of a Series except that, if any Refundable Principal Installment of such Series of Bonds is included in Debt Service for such Fiscal Year, Adjusted Debt Service shall mean Debt Service determined as if such Refundable Principal Installment had been payable over a period extending from the due date of such Refundable Principal Installment through the last date on which such Series of Bonds could have been stated to mature under the Act as in effect on the date of issuance of such Series, in installments which would have required equal annual payments of Principal Installments and interest over such period, (b) the Debt Service for such Fiscal Year with respect to Outstanding Parity Bond Anticipation Notes and (c) the Debt Service for such Fiscal Year with respect to Parity Reimbursement Obligations; and, when used in relation to First Resolution Bonds, shall have the meaning ascribed thereto in the First Resolution. Interest deemed payable in any Fiscal Year after the actual due date of any Refundable Principal Installment of any Series of Bonds shall be calculated at the actual interest cost on all Bonds of such Series (using the actuarial method of calculation).

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

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

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

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

"Authorized Representative" shall mean (i) in the case of both the Authority and the Board, their respective Chairman or Executive Director, or such other person or persons so designated by resolution of the Authority or the Board, as the case may be, and (i) in the case of the City, the Mayor, unless a different City official is designated in the Second Resolution or in a Supplemental Resolution to perform the act or sign the document in question.

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

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

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

"Bond Counsel's Opinion" or **"Opinion of Bond Counsel"** shall mean an opinion signed by Orrick, Herrington & Sutcliffe LLP or by any other attorney or firm of attorneys of nationally recognized standing in the field of law relating to revenue bonds of municipalities and public agencies, selected by the Authority and satisfactory to the Trustee.

"Bond Payment Date" shall mean each date on which interest or both a Principal Installment and interest shall be due and payable on any of the Outstanding Bonds, Parity Bond Anticipation Notes or Parity Reimbursement Obligations according to their respective terms.

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

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

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

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

"City" shall mean The City of New York.

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

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

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

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

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

"Costs" or **"Costs of a Water Project"** shall mean the cost of "construction", as such term is defined in the Act including, without limiting the generality of the foregoing, the erection, building, alteration, improvement, increase, enlargement, extension, reconstruction, renovation or rehabilitation of the System or a Water Project, the inspection and supervision thereof, the engineering, architectural, legal, fiscal, economic and environmental investigations and studies, surveys, designs, plans, working drawings, specifications, procedures and other actions incidental thereto; the cost of the acquisition of all property;

the cost of demolishing, removing or relocating any buildings or structures on lands so acquired, including the cost of acquiring any lands to which such buildings or structures may be moved or relocated; the cost of all systems, facilities, machinery, apparatus and equipment, financing charges, interest prior to, during and after construction to the extent not paid or provided for from revenues or other sources; the cost of engineering and architectural surveys, plans and specifications; the cost of consultants' and legal services; the cost of lease guarantee or bond insurance, other expenses necessary, reasonably related or incidental to the construction of such Water Project and the financing of the construction thereof, including the cost of Credit Facilities, the amounts authorized in the Second Resolution to be paid into any reserve or other special fund from the proceeds of Bonds and the financing of the placing of any Water Project in operation, including reimbursement to any municipality, any state agency, the State, the United States of America, or any other person for expenditures that would be costs of such Water Project under the Second Resolution and all claims arising from any of the foregoing.

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

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

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

"Debt Service" for any Fiscal Year or part thereof shall mean, as of any date of calculation (i) with respect to the Outstanding Bonds of any Series, an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on such Bonds, except to the extent that such interest is to be paid from amounts representing Capitalized Interest and (b) the Principal Installments of such Bonds payable during such Fiscal Year or part thereof; (ii) with respect to Outstanding Parity Bond Anticipation Notes, interest payable thereon during such Fiscal Year or part thereof, except to the extent that such interest is to be paid from amounts representing Capitalized Interest; and (iii) with respect to a Parity Reimbursement Obligation, an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on such Parity Reimbursement Obligation and (b) the Principal Installments of such Parity Reimbursement Obligation payable during such Fiscal Year or part thereof. Such interest and Principal Installment shall be calculated on the assumption that (x) no such Bonds, Parity Bond Anticipation Notes or Parity Reimbursement Obligations Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment thereof upon stated maturity or upon mandatory redemption by application of Sinking Fund Installments and (y) Variable Rate Bonds will bear interest at the greatest of (A) the rate or rates which were assumed by the Authority in the Authority Budget for such Fiscal Year to be borne by Variable Rate Bonds during such Fiscal Year or (B) the average rate or rates borne during such Fiscal Year on Variable Rate Bonds Outstanding during the twelve calendar months preceding the date of calculation; provided, however, that if the Authority has in connection with any Variable Rate Bonds entered into an Interest Rate Exchange Agreement which provides that the Authority is to pay to the Counterparty an amount determined based upon a fixed rate of interest on the Outstanding principal amount of such Variable Rate Bonds or that the Counterparty is to pay to the Authority an amount determined based upon the amount by which the rate at which such Variable Rate Bonds bear interest exceeds a stated rate of interest on all or any portion of such Variable Rate Bonds, it will be assumed that such Variable Rate Bond bears interest at the fixed rate of interest to be paid by the Authority or the rate in excess of which the Counterparty is to make payment to the Authority in accordance with such agreement.

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

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

"Debt Service Reserve Requirement" shall mean, as of any date of calculation, and for any Fiscal Year, the amount equal to the maximum Adjusted Aggregate Debt Service on Bonds in the current or any future Fiscal Year on all Bonds Outstanding; *provided, however*, that if, upon the issuance of a Series of Bonds, such amount would require moneys, in an amount in excess of the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, to be deposited therein, the Debt Service Reserve Requirement shall mean an amount equal to the sum of the Debt Service Reserve Requirement immediately preceding issuance of such Bonds and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, as certified by an Authorized Representative of the Authority; *provided, further*, that, if (i) the payment of the Principal Installments of or interest on any Series of Bonds or portion thereof is secured by a Special Credit Facility, (ii) the payment of the Tender Option Price of any Option Bond of a Series is secured by a Special Credit Facility or (iii) the Authority has determined in a Supplemental Resolution authorizing the issuance of a Series of Bonds that such Series of Bonds will not be secured by the Common Account in the Debt Service Reserve Fund, the Supplemental Resolution authorizing such Series may specify the Debt Service Reserve Requirement, if any, for the Bonds of such Series: *provided, further*, that if, as a result of the expiration or termination of a Financial Guaranty, a deficiency shall be created in the Debt Service Reserve Fund, the Debt Service Reserve Requirement shall be calculated so as to exclude the amount of such deficiency and the Debt Service Reserve Requirement shall be increased in each of the five Fiscal Years after the date such deficiency was created by an amount equal twenty per centum (20%) of the aforesaid deficiency.

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

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

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

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

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

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

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

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

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

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

"Fiduciary" shall mean the Trustee or any Paying Agent or Depositary.

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

"Financial Guaranty Provider" shall mean the issuer of any Financial Guaranty.

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

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

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

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

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

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

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

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

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

(iv) banker's acceptances or certificates of deposit issued by a commercial bank (a) whose long-term debt obligations are rated by each Rating Agency then maintaining a rating on the Outstanding Bonds at least equal to the rating on Outstanding Bonds that are not insured or otherwise secured by a Credit Facility or a Special Credit Facility, (b) that has its principal place of business within the State and (c) that has capital and surplus of more than $100,000,000;

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

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

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

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

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

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

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

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

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

(i) For the Bonds of a Series and Parity Reimbursement Obligations which are Outstanding during the Fiscal Year in which such month falls, an amount equal to the product obtained by multiplying (a) the difference between (1) the amount of interest due or projected to be due on or prior to the later of the next Succeeding Bond Payment Date for such Bonds and the 15th day of the next succeeding month and (2) the amount, if any, held in the sub-account for such Bonds in the Capitalized Interest Account by (b) a fraction, the numerator of which is the number of full months since the end of the month preceding the last Bond Payment Date for such Bonds (or, with respect to the first Bond Payment Date for such Bonds, the number of full months since the last day of the month preceding the date of issuance of such Bonds) and the denominator of which is the number of months between Bond Payment Dates for such Bonds minus one (or, with respect to the first Bond Payment Date therefor, the number of months between the last day of the month preceding the date of issuance of such Bonds and the first Bond Payment Date therefor minus one); *provided, however*, that if this formula would produce (A) a fraction greater than one, then the fraction shall be equal to one, or (B) a denominator less than one, then the fraction shall equal one; plus

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

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

"Operating Expenses" shall have the meaning ascribed thereto in the Agreement.

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

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

"Outstanding" when used with reference to First Resolution Bonds or Parity Bond Anticipation Notes, shall have the meaning given to such term in the First Resolution or the resolution pursuant to which such Parity Bond Anticipation Notes were issued, respectively; when used with reference to Parity Reimbursement Obligations, shall have the meaning given to such term in the agreement creating such Parity Reimbursement Obligations; and, when used with reference to Bonds, shall mean, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

(a) any Bonds canceled by the Trustee at or prior to such date;

(b) any Bond (or portion thereof) for the payment or redemption of which there shall be set aside and held in trust under the Second Resolution either:

(i) moneys in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest,

(ii) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as are necessary to provide moneys (whether as principal or interest) in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest, or

(iii) any combination of (i) and (ii) above, and, if such Bond or portion thereof is to be redeemed, for which notice of redemption has been given as provided in Article VI, or the applicable Supplemental Resolution, or provision satisfactory to the Trustee has been made for the giving of such notice;

(c) any Bond in lieu of or in substitution for which other Bonds have been authenticated and delivered; and

(d) any Bond deemed to have been paid as provided in Section 1201(b) of the Second Resolution.

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

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

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

"Projected Debt Service" for any Fiscal Year or part thereof shall mean, unless used in relation to First Resolution Bonds, an amount with respect to a Projected Series, certified by the Authority to the Trustee and the Board, as provided in the Agreement, equal to the Debt Service estimated by the Authority to be payable during such Fiscal Year or part thereof on such Projected Series, and, when used in relation to First Resolution Bonds, shall have the meaning ascribed thereto in the First Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“State” shall mean the State of New York.

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

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

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

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

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

"System" shall mean the "Water System" and the "Sewer System" as such quoted terms are defined in Sections 1045-b(l4) and (21) of the Act.

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

"Trustee" shall mean The Bank of New York Mellon, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the Second Resolution.

"Variable Rate Bond" shall mean, as of any date of determination, any Bond on which the interest rate borne thereby may vary during any part of its remaining term.

"Water Project" shall have the meaning ascribed thereto in Section 1045-b(20) of the Act, including any sewerage facility, water facility or water and sewerage facility as described therein and constituting a part of the System.

Summary of Certain Documents

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

Summary of the Agreement

Financing of Water Projects. The Authority agrees to use its best efforts to finance all or a part of the Cost of all Water Projects described in Appendix A to the Agreement. In consideration for the Authority's issuance of the Bonds, the Board gives, grants, conveys and transfers to the Authority all of its right, title and interest in the Revenues, including without limitation, all of its rights to collect and receive said Revenues subject only to provisions of the Act, the Agreement and the First Resolution permitting the application of said Revenues to the purposes therein set forth. The Board itself incurs no indebtedness under the terms of the Agreement, Lease, First Resolution or any other document executed in connection therewith. *(Sections 2.1, 2.2 and 2.4)*

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

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

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

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

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

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

(i) For each Series of Bonds which is Outstanding during the current Fiscal Year, an amount equal to the product obtained by multiplying (a) the difference between (1) the amount of interest due or projected to be due on the next succeeding Bond Payment Date for such Series and (2) the amount, if any, held in the applicable subaccount for such Series in the Capitalized Interest Account in the Debt Service Fund by (b) a fraction, the numerator of which is the number of full months since the end of the month preceding the last Bond Payment Date for such Series (or, with respect to the first Bond Payment Date for such Series, the number of full months since the last day of the month preceding the date of issuance of such Series) and the denominator of which is the number of months between Bond Payment Dates minus one (or, with respect to the first Bond Payment Date for a Series, the number of months between the last day of the month preceding the date of issuance of such Series and the first Bond Payment Date minus one); provided, however, that if this formula would produce (A) a fraction greater than one, then the fraction shall be equal to one, or (B) a denominator less than one, then the fraction shall be equal to one; plus

(ii) For each Series of Bonds which is Outstanding during the current Fiscal Year, an amount equal to the Principal Installment due or projected to be due on the next succeeding Bond Payment

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

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

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

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

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

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

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

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

Application of Moneys in the Operation and Maintenance Reserve Fund. If on the first day of any month the Board has not paid to the City an amount equal to the product of (i) the amount required to be paid for Operating Expenses pursuant to Section 8.1 of the Lease, multiplied by (ii) a fraction the numerator of which is the number of months which have commenced during such Fiscal Year, and the denominator of which is 12, the Board shall withdraw from the Operation and Maintenance Reserve Fund and pay to the City, on demand, an amount equal to 1/12 of the amount so required to be paid pursuant to Section 8.1 of the Lease, or the entire balance in such Fund if less than sufficient. Amounts on deposit in the General Account may be applied (i) to purposes provided for in Section 4.2, (ii) to the payment of Bonds in accordance with Article XII of the First Resolution or (iii) to the Costs of Water Projects, but shall be retained therein to the extent required by the Annual Budget. *(Section 4.5)*

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

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

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

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

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

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

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

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

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

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

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

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

Annual Budget. On May 1 of each year (or on such later date as the Authority, the Board and the City may agree) the Authority shall deliver to the Board a certified copy of the Authority Budget for the ensuing Fiscal Year showing the Cash Flow Requirement for such Fiscal Year. Based upon the information contained in (a) the Authority Budget, (b) the City's certification pursuant to Section 8.3 of the Lease and (c) the Certificate of the Consulting Engineer delivered to the Board pursuant to Section 8.3 of the Lease (collectively, the "Budget Documents"), the Board shall prepare the Annual Budget for the ensuing Fiscal Year. In addition to the information contained in the Budget Documents the Board shall also make provision in the Annual Budget for Board Expenses for the ensuing Fiscal Year, for the amount, if any, required to be deposited in the Operation and Maintenance Reserve Fund in accordance with Section 4.4 of the Agreement, and for the application of the amounts in the General Account therein. Thereafter, but in no event later than 15 days after the date of publication of the Executive Budget of the City, the Board shall adopt such Annual Budget. Promptly after adoption of the Annual Budget, and in no event later than June 10 (or such other date as the Authority, the Board and the City may agree) of each year, the Board shall establish the rates, fees and charges for the use of the System for the ensuing Fiscal Year. The Board may from time to time, either before or after commencement of the Fiscal Year to which it relates, amend the Annual Budget, but (except for its own expenses) only in accordance with and after receipt of amended Budget Documents. If as of the first day of any Fiscal Year an Annual Budget has not been adopted, the Annual Budget for the immediately preceding Fiscal Year shall be the Annual Budget for such Fiscal Year until a new Annual Budget is adopted. *(Section 6.4)*

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary of the Lease

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

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

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

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

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

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

Construction and Acquisition. The Board authorizes the City to perform the construction and effectuation of any Water Project specified in the Agreement and the City may incur Costs in connection therewith. The City may acquire all real and personal property, or any interest therein, necessary or useful for the construction or effectuation of a Water Project; provided that all such property or interest acquired by the City through the exercise of the power of eminent domain shall be taken in the name of the City. *(Sections 5.1, 5.2 and 5.3)*

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

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

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

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

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

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

Method of Payment. The City shall certify within five business days after publication of the City's Executive Budget for the ensuing Fiscal Year the (i) amount which the City reasonably anticipates it will expend in connection with the costs described in Section 8.2 of the Lease and (ii) the amount of the payments described in Section 8.1 of the Lease; provided that, prior to the Board's payment to the City the Board shall have received, in addition to such certification by the City, a certificate of the Consulting Engineer to the effect that such amounts certified by the City for such payments and costs are reasonable and appropriate. Upon the Board's payment of all such amounts so certified or requested and any other payments required under the Act, or, after provisions for their payment have been made, the Board shall pay to the City, as Additional Rent in each Fiscal Year, any surplus of funds received. *(Section 8.3)*

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

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

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

Summary of the First Resolution

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

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

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

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

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

(1) Construction Fund;

(2) Revenue Fund;

(3) Debt Service Fund;

(4) Authority Expense Fund;

(5) Debt Service Reserve Fund;

(6) Subordinated Indebtedness Fund;

(7) Surplus Fund; and

(8) Arbitrage Rebate Fund.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Trustee may, and if so directed by an Authorized Representative of the Authority shall, prior to the forty-fifth day preceding the due date of each Sinking Fund Installment, apply the amounts accumulated in the Debt Service Fund for such Sinking Fund Installment, together with any interest on the Bonds for which such Sinking Fund Installment was established: (i) to the purchase of Bonds of like Series and maturity at prices (including any brokerage and other charges) not exceeding the Redemption Price payable for such Bonds when such Bonds are redeemable with such Sinking Fund Installment plus unpaid interest accrued or (ii) to the redemption of such Bonds, if redeemable by their terms, at or below said Redemption Price. Upon such purchase or redemption of any Bond, the

Trustee shall then credit an amount equal to the principal of the Bond so purchased or redeemed toward the next Sinking Fund Installments thereafter to become due and the amount of any excess over the amount of such Sinking Fund Installment shall be credited against future Sinking Fund Installments in direct chronological order.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) (i) in the case of the initial Series of Bonds, an executed copy of the Agreement and the Lease; and (ii) in the case of any subsequent Series of Bonds, an executed copy of any amendment or supplement to the Agreement or the Lease not theretofore delivered to the Trustee;

(c) except in the case of Series of Bonds issued prior to July 1, 1986 and any Series of Refunding Bonds issued pursuant to Section 207 of the First Resolution, a certificate of an Authorized Representative of the Authority setting forth (i) the Revenues for either of the last two full Fiscal Years immediately preceding the Fiscal Year in which such Bonds are to be issued and (ii) the Aggregate Debt Service during such Fiscal Year for which Revenues are set forth pursuant to clause (i) above (excluding from Aggregate Debt Service any Principal Installment or portion thereof which was paid from sources other than Revenues) and (iii) the sum of the Operating Expenses and the Required Deposits for such period, and showing that the amount set forth in (i) is at least equal to the sum of (x) an amount equal to 115% of the amount set forth in (ii) and (y) an amount equal to 100% of the amount set forth in (iii);

(d) except in the case of the initial Series of Bonds under the First Resolution and any Series of Refunding Bonds issued pursuant to Section 207 of the First Resolution, a certificate of the Consulting Engineer setting forth the projected Operating Expenses for each of the five Fiscal Years following the Issuance of such Series of Bonds (plus the Fiscal Year in which such Bonds are issued);

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

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

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

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

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

The Authority may secure such Credit Facility by an agreement providing for the purchase of the Series of Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity or redemption provisions as specified by the Authority in the applicable Supplemental Resolution. The Authority may also in an agreement with the issuer of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility, together with interest thereon (the "Reimbursement Obligation"); *provided, however*, that no Reimbursement Obligation shall be created until amounts are paid under such Credit Facility. Any such Reimbursement Obligation (a "Parity Reimbursement Obligation") may be secured by a pledge of, and a lien on Revenues on a parity with the lien created by Section 501 of the First Resolution. Upon the payment of amounts under the Credit Facility which payment results in the Parity Reimbursement Obligation becoming due and payable, such Parity Reimbursement Obligation shall be deemed to be part of the Series of Bonds to which the Credit Facility which gave rise to such Parity Reimbursement Obligation relates.

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

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

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

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

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

Supplemental Resolutions. The First Resolution permits the modification or amendment of the rights and obligations of the Authority and of the holders of the Bonds thereunder by a Supplemental Resolution, with the written consent of the holders of two-thirds of the principal amount of: (i) the Bonds then Outstanding and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Bonds of the Series so affected and then Outstanding; however, if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of modification; provided no such modification or amendment shall change the terms of redemption, maturity of principal, installment of interest, or reduce the principal amount, Redemption Price, or rate of interest without the consent of the holder of the affected Bond, or reduce the percentages of consents required to effect any future modification or amendment.

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

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

The Authority covenants that upon the occurrence of an Event of Default, the books of record and account of the Authority shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys and that, upon demand of the Trustee, the Authority will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the First Resolution for such period as shall be stated in such demand.

Upon default, the Trustee may proceed to protect and enforce its rights and the rights of the holders of the Bonds under the First Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant therein contained, or in aid of the execution of any power therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the First Resolution. During the continuance of an Event of Default, Revenues shall be applied first, to the reasonable and proper charges and expenses of the Trustee; then (unless the principal of all of the Bonds shall have been declared payable) to the payment of all unpaid interest ratably, and then to unpaid principal or Redemption Price, ratably; and if all of the principal of the Bonds shall be due and payable, to the payment of unpaid principal and interest, without preference or priority of interest over principal, principal over interest or of any Bond or installment over any other Bond or installment, without any discrimination or preference. No Bondholder has any right to institute suit to enforce any provision of the First Resolution or the execution of any trust thereunder or for any remedy thereunder, unless the Trustee has been requested by the holders of at least a majority in principal amount of the Bonds to take such action and has been offered adequate security and indemnity and has failed to commence such suit in the manner provided in the First Resolution. The right to appoint a statutory trustee under Section 1045-p of the Act is expressly abrogated. *(Art. X)*

Defeasance of Bonds Other than Variable Rate or Option Bonds. Any Outstanding Bond shall prior to the maturity or redemption date thereof be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the First Resolution if (i) in the case of any Bonds to be redeemed prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to publish on such date the notice of redemption therefor (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption), (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Obligations the principal of and/or the interest on which, when due, without reinvestment, will, as verified by the report of a firm of nationally recognized independent certified public accountants[1], provides moneys which, together with the moneys deposited shall be sufficient, to pay when due the principal or Redemption Price (if applicable) and interest due and to become due on said Bonds and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Bonds that the deposit required above has been made with the Trustee and that said Bonds are deemed paid in accordance with the First Resolution and stating such maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, on such Bonds (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption); provided that any notice published for Bonds constituting less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, to the extent necessary, apply moneys to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments thereto.

The Trustee shall, if so directed by the Authority prior to the maturity date of Bonds deemed to have been paid which are not to be redeemed prior to their maturity date or prior to the publication of the above notice of redemption for Bonds deemed paid and to be redeemed, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and purchase such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased;

(1) Any Supplemental Resolution adopted by the Authority on or after February 28, 2005 provides that the verification report may be prepared by a firm of nationally recognized verification agents rather than a firm of nationally recognized independent certified public accountants.

provided, however, that the moneys and Defeasance Obligations remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Bonds. *(Section 1201)*

Defeasance of Variable Rate Bonds. The Resolution provides that for the purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, by the deposit of moneys, or Defeasance Obligations and moneys (if any), the interest due on such Bonds shall be calculated at the maximum rate permitted; *provided, however*, that if, as a result of such Bonds having borne interest at less than the maximum rate for any period, the total amount of moneys and Investment Securities on deposit with the Trustee for the payment of interest on such Bonds exceeds the total amount required to be deposited with the Trustee, the Trustee shall, if requested by the Authority, pay the amount in excess to the Authority free and clear of any lien or pledge securing the Bonds or otherwise existing under the First Resolution. *(Section 1201)*

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

Summary of the Second Resolution

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

Pledge of Revenues and Funds. The Authority pledges for the payment of the Bonds in accordance with their terms and the provisions of the Second Resolution, subject only to the provisions of the Second Resolution, the First Resolution, the Act and the Agreement permitting the application thereof for or to the purposes and on the terms and conditions of the Second Resolution and therein set forth: (i) all moneys or securities in any of the Funds and Accounts, other than the Arbitrage Rebate Fund, (ii) all Other Moneys, (iii) in moneys or securities on deposit in the FGR Subordinated Indebtedness Fund, except that moneys or securities on deposit in a Special Account are pledged only to the Series of Bonds to which such Account relates and moneys or securities on deposit in the Common Account are pledged only to the Bonds for which a Special Account has not been established pursuant to the Second Resolution, (iv) all other moneys and securities to be received, held or set aside by the Authority or by any Fiduciary pursuant to the Second Resolution and (v) from and after the time that the pledge of Revenues made in the First Resolution shall be discharged and satisfied in accordance with the First Resolution, all Revenues; *provided, however*, that such pledge shall be in all respects subordinate to the provisions of the First Resolution and the lien and pledge created by the First Resolution. This pledge shall, to the fullest extent permitted by law, be valid and binding from the time when it is made and the Revenues, moneys, securities and other funds so pledged and then or thereafter received by the Authority shall immediately be subject to the lien of such pledge and the obligation to perform the contractual provisions contained in the Second Resolution and shall be valid and binding as against all parties having claims of any kind in tort contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

The Act provides that (i) the pledges made by the Second Resolution are valid, binding and perfected from the time when they are made and property so pledged shall immediately be subject to the lien of such pledges without any physical delivery thereof or further act, (ii) the lien of such pledges shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof and (iii) no instrument by which such pledges are created nor any financing statement need be recorded or filed. Accordingly, no financial statements have been or will be filed. Based upon the foregoing, the Authority represents that under the laws of the State (i) the Second Resolution creates valid and binding pledges in favor of the holders from time to time of the Bonds, enforceable in accordance with the terms set forth in the Second Resolution, (ii) the pledges made by the Second Resolution and each pledge made to secure obligations of the Authority which, by the terms set forth in the Second Resolution, are prior to or of equal rank with such pledge are and shall be prior to any judicial lien hereafter imposed on the property pledged by the Second Resolution to enforce a judgment against the Authority on a simple contract and (iii) no instrument by which such pledges are created nor any financing statement need be recorded or filed in order to establish or maintain such priority. The Authority further represents that the Authority has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the Revenues or any other property pledged by the Second Resolution that is prior to or of equal rank with the pledge made by the Second Resolution and neither the Revenues nor any other property pledged by the Second Resolution have been described in any financing statement. Except as expressly permitted by the Second Resolution, the Authority shall not hereafter make or suffer to exist any pledge or assignment of, lien on or security interest in the Revenues or other property pledged by the Second Resolution that is prior to or of equal rank with the pledge made by the Second Resolution, or file any financing statement describing any such pledge, assignment, lien or security interest, except in connection with pledges, assignments, liens or security interests expressly permitted by the Second Resolution.

As further security for the payment of the principal or Redemption Price of and interest on the Bonds, the Authority assigns, transfers and pledges to the Trustee all of its rights and interests under and pursuant to the Agreement (excluding rights to notice and other procedural rights, its rights to indemnification and rights and interests not material to Bondholders), including, without limiting the generality of the foregoing, the present and continuing right (i) to make claim for, collect or cause to be collected, receive or cause to be received, from the Board all Revenues thereunder, (ii) to bring actions and proceedings thereunder for the enforcement thereof, and (iii) to do any and all things which the Authority is or may become entitled to do under the Agreement; *provided, however* that such assignment, transfer and pledge are and shall be in all respects subject and subordinate to the assignment, transfer and pledge made by the First Resolution; *provided, further*, that the assignment made by the Second Resolution shall not impair or diminish any obligation of the Authority under the Agreement.

The Bonds are special obligations of the Authority payable solely from the special funds provided for such payment pursuant to the Act, the First Resolution and the Second Resolution and do not and will not constitute an indebtedness of the State, the City or the Board and neither the State, the City nor the Board shall be in any way liable thereon. *(Sections 203 and 501)*

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

(1) Construction Fund;

(2) Revenue Fund;

(3) Debt Service Fund;

(4) Authority Expense Fund;

(5) Debt Service Reserve Fund;

(6) Subordinated Indebtedness Fund;

(7) Arbitrage Rebate Fund; and

(8) Surplus Fund.

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

The Trustee shall hold all of the Funds and Accounts.

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

Construction Fund. From and after the date on which no First Resolution Bonds are Outstanding, the Authority shall deposit from time to time in the Construction Fund the net proceeds from the sale of each Series of Bonds and make the deposits in the Funds and Accounts required by the applicable Supplemental Resolutions. The Authority shall also deposit from time to time in the Construction Fund any other amounts required to he deposited therein pursuant to the Second Resolution or the Agreement, including amounts received by the Authority for or in connection with the System and determined by the Authority to be deposited therein. In addition, all moneys on deposit in the Construction Account shall he deposited in the Construction Fund as soon as practicable after the date on which there are no First Resolution Bonds Outstanding. From and after the date on which no First Resolution Bonds are Outstanding and proceeds of insurance maintained by the Board or the City against physical loss of or damage to the System, or of contractors' performance bonds pertaining to the construction of the System, shall also be paid into the Construction Fund.

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

To the extent that other moneys are not available therefor in any other Fund or Account, amounts in the Construction Fund and Construction Account shall be applied to the payment of principal of and interest on Bonds and of the interest on Parity Bond Anticipation Notes when due. The Authority will cause moneys in the Construction Account to be transferred to the Debt Service Fund at such time and in such amount as may be required for such purpose. *(Section 504)*

Allocation of Revenues — Revenue Fund. The Authority shall cause all Other Moneys and, from and after the date on which no First Resolution Bonds are Outstanding, all Revenues received from the Board pursuant to the Agreement to be paid to the Trustee and deposited promptly upon receipt in the Revenue Fund. There shall also be deposited in the Revenue Fund all other amounts required by the Second Resolution or the Agreement to be so deposited.

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

(i) together with the amount in the Debt Service Fund, the Monthly Balance for such month and the amount necessary to pay the purchase price or Redemption Price of Bonds purchased or called for redemption; plus

(ii) the amount, if any, necessary to make the total on deposit in the Debt Service Reserve Fund and credited to the Common Account equal to the Debt Service Reserve Requirement for the Bonds to which such Common Account relates, and to make the total on deposit in each Special Account equal to the Debt Service Reserve Requirement for the Bonds to which each such Special Account relates; plus

(iii) the amount, if any, then required to be in the Subordinated Indebtedness Fund.*(Section 505)*

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

(i) to the Debt Service Fund, all such amounts until the total on deposit therein equals the sum of (A) the Monthly Balance for such month for all Series of Bonds Outstanding and (B) the amount necessary to pay the purchase price or Redemption Price of Bonds purchased or called for redemption;

(ii) if no First Resolution Bonds are then Outstanding, from the balance, if any, remaining in such month after making the deposits required by paragraph (i) to the Authority Expense Fund the entire balance until the total on deposit therein in such month is equal to the product obtained by multiplying (A) the sum of (i) the Authority Expenses for the then current Fiscal Year as set forth in the Authority Budget, plus (ii) if included in the Authority Budget for the then current Fiscal Year, an amount ("the Reserve for Expenses") equal to one-sixth of such Authority Expenses by (B) a fraction, the numerator of which is twelve (12) minus the number of full months (excluding the month of calculation) remaining in the Fiscal Year and the denominator of which is twelve (12);

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

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

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

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

Debt Service Fund. The Trustee shall for the Outstanding Bonds of a Series, Parity Bond Anticipation Notes and Parity Reimbursement Obligations, pay (i) on each Bond Payment Date,

(1) from the moneys on deposit in the Debt Service Fund the amounts required for the payment of the Principal Installments, if any, due on such Bond Payment Date and (2) from the moneys on deposit in the Debt Service Fund, including the moneys credited to the subaccount, if any, established for such Series in the Capitalized Interest Account in such Fund, the interest due on such Bond Payment Date, (ii) on any redemption date or date of purchase, the amounts required for the payment of accrued interest on Bonds to be redeemed or purchased on such date unless the payment of such accrued interest shall be otherwise provided and (iii) on each Bond Payment Date for Parity Bond Anticipation Notes, the interest due thereon on such Bond Payment Date, including from moneys credited to the sub-account, if any, established for such Parity Bond Anticipation Notes in the Capitalized Interest.

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

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

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

Authority Expense Fund. The Authority shall apply amounts credited to the Authority Expense Fund to the payment of Authority Expenses. Any moneys in the Authority Expense Fund which the Authority determines are in excess of that needed to meet the sum of the unpaid Authority Expenses for such Fiscal Year plus (if such amount was included in the Authority Budget for such Fiscal Year) the Reserve for Expenses shall be applied toward any deficiencies in the following Funds and Accounts in the order stated: the Debt Service Fund, Debt Service Reserve Fund and Subordinated Indebtedness Fund. Any remaining amounts shall be credited to the Revenue Fund. *(Section 508)*

Debt Service Reserve Fund. The Second Resolution establishes a Debt Service Reserve Fund and a Common Account therein. In addition, the Second Resolution provides that any Supplemental Resolution which provides (i) for a Special Credit Facility to secure the payment of the Principal Installments of and interest on the Bonds authorized thereby, (ii) which provides for a Special Credit Facility to secure the payment of the Tender Option Price of any option Bonds authorized thereby, or (iii) wherein the Authority has determined that the Series of Bonds authorized thereby will not be secured by the Common Account in the Debt Service Reserve Fund, may establish one or more Special Accounts in the Debt Service Reserve Fund. From the proceeds of each Series of Bonds there shall be deposited in the Debt Service Reserve Fund the amount, if any, necessary to make the amount on deposit therein equal to the Debt Service Reserve Requirement, after giving effect to the issuance of such Bonds; and all such amounts will be credited to the Common Account, unless a Supplemental Resolution requires a deposit in a Special Account.

Amounts on deposit in the Common Account will be applied, to the extent necessary, to pay the Principal Installments of and interest on the Bonds; *provided, however*, that the amounts in the Common Account may not be applied to pay the Principal Installments of and interest on, or Tender Option Price of or interest on, Bonds for which such payments are secured by a Special Credit Facility, or to pay Principal Installments of and interest on Bonds that the Authority has determined will not be secured by amounts in the Common Account; these Bonds will be secured by amounts, if any, on deposit in the Special Account. Likewise, amounts in any Special Account may not be applied to pay the Principal Installments of or interest on any Bond for which such payments may be made from the Common Account. Amounts on deposit in each of the Accounts in the Debt Service Reserve Fund shall be applied, to the extent other funds are not available pursuant to the Second Resolution to pay the Principal Installments of, and interest on the Bonds to which such Account relates when due. Amounts so applied shall be derived first from cash or Investment Securities on deposit, and then from draws and demands on Financial Guaranties; *provided, however*, that if more than one Financial Guaranty is held in an Account at the time moneys are to be withdrawn therefrom the Trustee shall obtain payment under each such Financial Guaranty pro rata based upon the respective amounts then available to be paid thereunder.

If, as of June 30 of each year, the amount in any Account in the Debt Service Reserve Fund exceeds the applicable Debt Service Reserve Requirement after giving effect to any Financial Guaranty deposited in such Fund, the Trustee shall, on the first business day of the following Fiscal Year, withdraw from such Account the amount of any excess therein over the applicable Debt Service Reserve Requirement as of the date of such withdrawal for deposit into (i) the Arbitrage Rebate Fund, the amount estimated by the Authority to be required by the Code to be rebated to the Department of the Treasury, and (ii) the Reserve Fund, the amount of any excess then remaining in the Debt Service Reserve Fund over the applicable Debt Service Reserve Fund Requirement. If, as of February 1 of each year the amount in any Account in the Debt Service Reserve Fund is less than the applicable Debt Service Reserve Requirement and, to the extent that such deficiency has not been made up by May 1 of such year by either (i) deposits pursuant to Sections 506, 511 or 512 of the Second Resolution or (ii) an increase in the market value of the securities therein or (iii) a combination of (i) and (ii), the Authority shall, in its Authority Budget for the ensuing Fiscal Year, include the amount necessary to make up such deficiency as a Required Deposit.

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

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

In addition to the conditions and requirements set forth above, no Financial Guaranty shall be deposited in full or partial satisfaction of the Debt Service Reserve Requirement unless the Trustee shall have received prior to such deposit (i) an opinion of counsel to the effect that such Financial Guaranty has been duly authorized, executed and delivered by the Financial Guaranty Provider thereof and is valid, binding and enforceable in accordance with its terms, (ii) in the event such Financial Guaranty Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Trustee and (iii) in the event such Financial Guaranty is a letter of credit, an opinion of counsel acceptable to the Trustee and to each Financial Guaranty Provider substantially to the effect that payments under such letter of credit will not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in a case commenced by or against the Authority thereunder or under any applicable provisions of the Debtor and Creditor Law of the State.

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

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

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

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

In the event of the refunding of any Bonds, the Trustee shall, upon the written direction of the Authority, withdraw from the Debt Service Reserve Fund all or any portion of amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts as provided in such written direction; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to Section 1201 of the Second Resolution, and (b) the amount remaining in the Debt Service Reserve Fund after such withdrawal shall not be less than the Debt Service Reserve Requirement. *(Section 509)*

Subordinated Indebtedness Fund. The Trustee shall apply amounts on deposit in the Subordinated Indebtedness Fund solely to the maintenance of reserves for, or the payment of, Subordinated Indebtedness (or as otherwise provided by the resolution of the Authority authorizing each issue of Subordinated Indebtedness). The Trustee shall withdraw from the Subordinated Indebtedness Fund any amount necessary to render the balances in the Debt Service Fund or Debt Service Reserve Fund sufficient to meet the requirements of such Funds. *(Section 510)*

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

Amounts on deposit in the Arbitrage Rebate Fund in excess of the amount required to be maintained therein or the purposes of such Fund may be transferred and paid by the Trustee to the Revenue Fund. *(Section 511)*

Surplus Fund. The Trustee shall, on each Bond Payment Date, apply moneys credited to the Surplus Fund in the following amounts: (i) to the Debt Service Fund the amount, if any, necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in such Fund and (ii) to the Debt Service Reserve Fund the amount, if any, necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in any Account in such Fund. Such transfer shall be made notwithstanding any other provisions of the Second Resolution requiring deposits in such Funds. Amounts on deposit in the Surplus Fund on the last day of a Fiscal Year shall be withdrawn from such Fund and transferred to the Board for deposit in the Local Water Fund. *(Section 512)*

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

Each Depositary holding moneys or securities in trust for the Trustee shall be a bank or trust company organized under the laws of the State or a national banking association (having its principal office within the State), having capital stock, surplus and undivided earnings aggregating at least $100,000,000 (or such greater amount as set forth in a Supplemental Resolution) and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Second Resolution. *(Section 513)*

Investment of Certain Funds. Moneys held in the Debt Service Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund (subject to the terms of any resolutions or other instrument securing any issue of Subordinated Indebtedness) shall be invested and reinvested to the fullest practical extent in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed to make payments required from such Funds; provided that in the case of the Debt Service Fund, investments shall be of the type described in clauses (ii), (iii) or (iv) of the definition of "Investment Securities." Moneys in the Authority Expense Fund, the Revenue Fund, the Construction Fund, the Arbitrage Rebate Fund and the Surplus Fund may be invested and reinvested in Investment Securities which mature later than such times as shall be necessary to provide moneys when needed to make payments from such Funds. The Trustee shall make all investments in accordance with the direction of an Authorized Representative of the Authority, given either in writing, which may be sent by electronic transmission of a facsimile, or by telephonic communication subsequently confirmed in writing. Moneys in any Fund or Account may be combined with moneys in any other Fund or Account for the purpose of making such investments in Investment Securities.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Funds and Accounts, other than the Construction Fund, the Debt Service Reserve Fund and the Arbitrage Rebate Fund, shall be paid into the Revenue Fund as and when received. Interest (net of that which represents a return of accrued interest paid connection with the purchase of any investment) and other investment earnings on any moneys or investments in (i) the Debt Service Reserve Fund shall be paid into the Arbitrage Rebate Fund, the Surplus Fund or the Revenue Fund; (ii) the Arbitrage Rebate Fund shall remain in such Fund; and (iii) the Construction Fund shall be paid quarterly, on the fifteenth day of each July, October, January and April of each Fiscal Year, to the Board deposit in the Local Water Fund; *provided, however*, that no such payment shall be made unless the Trustee shall receive (A) the written direction of an Authorized Representative of the Authority to make such payment and (B) a Certificate of an Authorized Representative of the Authority stating that, as of the date thereof, there has been deposited in the Revenue Fund during such Fiscal Year an amount equal to the Cash Flow Requirement.

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

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

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

(a) a Bond Counsel's Opinion as to validity and certain other matters required by the Second Resolution;

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

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

(d) except in the case of any Series of Refunding Bonds issued pursuant to Section 207 of the Second Resolution, a Certificate of an Authorized Representative of the Authority setting forth (i) the Revenues for either of the last two full Fiscal Years immediately preceding the Fiscal Year in which such bonds are to be issued and (ii) the Aggregate Debt Service on First Resolution Bonds, Outstanding Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations during such Fiscal Year for which Revenues are set forth pursuant to clause (i), excluding from Aggregate Debt Service the amount thereof which was paid from sources other than Revenues, and (iii) the sum of the Operating Expenses and the Required Deposits for such Fiscal Year (exclusive of Required Deposits for the payment of Outstanding Bonds. Parity Bond Anticipation Notes and Parity Reimbursement Obligations), and showing that the amount set forth in (i) is at least equal to the sum of (x) 110% of the amount set forth in (ii) and (y) 100% of the amount set forth in (iii);

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

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

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

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

Bond Anticipation Notes. The Authority may, by resolution, authorize the issuance of notes (and renewals thereof in anticipation of the issuance of a Series of Bonds. The principal of and interest on such notes and renewals thereof shall be payable from the proceeds of such notes or from the proceeds of the sale of the Series of Bonds issued to provide for the payment of such notes. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such notes and any such pledge shall have a priority over any other pledge of such proceeds created by the Second Resolution. The Authority may also pledge (i) the Funds and Accounts, other than the Arbitrage Rebate Fund, and (ii) the Revenues to the payment of the interest on, and subject to Section 706 of the Second Resolution, the principal of such notes. A copy of the Second Resolution of the Authority authorizing such notes, certified by an Authorized Representative of the Authority, shall be delivered to the Trustee following its adoption, together with such other information concerning such notes as the Trustee may reasonably request. *(Section 208)*

Credit Facilities and Interest Rate Exchange Agreements. In connection with the issuance of any Series of Bonds or Parity Bond Anticipation Notes, the Authority may obtain or cause to be obtained one or more Credit Facilities providing for payment of all or a portion of the Principal Installments, Redemption Price or interest due or to become due on such Bonds or the principal or interest due or to become due on such Parity Bond Anticipation Notes, providing for the purchase of such Bonds by the issuer of such Credit Facility or Revolving funds for the purchase of such Bonds by the Authority. In connection therewith the Authority may enter into such agreements with the issuer of such Credit Facility providing for, among other things: (i) reimbursement of the issuer of the Credit Facility for amounts paid under the terms thereof; *provided, however*, that no obligation to reimburse such issuer shall be created, for purposes of the Second Resolution, until amounts are paid under such Credit Facility; (ii) the payment of fees and expenses to such issuer for the issuance of such Credit Facility; (iii) the terms and conditions of such Credit Facility and the Series of Bonds or the Parity Bond Anticipation Notes affected thereby; and (iv) the security, if any, to be provided for the issuance of such Credit Facility. The Authority may secure such Credit Facility by an agreement providing for the purchase of the Series of Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified by the Authority in the applicable Supplemental Resolution. Any such Credit Facility shall be for the benefit of and secure such Series of Bonds or portion thereof as specified in the applicable Supplemental Resolution.

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

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

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

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

Agreement of the State. In accordance with Section 1045-t of the Act, the Authority agrees, for and on behalf of the State, that the State will not alter or limit the rights vested by the Act in the Authority or the Board to shall the terms of any agreement made with or for the benefit of the Bondholders, or in any way impair the right, and remedies of Bondholders, until the Bonds, together with the interest thereon, with interest on any unpaid installment of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged. *(Section 709)*

Authority Budget. The Authority shall, on or before May 1, in each Fiscal Year, adopt and file with the Trustee, the Board and the City, a copy of the Authority Budget, duly certified by an Authorized Representative of the Authority, showing the estimated Cash Flow Requirement (including the amount of each item constituting a component thereof, on a monthly basis) for the ensuing Fiscal Year, together with the estimated Revenues, other than Revenues to be received from the Board pursuant to the Agreement, expected to be received by the Authority in the ensuing Fiscal Year, and any other information required to be set forth therein by the Second Resolution or the Agreement. Such Authority Budget may set forth such additional information as the Authority may determine or as the Board or the City may request.

If for any reason the Authority shall not have adopted the Authority Budget before May 1, the Authority Budget for the then current Fiscal Year shall be deemed to be the Authority Budget for the ensuing Fiscal Year until new Authority Budget is adopted.

The Authority may at any time adopt an amended Authority Budget for the then current or ensuing Fiscal Year, but no such amended Authority Budget shall supercede any prior Budget until the Authority shall have filed with the Trustee, the Board and the City a copy of such amended Authority Budget. *(Section 710)*

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

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

Year, less (y) the Other Moneys projected to be received during such next succeeding Fiscal Year. Upon such recalculation the Authority shall adopt and file an amended Authority Budget in accordance with Section 711(c) of the Second Resolution.

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

Enforcement and Amendment of Agreement and Lease. The Authority shall enforce or cause to be enforced the provisions of the Agreement and the Lease and duly perform its covenants and agreements under the Agreement. The Authority will not consent or agree to or permit any rescission of or amendment to or otherwise take any action under or in connection with the Agreement or the Lease except in accordance with Article X or the Agreement and Section 714 of the Second Resolution. *(Section 713)*

Amendments to First Resolution, Agreement and Lease. Except as otherwise provided in the Second Resolution, the First Resolution, the Agreement or the Lease may not be amended, changed, modified or terminated, nor may any provision thereof be waived, without the consent of the Holders of Outstanding Bonds as provided in the Second Resolution, if such amendment, change, modification, termination or waiver:

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

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

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

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

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

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

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

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

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

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

For the purposes of the provisions under this heading "Amendments to First Resolution, Agreement and Lease," the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds then Outstanding in any material respect. *(Section 714)*

Supplemental Resolutions. The Second Resolution permits the modification or amendment of the rights and obligations of the Authority and of the holders of the Bonds thereunder by a Supplemental Resolution, with the written consent of the holders of a majority of the principal amount of: (i) the Bonds then Outstanding and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Bonds of the Series so affected and then Outstanding; however, if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of modification: provided no such modification or amendment shall change the terms of redemption, maturity of principal, installment of interest, or reduce the principal amount, Redemption Price, or rate of interest without the consent of the holder of the affected Bond, or reduce the percentages of consents required to effect any future modification or amendment.

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

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

Defaults and Remedies. The Second Resolution provides that if one or more of the following Events of Default shall occur, namely: (i) a default in the payment of the principal or Redemption Price of any Bond; (ii) a default in payment of any installment of interest on any Bond; (iii) a default by the Authority in the performance or observance of any other of its covenants, agreements or conditions in the Second Resolution for a period of 45 days after written notice thereof; (iv) a default under the Agreement or the Lease by the Board or the City for a period of 45 days after written notice thereof; (v) a filing of a petition for relief under any federal or State bankruptcy or similar law by the Authority; or (vi) a default by the Authority on any indebtedness payable out of the FGR Subordinated Indebtedness Fund has occurred as a result of which the principal thereof has been declared to be immediately due and payable, which declaration has not been annulled; then, upon the happening and continuance of any Event of Default, the Trustee, if no First Resolution Bonds are then Outstanding under the First Resolution or if the principal of all First Resolution Bonds then Outstanding has been declared to be due and payable immediately pursuant to Section 803 of the First Resolution, may, and upon the written request of the holders of not less than a majority in principal amount of the Bonds Outstanding the Trustee shall, declare the principal and accrued interest on all the Bonds then Outstanding, due and payable immediately subject, however, to rescission of such declaration and annulment of the default upon be remedying thereof.

The Authority covenants that upon the occurrence of an Event of Default, the books of record and account of the Authority shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys and that, upon demand of the Trustee, the Authority will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Second Resolution for such period as shall be stated in such demand.

Upon default, the Trustee may proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Second Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant therein contained, or in aid of the execution of any power therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Second Resolution. During the continuance of an Event of Default, Revenues shall be applied first, to the reasonable and proper charges and expenses of the Trustee; then (unless the principal thereof shall have been declared payable) to the payment of all unpaid interest ratably, and then to unpaid principal or Redemption Price of any Bond or Parity Reimbursement Obligations, ratably; if the principal of all of the Bonds shall be due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds and Parity Reimbursement Obligations and of the interest then due and unpaid on Parity Bond Anticipation Notes without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond, Parity Reimbursement Obligation or Parity Bond Anticipation Note over any other Bond, Parity Reimbursement Obligation or Parity Bond Anticipation Note, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference. No Bondholder has any right to institute a suit to enforce any provision of the Second Resolution or the execution of any trust thereunder or for any remedy thereunder, unless the Trustee has been requested by the holders of at least a majority in principal amount of the Bonds then Outstanding to take such action and has been offered adequate security and indemnity and has failed to commence such suit in the manner provided in the Second Resolution. The right to appoint a statutory trustee under Section 1045-p of the Act is expressly abrogated. *(Art. X)*

Defeasance of Bonds Other than Variable Rate or Option Bonds. Any Outstanding Bond shall prior to the maturity or redemption date thereof be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Second Resolution if (i) in the case of any Bonds to be redeemed prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to publish on such date the notice of redemption therefor (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption), (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Obligations the principal of and the interest on which, when due, without reinvestment, will, as verified by the report of a firm of nationally recognized independent certified public accountants,[1] provide moneys which, together with the moneys deposited shall be sufficient, to pay when due the principal or Redemption Price (if applicable) and interest due and to become due on said Bonds and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Bonds that the deposit required above has been made with the Trustee and that said Bonds are deemed paid in accordance with the Second Resolution and stating such maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, on such Bonds (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption); provided that any notice published for Bonds constituting less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, to the extent necessary, apply moneys to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments thereto.

The Trustee shall, if so directed by the Authority prior to the maturity date of Bonds deemed to have been paid which are not to be redeemed prior to their maturity date or prior to the publication of the above notice of redemption for Bonds deemed paid and to be redeemed, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and purchase such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; *provided, however*, that the moneys and Defeasance Obligations remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Bonds. *(Section 1201)*

Defeasance of Variable Rate Bonds. The Second Resolution provides that for the purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, by the deposit of moneys, or Defeasance Obligations and moneys (if any), the interest due on such Bonds shall be calculated at the maximum rate permitted; *provided, however*, that if, as a result of such Bonds having borne interest at less than the maximum rate for any period, the total amount of moneys and Investment Securities on deposit with the Trustee for the payment of interest on such Bonds exceeds the total amount required to be deposited with the Trustee, the Trustee shall, if requested by the Authority, pay the amount in excess to the Authority free and clear of any lien or pledge securing the Bonds or otherwise existing under the Second Resolution. *(Section 1201)*

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

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(1) Any Supplemental Resolution adopted by the Authority on or after January 12, 2006 provides that the verification report may be prepared by a firm of nationally recognized verification agents rather than a firm of nationally recognized independent certified public accountants.

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New York City Water and Sewer System

(A Component Unit of The City of New York)

Financial Statements as of and for the Years Ended June 30, 2014 and 2013, Required Supplementary Information, and Independent Auditors' Report

NEW YORK CITY WATER AND SEWER SYSTEM

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INDEPENDENT AUDITORS' REPORT

To the Joint Audit Committee of
New York Municipal Water Finance Authority
and New York City Water Board

Report on the Combining Financial Statements

We have audited the accompanying combining statements of net position of the New York City Municipal Water Finance Authority and the New York City Water Board, which collectively comprise the New York City Water and Sewer System (the "System"), a component unit of The City of New York, as of June 30, 2014 and 2013, and the related combining statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combining financial statements, which collectively comprise the System's basic combining financial statements as listed in the table of contents.

Management's Responsibility for the Combining Financial Statements

Management is responsible for the preparation and fair presentation of these combining financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combining financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combining financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the combining financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combining financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the net position of the New York Municipal Water Finance Authority and the New York City Water Board of the System as of June 30, 2014 and 2013, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the combined financial statements, in 2014, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. As a result of adopting this standard, the System has elected to restate its June 30, 2013 financial statements to reflect the adoption of this standard. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13, and the Schedule of Funding Progress for the Other Postemployment Benefit Plan on page 62 be presented to supplement the basic combining financial statements. Such information, although not a part of the basic combining financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combining financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combining financial statements, and other knowledge we obtained during our audits of the basic combining financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

October 21, 2014

Overview of the Financial Statements

The following is an overview of the financial activities of the New York City Water and Sewer System (the "System") for the fiscal years ended June 30, 2014 and 2013. The System is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board"). The System is a component unit of The City of New York ("The City").

The financial statements consist of three parts – (1) Management's discussion and analysis (this section) (2) basic financial statements and (3) the notes to the financial statements.

The basic financial statements of the System, which include the combining statements of net position, the combining statements of revenues, expenses and changes in net position and the combining statements of cash flows, are presented for the purposes of displaying entity-wide information in accordance with Governmental Accounting Standards Board ("GASB") standards. These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

In fiscal year 2014, the System implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27 ("GASB Statement No. 68")*. GASB Statement No. 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees of state and local government. The System participates in a cost sharing multiple-employer pension system as defined by GASB Statement No. 68. The implementation of GASB Statement No. 68 resulted in the recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net pension liability based on the System's proportionate share of those of the overall plan, calculated as specified in GASB Statement No. 68. (See Note 2 for cumulative change and Note 13 for details of GASB Statement No. 68).

Financial Analysis and Results of Operations

The following summarizes the activities of the System for the fiscal years 2014, 2013 and 2012 (in thousands):

	2014	Restated 2013	2012	Variance 2014 v 2013	Variance 2013 v 2012
REVENUES:					
Water supply and distribution	$ 1,351,550	$ 1,278,646	$ 1,238,352	$ 72,904	$ 40,294
Sewer collection and treatment	2,148,964	2,033,047	1,857,527	115,917	175,520
Bad debt expense	(26,979)	(16,983)	(28,541)	(9,996)	11,558
Other operating revenues	183,760	172,283	140,595	11,477	31,688
Total operating revenues	3,657,295	3,466,993	3,207,933	190,302	259,060
Subsidy income	174,606	174,862	196,241	(256)	(21,379)
Investment income	50,148	58,793	48,936	(8,645)	9,857
Legal settlement	83,236	-	-	83,236	-
Total revenues	3,965,285	3,700,648	3,453,110	264,637	247,538
EXPENSES:					
Operations and maintenance	1,490,550	1,361,055	1,373,038	129,495	(11,983)
Other non-operating expenses	27,874	14,685	73,814	13,189	(59,129)
Administration and general	68,936	56,738	47,402	12,198	9,336
Depreciation expense	740,879	677,560	692,296	63,319	(14,736)
Capital distribution	39,627	25,429	42,005	14,198	(16,576)
Net loss on retirement and impairment of capital assets	18,815	20,976	1,646	(2,161)	19,330
Interest expense	1,263,305	1,225,771	1,246,863	37,534	(21,092)
Total expenses	3,649,986	3,382,214	3,477,064	267,772	(94,850)
NET GAIN/(LOSS) BEFORE CAPITAL CONTRIBUTIONS	315,299	318,434	(23,954)	(3,135)	342,388
CAPITAL CONTRIBUTIONS	9,799	7,699	26,903	2,100	(19,204)
CHANGE IN NET POSITION	325,098	326,133	2,949	(1,035)	323,184
NET POSITION — Beginning	(483,899)	(809,032)	(811,981)	325,133	2,949
RESTATEMENT OF BEGINNING NET POSITION	-	(1,000)	-	1,000	(1,000)
NET POSITION (DEFICIT) — Ending	$ (158,801)	$ (483,899)	$ (809,032)	$325,098	$325,133

Operating Revenue

2014-2013

Operating revenues increased by $190.3 million or 5.5% predominantly due to a rate increase of 5.6%.

2013-2012

Operating revenues increased by $259.1 million or 8.1% predominantly due to a rate increase of 7.0%.

The following summarizes other operating revenues for fiscal years 2014, 2013, and 2012 (in thousands):

				Variance	
	2014	2013	2012	2014 v 2013	2013 v 2012
Upstate water fees	$ 86,676	$ 65,640	$ 60,891	$ 21,036	$ 4,749
Late payment fees	50,427	47,580	44,069	2,847	3,511
Change in residual interest in sold liens	6,585	7,754	12,777	(1,169)	(5,023)
Release of escrow/trust		21,960	7,353	(21,960)	14,607
Federal funding		1,678	2,632	(1,678)	(954)
Connection fees and permits	13,449	11,840	12,873	1,609	(1,033)
Rental rebate	9,093	12,273		(3,180)	12,273
Service line program	17,530	3,558		13,972	3,558
Total other operating revenues	$183,760	$172,283	$140,595	$ 11,477	$ 31,688

Other Operating Revenue

2014-2013

Upstate water fees increased by $21 million or 32.1% compared to fiscal year 2013. The increase was due to the combination of: 1) a 12.34% increase in the wholesale rate for the quantity of water the municipalities was entitled to by law, 2) a 5.6% rate increase for consumption in excess of the entitlement quantity, and 3) the inclusion of $13.7 million of unbilled revenue.

Late payment fees increased by $2.8 million or 6.0%. The increase is primarily due to the rate increase of 5.6%

The change in residual interest in sold liens decreased by $1.2 million or 15.1% compared to fiscal year 2013. This was due to fewer residual collections being transferred to the System from the lien sale trusts.

There was no federal funding in fiscal year 2014. The federal funding to support technical assistance in developing a Contamination Warning System Demonstration Pilot Program ended in fiscal year 2013.

Connection fees and permits increased by $1.6 million or 13.6%. This was due primarily to new construction activities.

The rebate of a portion of the base rental payment by the City decreased by $3.2 million or 25.9% compared to fiscal year 2013. This was due to the calculation of the rental rebate based on an intergovernmental agreement.

The amounts received for the Service Line Protection Program increased by $14.0 million. The program was offered for the full fiscal year 2014 compared to only six months in fiscal year 2013. Also, the number of effective policies steadily increased from approximately 91,000 on July 1, 2013 to approximately 142,000 by the end of fiscal year 2014.

2013-2012

Upstate water fees increased by $4.7 million or 7.8% compared to fiscal year 2012. The increase was due largely to the combination of a 9.8% increase in the wholesale rate for the quantity of water the municipalities are entitled to by law and a 7.0% rate increase for consumption in excess of the entitlement quantity, which was billed at the in-City retail rate.

Late payment fees increased by $3.5 million or 8.0%. This increase was due primarily to the rate increase and a decrease in billing adjustments. The substantial completion of the Department of Environmental Protection's ("DEP") installation of its wireless meter reading system had increased the number of actual readings and reduced the number of estimated readings had previously resulted in billing adjustments and the cancellation of late payment fees.

The change in residual interest in sold liens decreased by $5.0 million or 39.3% compared to fiscal year 2012.

In fiscal year 2013, New York State returned $22.0 million of escrowed funds to the System to assist the System in Hurricane Sandy recovery. The escrow fund had been established in 2010 by DEP to cover the construction of Biological Nutrient Removal ("BNR") facilities to remove nitrogen from the wastewater in the Newtown Creek Wastewater Treatment Plant.

Federal funding of $1.7 million was received by the Board in fiscal year 2013 to support technical assistance in developing a Contamination Warning System Demonstration Pilot Program.

Connection fees and permits decreased by $1.0 million or 8.0%. The decrease in revenue from fiscal year 2013 compared to fiscal year 2012 was because fiscal year 2012 revenues were higher due to the System's special initiative in that year to bring buildings into compliance with the New York State Sanitary Code regarding backflow prevention.

A rental rebate of $12.3 million was received by the System from The City in fiscal year 2013. This amount represents a rebate of a portion of the base rental payment expense for fiscal year 2012. The System has an agreement with The City to cap the rental expense for a three year period with overpayments being returned in the subsequent fiscal year.

The System has engaged American Water Resources ("AWR") to offer service line protection policies to customers. In fiscal year 2013, related customer fees totaled $3.6 million, this amount is included in other operating revenues.

Investment Income

2014-2013

Investment income decreased by $8.6 million or 14.7% compared to fiscal year 2013. For fiscal year 2013, unrealized gains were higher due to a Guaranteed Investment Contract ("GIC") that had a one-time option to terminate but was not exercised by the counter party.

2013-2012

The investment income increased by $9.9 million or 20.1% due predominantly to a net increase on unrealized gains. The market value of a Guaranteed Investment Contract ("GIC") increased by $16.8 million from prior year because the counter party did not elect to exercise a one-time option to terminate during fiscal year 2012.

Legal Settlement

2014-2013

In 2003, The City sued refiners and manufacturers of gasoline containing methyl tertiary butyl ether ("MTBE"), a gasoline additive used to replace lead, and enables gasoline to burn more cleanly. The City's lawsuit claimed that the oil companies added MTBE to gasoline starting in the late 1970s, knowing that it would contaminate soil and groundwater when gasoline leaks or spills, and knowing that underground storage tanks at gas stations, many of which are owned by the same companies, regularly leak.

The City's drinking water system in southeast Queens has 68 wells – more than half of which were contaminated by MTBE. Since initiating the suit, The City had settled with all of the defendants except ExxonMobil, until this fiscal year. After a trial that began in the summer of 2009 and subsequent appeals by Exxon Mobil, The City won the case and Exxon Mobil paid damages of $83 million to the Board in fiscal year 2014.

Operating Expenses

2014-2013

Total operations and maintenance expenses increased by $129.5 million or 9.5%. The personal services expense increased by approximately $76 million due to wage accruals to cover the provision necessary for collective bargaining agreements and other open employee contracts. Also, the other than personal services increased by $32.7 million mainly due to the operational costs for the new facilities (Cat/Del Ultraviolet Disinfection Facility and Croton Filtration Plant), increases in upstate property taxes, increases in Department of Investigation contract oversight and a new program to prevent sewer back-ups . The remaining increase was comprised of an increase in judgment and claims and a reversal of prior year accruals.

2013-2012

Total operations and maintenance expenses decreased by $12.0 million or 0.9%. The operating expenses decreased by $22.5 million mainly because certain non-personnel costs were offset by reduction of headcount.

Rental expense increased by $11.4 million primarily due to increased debt service. Other operating expenses decreased by $59.1 million primarily due to the reversal of a reserve for legal expenses (see Note 8).

Non-Operating Expenses

2014-2013

Interest expense increased by $37.5 million or 3.1% compared to fiscal year 2013. This was due primarily to the increase of bonds outstanding at the end of fiscal year 2014.

Other non-operating expenses increased by $13.2 million compared to fiscal year 2013. In fiscal year 2013 the reversal of a $44 million accrual caused the expense to be low.

Administrative and general expenses increased by $12.2 million or 21.5% compared to fiscal year 2013. The Board expenses increased by $13.2 million due to the Service Line Protection Program payments to American Water Resources ("AWR"), which are pass-through payments based on the number of DEP customers enrolled in the program. Payments for a contract to evaluate the effectiveness of the operations and maintenance of the System also increased by $2.3 million. Other Board expenses decreased by approximately $1.4 million.

Net loss on retirement and impairment of capital assets decreased by $2.2 million. In fiscal year 2013, due to Hurricane Sandy the impairment of capital assets were much higher.

2013-2012

Hurricane Sandy caused $17.3 million of impairment loss to the System's capital assets. The Board and the Authority anticipate that all of the costs relating to Hurricane Sandy will ultimately be recovered from the federal government.

Interest expense decreased by $21.1 million or 1.7% compared to fiscal year 2012. The fiscal year 2012 restatement increased interest expense previously reported. Bond issuance costs of $21.9 million previously recorded as an asset and the amortization of unamortized deferred bond refunding costs of $26.2 million were reclassified as interest expense.

General and administrative expenses increased by approximately $9.3 million, largely due to 1) $2.1 million increase in expenditures incurred under a new contract for the service line protection program and an existing contract to evaluate the effectiveness of the operations and maintenance of the System and 2) a $7.2 million increase to cover the increase in remarketing and liquidity fees in connection with new variable rate debt and arbitrage rebate accrued expense.

Changes in Net Position

2014-2013

The change in net position represents the net total of operating income, non-operating revenues/expenses, and capital contributions. Net position increased by $325.1 million in fiscal year 2014.

2013-2012

The change in net position represents the net total of operating income, non-operating losses, and capital contributions. Net position increased by $325.1 million in fiscal year 2013.

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

		Restated		Variance	
	2014	2013	2012	2014 v 2013	2013 v 2012
Current assets	$ 3,125,177	$ 3,020,559	$ 2,496,428	$ 104,618	$ 524,131
Residual interest in sold liens	66,116	59,531	51,777	6,585	7,754
Capital assets	28,392,330	27,460,482	26,474,776	931,848	985,706
Total assets	31,583,623	30,540,572	29,022,981	1,043,051	1,517,591
Deferred outflows of resources:					
Deferred outflows from hedging	86,502	81,108	134,752	5,394	(53,644)
Deferred outflows from pension	235	13	-	222	13
Unamortized deferred bond refunding costs	4,294	9,928	18,071	(5,633)	(8,143)
Total deferred outflows of resources	91,031	91,049	152,823	(17)	(61,774)
Total assets and deferred outflows of resources	$ 31,674,654	$ 30,631,621	$ 29,175,804	$ 1,043,034	$ 1,455,817
Long-term liabilities	$ 30,328,237	$ 29,060,215	$ 28,224,092	$ 1,268,022	$ 836,123
Current liabilities	1,504,946	2,055,241	1,760,744	(550,295)	294,497
Total liabilities	31,833,183	31,115,456	29,984,836	717,727	1,130,620
Deferred inflows of resources:					
Deferred inflows from pension	272	64	-	208	64
Total deferred inflows of resources	272	64	-	208	64
Net position (deficit):					
Net investment in capital assets	(771,165)	(945,890)	(840,201)	174,725	(105,689)
Restricted for debt service	1,145,505	918,229	687,656	227,276	230,573
Restricted for operations and maintenance	221,440	212,233	212,885	9,207	(652)
Unrestricted (deficit)	(754,581)	(668,471)	(869,372)	(86,110)	200,901
Total net position (deficit)	(158,801)	(483,899)	(809,032)	325,098	325,133
Total liabilities deferred inflows of resources and net position	$ 31,674,654	$ 30,631,621	$ 29,175,804	$ 1,043,034	$ 1,455,817

2014-2013

Current assets increased by $104.6 million or 3.4% due to an increase in revenue funds held by the Authority at June 30, 2014.

Residual interest in sold liens increased by $6.6 million or 11.1% compared to fiscal year 2013.

Deferred outflows from hedging increased by $5.4 million or 6.7% due to a decrease in the fair value of the hedging derivative instruments.

Long-term liabilities increased by $1.3 billion or 4.4% primarily due to the increase in the bonds issued.

Current liabilities decreased by $550.3 million or 26.8% compared to fiscal year 2013. This is primarily due to a decrease in the receivable from The City for operations and maintenance by $129.5 million a decrease in bond anticipation note ("BAN") for $217 million and a $100 million for commercial paper notes.

2013-2012

Current assets increased by $524.1 million or 21.0%. The increase was primarily due to an increase in 1) revenue funds by $249 million, 2) construction funds by $58 million, 3, customer receivables by $67 million, and 4) receivable from The City for operations and maintenance by $91 million.

Residual interest in sold liens increased by $7.8 million or 15.0% compared to fiscal year 2012.

Deferred outflows from hedging decreased by $53.6 million due to an increase in the fair value of the hedging derivative instruments.

Long-term liabilities increased by $836.1 million or 3.0% primarily due to the increase in the-long term portion of bonds payable of $798.1 million.

Current liabilities increased by $294.5 million or 16.7%, primarily due to a BAN of $217 million that matures in fiscal year 2014, an increase of $100 million in commercial paper and also an increase of $10.2 million in revenue received in advance. A reserve liability for legal expenses of $44 million was deemed unnecessary. (See Note 8)

Capital Assets

The System's capital assets include buildings, equipment, vehicles, water supply and distribution assets, and wastewater treatment and sewage collection assets.

Capital assets as of June 30, are detailed as follows (in thousands):

	2014	2013	2012	Variance 2014 v 2013	Variance 2013 v 2012
Non-depreciable assets — utility construction	$ 6,812,608	$ 9,063,048	$ 8,422,470	$ (2,250,440)	$ 640,578
Utility plant in service:					
Buildings	34,877	34,877	34,877		
Equipment	3,434,110	2,211,487	2,014,704	1,222,624	196,783
Vehicles	164,553	157,118	150,531	7,435	6,587
Water supply and distribution and wastewater treatment and sewage collections systems	29,000,071	26,470,360	25,669,088	2,529,710	801,272
Total utility plant in service	32,633,611	28,873,842	27,869,200	3,759,769	1,004,642
Less accumulated depreciation for:					
Buildings	(22,506)	(21,189)	(19,820)	(1,317)	(1,369)
Equipment	(1,169,222)	(927,797)	(790,180)	(241,425)	(137,617)
Vehicles	(110,510)	(104,798)	(98,639)	(5,711)	(6,159)
Water supply and distribution and wastewater treatment and sewage collection systems	(9,751,651)	(9,422,624)	(8,908,255)	(329,027)	(514,369)
Total accumulated depreciation	(11,053,889)	(10,476,408)	(9,816,894)	(577,480)	(659,514)
Total utility plant in service — net	21,579,722	18,397,434	18,052,306	3,182,289	345,128
Total capital assets — net	$ 28,392,330	$ 27,460,482	$ 26,474,776	$ 931,849	$ 985,706

The increase in the System's capital assets, net of depreciation during fiscal year 2014, was $931.8 million or 3.4%. Capital asset additions of non-depreciable assets for fiscal year 2014 were $2.6 billion. The third water tunnel was placed into service in fiscal year 2014. The cost of $1.2 billion was moved into depreciable asset. See Note 3 (Utility Plant) for further details.

The increase in the System's capital assets, net of depreciation during fiscal year 2013 was $985.7 million or 3.7%. Capital asset additions for non depreciable assets for fiscal year 2013 were $1.7 billion. See Note 3 (Utility Plant) for further details.

Debt Administration

The Authority issues debt to pay for the capital improvements to the System and certain related costs. Certain costs related to the System's filtration avoidance determination, including land acquisition in the upstate watershed and costs associated with pollution remediation are financed with debt, but they are not recorded as System assets on the balance sheet. These costs or distributions are reported as expenses in the System's combining statements of revenues, expenses and changes in net position (deficit) in the years incurred. Land purchased is granted to The City and becomes The City's capital asset because it is not subject to the capital lease under which the System reports water distribution and wastewater collection and treatment capital assets.

The debt program of the Authority includes commercial paper, long-term debt of the Authority, BANs, and subsidized bonds issued through the New York State Environmental Facilities Corporation ("EFC"). The commercial paper program is the main source of financing to reimburse The City for payments made for water and sewer projects. The Authority issues long-term debt on its own or through EFC to retire outstanding commercial paper. The Authority also periodically issues refunding bonds to refinance higher-coupon debt. See Note 9 (Short-Term Debt) and Note 10 (Long-Term Debt) for further details.

At June 30, 2014, the total outstanding debt of the System was $30.2 billion, of which $500 million was commercial paper and $338.6 million was outstanding against BANs issued to EFC maturing through 2017. The remaining $29.3 billion consisted of adjustable and fixed-rate bonds maturing in varying installments through 2050.

The total outstanding long-term debt including current portion at June 30, 2014 was as follows (in thousands):

Issue Date	**Principal Outstanding**
2014	$ 2,994,633
2013	2,289,205
2012	3,627,133
2011	4,432,685
2010	3,248,062
2009 and prior	13,082,164
Total long-term debt	$29,673,882

In the summary above, bonds retired through refunding in fiscal year 2014, are removed from the year in which the refunded bonds were issued, and the refunding bonds are included in the fiscal year 2014 outstanding bonds.

In fiscal year 2014, the Authority issued $1.9 billion of water and sewer revenue bonds directly to the public, including $547.9 million of refunding bonds and $1.4 billion of new money bonds. The Authority also issued $962.3 million of Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC, of which $752.9 million were refunding bonds and $209.4 million were new money bonds. The Authority used new money bond proceeds to finance capital improvements to the System and to provide long-term financing of commercial paper notes and BANs, which had previously financed capital improvements to the system, and to pay for bond issuance costs.

On July 11, 2013, the Authority issued to EFC $401.1 million and $213.9 million of new money and refunding fixed rated Second General Resolution Revenue bonds, Fiscal 2014 Series 1 and Fiscal 2014 Series 2, respectively. The source of funds to the Authority for the bonds was from tax-exempt bonds issued by EFC (2013 A). Proceeds from Series 1 were used to refund Fiscal 2003 Series 5 and Fiscal 2004 Series 1 and proceeds from Series 2 were used to retire commercial paper notes Series 6 and to pay costs of improvements to the System.

On September 17, 2013, the Authority issued $650.9 million of new money, tax-exempt, adjustable rate Second General Resolution Revenue Bonds, Fiscal 2014 Series AA. The bonds are backed by standby bond purchase agreements from four banks. These bonds will mature in 2048, 2049 and 2050. The proceeds were used to refund the Authority's commercial paper notes, to pay the costs for the improvements to the System, to pay the principal and interest on BANs and to pay for bond issuance costs.

On October 21, 2013, the Authority issued Fiscal 2014 Series 3 BANs to EFC in the amount of $320 million. The Authority has drawn $109 million as of June 30, 2014. The BAN will mature on October 21, 2016.

On November 21, 2013, the Authority issued $397.1 million of new money, tax-exempt, fixed rate Second General Resolution Revenue Bonds, Fiscal 2014 Series BB. This bond issue included term bonds maturing in 2046. The Authority used the proceeds to refund commercial paper notes and to pay bond issuance costs.

On February 6, 2014, the Authority issued $351.2 million of new money, tax-exempt, fixed rate Second General Resolution Revenue Bonds, Fiscal 2014 Series CC. The bonds included term bonds maturing in 2047. The Authority used the proceeds to refund commercial paper notes and to pay bond issuance costs. The 2014 Series CC bond issue included two refundable principal installment bonds maturing in 2018 and 2019.

On March 27, 2013, the Authority issued to EFC $347.4 million of refunding Second General Resolution Revenue Bonds, Fiscal 2014 Series 4. The Authority used the proceeds to refund the outstanding principal of its Fiscal 2005 Series 1 bonds, partially refund the outstanding principal of its Fiscal 2004 Series 2 and Fiscal 2005 Series 2 bonds, and to pay bond issuance costs.

On April 3, 2014, the Authority issued $547.9 million of refunding, tax-exempt, fixed rate Second General Resolution Revenue Bonds, Fiscal 2014 Series DD. The bonds included serial and term bonds maturing in 2039. The Authority used the proceeds to refund the Authority's outstanding First Resolution Revenue Bonds, Fiscal 2004 Series B, Fiscal 2004 Series C and Fiscal 2005 Series A and to pay bond issuance costs.

During fiscal year 2014 the Authority issued $1.4 billion of commercial paper notes to pay costs of improvements to the System. As of June 30, 2014, $500 million of commercial paper notes were outstanding.

Economic Factors and Next Year's Rates

In May of each year, the Board adopts rates for the following fiscal year. A rate increase of 3.35% for fiscal year 2015, based on projected revenues and costs, became effective July 1, 2014.

Request for Information

This financial report is provided as an overview of the System's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Investor Relations, New York City Municipal Water Finance Authority, 255 Greenwich Street, New York, New York 10007 or to NYWInvestors@omb.nyc.gov.

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NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2014
(In thousands)

	Water Board	New York City Water Finance Authority	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Unrestricted cash and cash equivalents	$ 14,120	$ 7	$ -	$ 14,127
Restricted cash and cash equivalents	80,764	1,588,101	-	1,668,865
Restricted investments	140,676	507,566	-	648,242
Accrued interest and subsidy receivable	-	6,616	-	6,616
Accounts receivable:				
Billed — less allowance for uncollectable water and sewer receivables of $383,279	425,226	-	-	425,226
Unbilled	338,687	-	-	338,687
Receivable from The City of New York	23,414	-	-	23,414
Total current assets	1,022,887	2,102,290	-	3,125,177
NON-CURRENT ASSETS:				
Utility plant in service — less accumulated depreciation of $11,053,889	21,579,722	-	-	21,579,722
Utility plant construction	6,812,608	-	-	6,812,608
Total capital assets	28,392,330	-	-	28,392,330
Residual interest in sold liens	66,116	-	-	66,116
Revenue required to be billed by and received from the Board	-	15,334,172	(15,334,172)	-
Total non-current assets	28,458,446	15,334,172	(15,334,172)	28,458,446
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from hedging	-	86,502	-	86,502
Unamortized deferred bond refunding costs	-	4,294	-	4,294
Deferred outflows from pension	-	235	-	235
Total deferred outflows of resources	-	91,031	-	91,031
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 29,481,333	$ 17,527,493	$ (15,334,172)	$ 31,674,654

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2014
(In thousands)

	Water Board	New York City Municipal Water Finance Authority	Eliminations	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 4,222	$ 56,332	$ -	$ 60,554
Revenue received in advance	57,827	-	-	57,827
Commercial paper payable	-	500,000	-	500,000
Current portion of bonds and notes payable	-	291,955	-	291,955
Payable to The City of New York	-	522,036	-	522,036
Service credits on customer accounts	72,574	-	-	72,574
Total current liabilities	134,623	1,370,323	-	1,504,946
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	-	29,381,928	-	29,381,928
Net premium on bonds and notes payable	-	762,827	-	762,827
Pollution remediation obligation	98,927	-	-	98,927
Interest rate swap agreement — net	-	79,997	-	79,997
Revenue requirements payable to the Authority	15,334,172	-	(15,334,172)	-
Net pension liability	-	901	-	901
Other long-term liability	-	3,657	-	3,657
Total long-term liabilities	15,433,099	30,229,310	(15,334,172)	30,328,237
Total liabilities	15,567,722	31,599,633	(15,334,172)	31,833,183
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pension	-	272	-	272
Total liabilities and deferred inflows of resources	15,567,722	31,599,905	-	31,833,455
NET POSITION:				
Net investment in capital assets	28,392,330	(29,163,495)	-	(771,165)
Restricted for debt service	-	1,145,505	-	1,145,505
Restricted for operations and maintenance	221,440	-	-	221,440
Unrestricted (deficit)	(14,700,159)	13,945,578	-	(754,581)
Total net position	13,913,611	(14,072,412)	-	(158,801)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 29,481,333	$ 17,527,493	$ (15,334,172)	$ 31,674,654

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2013 (RESTATED)
(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Unrestricted cash and cash equivalents	$ 8,008	$ 10	$ -	$ 8,018
Restricted cash and cash equivalents	1,043	1,324,186	-	1,325,229
Restricted investments	211,190	590,742	-	801,932
Accrued interest and subsidy receivable	-	21	-	21
Accounts receivable:				
Billed — less allowance for uncollectable water and sewer receivables of $356,300	414,019	-	-	414,019
Unbilled	318,461	-	-	318,461
Receivable from The City of New York	152,879	-	-	152,879
Total current assets	1,105,600	1,914,959	-	3,020,559
NON-CURRENT ASSETS:				
Utility plant in service — less accumulated depreciation of $10,476,408	18,397,434	-	-	18,397,434
Utility plant construction	9,063,048	-	-	9,063,048
Total capital assets	27,460,482	-	-	27,460,482
Residual interest in sold liens	59,531	-	-	59,531
Revenue required to be billed by and received from the Board	-	15,862,826	(15,862,826)	-
Total non-current assets	27,520,013	15,862,826	(15,862,826)	27,520,013
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows from hedging	-	81,108	-	81,108
Deferred outflows from pension	-	13	-	13
Unamortized deferred bond refunding costs	-	9,928	-	9,928
Total deferred outflows of resources	-	91,049	-	91,049
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 28,625,613	$ 17,868,834	$ (15,862,826)	$ 30,631,621

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2013 (RESTATED)
(In thousands)

	Water Board	New York City Municipal Water Finance Authority	Eliminations	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 2,031	$ 55,454	$ -	$ 57,485
Revenue received in advance	61,560	-	-	61,560
Commercial paper payable	-	500,000	-	500,000
Current portion of bonds and notes payable	-	787,654	-	787,654
Payable to The City of New York	-	572,700	-	572,700
Service credits on customer accounts	75,842	-	-	75,842
Total current liabilities	139,433	1,915,808	-	2,055,241
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	-	28,205,731	-	28,205,731
Net premium on bonds and notes payable	-	658,859	-	658,859
Pollution remediation obligation	116,858	-	-	116,858
Interest rate swap agreement — net	-	74,603	-	74,603
Revenue requirements payable to the Authority	15,862,826	-	(15,862,826)	-
Net pension liability	-	923	-	923
Other long-term liability	-	3,241	-	3,241
Total long-term liabilities	15,979,684	28,943,357	(15,862,826)	29,060,215
Total liabilities	16,119,117	30,859,165	(15,862,826)	31,115,456
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pension	-	64	-	64
Total liabilities and deferred inflows of resources	16,119,117	30,859,229	-	31,115,520
NET POSITION:				
Net investment in capital assets	27,460,482	(28,406,372)	-	(945,890)
Restricted for debt service	-	918,229	-	918,229
Restricted for operations and maintenance	212,233	-	-	212,233
Unrestricted (deficit)	(15,166,219)	14,497,748	-	(668,471)
Total net position	12,506,496	(12,990,395)	-	(483,899)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 28,625,613	$ 17,868,834	$ (15,862,826)	$ 30,631,621

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
OPERATING REVENUES:			
Water supply and distribution	$ 1,351,550	$ -	$ 1,351,550
Sewer collection and treatment	2,148,964	-	2,148,964
Bad debt expense	(26,979)	-	(26,979)
Other operating revenues	183,760	-	183,760
Total operating revenues	3,657,295	-	3,657,295
OPERATING EXPENSES:			
Operation and maintenance	1,490,550	-	1,490,550
Administration and general	25,765	43,171	68,936
Other operating expenses	27,874	-	27,874
Total operating expenses	1,544,189	43,171	1,587,360
DEPRECIATION EXPENSE	740,879	-	740,879
OPERATING INCOME (LOSS)	1,372,227	(43,171)	1,329,056
NON-OPERATING REVENUE (EXPENSES):			
Interest expense	-	(1,244,459)	(1,244,459)
Cost of issuance	-	(18,846)	(18,846)
Net loss on retirement and impairment of capital assets	(18,815)	-	(18,815)
Subsidy income	-	174,606	174,606
Capital distribution	(39,627)	-	(39,627)
Investment income	294	49,854	50,148
Legal settlement	83,236	-	83,236
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,397,315	(1,082,016)	315,299
CAPITAL CONTRIBUTION	9,799	-	9,799
CHANGE IN NET POSITION	1,407,114	(1,082,016)	325,098
NET POSITION (DEFICIT) — Beginning of year	12,506,497	(12,990,396)	(483,899)
NET POSITION (DEFICIT) — End of year	$ 13,913,611	$ (14,072,412)	$ (158,801)

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013 (RESTATED)
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
OPERATING REVENUES:			
Water supply and distribution	$ 1,278,646	$ -	$ 1,278,646
Sewer collection and treatment	2,033,047	-	2,033,047
Other operating revenues	172,283	-	172,283
Total operating revenues	3,483,976	-	3,483,976
OPERATING EXPENSES:			
Operation and maintenance	1,361,055	-	1,361,055
Bad debt expense	16,983	-	16,983
Administration and general	11,594	45,144	56,738
Other operating expenses	14,685	-	14,685
Total operating expenses	1,404,317	45,144	1,449,461
DEPRECIATION EXPENSE	677,560	-	677,560
OPERATING INCOME (LOSS)	1,402,099	(45,144)	1,356,955
NON-OPERATING REVENUE (EXPENSES):			
Interest expense	-	(1,225,771)	(1,225,771)
Loss on retirement of capital assets	(3,666)	-	(3,666)
Loss on impairment of capital assets	(17,310)	-	(17,310)
Subsidy income	-	174,862	174,862
Capital distribution	(25,429)	-	(25,429)
Investment income	278	58,515	58,793
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,355,972	(1,037,538)	318,434
CAPITAL CONTRIBUTION	7,699	-	7,699
CHANGE IN NET POSITION	1,363,671	(1,037,538)	326,133
NET POSITION (DEFICIT) — Beginning of year	11,142,826	(11,951,858)	(809,032)
RESTATEMENT OF BEGINNING NET POSITION	-	(1,000)	(1,000)
NET POSITION (DEFICIT) — End of year	$ 12,506,497	$ (12,990,396)	$ (483,899)

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2014
(In thousands)

	Water Board	New York City Municipal Water Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 3,695,515	$ -	$ 3,695,515
Payments for operations and maintenance	(1,361,085)	-	(1,361,085)
Payments for administration	(23,574)	(42,873)	(66,447)
Net cash and cash equivalent provided by (used in) operating activities	2,310,856	(42,873)	2,267,983
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings — net of issuance costs	-	4,570,035	4,570,035
Acquisition and construction of capital assets	292	(1,818,132)	(1,817,840)
Payments by the Board to the Authority	(2,296,121)	2,296,121	-
Repayments of bonds, notes and other borrowings	-	(3,778,345)	(3,778,345)
Interest paid on bonds, notes and other borrowings	-	(1,089,079)	(1,089,079)
Net cash and cash equivalent (used in) provided by capital and related financing activities	(2,295,829)	180,600	(2,115,229)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	707,519	92,365	799,884
Purchase of investments	(637,031)	(3,806)	(640,837)
Interest on investments	318	37,626	37,944
Net cash and cash equivalent provided by investing activities	70,806	126,185	196,991
NET INCREASE IN CASH AND CASH EQUIVALENTS	85,833	263,912	349,745
CASH AND CASH EQUIVALENTS — Beginning of year	9,051	1,324,196	1,333,247
CASH AND CASH EQUIVALENTS — End of year	$ 94,884	$ 1,588,108	$ 1,682,992

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2014
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	$ 1,372,227	$ (43,171)	$ 1,329,056
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	740,879	-	740,879
Legal settlement	83,236		83,236
Other operating expense paid for with bond proceeds	22,670	-	22,670
Pollution remediation expense	23,135	-	23,135
Changes in assets and liabilities — net:			
Pollution remediation liability	(17,931)	-	(17,931)
Receivables — net	(31,432)	21	(31,411)
Prepaid expense	-	(211)	(211)
Receivable from The City	129,465	-	129,465
Residual interest in sold liens	(6,585)	-	(6,585)
Accounts payable	2,192	488	2,680
Revenues received in advance	(3,732)	-	(3,732)
Refunds payable	(3,268)	-	(3,268)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 2,310,856	$ (42,873)	$ 2,267,983

The following are the noncash capital and related financing activities:
Interest expense includes the amortization of net (premium) and discount in the amount of $51,771 in 2014.
Capital expenditures in the amount of $522,036 had been incurred but not paid at June 30, 2014.
The Board received capital assets of $9,507 in 2014 which represented capital contributed by The City.
The Board received capital assets of $293 in 2014 which represented capital contributed by Westchester County.

See notes to combining financial statements. (Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2013
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 3,396,406	$ -	$ 3,396,406
Payments for operations and maintenance	(1,451,563)	-	(1,451,563)
Payments for administration	(9,401)	(42,072)	(51,473)
Net cash provided by (used in) operating activities	1,935,442	(42,072)	1,893,370
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings — net of issuance costs	-	4,243,673	4,243,673
Acquisition and construction of capital assets	293	(1,857,581)	(1,857,288)
Payments by the Board to the Authority	(1,934,111)	1,934,112	1
Repayments of bonds, notes and other borrowings	-	(2,933,934)	(2,933,934)
Interest paid on bonds, notes and other borrowings	-	(1,035,137)	(1,035,137)
Net cash (used in) provided by capital and related financing activities	(1,933,818)	351,133	(1,582,685)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	234,774	68,881	303,655
Purchase of investments	(233,347)	(243,655)	(477,002)
Interest on investments	498	31,551	32,049
Net cash provided by (used in) investing activities	1,925	(143,223)	(141,298)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,549	165,838	169,387
CASH AND CASH EQUIVALENTS — Beginning of year	5,502	1,158,358	1,163,860
CASH AND CASH EQUIVALENTS — End of year	$ 9,051	$ 1,324,196	$ 1,333,247

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2013
(In thousands)

	Water Board	New York City Municipal Water Finance Authority	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	$ 1,402,099	$ (45,144)	$ 1,356,955
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	677,560	-	677,560
Other operating expense paid for with bond proceeds	40,014	-	40,014
Pollution remediation expense	10,122	-	10,122
Changes in assets and liabilities — net:			
Pollution remediation liability	8,557	-	8,557
Receivables — net	(66,983)	6	(66,977)
Prepaid expense	-	(25)	(25)
Receivable from The City	(90,508)	-	(90,508)
Residual interest in sold liens	(7,754)	-	(7,754)
Accounts payable	(43,493)	3,091	(40,402)
Revenues received in advance	10,264	-	10,264
Refunds payable	(4,436)	-	(4,436)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,935,442	$ (42,072)	$ 1,893,370

The following are the noncash capital and related financing activities:
Interest expense includes the amortization of net (premium) and discount in the amount of $43,694 in 2013.
Capital expenditures in the amount of $572,700 had been incurred but not paid at June 30, 2013.
The Board received capital assets of $7,407 in 2013 which represented capital contributed by The City.
The Board received capital assets of $293 in 2013 which represented capital contributed by Westchester County.

See notes to combining financial statements. (Concluded)

1. ORGANIZATION

The New York City Water and Sewer System (the "System") provides water supply, treatment and distribution, and sewage collection, treatment, and disposal for The City of New York ("The City"). The System, as presented in the accompanying combining financial statements, began operations on July 1, 1985 and is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board"). The Authority is a public benefit corporation created in accordance with the New York City Municipal Water Finance Act (the "Act"), duly enacted into law as Chapter 513 of the laws of 1984 of the State of New York, as amended by Chapter 514 of the laws of 1984 of the State of New York. The Board was created by Chapter 515 of the laws of 1984 of the State of New York. The Act empowers the Authority to issue bonds or notes to finance the cost of capital improvements to the System, and to refund any and all outstanding bonds and general obligation bonds of The City issued for water and sewer purposes. The Act empowers the Board to lease the System from The City and to fix and collect rates, fees, rents and other charges for the use of, or for services furnished, rendered, or made available by, the System to produce cash sufficient to pay debt service on the Authority's bonds and to place the System on a self-sustaining basis.

The Financing Agreement by and among The City of New York, New York City Municipal Water Finance Authority and New York City Water Board dated as of July 1, 1985 (the "Agreement") provides that the Authority will issue bonds to finance the cost of capital investment and related costs in the System serving The City. It also sets forth the funding priority for the debt service costs of the Authority, operating costs of the System, and the rental payment to The City.

The physical operation and capital improvements of the System are performed by The City's Department of Environmental Protection subject to contractual agreements with the Authority and the Board.

In accordance with Governmental Accounting Standards Board ("GASB") standards, the Board and the Authority are considered to be part of the same reporting entity (the "System") since they are fiscally interdependent. Accordingly, the accompanying combining financial statements for the System present the individual financial statements of the Board and the Authority as major funds. In addition, the accompanying combining financial statements present a total column which represents the entity-wide financial statements of the System. Transactions and balances between the Board and the Authority are eliminated in the entity-wide combining financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the System have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Other significant accounting policies are:

Component Unit — The System is a component unit of The City. The System leases the water and sewer related capital assets from The City, which is responsible for the operations, maintenance and capital improvement of the system. The System reimburses The City for costs incurred for operations and maintenance and issues debt to pay for capital improvements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Cash Equivalents — Investments and cash equivalents consist principally of securities of the United States and its agencies, certificates of deposit, guaranteed investment contracts, and forward purchase agreements. All investments are carried at fair value with the exception of money market funds which are carried at cost plus accrued interest. For purposes of the statement of cash flows and statement of net position, the System generally considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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

Lien Sales and Residual Interest in Sold Liens — The City periodically sells tax liens secured by water and sewer rents and surcharges, for which the Board receives the applicable sale proceeds. At the time of sale, the Board recognizes the proceeds as operating revenue and removes the related receivables. The Board maintains a residual interest in the liens, which represents the amount estimated to be received by the Board if and when liens held by the purchasing trusts generate cash flows above the amounts needed by the trusts to pay their operating costs, bondholders and satisfy reserve requirements.

Bond Discount and Premium — Bond discount and premium are amortized over the life of the related bond issue, using the effective yield method of amortization for bond discount and premium.

Utility Plant — Utility plant acquired through purchase or internal construction is recorded at cost, net of retirements. It is the Board's policy to capitalize assets with a cost of $35,000 or more and a useful life of five years or longer. Contributed utility plant is recorded at its estimated historical cost based on appraisals or other methods when historical cost information is not available, net of depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

	Years
Buildings	40–50
Water supply and wastewater treatment systems	15–50
Water distribution and sewage collection systems	15–75
Equipment	5–35
Vehicles	10

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

Operating Revenues and Operating Expenses — Operating revenues consist of customer payments for services of the System. Revenues are based on billing rates imposed by the Board and upon customers' water and sewer usage or, in some cases, characteristics of customer properties. The System records estimated unbilled revenue at year-end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating expenses include, but are not limited to administration, maintenance, repair, and operations of the System; administration costs of the Board and the Authority; rental payments to The City; and bad debt expense.

Revenues Received in Advance — Revenues received in advance of the period to which they relate are unearned and recorded as revenue when earned. Customer account credit balances are included in service credits on customer accounts, not in accounts receivable.

Unamortized Deferred Bond Refunding Costs — Deferred bond refunding costs represent the gains or losses incurred in advance refundings of outstanding bonds. Gains or losses arising from debt refundings are deferred and amortized over the lesser of the remaining life of the old debt or the life of the new debt.

Use of Estimates — The preparation of the combining financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions — Pensions are required to be recognized and disclosed using the accrual basis of accounting, regardless of the amount recognized as pension expense on the modified accrual basis of accounting. The Authority recognizes a net pension liability for the pension plan in which it participates, which represents the Authority’s proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a cost-sharing multiple-employer plan, measured as of the fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component (reduction) of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

The change in the Authority’s proportion of the collective net pension liability and collective deferred outflow of resources and deferred inflow of resources related to pension since the prior measurement date is recognized in current reporting period over a closed period that is equal to the average of the expected remaining service lives of all employees provided with pension through the pension plan. The amount not recognized in pension expense is reported as deferred outflow of resources or deferred inflow of resources related to pension.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the contribution to the pension plan, the difference during the measurement period between the total amount of Authority's contribution and the amount of the Authority's proportionate share of the total of such contributions from all employers and all nonemployee contributing entities is recognized in the Authority's pension expense, beginning in the current reporting period, over a closed period that is equal to the average of the expected remaining service lives of all employees provided with pension through the Plan. The amount not recognized in pension expense is reported as deferred outflow of resources or deferred inflow of resources related to the pension.

Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Changes in total pension liability arising from changes of benefit terms are required to be included in pension expense in the period the change is first reported in the net pension liability. It also requires that the changes in the total pension liability resulting from 1) differences between expected and actual experience with regard to economic and demographic factors and 2) changes of assumptions regarding the expected future behavior of economic and demographic factors or of other inputs be recognized as deferred outflow of resources or deferred inflow of resources related to pension and included in the pension expense over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the Plan.

Recent Accounting Pronouncements — As a component unit of the City, the System implements new GASB standards in the same fiscal year as they are implemented by the City. The following are discussion of the standards requiring implementation in the current year and standards which may impact the System in future year.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans ("GASB 67")*. GASB 67 established standards of financial reporting standards for defined benefit pension and defined contribution pensions that are administered through trusts or equivalent arrangements. The requirements of GASB 67 are effective for fiscal years beginning after June 15, 2013. As the System is not a pension plan, GASB Statement No. 67 is not applicable to it and will have no direct impact on its combining financial statements, other than the related implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, discussed below.

In June 2012, GASB issued Statement No. 68 "*Accounting and Financial Reporting for Pensions*". GASB Statement No. 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements that meet the criteria detailed above in the description of Statement No. 67. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above - and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and required supplementary information requirements about pensions also are addressed. For defined benefit pensions, GASB Statement No. 68 also identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The requirements of GASB Statement No. 68 are effective for fiscal year beginning after June 15, 2014. However, the Authority early implemented in fiscal year 2014, as recommended by the GASB Statement No. 68.

The adoption of GASB Statement No. 68 resulted in the restatement of the Authority's fiscal year 2013 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. Net position as of July 1, 2012 was decreased by $1.0 million to $(11,953) million reflecting the cumulative retrospective effect of the adoption of GASB Statement No. 68. Net pension liability of $923 thousand, and deferred inflows of resources and deferred outflows of resources of $64 thousand and $13 thousand, respectively, were reported at June 30, 2013. The Authority recognized aggregate pension expense of $(26) thousand for the fiscal year ended June 30, 2013 and net position as of June 30, 2013 was increased by $974 thousand to $(483.9) million as a result of the adoption of GASB Statement No. 68. Refer to Note 13 for more information regarding the Authority's pensions.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB 69"). GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB 69 is effective for financial statement periods beginning after December 15, 2013. The adoption GASB 69 did not have an impact on the System's combining financial statements as it has no disposals of operations.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70"). GASB 70 establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. GASB 70 is effective for financial statement periods beginning after June 15, 2013. The adoption of GASB 70 did not have an impact on the System's combining financial statements as it has no nonexchange transactions.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — an amendment of GASB Statement No. 68* ("GASB 71"). The provisions of GASB 71 are effective for fiscal years beginning after June 15, 2014, but the Authority has already implemented the standard as recommended by GASB. Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Adoption of this Statement had no effect on the Authority's financial statements as its measurement date for recognition of pensions is the same as the respective fiscal year-end.

3. UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2014 and 2013 (In thousands):

	Balance at June 30, 2012	Additions	*Deletions	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Nondepreciable assets — utility construction	$ 8,422,470	$1,684,242	$1,043,664	$ 9,063,048	$2,560,425	$4,810,865	$ 6,812,608
Depreciable assets							
Utility plant in service	-	-	-	-	-	-	-
Buildings	34,877	-	-	34,877	-	-	34,877
Equipment	2,014,704	197,385	602	2,211,487	1,222,623	-	3,434,110
Vehicles	150,531	6,587	-	157,118	7,453	18	164,553
Water supply and wastewater treatment systems and water distribution and sewage collection systems	25,669,088	839,693	38,421	26,470,360	2,719,695	189,984	29,000,071
Total depreciable assets	27,869,200	1,043,665	39,023	28,873,842	3,949,771	190,002	32,633,611
Less accumulated depreciation for:							
Buildings	(19,820)	(1,369)	-	(21,189)	(1,317)	-	(22,506)
Equipment	(790,180)	(137,979)	(362)	(927,797)	(241,425)	-	(1,169,222)
Vehicles	(98,639)	(6,159)	-	(104,798)	(5,730)	(18)	(110,510)
Water supply and wastewater treatment systems and water distribution and sewage collection systems	(8,908,255)	(532,054)	(17,685)	(9,422,624)	(492,408)	(163,381)	(9,751,651)
Total accumulated depreciation	(9,816,894)	(677,561)	(18,047)	(10,476,408)	(740,880)	(163,399)	(11,053,889)
Total utility plant in service — net	18,052,306	366,104	20,976	18,397,434	3,208,891	26,603	21,579,722
Total capital assets — net	$26,474,776	$2,050,346	$1,064,640	$ 27,460,482	$5,769,316	$4,837,468	$ 28,392,330

* Fiscal year 2013 deletions include $25.1 million of impaired assets due to Hurricane Sandy consisting of $17.3 million of impaired loss and $7.8 million of accumulated depreciation.

3. UTILITY PLANT (CONTINUED)

On Monday, October 29, 2012, Hurricane Sandy made landfall in The City. The storm caused widespread damage to the System's facilities, including some of its water supply facilities outside of The City. Extensive flooding also occurred at many System facilities in The City. The System has recognized a $17.3 million asset impairment loss. As such the System anticipates that all of its costs relating to the storm will ultimately be paid by the federal government.

Contributed Capital — The System received Federal, State and other capital contributions of $9.8 million and $7.7 million in fiscal year 2014 and fiscal year 2013, respectively. Westchester County makes semi-annual capital contributions to compensate the System for constructing a water conduit that provides treated water to the Westchester County.

4. INVESTMENTS AND CASH DEPOSITS

Investments — Pursuant to the Water and Sewer General Revenue Bond Resolution (the "Resolution") and the Authority's and the Board's investment guidelines, the Authority and the Board may generally invest in obligations of, or guaranteed by, the U.S. government, certain highly rated obligations of the State of New York or any subdivision or instrumentality thereof, certain certificates of deposit and similar instruments issued by highly rated commercial banks, certain highly rated corporate securities or commercial paper securities, certain repurchase agreements with highly rated institutions, certain investment agreements with highly rated institutions, certain highly rated money market funds, and other certain highly rated municipal obligations.

Cash Deposits — The System follows the New York City Banking Commission designations for the System's bank depositories. The Commission consists of the Comptroller, the Mayor, and the Finance Commissioner of The City and uses independent bank rating agencies in part to assess the financial credit worthiness of each bank. The banking relationships are under constant operational and credit reviews. Each bank in which the System's cash is deposited is required to have its principal office in New York State and have capital stock, surplus, and undivided earnings aggregating at least $100 million. The System had $750 thousand and $1 million on deposit at June 30, 2014 and 2013, which was partially covered by Federal depository insurance and the remaining balance was uncollateralized as of June 30, 2014.

At June 30, 2014 and 2013, the cash deposit balances were $912.3 million and $373.2 million respectively. Of these cash deposits, only $500 thousand was covered by Federal depository insurance, and the remaining balance was uncollateralized as of June 30, 2014 and 2013.

4. INVESTMENTS AND CASH DEPOSITS (CONTINUED)

Cash and cash equivalents, including restricted and unrestricted balances were comprised of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Restricted:		
Cash	$ 898,141	$ 365,235
Cash equivalents	770,724	959,993
Total restricted cash and cash equivalents	1,668,865	1,325,228
Unrestricted:		
Cash	14,127	8,018
Total cash and cash equivalents	$ 1,682,992	$ 1,333,246

The System had the following investments at June 30, 2014 and 2013 (in thousands):

	Fair Value	
Investments	**2014**	**2013**
U.S. Government Sponsored Entities	$ 868,703	$ 1,188,300
New York State Instrumentalities	330,717	416,851
Dreyfus Government Money Market	79,176	20,749
Guaranteed Investment Contracts	106,607	107,153
Forward Purchase Agreements Market Value Adjustment	33,763	28,872
Total investments including cash equivalents	1,418,966	1,761,925
Less amounts reported as cash equivalents	(770,724)	(959,993)
Investments	$ 648,242	$ 801,932

The System invests funds which are not immediately required for operations, debt service, or capital project expenses and funds that are held for debt service and operations and maintenance reserves. Each account of the Authority is held pursuant to the Water and Sewer General Revenue Bond Resolution adopted November 14, 1985 and may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Resolution. All accounts held by the Board are invested as permitted by the Board's investment guidelines.

Credit Risk — Both the Board and the Authority have Board approved investment guidelines and policies in place designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment. Investments held by the System at June 30, 2014 and 2013 include obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank

4. INVESTMENTS AND CASH DEPOSITS (CONTINUED)

Discount, the Federal National Mortgage Association or the Federal Farm Credit System, and shares of money market fund, which are not rated. Securities held by the money market funds are comprised of cash and highly rated municipal securities. However, the Authority's bond resolutions require money market funds to be rated in the highest rating category. The Authority has since sold all of its shares in this money market fund. Also held by the Authority are direct obligations of, or obligations guaranteed by the State of New York, or direct obligations of any agency or public authority thereof, which are rated at the time of purchase, in one of the two highest rating categories. In addition, the Authority has entered into investment agreements and guaranteed investment contracts with financial institutions whose long-term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract, are guaranteed by a financial institution whose senior long-term debt obligations have a rating in one of the two highest rating categories for comparable types of obligations by each rating agency, then maintaining the same rating as held at the time such agreement or contract was entered into.

Interest Rate Risk — The System has no formal policy relating to interest rate risk. Approximately 21.7% of the System's investments are agreements to purchase securities or GICs with guaranteed fixed rates of return. The par value of the agreements to purchase securities and interest earned are held as cash on June 30, 2014. The fair value of the agreements to purchase securities are themselves susceptible to changes in market rates because of the interest rates.

Segmented Time Distribution on Investments and Cash Equivalents

Maturity Date	Fair Value Amount (In thousands)
Under 6 months[1]	$ 1,162,297
Over 6 months to 1 year	5,726
Over 1 year to 3 years	47,874
Over 3 years and beyond	62,699
Over 3 years and beyond (GIC and Forward Purchase Agreement adjustments)[2]	140,370
Total	$ 1,418,966

[1]Includes variable rate demand obligations with maturities greater than 3 years which can be tendered weekly at par, as such these are considered to have a maturity of under 6 months.

[2]Includes the fair value of Forward Purchase Agreements of $33,762,582 and $106,606,517 of GIC.

Custodial Credit Risk — For an investment, custodial credit risk is the risk that, in the event of the failure of the custodian, the System may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The System's investments, other than repurchase

4. INVESTMENTS AND CASH DEPOSITS (CONTINUED)

agreements, are not collateralized. All investments are held by the Authority's Bond Trustee in the Trustee's name or in the Board's name by its custodian bank.

5. DERIVATIVE INSTRUMENTS

As of June 30, 2014, the Authority had the following (in thousands):

Type	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value	Counterparty Credit Rating (Moody's/ S&P/Fitch)
Hedging Derivatives						
Synthetic fixed rate	$240,600	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	$ (51,901)	Aa2/AAA/NR
Synthetic fixed rate	160,400	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	(34,601)	A2/A/A

Hedging Derivative Instruments — The Authority executed two interest rate exchange agreements (the "synthetic fixed rate agreements") effective October 24, 2007, in conjunction with its sale of $401 million of Adjustable Rate Fiscal 2008 Series BB Second Resolution Bonds on October 24, 2007. Under these agreements, the Authority pays a fixed interest rate of 3.439% in exchange for a floating rate based on 67% of one month LIBOR on the combined notional amount of $401 million. The agreements are with two separate counterparties, with one agreement in the amount of $240.6 million and the second agreement in the amount of $160.4 million. These agreements allowed the Authority to achieve a fixed rate cost lower than conventional fixed rate debt at the time of issuance. The Authority's obligations under these interest rate exchange agreements are payable on a parity with the related second resolution revenue bonds.

Credit Risk — The Authority is exposed to the risk that the counterparties (or their guarantors) will default under its agreement. Under the synthetic fixed rate agreements, the Authority has the right to terminate the swap, regardless of collateral posting, if a counterparty's ratings fall below both A3 by Moody's and A- by Standard & Poor's.

The counterparties under the interest rate exchange agreements must post collateral if their ratings fall below A3 by Moody's or A- by Standard and Poor's, and the amount a counterparty would owe the Authority upon termination exceeds specified threshold amounts.

The Authority may exercise its right to assign the agreements to another counterparty, if necessary, in its judgment, to mitigate counterparty risk, even in the absence of a significant credit rating downgrade.

Termination Risk — The counterparties could terminate the agreements upon the occurrence of certain events, when the mark-to-market value is such that the Authority would owe a termination payment to the counterparty. The counterparties may terminate the agreement only upon the occurrence of certain

5. DERIVATIVE INSTRUMENTS (CONTINUED)

events such as payment defaults by the Authority, other defaults which remain uncured for 30 days after notice, bankruptcy or insolvency of the Authority (or similar events), or a downgrade of the Authority's credit rating below BBB-/Baa3.

Basis Risk — The Authority is exposed to basis risk on its synthetic fixed rate agreements because the amount the Authority receives under the synthetic fixed rate interest rate exchange agreement may be lower than the average monthly variable interest paid on the bonds associated with the agreement, which would require the Authority to make up the shortfall.

Interest Rate Risk — The Authority is exposed to the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or cash flows. The fixed rate paid by the Authority on its synthetic fixed rate agreements may exceed the rate received (67% of LIBOR).

Financial Statements Effect — The market value of derivatives at June 30, 2014 and June 30, 2013, were negative $86.5 million and negative $74.6 million, respectively. The market value of hedge derivatives at June 30, 2014 and June 30, 2013, were negative $86.5 million and negative $81.1 million, respectively. These amounts are shown as deferred outflows in the combining statements of net position.

6. LEASE AGREEMENT

The Board is party to a long-term lease (the "Lease") with The City, which transfers the water and sewer related property to the Board for the term of the Lease. The Lease term commenced on July 1, 1985, and continues until the later of the fortieth anniversary of the commencement of the lease or the date on which all bonds, notes or other obligations of the Authority are paid in full or provision for such payment 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;

b. an amount sufficient to reimburse The City for capital costs incurred by The City for the construction of capital improvements to the leased property which are not paid or reimbursed from any other source.

In addition to the payments described above, the Board pays rent to The City in each fiscal year in an amount not to exceed the greater of: (a) the principal and interest payable on general obligation bonds issued by The City for water and sewer purposes certified by The City to be paid within such fiscal year or (b) 15% of principal and interest payable on the bonds of the Authority to be paid within such fiscal year.

6. LEASE AGREEMENT (CONTINUED)

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

	2014	2013
Water supply, treatment, transmission and distribution	$ 478,305	$ 423,467
Sewer collection and treatment systems	507,986	483,382
City agency support cost	64,025	68,217
Fringe benefits	212,507	174,261
Judgments and claims	13,727	3,939
Operation and maintenance	1,276,550	1,153,266
Rental payments to The City	214,000	207,789
Total operations maintenance and rental payments	$ 1,490,550	$ 1,361,055

7. PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2014 and 2013, all utility construction and other projects financed by Authority debt and recorded by the System, which have not been reimbursed to The City have been recorded as a payable to The City, net of the amount of any State or Federal capital grants received by The City.

As of June 30, 2014 and 2013, the System had a net payable of $498.6 million and $419.8 million, respectively to The City for payments of utility construction and for overpayment of operations and maintenance expense.

8. OTHER OPERATING EXPENSES

A summary of other operating expenses for the year ended June 30, is as follows (in thousands):

	2014	2013
Pollution remediation	$ 5,204	$ 18,679
Payments for watershed improvements	22,670	40,014
Legal reserve	-	(44,008)
Total other operating expenses	$ 27,874	$ 14,685

8. OTHER OPERATING EXPENSES (CONTINUED)

The City's Department of Environmental Protection ("DEP") manages both the System's operations and its capital program, and it also manages other projects with long-term benefits to the System which do not result in capital assets of the System and which are paid for using Authority bond proceeds, similar to capital projects. Such long-term benefit projects include payment for environmental protection, related improvement in the watershed areas, and pollution remediation projects throughout the System. In fiscal year 2013, a legal reserve of $44 million, established for pending litigation, was no longer required since all legal proceedings concerning the cases had concluded.

9. SHORT-TERM DEBT

In fiscal year 2014 and 2013, the changes in short-term debt were as follows (in thousands):

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Commercial paper[1]	$400,000	$1,400,000	$1,300,000	$500,000	$1,375,000	$1,375,000	$500,000
Bond Anticipation Notes[1]	-	217,000	-	217,000	-	217,000	-
Total short-term payable	$400,000	$1,617,000	$1,300,000	$717,000	$1,375,000	$1,592,000	$500,000

[1] Commercial paper and Bond Anticipation Notes are used to pay construction costs in advance of long-term bond financing.

Commercial paper activity is comprised of the following for the year ended June 30, 2014, (in thousands):

	Balance at June 30, 2013	Issued	Retired	Balance at June 30, 2014
Commercial Paper Series 1 — Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	$200,000	$ 375,000	$ 375,000	$200,000
Commercial Paper Series 6 — Variable Rate, Short-term Rolling Maturity Backed by Line of Credit	200,000	-	200,000	-
Commercial Paper Series 7 — Variable Rate, Short-term Rolling Maturity	-	700,000	600,000	100,000
Commercial Paper Series 8 — Variable Rate, Short-term Rolling Maturity	100,000	300,000	200,000	200,000
Total commercial paper payable	$500,000	$ 1,375,000	$ 1,375,000	$500,000

10. LONG-TERM DEBT

In fiscal year 2014 and 2013, the changes in long-term debt were as follows (in thousands):

Bonds Payable	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
First resolution	$ 7,321,055	$ -	$ 711,785	$ 6,609,270
Second resolution	21,455,330	2,921,009	1,432,784	22,943,555
Total bonds payable	28,776,385	2,921,009	2,144,569	29,552,825
Due within one year	(570,654)	-	-	(291,955)
Less premium — net	(658,883)	(172,117)	(68,173)	(762,827)
Less deferred refunding costs	9,928	(39)	(5,594)	4,295
Total long-term debt	$ 28,854,686	$ 2,748,853	$ 2,081,990	$ 30,019,402

Bonds Payable	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
First resolution	$ 8,239,944	$ -	$ 918,889	$ 7,321,055
Second resolution	19,738,335	2,398,708	681,713	21,455,330
Total bonds payable	27,978,279	2,398,708	1,600,602	28,776,385
Due within one year	(451,409)	-	-	(570,654)
Less premium — net	(465,991)	(244,042)	(51,150)	(658,883)
Less deferred refunding costs	18,071	2,888	(11,031)	9,928
Total long-term debt	$ 27,974,790	$ 2,157,554	$ 1,560,483	$ 28,854,686

The debt program of the Authority includes commercial paper, long-term debt, BANs and subsidized bonds issued through EFC. The commercial paper program is the main source of financing to reimburse The City for payments made for water and sewer projects. The Authority then issues long-term debt of its own in the public market or through EFC to retire outstanding commercial paper. The Authority also periodically issues refunding bonds to refinance higher-coupon debt.

In the detailed listing of bonds payable, the bonds issued through EFC are differentiated by their numerical bond series designation.

With respect to all Authority debt, the Board has agreed to maintain rates and charges to provide revenues at levels sufficient to pay principal and interest requirements as well as to meet certain debt service coverage and operating cost funding requirements. All series of debt are specific obligations of the Authority payable solely from and secured by a pledge of and lien on the gross revenue of the System, as defined.

10. LONG-TERM DEBT (CONTINUED)

As part of the American Recovery and Reimbursement Act of 2009, the System receive funding through EFC of $217.5 million for certain projects. Each project included was tracked for spending, and funding was received from EFC after submission of required documentation. The funding is in the form of a BAN payable by the Authority. The total $217.5 million note is expected to be forgiven by EFC after the note is fully drawn and the financed projects are completed. As of June 30, 2014, the Authority spent the entire amount of the BAN proceeds; however, the projects have not been completed. The note is a long-term liability.

In addition, the System will receive funding through EFC of $320 million for certain projects. Each project included is tracked for spending, and funding is received from EFC after submission of required documentation. The funding is in the form of a BAN payable by the Authority. The total spent as of June 30, 2014 is $109 million. Based on the maturity date, the note is a long-term liability.

The System will also receive funding through EFC of $30 million for certain other projects. Each project is tracked for spending and funding is received from EFC after submission of required documentation. The funding is in the form of a BAN payable by the Authority. The entire $30 million note is expected to be forgiven by EFC after the note is fully drawn and the financed projects are completed. The total spent as of June 30, 2014 is $12 million. Based on the maturity date, the note is a long-term liability.

During fiscal year 2014, the Authority issued $1.3 billion of bonds to refund $1.4 billion of outstanding bonds. These refundings resulted in an accounting gain of $3.7 million. The Authority in effect reduced its aggregate debt service for principal and interest by $202.4 million and obtained an economic benefit (present value savings) of $144.8 million.

During fiscal year 2014, the Authority legally defeased $360.8 million of outstanding bonds using current revenue. This resulted in an accounting loss of $14.2 million included in interest expense.

During fiscal year 2013, the Authority issued $911.5 million of bonds to refund $1.0 billion of outstanding bonds. These refundings resulted in an accounting loss of $11.6 million. The Authority in effect reduced its aggregate debt service for principal and interest by $213.4 million and obtained an economic benefit (present value savings) of $148.9 million.

During fiscal year 2013, the Authority legally defeased $249 million of outstanding bonds using current revenue. This resulted in an accounting loss of $4.6 million included in interest expense.

During fiscal year 2013, the Authority economically defeased $33.2 million of bonds with current revenue. Bonds economically defeased remain a liability, and the escrow deposited with the Authority’s Trustee is an asset on the Authority’s records.

10. LONG-TERM DEBT (CONTINUED)

The Authority has legally defeased cumulatively $17.9 billion and $16.1 billion of outstanding bonds as of June 30, 2014 and 2013, respectively, that had been issued in the public market and to EFC by placing proceeds of refunding bonds issued in an irrevocable escrow account to provide for all future debt service payments on defeased bonds or with EFC. Proceeds were used to purchase U.S. Government securities that were placed in the irrevocable escrow account. Accordingly, the escrow account assets and liabilities for the defeased bonds are not included in the System's combining financial statements. As of June 30, 2014 and 2013, $14.9 billion and $13.9 billion of the Authority's defeased bonds, respectively, have been retired using the assets of the escrow accounts.

Debt service requirements to maturity, including amounts relating to commercial paper and the BAN, at June 30, 2014, are as follows (in thousands):

June 30	Principal	Interest[2]	Total
2015	$ 791,955[1]	$ 1,357,598	$ 2,149,553
2016	610,442	1,399,821	2,010,263
2017	496,390	1,386,140	1,882,530
2018	466,891	1,369,662	1,836,553
2019	458,659	1,350,966	1,809,625
2020–2024	2,981,198	6,426,198	9,407,396
2025–2029	3,581,632	5,685,125	9,266,757
2030–2034	4,360,520	4,762,610	9,123,130
2035–2039	5,577,960	3,624,021	9,201,981
2040–2044	7,026,175	2,033,269	9,059,444
2045–2049	3,572,060	442,025	4,014,085
2050–2054	250,000	10,625	260,625
	$ 30,173,882	$ 29,848,060	$ 60,021,942

[1] Includes $500 million of commercial paper due in fiscal year 2015.

[2] Includes interest for variable rate bonds at 3% for fiscal year 2015 and 4.25% for fiscal year 2016 and thereafter. Variable rate bonds are remarketed daily or weekly, and interest rates are determined by the market on the day of sale.

10. LONG-TERM DEBT (CONTINUED)

Bonds, notes payable, and commercial paper are comprised of the following for the year ended June 30, 2014 (in thousands):

	Balance at June 30, 2013	Issued	Retired/ Defeased	Balance at June 30, 2014
1992 Fiscal Series B — 6.80% to 6.81% Serial and Term Bonds maturing in varying installments through 2014	$ 90	$ -	$ 90	$ -
1995 Fiscal Series 1 — 6.88% Serial Bonds maturing in varying installments through 2016	4,410	-	4,070	340
1997 Fiscal Series A — 6.00% term Bonds maturing in 2021	25,000	-	-	25,000
1998 Fiscal Series D — Capital Appreciation Bonds maturing in varying installments through 2020	110,330	-	-	110,330
1998 Fiscal Series 1 — 5.25% to 5.35% Serial Bonds maturing in varying installments through 2017	13,235	-	3,040	10,195
1998 Fiscal Series 4 — 5.00% to 5.20% Serial Bonds maturing in varying installments through 2018	4,680	-	910	3,770
2000 Fiscal Series C — Adjustable Rate Term Bonds maturing in 2033	107,500	-	-	107,500
2000 Fiscal Series 2 — 5.60% to 5.96% Serial Bonds maturing in varying installments through 2019	5,250	-	760	4,490
2001 Fiscal Series D — Capital Appreciation Bonds maturing in varying installments through 2021	79,845	-	-	79,845
2001 Fiscal Series F — Adjustable Rate Bonds maturing in varying installments through 2033	184,130	-	-	184,130
2003 Fiscal Series F — Adjustable Rate Bonds maturing in 2035	201,655	-	-	201,655
2003 Fiscal Series 2 — 4.97% to 5.24% Serial Bonds maturing in varying installments through 2028	130,835	-	30,910	99,925
2003 Fiscal Series 3 — 0.48% to 5.75% Serial Bonds maturing in varying installments through 2025	14,370	-	920	13,450
2003 Fiscal Series 4 — 0.35% to 5.80% Serial Bonds maturing in varying installments through 2025	22,810	-	1,475	21,335
2003 Fiscal Series 5 — 3.36% to 5.00% Serial Bonds maturing in varying installments through 2032	212,355	-	212,355	-
2004 Fiscal Series B — 3.40% to 5.00% Serial bonds maturing in varying installments through 2023	57,835	-	57,835	-
2004 Fiscal Series C — 3.10% to 5.00% Serial and Term Bonds maturing in varying installments through 2035	412,740	-	412,740	-
2004 Fiscal Series 1 — 3.58% to 5.00% Serial Bonds maturing in varying installments through 2033	222,800	-	222,800	-
2004 Fiscal Series 2 — 1.70% to 4.84% Serial Bonds maturing in varying installments through 2026	192,163	-	93,919	98,245
2005 Fiscal Series A — 5.00% Term Bonds maturing in 2039	150,000	-	150,000	-
2005 Fiscal Series B — 3.38% to 5.00% Serial and Term Bonds maturing in varying installments through 2036	720,325	-	6,585	713,740
2005 Fiscal Series C — 3.50% to 5.00% Serial Bonds maturing in varying installments through 2031	570,135	-	905	569,230
2005 Fiscal Series D — 5.00% Serial Bonds maturing in varying installments through 2039	559,205	-	-	559,205
2005 Fiscal Series 1 — 3.98% to 5.00% Serial Bonds maturing in varying installments through 2034	175,683	-	175,683	-
2005 Fiscal Series 2 — 2.58% to 5.00% Serial Bonds maturing in varying installments through 2034	296,466	-	156,216	140,250
2006 Fiscal Series A — 3.63% to 5.00% Serial Bonds maturing in varying installments through 2039	516,495	-	450	516,045
2006 Fiscal Series B — 5.00% Term Bonds maturing in 2036	150,000	-	-	150,000

(Continued)

10. LONG-TERM DEBT (CONTINUED)

	Balance at June 30, 2013	Issued	Retired/ Defeased	Balance at June 30, 2014
2006 Fiscal Series C — 4.50% to 4.75% Serial Bonds maturing in varying installments through 2033	$ 350,345	$ -	$ -	$ 350,345
2006 Fiscal Series D — 4.50% to 5.00% Serial Bonds maturing in varying installments through 2038	406,205	-	-	406,205
2006 Fiscal Series AA — Adjustable rate bonds maturing in varying installments through 2032	400,000	-	-	400,000
2006 Fiscal Series BB — 3.60% to 5.00% Serial Bonds maturing in varying installments through 2016	30,000	-	10,000	20,000
2006 Fiscal Series 1 — Adjustable rate bonds maturing in varying installments through 2035	177,469	-	7,688	169,781
2006 Fiscal Series 2 — Adjustable rate bonds maturing in varying installments through 2036	166,590	-	5,973	160,617
2006 Fiscal Series 3 — Adjustable rate bonds maturing in varying installments through 2036	212,975	-	7,550	205,425
2007 Fiscal Series A — 4.25% to 4.75% Serial Bonds maturing in varying installments through 2039	587,975	-	-	587,975
2007 Fiscal Series AA — 4.50% to 5.00% Term Bonds maturing in 2037	199,910	-	-	199,910
2007 Fiscal Series BB — 3.75% to 5.00% Serial Bonds maturing in varying installments through 2021	130,045	-	72,655	57,390
2007 Fiscal Series CC — Adjustable rate bonds maturing in 2038	210,500	-	-	210,500
2007 Fiscal Series DD — 4.75% to 5.00% Serial Bonds maturing in varying installments through 2038	270,000	-	-	270,000
2007 Fiscal Series 1 — 2.55% to 5.00% Serial Bonds maturing in varying installments through 2036	189,343	-	7,188	182,155
2007 Fiscal Series 2 — 2.60% to 4.80% Serial Bonds maturing in varying installments through 2036	241,871	-	9,062	232,809
2007 Fiscal Series 3 — 4.17% to 6.42% Serial Bonds maturing in varying installments through 2024	135,680	-	14,240	121,440
2008 Fiscal Series A — 5.00% term Bonds maturing in 2037 and 2038	446,245	-	-	446,245
2008 Fiscal Series B — Adjustable rate bonds maturing in varying installments through 2025	535,000	-	-	535,000
2008 Fiscal Series C — 3.00% to 5.25% Serial Bonds maturing in varying installments through 2021	88,970	-	53,180	35,790
2008 Fiscal Series AA — 4.50% to 5.00% Serial Bonds maturing in varying installments through 2039	400,000	-	-	400,000
2008 Fiscal Series BB — Adjustable rate bonds maturing in varying installments through 2036	401,000	-	-	401,000
2008 Fiscal Series DD — 4.50% to 5.00% Serial Bonds maturing in varying installments through 2039	504,905	-	-	504,905
2008 Fiscal Series 1 — 3.00% to 5.00% Serial Bonds maturing in varying installments through 2037	211,565	-	13,996	197,569
2008 Fiscal Series 2 — 3.04% to 5.00% Serial Bonds maturing in varying installments through 2037	195,206	-	7,412	187,794

(Continued)

10. LONG-TERM DEBT (CONTINUED)

	Balance at June 30, 2013	Issued	Retired/ Defeased	Balance at June 30, 2014
2009 Fiscal Series AA — 3.25% to 5.00% Serial Bonds maturing in varying installments through 2022	$ 332,025	$ -	$ 67,135	$ 264,890
2009 Fiscal Series BB — Adjustable rate bonds maturing in varying installments through 2039	200,870	-	-	200,870
2009 Fiscal Series CC — 4.75% to 5.25% Serial Bonds maturing in varying installments through 2034	150,100	-	-	150,100
2009 Fiscal Series A — 5.00% to 5.75% Serial Bonds maturing in varying installments through 2040	536,030	-	30,000	506,030
2009 Fiscal Series DD — 5.25% to 6.00% Serial Bonds maturing in varying installments through 2040	325,580	-	-	325,580
2009 Fiscal Series EE — 2.50% to 5.50% Serial Bonds maturing in varying installments through 2040	645,455	-	150,455	495,000
2009 Fiscal Series FF — 3.00% to 5.50% Serial Bonds maturing in varying installments through 2040	362,830	-	13,435	349,395
2009 Fiscal Series 1 — 3.86% to 5.16% Serial Bonds maturing in varying installments through 2038	345,641	-	9,340	336,301
2009 Fiscal Series 2 — 4.87% Serial Bonds maturing in varying installments through 2038	66,886	-	4,422	62,464
2009 Fiscal Series GG — 4.13% to 5.25% Serial Bonds maturing in varying installments through 2040	500,000	-	-	500,000
2010 Fiscal Series AA — 5.75% to 6.25% Term Bonds maturing in 2041	504,240	-	-	504,240
2010 Fiscal Series BB — 2.50% to 5.00% Serial Bonds maturing in varying installments through 2027	184,285	-	25,395	158,890
2010 Fiscal Series CC — Adjustable rate bonds maturing in 2041	200,000	-	-	200,000
2010 Fiscal Series DD — 5.95% to 6.45% Term Bonds maturing in 2041 and 2042	400,000	-	-	400,000
2010 Fiscal Series EE — 6.01% to 6.49% Term Bonds maturing in 2041 and 2042	500,000	-	-	500,000
2010 Fiscal Series FF — 3.00% to 5.00% Serial Bonds maturing in varying installments through 2031	359,110	-	-	359,110
2010 Fiscal Series 2 — 0.13% to 5.00% Serial Bonds maturing in varying installments through 2039	112,444	-	9,752	102,692
2010 Fiscal Series 3 — 3.61% Serial Bonds maturing in varying installments through 2039	58,925	-	3,820	55,105
2010 Fiscal Series 4 — 4.98% to 5.81% Serial Bonds maturing in varying installments through 2039	196,460	-	-	196,460
2010 Fiscal Series GG — 5.72% to 6.12% Term Bonds maturing in 2042	554,045	-	-	554,045
2010 Fiscal Series 1 Bond Anticipation Note	205,885	11,636	-	217,520
2011 Fiscal Series AA — 5.44% to 5.79% Term Bonds maturing in 2041 and 2043	750,000	-	-	750,000
2011 Fiscal Series BB — 3.00% to 5.00% Serial Bonds maturing in varying installments through 2031	209,510	-	995	208,515
2011 Fiscal Series CC — 5.88% to 6.28% Term Bonds maturing in 2042 through 2044	750,000	-	-	750,000
2011 Fiscal Series DD — Adjustable rate bonds maturing in 2043	275,000	-	-	275,000
2011 Fiscal Series EE — 5.38% to 5.50% Term Bonds maturing in 2040 through 2043	450,000	-	-	450,000
2011 Fiscal Series FF — Adjustable rate bonds maturing in 2044	200,000	-	-	200,000
2011 Fiscal Series GG — 3.13% to 5.00% Serial Bonds maturing in varying installments through 2043	537,665	-	-	537,665

(Continued)

10. LONG-TERM DEBT (CONTINUED)

	Balance at June 30, 2013	Issued	Retired/ Defeased	Balance at June 30, 2014
2011 Fiscal Series HH — 4.00% to 5.00% Serial Bonds maturing in 2026 through 2032	$ 662,245	$ -	$ -	$ 662,245
2011 Fiscal Series 1 and 2 — 3.58% Serial Bonds maturing in varying installments through 2041	625,864	-	26,604	599,260
2012 Fiscal Series A — Adjustable rate bonds maturing in 2044	200,000	-	-	200,000
2012 Fiscal Series B — Adjustable rate bonds maturing in 2045	325,000	-	-	325,000
2012 Fiscal Series 1 Bond Anticipation Note	-	12,018	-	12,018
2012 Fiscal Series 2 and 3 — 2.00% to 5.00% Serial Bonds maturing in varying installments through 2029	637,950	-	32,985	604,965
2012 Fiscal Series AA — 5.00% Serial Bonds maturing in varying installments through 2034; 5.00% Term Bond maturing in 2044	450,900	-	-	450,900
2012 Fiscal Series BB — 4.13% to 5.25% Term Bonds maturing in 2039 and 2044	450,000	-	-	450,000
2012 Fiscal Series CC — 5.00% Term Bonds maturing in 2045	350,000	-	-	350,000
2012 Fiscal Series DD — 3.00% to 4.00% Refundable Principal Installment due in 2018; 5.00% Refundable Principal Installment due in 2027	50,000	-	-	50,000
2012 Fiscal Series EE — 3.00% to 5.25% Serial Bonds maturing in varying installments through 2039; 4.00% Term Bond maturing in 2045	522,505	-	-	522,505
2012 Fiscal Series FF — 3.25% to 5.00% Serial Bonds maturing in varying installments between 2020 and 2033; 3.75% to 5.00% Term Bond maturing in 2034 and 2045	611,745	-	-	611,745
2012 Fiscal Series GG — 5.00% Refundable Principal Installments maturing in 2017 and 2019	50,000	-	-	50,000
2013 Fiscal Series 1 — 2.00% to 5.00% Serial Bonds maturing in varying installments through 2028	310,950	-	5,845	305,105
2013 Fiscal Series AA — Adjustable rate bonds maturing in varying installments through 2046	200,000	-	-	200,000
2013 Fiscal Series BB — 3.25% to 5.00% Term Bonds maturing in 2047	440,510	-	-	440,510
2013 Fiscal Series CC — 3.75% to 5.00% Term Bonds maturing in 2047	455,955	-	-	455,955
2013 Fiscal Series DD — 3.13% to 5.00% Serial Bonds maturing in varying installments through 2038	543,300	-	-	543,300
2013 Fiscal Series EE 4.13% to 5.00% Serial Bonds maturing in varying installments through 2047	344,335	-	-	344,335
2014 Fiscal Series AA Adjustable rate bonds maturing in installments from 2048 to 2050	-	650,870	-	650,870
2014 Fiscal Series 1 — 3.00% to 5.00% Serial Bonds maturing in varying installments through 2033	-	401,090	17,660	383,430
2014 Fiscal Series 2 — 0.18% to 4.61% Serial Bonds maturing in varying installments through 2043	-	213,853	6,120	207,733
2014 Fiscal Series BB 4.62% to 5.00% Serial Bonds maturing in varying installments through 2046	-	397,085	-	397,085
2014 Fiscal Series CC 4.25% to 5.00% Serial Bonds maturing in varying installments through 2047	-	351,240	-	351,240
2014 Fiscal Series DD 3.00% to 5.00% Serial Bonds maturing in varying installments through 2039	-	547,850	-	547,850
2014 Fiscal Series 3 Bond Anticipation Note	-	109,040	-	109,040
2014 Fiscal Series 4 — 2.00% to 5.00% Serial Bonds maturing in varying installments through 2034	-	347,385	-	347,385
	28,776,386	$3,042,066	$2,144,569	29,673,882
Current portion of bonds and notes payable	451,409			570,654
Bonds and notes payable, less current portion	$28,324,977			$29,103,228

(Concluded)

11. RESTRICTED ASSETS

As of June 30, 2014 and 2013, certain cash, investments, and accrued interest of the System are restricted as follows (in thousands):

	2014	2013
The Board — operation and maintenance reserve fund	$ 221,440	$ 212,233
The Authority:		
Revenue fund	970,959	740,991
Debt service reserve fund	895,661	907,917
Construction fund	192,567	228,154
Escrow account	36,480	37,866
Subtotal — Authority	2,095,667	1,914,928
Total restricted assets	$2,317,107	$2,127,161

The operation and maintenance reserve fund is established as a depository to hold the operations and maintenance reserve as required by the Resolution. It is required to hold one-sixth of the operating expenses as set forth in the annual budget. It is funded through the cash receipts of the Board. The operation and maintenance reserve general account is established as a depository to hold all excess funds of the Board after all legally mandated transfers have been made. It is available to meet any deficiencies in the flow of funds including debt service and alternatively can be used as a financing source for capital expenditures.

The revenue fund is established as a depository to fund the debt service, Authority expenses, debt service reserve and escrow funds. It is funded through cash transfers from the Board. The debt service reserve fund is established as a depository to hold the First Resolution Bond maximum annual debt service requirement for the next or any future fiscal year. It is funded through revenue bond proceeds and the revenue fund.

The debt service fund is established as a depository to pay all principal and interest payments on the Authority's debt for the current fiscal year. It is funded through the revenue fund. The construction fund is established as a depository to pay all capital construction costs incurred by The City and reimbursed by the Authority. It is funded through the proceeds of commercial paper, bond, and note sales. The escrow fund is established as a depository to refund debt in future years. It is funded through bond proceeds.

12. COMMITMENTS AND CONTINGENCIES

Construction — The System has contractual commitments of approximately $4.3 billion and $4.1 billion at June 30, 2014 and 2013, respectively, for water and sewer projects.

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Risk Financing Activities — The System is self-insured and carries no commercial or insurance policies other than Directors and Officers insurance for the Authority. Any claims made against the System are resolved through The City's legal support, and the amounts of the maximum liability for such judgments are described in (c) below. The System is subject to claims for construction delays, property damage, personal injury, and judgments related to delays in construction deadlines under consent agreements.

Claims and Litigation — In accordance with the Lease, the Board is required to reimburse The City for any judgment or settlement paid by The City arising out of a tort claim to the extent that The City's liability is related to capital improvements and the operation or maintenance of the System. However, in no event shall the payment made to The City, in any fiscal year, exceed an amount equal to 5% of the aggregate revenues shown on the prior year's audited financial statements of the System. In addition, the System is required to reimburse The City, to the extent requested by The City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements of the System. In addition, The City has agreed, subject to certain conditions, to indemnify the Authority, the Board and their staffs against any and all liability in connection with any act done or omitted in the exercise of their powers, which is taken or omitted in good faith in pursuance of their purposes under the Act. Currently, The City is a defendant in a significant number of lawsuits pertaining to the System. The litigation includes, but is not limited to, actions commenced and claims asserted against The City arising out of alleged torts, alleged breaches of contract, condemnation proceedings, and other alleged violations of law. As of June 30, 2014, the potential future liability attributable to the System for claims outstanding against The City was estimated to be $737.8 million. This amount is included in the estimated liability for unsettled claims, which is reported in The City's statement of net position. 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.

Arbitrage Rebate — To maintain the exemption from federal income tax of interest on bonds issued subsequent to January 1, 1986, the System will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all non-purpose obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, and within 60 days after retirement of the bonds. During fiscal 2014 and 2013, the System paid $197 thousand and $1.1 million, respectively, in rebates. At June 30, 2014 and 2013, the Authority had a liability of $2.7 million and $2.3 million, respectively. These amounts are included in accrued payable expense in the combining statements of net position.

13. PENSION PLANS

General information about the Pension Plan

Plan Description — The Authority's eligible employees are provided with pension benefits through New York City Employee Retirement System Qualified Pension Plan ("Pension Plan"). The Pension Plan is a cost- sharing, multiple-employer defined pension plan administered by NYCERS. The Pension Plan functions in accordance with existing State statutes and City laws which are the basis by which benefit terms and the Authority's and its member's contribution requirements are established and amended. NYCERS issues a publicly available financial report that can be obtained at www.nycers.org.

Benefits Provided — The Pension Plan provides pension benefits to retired employees generally based on the salary, length of service, member contributions, and Tier. For certain members, voluntary member contributions also impact pension benefits provided. In addition, the Pension Plan provides automatic cost– of–living–adjustments (COLA) and other supplemental pension benefits to certain retirees and beneficiaries. Subject to certain conditions, members become fully vested as to benefits upon the completion of five years of service. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances. In the event of disability during employment, participants may receive retirement allowances based on satisfaction of certain service requirements and other provisions. The Pension Plan also provides death benefits.

The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, 1976, 1983, and 2012, significant amendments made to the State Retirement and Social Security Law (RSSL) modified certain benefits for employees joining the Pension Plan on or after the effective date of such amendments, creating membership tiers. Currently there are several Tiers, referred to as Tier I, Tier II, Tier III, Tier IV, and Tier VI. Members are assigned a Tier based on membership date. Chapter 18 of the Laws of 2012 (Chapter 18/12) amended the retirement benefits of public employees who establish membership in the Pension Plan on or after April 1, 2012. Chapter 18/12 is commonly referred to as Tier VI. Tier VI is expected to reduce future employer pension contributions.

Certain members of Tier 1 and Tier 2 of the NYCERS QPP have the right to make supplemental, voluntary member contributions ("Voluntary Excess Contributions"). Members can elect to direct these contributions to an investment program under which such accumulated contributions are credited with interest at rates set by statute ("Statutory Rates"). The Authority does not have any Tier I or Tier II members.

Contributions and Funding Policy — Contribution requirements of participating employers and active members are determined in accordance with State statutes and City laws and are generally funded within the appropriate fiscal year. Effective with fiscal year 2006, employer contributions are actuarially determined under the One Year Lag Methodology ("OYLM"). Under OYLM, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example, the June 30, 2012 actuarial valuation was used for determining the Fiscal Year 2014 statutory contributions.

13. PENSION PLANS (CONTINUED)

Member contributions vary by class. In general, Tier III and Tier IV members make basic contributions of 3.0% of salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, Tier III and Tier IV members are not required to make any contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. Tier VI members who joined between April 1, 2012 and March 31, 2013 contribute 3% of salary. Beginning April 1, 2013, when Tier VI took effect, joining members contribute between 3.0% and 6.0% of salary, depending on their salary level.

Employer contributions are determined annually to be an amount that, together with member contributions and investment income, provides for Pension Plan assets to be sufficient to pay benefits when due. The aggregate Statuary Contribution due to NYCERS from all participating employers for fiscal years 2014 and 2013 was $3.0 billion and $3.1 billion, respectively and the amount of the Authority's contribution to the Pension Plan for such fiscal years 2014 and 2013 was $141 thousand and $136 thousand.

Information on the Employer's Proportionate Share of the Collective Net Pension Liability

The Authority's net pension liabilities reported at June 30, 2014 and 2013 were measured as of those fiscal year-end dates. The total pension liability used to calculate those net pension liabilities were determined by actuarial valuations as of June 30, 2012 and June 30, 2011, respectively, based on the OYLM described above, and rolled forward to the respective fiscal year-end measurement dates. Information about the Authority net position and additions to and deductions from NYCERS fiduciary net position has been determined on the same basis as they are reported by NYCERS QPP. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the respective qualified pension plan and investments are reported at fair value.

13. PENSION PLANS (CONTINUED)

Actuarial Assumptions — Measurement of the total net pension liability, on which the net pension liability is based, requires the use of assumptions about numerous future events that affect the benefit payments that will be made to employees in retirement. The following table provides a brief description of the significant assumptions used in the June 30, 2012, actuarial valuation to determine the fiscal year 2014 Authority contributions:

Actuarial Assumptions used for determining Final Fiscal Year 2014 Authority Contributions

Item	Final Fiscal Year 2014 Employer Contributions[1]
Valuation Date	June 30, 2012
Assumed Rate of Return on Investment[2]	7.0% per annum, net of Investment Expense
Post-Retirement Mortality	Tables adopted by the Boards of Trustee during Fiscal Year 2012[3]
Active Service:	
Withdrawal, Death, Disability	Tables adopted by the Boards of Trustee during Fiscal Year 2012[3]
Retirement	Tables adopted by the Boards of Trustee during Fiscal Year 2013[3]
World Trade Center Benefit	Estimates of Certain Obligations
Salary increases[2]	Tables adopted by the Boards of Trustee during Fiscal Year 2012[3] In general, Merit and Promotion Increases plus assumed General Wage Increase of 3.0% per year.
Assumed Cost-of-Living Adjustments[2]	1.5% per year for Tier I, Tier 11, Tier IV and certain Tier Ill and Tier VI retirees. 2.5% per year for certain Tier Ill and Tier VI retirees.

[1]Based on actuarial assumptions and methods proposed by the Actuary during Fiscal Year 2012 adopted by the Boards of Trustee and enacted into law as Chapter 3/13.

[2]Developed using a long-term Customer Price lnflation (“CPI”) assumption of 2.5% per year.

[3]See the Reports entitled “Proposed Changes in Actuarial Assumptions and Methods for Determining Employer Contributions for Fiscal Ye Beginning on and After July, 2011” dated February 10, 2012 (the “Silver Books”).

In accordance with the Administrative Code of The City of New York and with appropriate practice, the NYCERS Board of Trustees of the actuarially-funded Pension Plan is to periodically review and adopt certain actuarial assumptions as proposed by the Actuary for use in the determination of Employer Contributions, which are also generally used to determine the total pension liability, as applicable. Based, in part, upon a review of the then two most recent experience studies, the Actuary issued reports for the Pension Plan proposing changes in actuarial assumptions and methods for fiscal years beginning on and after July 1, 2011 (February 2012 Reports). Where required, the Board of Trustees of the NYCERS adopted those changes to actuarial assumptions that required NYCERS Board of Trustees approval. The State Legislature and the Governor enacted Chapter 3/13 to provide for those changes to the actuarial assumptions and methods that require legislation, including the Actuarial Interest Rate (AIR) assumption of 7.0% per annum, net of expenses.

The long-term expected rate of return of 7.0% was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined

13. PENSION PLANS (CONTINUED)

to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the target asset allocations of the Pension Plan as of the June 30, 2012 and 2011, actuarial valuations are summarized in the following table:

Asset Class	Target Allocation	Real Return Arithmetic Basis	Expected Real Rate of Return
U.S. equity	46.0 %	5.75 %	2.65 %
U.S. fixed income	26.0	1.50	0.39
International equity	21.0	5.75	1.21
Other	7.0	4.00	0.28
Total	100.0 %		4.53
Inflation			2.50
Expected arithmetic nominal return			7.03 %

Discount Rate — The discount rate used to measure the total pension liability of the Pension Plan as of June 30, 2014 and 2013 was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employer contributions will be made based on rates determined by the Actuary. Based on those assumptions, the Pension Plan net position was projected to be available to make all projected future benefit payments of current active and non-active Pension Plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate — The following present the Authority's proportionate share of the net pension liability using the discount rate of 7.0 percent, as well we what Authority's proportionate share of the net pension liability would be if it were calculated using discount rate that is one-percentage point lower (6.0%) or one-percentage point higher (8.0%) than the current rate:

	Fiscal Year 2014 (Dollar amounts in thousands)		
	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net pension liability	1,300	901	531

13. PENSION PLANS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

Pension Liability — At June 30, 2014 and 2013, the Authority reported a liability of $901 thousand and $923 thousand for its proportionate share of the net pension liability. The Authority's proportion of the net pension liability was based on projection of the Authority's long term share of contributions to the pension plan relative to the projected contributions of all participating City governments and their component units, actuarially determined. At June 30, 2014 and 2013, the Authority's proportion was 0.005% and 0.004%, respectively, which was an increase of 0.001 percent.

Pension Expense — For the year ended June 30, 2014 and 2013, the Authority recognized pension expense of $105 thousand and $110 thousand, respectively.

Deferred Outflows and Inflows of Resources — At June 2014, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 0	$ 0
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	259
Changes in proportion and difference between Authority contributions and proportionate share of contributions	235	14
Authority contributions subsequent to the measurement date	-	-
Total	$ 235	$ 273

13. PENSION PLANS (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2014 will be recognized in pension expense as follows:

Year Ended June 30	
2015	$ (29.7)
2016	(29.7)
2017	(29.7)
2018	(29.7)
2019	(29.7)
Thereafter	110.2
	$ (38.3)

14. OTHER POST-EMPLOYMENT BENEFITS

Plan Description — The Authority's policy is to provide certain health and related benefits to eligible retirees of the Authority, which constitutes an other postemployment benefit ("OPEB") plan (the "Plan") in accordance with GASB Statement No. 45, ("GASB 45") *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. OPEB is provided under the New York City Health Benefit Program, which is a single employer defined benefit healthcare plan to eligible retirees and beneficiaries. The Authority's policy is to follow the eligibility criteria applicable to retirees of The City and to provide benefits substantially the same as those provided to City retirees and eligible beneficiaries/dependents. OPEB benefits include health insurance, Medicare Part B premium reimbursements, and employee welfare fund contributions.

There are three classes of employees — active, inactive and retirees. The following presents a summary of the Authority census data used in the June 30, 2013 — and June 30, 2012, OPEB actuarial valuations:

Group	June 30, 2013	June 30, 2012
Active	13	13
Inactive	1	2
Deferred vested	-	-
Retired	3	3
Total	17	18

Funding Policy — The Authority is not required to provide funding for OPEB, other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the years ended June 30, 2014 and 2013, the Authority had three retirees and made contributions of $11.3 thousand and $13.7 thousand respectively. Members are not required to

14. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

contribute; although, retirees may elect basic health insurance programs and/or optional coverage that require contributions. Plan retiree participants who opt for other basic or enhanced coverage must contribute 100% of the incremental costs above the premiums for benchmark plan. The Plan also reimburses covered employees 100% of the Medicare Part B Premium rate applicable to a given year, and there is no retiree contribution to Welfare Fund. Welfare fund covers retirees for various health care benefits not provided through the Basic Coverage.

Annual OPEB Cost and Net OPEB Obligation — The Authority's annual OPEB cost (expense) is calculated based on the actuarial annual required contribution of the employer ("ARC"), an amount that was actuarially determined in accordance with the parameters of GASB 45. Actuarial valuations involve estimates and assumptions about the probability of events far into the future. The Entry Age Actuarial Cost Method was used in the actuarial valuation prepared as of June 30, 2013, which was the basis for the fiscal year 2014 ARC calculation. Under this method, as used in this OPEB actuarial valuation, the Actuarial Present Value ("APV) of Benefits ("APVB") of each individual included in actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The employer portion of this APVB allocated to valuation year is the Employer Normal Cost. The portion of this APVB not provided for a valuation date by the APV of Future Employer Normal Cost or future member contributions is the Actuarial Accrued Liability ("AAL"). The excess of the AAL over the Actuarial Asset Value ("AAV"), if any, is the Unfunded Actuarial Accrued Liability ("UAAL").

All changes in the UAAL as of June 30, 2013 are being amortized over a one-year period for purposes of calculating the ARC except for the amount of change in UAAL attributable to the change in the Actuarial Cost Method which is being amortized over a closed 10-year period using level-dollar amortization. This is the minimum period permitted in cases where there is a significant reduction in the UAAL in accordance with GASB 45.

The following table shows the elements of the Authority's annual OPEB cost, the amounts actually contributed, and changes in the Authority's net OPEB obligation for the fiscal years ended June 30, 2014 and 2013 (in thousands):

	2014	2013
Annual required contribution	$ 962	$ 934
Interest on net OPEB obligations	37	32
Adjustment to annual required contribution	(958)	(821)
Annual OPEB cost	41	145
Payments	(11)	(14)
Net OPEB obligation — beginning of year	921	790
Net OPEB obligation — end of year	$ 951	$ 921

14. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the fiscal years ended June 30, 2012 through 2014, were as follows (in thousands):

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 41	27.3 %	$ 951
June 30, 2013	145	9.5	921
June 30, 2012	100	8.8	790

Funded Status and Funding Progress — As of June 30, 2013, the most recent actuarial valuation date, the cost was 0% funded. The actuarial accrued liability for benefits was $819.4 thousand, and the actuarial value of assets was $0, resulting in an UAAL of $819.4 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was $1.1 million, and the ratio of the UAAL to the covered payroll was 74.0%. The schedule of funding progress, which is presented in the Required Supplementary Information following the Notes to Financial Statements, presents the results of OPEB valuation as of June 30, 2014, 2013, and 2012. This schedule provides a three year information trend about increases or decreases of the actuarial value of assets over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions — Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment, demographic, salary increase, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The OPEB specific actuarial assumption used in June 30, 2013 actuarial valuation of the Plan are as follows:

Valuation date — June 30, 2013

Discount Rate — 4.0% per annum[1]

Actuarial Cost Method: Entry Age calculated on an individual basis with Actuarial Value of Projected Benefits allocated on a level basis over earnings from hire though age of exit.

14. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Consumer Price Inflation — 2.5% per year

Salary Increases: In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.

Per Capita Claims Costs: HIP HMO and GHI/EBCBS benefit costs reflect age adjusted premiums. Age adjustments based on assumed average age distribution of covered population used for non-Medicare retirees and HIP HMO Medicare retirees.

Age adjustment based on actual age distribution of the GHI/EBCBS Medicare covered population.

Insured premiums are without age adjustments for other coverage. Premiums are assumed to include administrative costs.

Employer premium contribution schedule for the months of July 2013 and January 2014 were reported by the New York City Office of Labor Relations. In most cases, the premium contributions remained the same throughout the year. HIP HMO Medicare rates varied by date and by specific Plan option. These variations are the result of different Medicare Advantage reimbursements. The various monthly rates were blended by proportion of enrollment. For other rates, where the January 2014 premium rate was different than the July 2013 premium rate, the valuation assumed that the January 2014 rate was more representative of long-range cost of the arrangement.

[1] 1.5% real rate on short- term investment return.

14. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Initial monthly premium rates used in valuation are shown in the following table:

	Monthly Rate	
Plan	**FY 2014[1]**	**FY 2013[2]**
HIP HMO		
Non-Medicare Single	$ 579.04	$ 550.50
Non-Medicare Family	1,418.66	1,348.75
Medicare	149.42	140.37
GHI/EBCBS		
Non-Medicare Single	459.63	459.68
Non-Medicare Family	1,194.24	1,194.29
Medicare	159.69	159.69
Others		
Non-Medicare Single	579.04	550.50
Non-Medicare Family	1,418.66	1,348.75
Medicare	149.42	159.59

[1] Used in June 30, 2013 OPEB actuarial valuation.
[2] Used in June 30, 2012 OPEB actuarial valuation.

Welfare Funds — Welfare Fund contributions reflect a three-year trended average of reported annual contribution amounts for current retirees. The Welfare Fund rates reported for the previous two valuations were trended to the current level based on the historic increase rates of 1.64% for fiscal year 2013 and 2.33% for fiscal year 2012, approximating the overall growth of the Welfare Fund contribution.

For the June 30, 2013 and June 30, 2012, OPEB actuarial valuations used for fiscal years 2014 and 2013, respectively, certain lump-sum amounts have been included in calculating the three year trended average. Furthermore, retroactive adjustments to Welfare Fund contribution rates were used in the trended average as of the dates they were effective (i.e., using the retroactive date).

Weighted average annual contribution rates used for future retirees:

	Annual Rate	
	FY 2014	**FY 2013**
NYC ERS	$ 1,700	$ 1,703

Contributions were assumed to increase by Medicare Plans trend rates.

Welfare rate contributions have been updated to reflect recent contribution rates.

14. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

In addition to age adjustment, the premium for HIP HMO Medicare-eligible retirees were multiplied by the following factors for the June 30, 2013, OPEB actuarial valuation to reflect actual 2014 HIP premiums, and anticipated in Medicare Advantage reimbursement rates. The adjustment rates used as of June 30, 2012, are shown for comparative purposes:

	Medicare Advantage Adjustment Factors Factors*	
Fiscal Year	**6/30/13 Valuation**	**6/30/12 Valuation**
2014	1.00	1.03
2015	1.03	1.08
2016	1.04	1.11
Thereafter	1.04	1.11

* Includes anticipated impact of National Health Care Reform.

Medicare Part B Premiums —

Calendar Year	**Monthly Premium**
2012	99.90
2013	104.90
2014	104.90*

* Reflected only in June 30, 2013 OPEB actuarial valuation.

Medicare Part B Premium reimbursement amounts have been updated to reflect actual premium rates announced for calendar years through 2014. The actual 2015 Medicare Part B Premium was not announced at the time these calculations were prepared and, thus, was not reflected in the valuation.

For the June 30, 2012, OPEB actuarial valuation (i.e., Fiscal Year 2013), the annual premium used (i.e., $1,228.80) equaled six months of the Calendar Year 2012 premium ($99.90), plus six months of the Calendar Year 2013 premium ($104.90).

For the June 30, 2013, OPEB actuarial valuation (i.e., Fiscal Year 2014), the annual premium used (i.e., $1,258.80) equaled 6 months of the Calendar Year 2013 premium ($104.90) plus 6 months of the Calendar Year 2014 premium ($104.90).

Future Calendar Year Medicare Part B premium rates are projected from the Calendar Year 2014 rate of $104.90 using the assumed Medicare Part B Premium trend.

14. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Overall Medicare Part B Premium amounts are assumed to increase by the following percentages to reflect the income-related increases in Medicare Part B Premiums for high income individuals.

	Income-Related Medicare Part B Increase	
Fiscal Year	**June 30, 2013 Valuation**	**June 30, 2012 Valuation**
2013	NA	3.60 %
2014	3.70 %	3.70
2015	3.80	3.80
2016 and later	Increasing by 0.1% per year to a maximum of 5.0%	Increasing by 0.1% per year to a maximum of 5.0%

Medicare Part B Premium Reimbursement Assumption: For the June 30, 2013, OPEB actuarial valuation, 90% of Medicare participants are assumed to claim reimbursement (unchanged from last year).

Health Care Cost Trend Rate (HCCTR) —

Covered medical expense are assumed to increase by the following percentages (unchanged from last valuation):

Year Ending[1]	**Pre-Medicare Plans**	**Medicare Plans**	**Medicare Part B Premium**
2014 [2]	9.5 %	5.0 %	6.5 %
2015	9.0	5.0	6.0
2016	8.5	5.0	5.5
2017	8.0	5.0	5.0
2018	7.5	5.0	5.0
2019	7.0	5.0	5.0
2020	6.5	5.0	5.0
2021	6.0	5.0	5.0
2022	5.5	5.0	5.0
2023 and later	5.0	5.0	5.0

[1] Fiscal year for Pre-Medicare Plans and Medicare Plans and calendar Year for Medicare Part B Premiums.

[2] For the June 30, 2013, OPEB actuarial valuation, rates shown for 2014 were not reflected since actual values for the fiscal year 2014 per capita costs, fiscal year 2014 Welfare Fund contributions and calendar year 2014 Medicare Part B Premium amounts were used.

15. POLLUTION REMEDIATION OBLIGATIONS

The System reports pollution remediation obligations ("PROs") as required by the GASB. The System's PROs may arise as a result of: (1) federal, state, and local laws and regulations, (2) violations of pollution-related permits or licenses, (3) because the System has determined that there is an imminent endangerment to public health and safety as a result of an existing pollution condition, (4) because the

System has been named in a lawsuit to compel remediation or has been identified by a regulator as a party responsible or potentially responsible for remediation, and/or (5) because the System has voluntarily commenced remediation. As of June 30, 2014 and 2013, the System reported $98.9 million and $116.9 million of liabilities for known PROs, respectively.

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

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

16. SUBSEQUENT EVENTS

On July 10, 2014, the Authority issued $200 million of new money, tax-exempt, fixed rate Second General Resolution Revenue Bonds, Fiscal 2015 Series AA. These bonds will mature in 2044. The proceeds were used to refund the Authority's commercial paper notes Series 1, pay the costs of improvements to the System and pay bond issuance costs.

On July 10, 2014, the Authority issued $400 million of new money, tax-exempt, adjustable Second General Resolution Revenue Bonds, Fiscal 2015 Series BB. The bonds are backed by liquidity facilities from four banks. These bonds will mature in 2049 and 2050. The proceeds were used to refund the Authority's commercial paper notes Series 7 and Series 8, pay the costs of improvements to the System and pay bond issuance costs.

On July 17, 2014, the Authority drew down $9.4 million of Fiscal 2014 Series 3 BANs.

On August 14, 2014, the Authority issued $200 million of commercial paper notes, Series 7 and Series 8, to pay the costs of improvements to the System.

On August 21, 2014, the Authority drew down $22.6 million of Fiscal 2014 Series 3 BANs.

On September 18, 2014, the Authority drew down $5.9 million of Fiscal 2014 Series 3 BANs.

16. SUBSEQUENT EVENTS (CONTINUED)

On September 24, 2014, the Authority issued $200 million of new money, tax-exempt, fixed rate Second General Resolution Revenue Bonds, Fiscal 2015 Series CC. These bonds will mature in 2045. The proceeds were used to refund commercial paper notes Series 7, pay the costs of improvements to the System and pay bond issuance costs.

On September 24, 2014, the Authority issued $300 million of refunding, tax-exempt, fixed rate Second General Resolution Revenue Bonds, Fiscal 2015 Series DD. These bonds will mature in 2028, 2029, and 2036. The proceeds were used to refund Fiscal 2005 Series B bonds and pay bond issuance costs.

On September 24, 2014, the Authority issued Fiscal 2015 Series 1 BANs to EFC in the amount of $370 million to pay the costs of improvements to the System. As of September 24, 2014, the Authority has not drawn any funds on Fiscal 2015 Series 1 BANs.

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE OTHER POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED)
JUNE 30, 2014, 2013 AND 2012
(In thousands)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded ALL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2014	June 30, 2013	$ -	$ 819	$ 819	-	$ 1,107	74.0 %
June 30, 2013	June 30, 2012	-	793	793	-	1,064	74.6
June 30, 2012	June 30, 2011	-	662	662	-	919	72.0

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS*
(Dollar amounts in thousands)

	June 30, 2014	June 30, 2013
Authority's proportion of the net pension liability	0.005 %	0.004 %
Authority's proportionate share of the net pension liability	$ 901	$ 923
Authority's covered-employee payroll	$ 1,107	$ 1,064
Authority's proportionate share of the net pension liability as percentage of its covered employee payroll	81.4 %	86.7 %
Plan fiduciary net position as a percentage of the total pension liability	75.3 %	67.2 %

* This data is presented for those years for which information is available.

SCHEDULE OF THE AUTHORITY'S CONTRIBUTION
LAST 10 FISCAL YEARS*
(Dollar amounts in thousands)

	June 30, 2014	June 30, 2013
Actuarially required contribution	$ 156	$ 122
Contribution in relation to the actuarially required contribution	(156)	(122)
Contribution deficiency (excess)	$ -	$ -
Authority's covered-employee payroll	$ 1,107	$ 1,064
Contribution as a percentage of covered-employee payroll	14.1 %	11.5 %

* This data is presented for those years for which information is available.

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL
(Fiscal 2015 Series GG Bonds)

April , 2015

New York City Municipal
Water Finance Authority

New York City Municipal Water Finance Authority
Water and Sewer System Second General Resolution Revenue Bonds,
Fiscal 2015 Series GG
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the New York City Municipal Water Finance Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"), created and existing under and pursuant to the Constitution and statutes of the State, including the Act (defined below), in connection with the issuance of $ aggregate principal amount of Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2015 Series GG (the "2015 Series GG Bonds") issued under and pursuant to the New York City Municipal Water Finance Authority Act, being Title 2-A of Article 5 of the Public Authorities Law of the State, as amended (which, together with Section 1046 of the Public Authorities Law of the State, is herein referred to as the "Act") and a resolution of the Authority adopted March 30, 1994 entitled "Water and Sewer System Second General Revenue Bond Resolution," as amended and supplemented to the date hereof (the "Second Resolution"), including with respect to the 2015 Series GG Bonds by a supplemental resolution adopted March , 2015, entitled "Supplemental Resolution No. 111 Authorizing the Issuance of up to $ Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2015 Series GG" ("Supplemental Resolution No. 111") authorizing the 2015 Series GG Bonds. The 2015 Series GG Bonds are part of an issue of bonds of the Authority (the "Bonds") which the Authority has created under the terms of the Second Resolution and is authorized to issue from time to time for the purposes authorized by the Act and the Second Resolution, as then in effect, and without limitation as to amount except as provided in the Second Resolution or as may be limited by law. The 2015 Series GG Bonds are being issued for the purposes of the Second Resolution. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Second Resolution.

Pursuant to the Act, the New York City Water Board (the "Board"), a public benefit corporation of the State, created and existing under the laws of the State, and The City of New York (the "City"), a municipal corporation of the State, have entered into a lease agreement, dated as of July 1, 1985, as amended (the "Lease"), whereby the Board has leased the New York City Water and Sewer System from the City for a term ending on the date on which all bonds, notes or other obligations of the Authority have been paid in full or provision for such payment shall have been made in accordance with the instruments under which they were issued. Pursuant to the Act, the Authority, the Board and the City have entered into a financing agreement, dated July 1, 1985, as amended (the "Financing Agreement"), related to, among other things, the financing Water Projects.

In such connection, we have reviewed the Second Resolution, Supplemental Resolution No. 111, the Authority's Water and Sewer System General Revenue Bond Resolution, adopted November 14, 1985 (the "First Resolution"), the Lease, the Financing Agreement, the opinion of Corporation Counsel of The City of New York, the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate"), by and among the Authority and the Trustee, certificates of the Authority, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this letter. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Second Resolution, Supplemental Resolution No. 111, the First Resolution, the Lease, the Financing Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2015 Series GG Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2015 Series GG Bonds, the Second Resolution, Supplemental Resolution No. 111, the First Resolution, the Lease, the Financing Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

We express no opinion with respect to any indemnification, contribution, penalty, arbitration, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Second Resolution, Supplemental Resolution No. 111, the First Resolution, the Lease or the Financing Agreement, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2015 Series GG Bonds and express no opinion with respect thereto herein.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof we are of the following opinions:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State, duly created and existing under the laws of the State with the right and lawful authority and power to enter into the Financing Agreement, to adopt the Second Resolution, Supplemental Resolution No. 111 and to issue the 2015 Series GG Bonds.

2. The Second Resolution and Supplemental Resolution No. 111 have been duly and lawfully adopted by the Authority, are in full force and effect and are the legal, valid and binding agreements of the Authority enforceable in accordance with their terms. The Second Resolution and Supplemental Resolution No. 111 create the valid, binding and perfected pledges they purport to create of the Revenues and any moneys or securities on deposit in the Funds and Accounts created thereby for the repayment of the Bonds, subject only to the provisions of the Second Resolution, Supplemental Resolution No. 111, 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 2015 Series GG Bonds have been duly and validly authorized and issued. The 2015 Series GG Bonds are valid and binding special obligations of the Authority payable as provided in the Second Resolution, are enforceable in accordance with their terms and the terms of the Second Resolution and are entitled, together with all other Bonds issued under the Second Resolution, to the benefits of the Second Resolution and the Act.

4. The 2015 Series GG Bonds are payable solely from the Revenues and other amounts pledged to such payment under the Second Resolution. The 2015 Series GG Bonds are not a debt of the State, the City or the Board and neither the State, the City, the Board nor any other political subdivision of the State is liable thereon.

5. The Lease and the Financing Agreement have been duly authorized, executed and delivered by the respective parties thereto and constitute valid and binding obligations of such parties, enforceable in accordance with their terms.

6. The Revenues derived from the operation of the System are the property of the Board. The Financing Agreement validly transfers the right, title and interest of the Board in the Revenues to the Authority to the extent and as provided in the Financing Agreement, subject only to the provisions of the Act, the Financing Agreement and the Second Resolution permitting the application thereof for or to the purposes, and on the terms and conditions, therein set forth.

7. By virtue of the Act, the Authority has a valid, binding and perfected statutory lien upon the Revenues to be paid by the Board to the Authority pursuant to the Financing Agreement and such lien constitutes a first priority security interest therein.

8. Interest on the 2015 Series GG Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2015 Series GG Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the 2015 Series GG Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the 2015 Series GG Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2015 Series GG Bonds.

In rendering the opinions set forth in paragraphs 5 and 6 above, we wish to advise you that we have, with your consent, relied upon the opinion of Corporation Counsel of The City of New York dated the date hereof and addressed to you as to the validity, binding effect and enforceability of the Lease and the Financing Agreement with respect to the Board and the City. In rendering the priority of lien opinion set forth in paragraph 7 above, we have (i) relied upon a certification by the Board that it has not made or granted a pledge of or security interest in the Revenues to any person other than the Authority and that it has not taken any action which could result in the imposition by operation of law of any lien, charge or encumbrance upon the Revenues, and (ii) assumed, without making any independent investigation, that (1) no lien, charge or encumbrance upon the Revenues has been imposed or exists by operation of law that is prior to the lien in favor of the Authority and (2) no facts or circumstances have occurred or exist which could result in the imposition by operation of law of any lien, charge or encumbrance upon the Revenues that is prior to the lien in favor of the Authority.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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APPENDIX F

ADJUSTABLE RATE DEMAND BONDS

The Authority has entered into credit and liquidity agreements with the following banks to support its First Resolution Bonds, Second Resolution Bonds and commercial paper program:

Series	Outstanding Principal Amount	Provider	Facility Type	Expiration or Optional Termination by Provider
2000 C	$ 107,500,000	Sumitomo Mitsui Banking Corporation	SLOC (1)	06/05/15
2001 F-1	100,000,000	Mizuho Bank, Ltd.	SBPA (2)	04/11/19
2001 F-2	84,130,000	JPMorgan Chase Bank, N.A.	SBPA	04/11/19
2003 F-1-A	50,000,000	Wells Fargo Bank, N.A.	SBPA	06/28/18
2003 F-1-B	50,000,000	U.S. Bank, N.A.	SBPA	04/11/18
2003 F-2	101,655,000	BayernLB	SBPA	11/30/15
2006 AA-1A	100,000,000	State Street Bank and Trust Company	SBPA	10/27/15
2006 AA-1B	100,000,000	California State Teachers' Retirement System	SBPA	10/27/15
2006 AA-2	100,000,000	Dexia Crédit Local	SBPA	10/27/17
2006 AA-3	100,000,000	Dexia Crédit Local	SBPA	10/27/17
2007 CC-1	160,500,000	Bank of Nova Scotia	SBPA	11/01/16
2007 CC-2	50,000,000	Bank of Nova Scotia	SBPA	11/01/16
2008 B-1-A	100,000,000	Sumitomo Mitsui Banking Corporation	SLOC	03/04/16
2008 B-1-B	100,000,000	Royal Bank of Canada	SBPA	03/04/16
2008 B-2	100,000,000	Royal Bank of Canada	SBPA	03/01/16
2008 B-3	135,000,000	Bank of America, N.A.	SBPA	03/18/16
2008 B-4	100,000,000	Royal Bank of Canada	SBPA	03/01/16
2008 BB-1	100,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	SBPA	10/02/15
2008 BB-2	101,000,000	Bank of America, N.A.	SBPA	10/23/15
2008 BB-3	100,000,000	Royal Bank of Canada	SBPA	10/02/15
2008 BB-4	50,000,000	Royal Bank of Canada	SBPA	10/02/15
2008 BB-5	50,000,000	Bank of America, N.A.	SBPA	10/23/15
2009 BB-1	100,435,000	Landesbank Hessen-Thüringen Girozentrale	SBPA	08/05/16
2009 BB-2	100,435,000	Landesbank Hessen-Thüringen Girozentrale	SBPA	08/05/16
2010 CC	200,000,000	Barclays Bank, PLC	SBPA	12/14/18
2011 DD-1	100,000,000	TD Bank, N.A.	SBPA	11/16/18
2011 DD-2	75,000,000	JPMorgan Chase Bank, N.A.	SBPA	11/14/18
2011 DD-3-A	50,000,000	U.S. Bank, N.A.	SBPA	10/16/16
2011 DD-3-B	50,000,000	State Street Bank and Trust Company	SBPA	10/16/16
2011 FF-1	100,000,000	Bank of America, N.A.	SBPA	03/18/16
2011 FF-2	100,000,000	Landesbank Hessen-Thüringen Girozentrale	SBPA	08/05/16
2012 A-1	100,000,000	Mizuho Bank, Ltd.	SBPA	09/27/19
2012 A-2	100,000,000	Mizuho Bank, Ltd.	SBPA	09/27/19
2012 B-1	100,000,000	U.S. Bank, N.A.	SBPA	03/06/18
2012 B-2	100,000,000	California Public Employees' Retirement System	SBPA	03/06/18
2012 B-3	75,000,000	State Street Bank and Trust Company	SBPA	03/06/18
2012 B-4	50,000,000	The Northern Trust Company	SBPA	03/06/18
2013 AA-1	50,000,000	PNC Bank, National Association	SBPA	10/02/15
2013 AA-2	150,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	SBPA	10/02/15
2014 AA-1	125,000,000	JPMorgan Chase Bank, N.A.	SBPA	09/17/18
2014 AA-2	125,000,000	JPMorgan Chase Bank, N.A.	SBPA	09/17/18
2014 AA-3	100,000,000	TD Bank N.A.	SBPA	09/17/18
2014 AA-4	100,000,000	Bank of Montreal	SBPA	09/16/16
2014 AA-5	100,435,000	Mizuho Bank, Ltd.	SBPA	09/17/15
2014 AA-6	100,435,000	Mizuho Bank, Ltd.	SBPA	09/17/15
2015 BB-1	100,000,000	Bank of America, N.A.	SBPA	07/10/17
2015 BB-2	100,000,000	Mizuho Bank, Ltd.	SBPA	07/08/16
2015 BB-3	100,000,000	Sumitomo Mitsui Banking Corporation	SLOC	07/10/18
2015 BB-4	100,000,000	Wells Fargo Bank, N.A.	SBPA	07/10/18
CP Series 1	200,000,000	JPMorgan Chase Bank, N.A.	LOC (3)	12/31/18
Total	$4,891,525,000			

(1) Standby Letter of Credit

(2) Standby Bond Purchase Agreement

(3) Line of Credit

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APPENDIX G

BOOK-ENTRY-ONLY FORM

The Depository Trust Company ("DTC"), New York, NY. will act as securities depository for the Fiscal 2015 GG Bonds. The Fiscal 2015 GG Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Fiscal 2015 GG Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC, in the aggregate principal amount of the Fiscal 2015 GG Bonds.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com or www.dtc.org.

Purchases of Fiscal 2015 GG Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Fiscal 2015 GG Bonds on DTC's records. The ownership interest of each actual purchaser of each Fiscal 2015 GG Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Fiscal 2015 GG Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Fiscal 2015 GG Bonds, except in the event that use of the book-entry system for the Fiscal 2015 GG Bonds is discontinued.

To facilitate subsequent transfers, all Fiscal 2015 GG Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Fiscal 2015 GG Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of any Fiscal 2015 GG Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Fiscal 2015 GG Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Fiscal 2015 GG Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Fiscal 2015 GG Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Fiscal 2015 GG Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of redemption proceeds and principal and interest payments on the Fiscal 2015 GG Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Fiscal 2015 GG Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

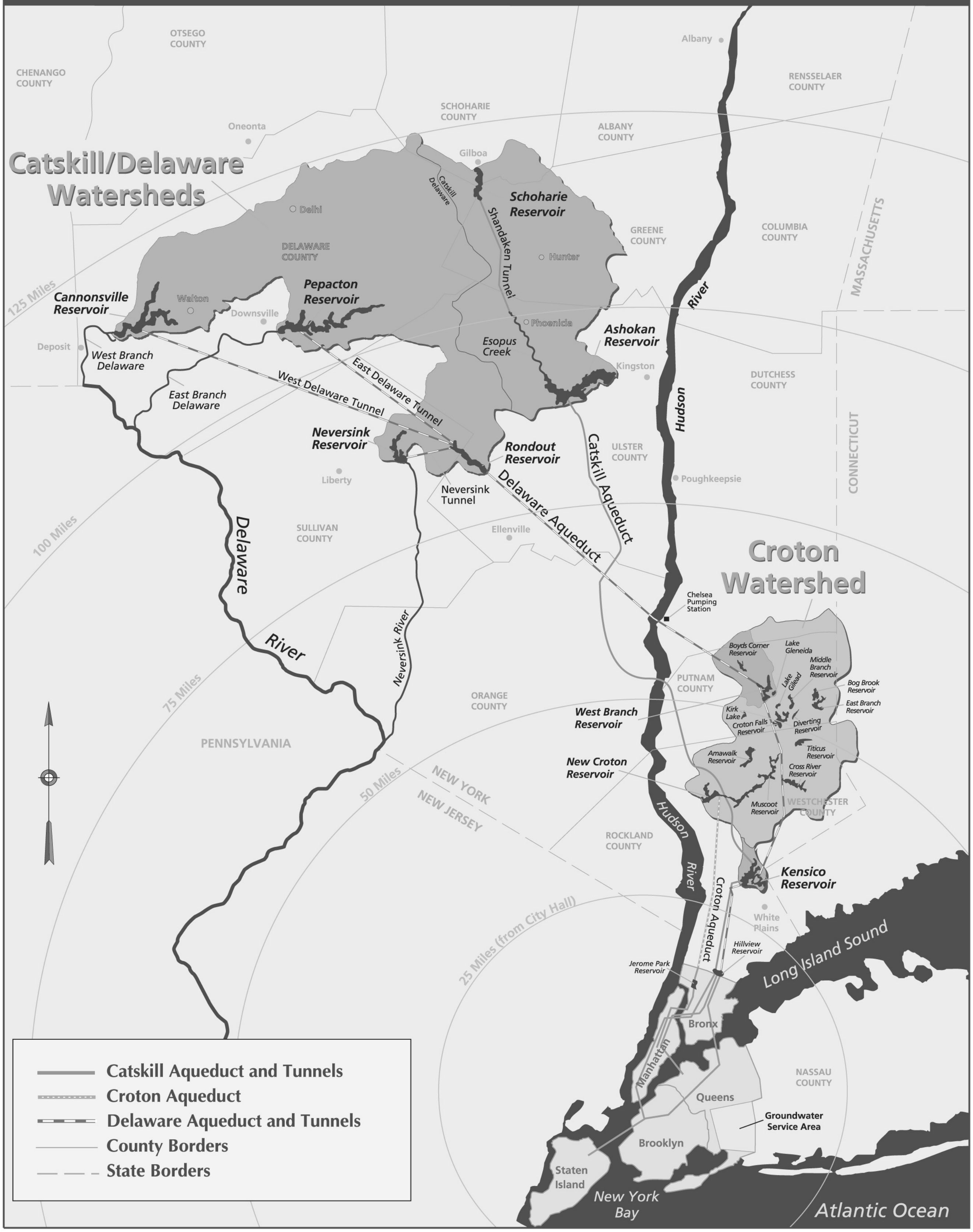
DTC may discontinue providing its services as depository with respect to the Fiscal 2015 GG Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

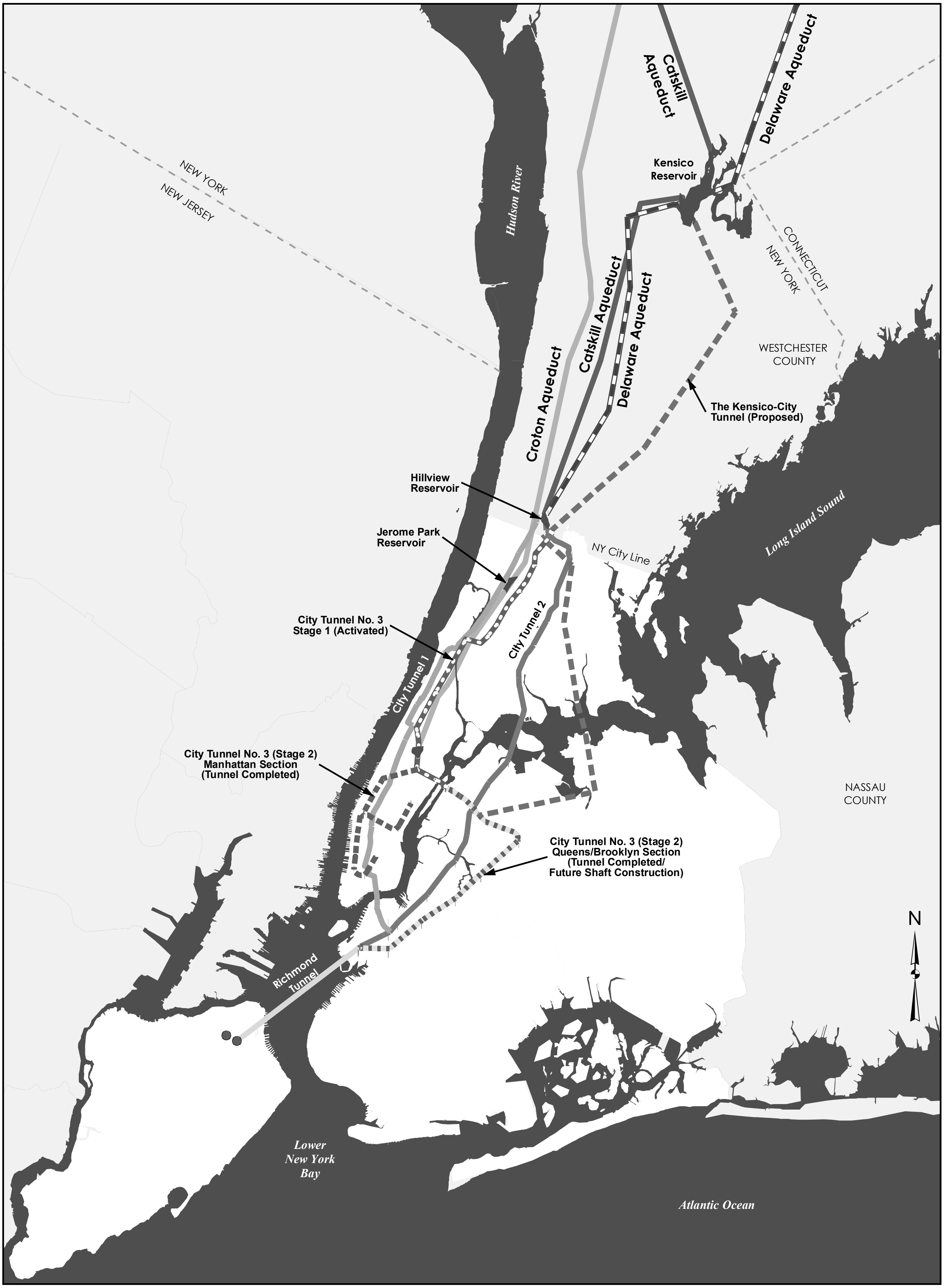
The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

Unless otherwise noted, the information contained in the preceding paragraphs of this subsection "Book-Entry-Only Form" has been extracted from information given by DTC. Neither the Authority, the Trustee nor the Underwriters makes any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereto.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS.

New York City Water Supply System



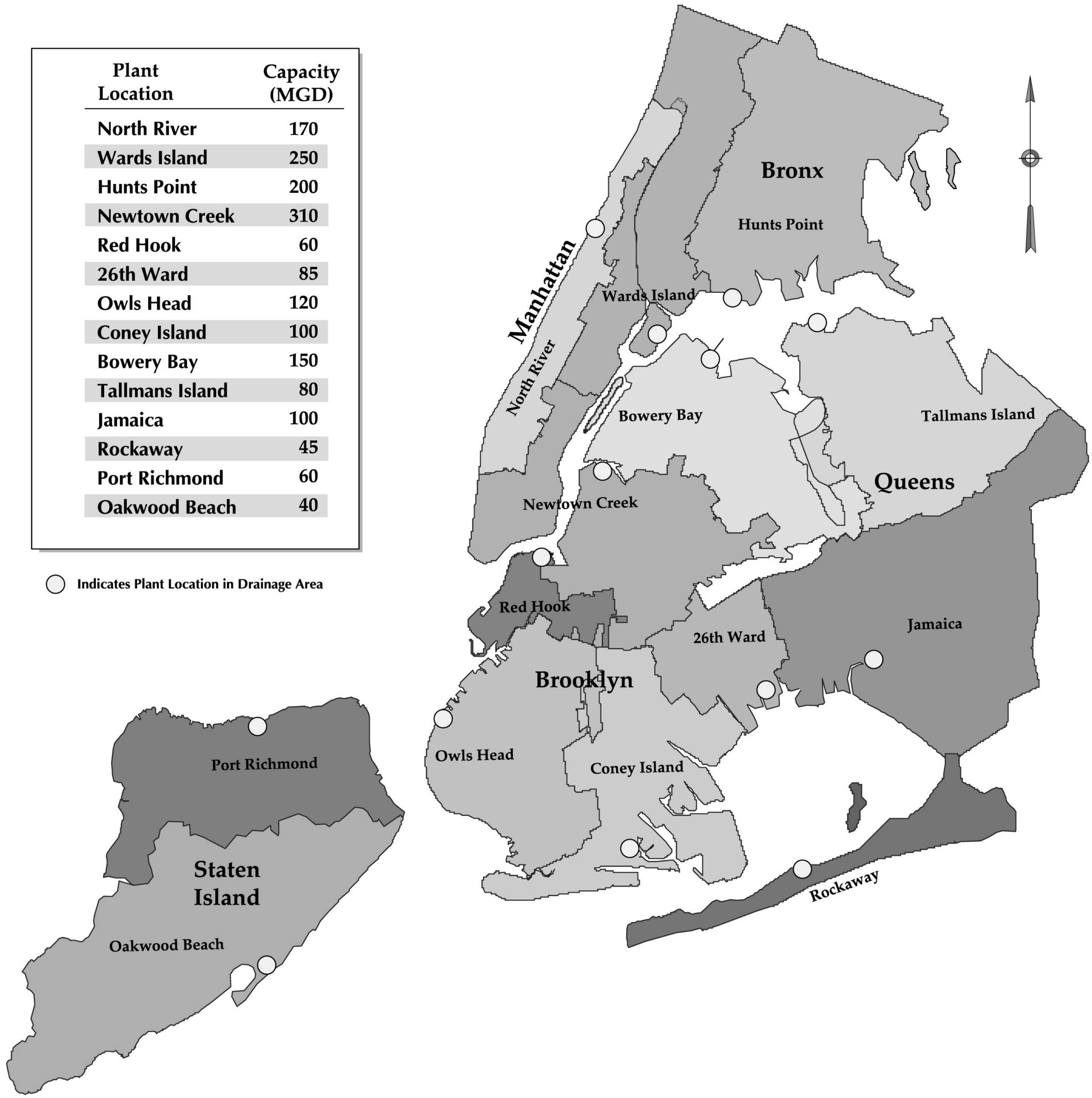


Catskill Aqueduct
Delaware Aqueduct
NEW YORK
NEW JERSEY
Hudson River
Kensico Reservoir
CONNECTICUT
NEW YORK
Croton Aqueduct
Catskill Aqueduct
Delaware Aqueduct
WESTCHESTER COUNTY
The Kensico-City Tunnel (Proposed)
Hillview Reservoir
Jerome Park Reservoir
NY City Line
Long Island Sound
City Tunnel No. 3 Stage 1 (Activated)
City Tunnel 2
City Tunnel 1
City Tunnel No. 3 (Stage 2) Manhattan Section (Tunnel Completed)
NASSAU COUNTY
City Tunnel No. 3 (Stage 2) Queens/Brooklyn Section (Tunnel Completed/ Future Shaft Construction)
N
Richmond Tunnel
Lower New York Bay
Atlantic Ocean

New York City Drainage Areas and Water Pollution Control Plants

Plant Location	Capacity (MGD)
North River	170
Wards Island	250
Hunts Point	200
Newtown Creek	310
Red Hook	60
26th Ward	85
Owls Head	120
Coney Island	100
Bowery Bay	150
Tallmans Island	80
Jamaica	100
Rockaway	45
Port Richmond	60
Oakwood Beach	40

Indicates Plant Location in Drainage Area



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APPENDIX I

TABLE OF REFUNDED BONDS*

The Authority currently expects to refund all or a portion of its Outstanding First Resolution Bonds specified below by providing for payment of the principal of and interest on such Bonds on June 15, 2015 at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to June 15, 2015.

Series	Maturity Date	Original Amount	Principal Amount to be Refunded	Interest Rate	CUSIP Number
2005C	6/15/2025	$ 60,330,000		5.000%	64970K3M7
2005C	6/15/2026	59,205,000		5.000	64970K3U9
2005C	6/15/2027	220,945,000		5.000	64970K3P0
2005C	6/15/2030	46,060,000		5.000	64970K3V7
2005C	6/15/2031	94,540,000		5.000	64970K3W5
2005D	6/15/2037	256,975,000		5.000	64970K4R5
2005D	6/15/2038	169,820,000		5.000	64970K4S3
2005D	6/15/2039	48,500,000		5.000	64970K4T1
2006A	6/15/2028	110,450,000		4.500	64970K7K7
2006A	6/15/2029	65,000,000		4.500	64970K7M3
2006A	6/15/2032	79,400,000		5.000	64970K7N1
2006A	6/15/2039	202,970,000	(1)	5.000	64970K7P6

* Preliminary, subject to change.

(1) $ of Series 2006A Bonds will be purchased on the closing date of the Fiscal 2015 GG Bonds.

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