

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 7, 2018

NEW ISSUE – BOOK-ENTRY ONLY



RATINGS:
Fitch: AAA
Moody's: Aaa
S&P: AAA

\$255,835,000*

New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Funds Revenue Bonds (New York City Municipal Water Finance Authority Projects – Second Resolution Bonds) Series 2018 B Subordinated SRF Bonds

DATED: Date of Delivery

DUE: June 15, as shown on the inside cover

This cover page is only a brief general summary. You must read this entire official statement to obtain essential information for making an informed investment decision.

PURPOSES

We will use the proceeds of the State Clean Water and Drinking Water Revolving Funds Revenue Bonds (New York City Municipal Water Finance Authority Projects – Second Resolution Bonds) Series 2018 B Subordinated SRF Bonds (the “offered bonds”) to provide financial assistance to the New York City Municipal Water Finance Authority (the “Authority” or “NYCMWFA”) to finance or refinance water pollution control projects and drinking water projects.

THE OFFERED BONDS

Interest on the offered bonds is payable on June 15 and December 15 of each year commencing June 15, 2019. The offered bonds are issued in \$5,000 denominations. The DTC book-entry system will apply to all offered bonds, so you will not be registered as a bondowner. You will not receive physical delivery of certificates evidencing ownership of the offered bonds.

REDEMPTION

The offered bonds are subject to redemption prior to maturity as described herein.

SECURITY AND SOURCES OF PAYMENT

The offered bonds are our *special limited* obligations, payable *solely* from amounts pledged as security as described in this official statement. The offered bonds are issued as Subordinated SRF Bonds under the Master Trust Agreement. As security for the offered bonds, we have pledged: (i) repayments we receive on related bonds issued by the Authority; (ii) moneys available from time to time in the General Reserve Fund under the 2006 Indenture (as defined herein); and (iii) on a subordinated basis, moneys available from time to time in the De-allocated Reserve Account and the Deficiency Reserve Account (as such terms are defined herein) after such moneys are applied, to the extent necessary, in connection with all Senior SRF Bonds secured by the Master Trust Agreement, as described in this official statement. The General Reserve Fund secures all bonds issued under the 2006 Indenture, including the offered bonds. Amounts available from the De-allocated Reserve Account and Deficiency Reserve Account secure the offered bonds on a parity basis with all other subordinated NYCMWFA bonds issued and outstanding and to be issued in the future, all as described herein.

The offered bonds are not our general obligations and are not a charge against our general credit. The offered bonds are not a debt of the State of New York, The City of New York (the “City”) or the Authority. We have no taxing power.

TAX EXEMPTION

In the opinion of Squire Patton Boggs (US) LLP and D. Seaton and Associates, P.A., P.C., acting as our Co-Bond Counsel, under existing statutes and court decisions, and relying on certain representations and assuming compliance with certain covenants, interest on the offered bonds is

- excluded from a bondholder’s federal gross income under the Internal Revenue Code,
- not a preference item for a bondholder under the federal alternative minimum tax, and
- included in the adjusted current earnings of certain corporations under the federal corporate alternative minimum tax imposed for taxable years beginning prior to January 1, 2018.

Also, in Co-Bond Counsel’s opinion, under existing statutes, interest on the offered bonds is exempt from personal income taxes imposed by the State of New York and its political subdivisions, including The City of New York.

DELIVERY

The offered bonds are offered subject to prior sale, when, as and if issued and received by the Underwriters, subject to certain conditions. The offered bonds are expected to be delivered, through DTC’s facilities, on or about November __, 2018.

FURTHER INFORMATION

We have prepared an Annual Information Statement dated October 1, 2018, as it may be amended from time to time (“Annual Information Statement”), which describes our various financing programs. We have included by specific cross-reference in this official statement portions of our Annual Information Statement. We have filed copies of the Annual Information Statement with the MSRB as described in this official statement. You may obtain our Annual Information Statement from our website at www.efc.ny.gov or you may obtain a hard copy from us directly.

Siebert Cisneros Shank & Co., L.L.C.

Academy Securities
Ramirez & Co., Inc.

November __, 2018

Estrada Hinojosa & Company, Inc.

**Citigroup
Morgan Stanley
Rice Financial Products Company**

* Preliminary, subject to change.

This preliminary official statement and the information contained herein are subject to change, completion or amendment without notice. The offered bonds may neither be sold nor may offers to buy the offered bonds be accepted prior to the time the official statement is delivered in final form. Under no circumstances shall this preliminary official statement constitute either an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the offered bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or exemption under the securities laws of any such jurisdiction.

MATURITIES, AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIP NUMBERS

\$255,835,000*

**New York State Environmental Facilities Corporation
State Clean Water and Drinking Water Revolving Funds Revenue Bonds
(New York City Municipal Water Finance Authority Projects –
Second Resolution Bonds) Series 2018 B
Subordinated SRF Bonds**

Maturity Date June 15*	Principal Amount*	Interest Rate	Price or Yield	CUSIP⁽¹⁾
2019	\$ 2,140,000	%	%	
2020	3,985,000			
2021	4,150,000			
2022	4,365,000			
2023	4,590,000			
2024	4,830,000			
2025	5,085,000			
2026	5,345,000			
2027	5,620,000			
2028	5,915,000			
2029	6,220,000			
2030	6,545,000			
2031	6,885,000			
2032	7,235,000			
2033	7,615,000			
2034	8,010,000			
2035	8,425,000			
2036	8,865,000			
2037	9,325,000			
2038	9,805,000			
2039	10,315,000			
2040	10,850,000			
2041	11,410,000			
2042	12,005,000			
2043	12,630,000			
2044	13,280,000			
2045	13,970,000			
2046	14,700,000			
2047	15,460,000			
2048	16,260,000			

\$ _____* _____% **Term Bonds due June 15, 20__**, Priced to Yield _____% CUSIP⁽¹⁾ _____

\$ _____* _____% **Term Bonds due June 15, 20__**, Priced to Yield _____% CUSIP⁽¹⁾ _____

* Preliminary, subject to change.

¹ Copyright, American Bankers Association (“ABA”). CUSIP data herein are provided by CUSIP Global Services, operated on behalf of the ABA by S&P Global Market Intelligence, a division of S&P Global Inc. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the offered bonds and we do not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the offered 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 offered bonds.

Mandatory Sinking Fund Redemption

**For Series 2018 B Term Bonds
maturing June 15, 20__**

**For Series 2018 B Term Bonds
maturing June 15, 20__**

Date Sinking Fund Payment

Date Sinking Fund Payment

Optional Redemption

The offered bonds maturing on or after June 15, 20__ are subject to redemption prior to maturity at our option, in whole or in part at any time, on or after June 15, 20__, as described herein.

No Unlawful Offers. This official statement does not constitute an offer to sell, or the solicitation of an offer to buy, the offered bonds in any jurisdiction where that would be unlawful. We have not authorized any dealer, salesperson or anyone else to give any information or make any representation in connection with the offering of the offered bonds, except as set forth in this official statement. You should not rely on any such information or representation.

Not a Contract; Not Investment Advice. This official statement is not a contract, and provides no investment advice. You should consult your financial advisor and legal counsel with your questions about this official statement and the offered bonds, or anything else related to this issue of bonds.

No Guarantee of Information. We have provided this information or obtained it from other sources believed to be reliable. We do not, however, guarantee the accuracy or completeness of this information, nor has any one source guaranteed the information provided by any other source. Information and expressions of opinion are subject to change without notice, and you should not draw any implication that there have been no changes since the date of this official statement. Neither the delivery of, nor any sale made under, this official statement shall under any circumstances create any implication that there has been no change in our affairs or in any other matters described herein since the date on the cover page hereof.

Certain Prospective Information. The prospective financial information of the Authority included in Attachment 1 has been prepared by the consultant to the Authority. Marks Paneth LLP has neither examined nor compiled such prospective financial information and, accordingly, do not express any opinion or any other form of assurance with respect thereto. The KPMG LLP report included in our Annual Information Statement and incorporated herein by specific cross-reference, and the Marks Paneth LLP report included in Attachment 1 hereto, relate to historical financial information only and do not extend to any prospective financial information of EFC or the Authority, as applicable.

KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein by specific cross-reference, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement.

MSRB and EMMA. We file annual information about ourselves and the security structure and terms of our bond issues with the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access system (“EMMA”). The MSRB has committed to make the documents filed available to the public through EMMA. Although we make no representations with respect thereto, it is our understanding that EMMA can currently be accessed online at <http://emma.msrb.org/>.

Cross References. The information listed under the heading Cross References in the Table of Contents, as filed with the MSRB through EMMA to date, is “included by specific cross-reference” in this official statement. This means that important information is disclosed by referring to those documents, which are considered to be part of this official statement. You should read this official statement, which includes those filings (and may include filings to be made in the future), in its entirety in order to obtain essential information for making an informed decision in connection with the offered bonds. You may obtain copies of the Annual Information Statement and other filings by writing to us at our headquarters at 625 Broadway, Albany, NY 12207, Attention: Controller and Director of Corporate Operations.

Underwriter Transactions. The Underwriters may over allot or effect transactions which stabilize and maintain the market price of the offered bonds at a level above that which might otherwise prevail in the open market. The Underwriters are not obligated to do this and are free to discontinue it at any time.

Underwriters Review of Official Statement. 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.

Forward-Looking Statements. Statements in this official statement and the documents included by specific cross-reference that are not recitations of historical facts are forward-looking statements. Such statements are based on our beliefs, as well as assumptions made by, and information currently available to, our management and staff. Because the statements are based on expectations about future events and economic performance and are not statements of fact, actual results may differ materially from those projected. Important factors that could cause future results to differ include legislative and regulatory changes, changes in the economy, and other factors discussed in this and other documents that we file with the MSRB through EMMA. When used in our documents or oral presentations, the words “anticipate,” “estimate,” “expect,” “objective,” “projection,” “forecast,” “goal,” or similar words are intended to identify forward-looking statements.

Our Website. We may place a copy of this official statement and our Annual Information Statement on our website at www.efc.ny.gov. Unless this official statement specifically indicates otherwise, no statement on our website is included by specific cross-reference or constitutes a part of this official statement. We have prepared our website information for your convenience, but you should not make any decision in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and we assume no liability or responsibility for errors or omissions on our website. Further, we disclaim any duty or obligation either to update or to maintain that information or any responsibility or liability for any

damages caused by viruses in the electronic files on our website. We also assume no liability or responsibility for any errors or omissions or for any updates to dated website information.

Website Addresses. References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this official statement for purposes of, and as that term is defined in, Rule 15c2-12 of the United States Securities and Exchange Commission, as amended, and in effect on the date hereof ("Rule 15c2-12").

Rule 15c2-12. For purposes of compliance with Rule 15c2-12, this preliminary official statement constitutes an official statement that we have deemed final as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

**NEW YORK STATE
ENVIRONMENTAL FACILITIES CORPORATION
625 Broadway
Albany, New York 12207
www.efc.ny.gov
(518) 402-6924**

Board of Directors

Basil B. Seggos, <i>ex officio</i> , Commissioner of Environmental Conservation of the State of New York.....	Chair
Jeffrey Stefanko, Assistant Commissioner for Administration, New York State Department of Environmental Conservation	Designee
Howard A. Zucker, M.D., J.D., <i>ex officio</i> , Commissioner of Health of the State of New York.....	Member
Michael J. Cambridge, Deputy Center Director, Center for Environmental Health, New York State Department of Health.....	Designee
Roger C. Sokol, Ph.D., Director, Division of Environmental Health Protection, New York State Department of Health.....	Designee
Rossana Rosado, <i>ex officio</i> , Secretary of State of the State of New York.....	Member
Mark P. Pattison, Deputy Secretary of State for Local Government, New York State Department of State	Designee
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Senior Team

Sabrina M. Ty.....	President and Chief Executive Officer
Maureen A. Coleman, Esq.....	General Counsel
George N. Cholakis, Esq.	Executive Deputy Counsel
Timothy P. Burns, P.E.	Director of Engineering and Program Management
Michael D. Malinoski	Controller and Director of Corporate Operations
Audra A. Nowosielski, Ph.D	Director of Public Finance
Franklin W. Hsia.....	Deputy Chief Information Officer

OFFICIAL STATEMENT

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Cross References

The following portions of our **Annual Information Statement**, dated October 1, 2018, as it may be amended from time to time, and filed with the MSRB through EMMA, are included by specific cross-reference in this official statement.

- Part 1. Introduction
 - Exhibit 1A – Additional Information Regarding the Corporation
 - Exhibit 1B – EFC Audited Annual Financial Statement
 - Exhibit 1C – Book-Entry Only System
- Part 2. State Revolving Funds Programs
 - Exhibit 2A – Certain Definitions and Summary of Master Trust Agreement
 - Exhibit 2B – Information Regarding Prior SRF Bonds and SRF Recipients
 - Exhibit 2C – SRF Recipient General Information
- Part 3. 2010 MFI Program
 - Exhibit 3A – Certain Definitions and Summary of Financing Indenture (2010 MFI Program)
- Part 4. New York City Municipal Water Finance Authority Projects
 - Exhibit 4A – Certain Definitions and Summary of Financing Indenture (NYCMWFA Program)
 - Exhibit 4B – Certain Definitions and Summary of Certain Basic Agreements (NYCMWFA Subordinated Financing Program)

Copies of Official Statement

Copies of our official statement are filed with the MSRB for every series of bonds we issue. Further, from time to time, we may file information with the MSRB through EMMA to amend or update information previously filed.

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OFFICIAL STATEMENT

\$255,835,000*

**New York State Environmental Facilities Corporation
State Clean Water and Drinking Water Revolving Funds Revenue Bonds
(New York City Municipal Water Finance Authority Projects –
Second Resolution Bonds) Series 2018 B
Subordinated SRF Bonds**

(the “offered bonds”)

INTRODUCTION

This official statement – which includes the main body and the Exhibits – provides you with information about the offered bonds, together with information about how we administer our State Revolving Fund (“SRF”) financing programs.

We were created in 1970 as the “New York State Environmental Facilities Corporation,” known as “EFC,” by the EFC Act (as described below). We are a public benefit corporation of the State, which means that we are a corporate entity separate and apart from the State of New York (the “State”), without any power of taxation, and that the State is not obligated to pay our bonds.

The offered bonds are being issued as part of our New York City Municipal Water Finance Authority financing program (the “NYCMWFA Program”) described in Part 4 of our Annual Information Statement. We are issuing the offered bonds to provide financial assistance to the New York City Municipal Water Finance Authority (the “Authority” or “NYCMWFA”) to finance or refinance water pollution control projects and drinking water projects. We will issue the offered bonds pursuant to the New York State Environmental Facilities Corporation Act, Title 12 of Article 5 of the Public Authorities Law of the State of New York, as amended, which we call the “EFC Act,” and under the Financing Indenture dated as of June 1, 2006, as amended and supplemented (the “2006 Indenture”), between us and Manufacturers and Traders Trust Company, as trustee (the “Trustee”). The offered bonds constitute *subordinated* NYCMWFA bonds under the 2006 Indenture.

A summary of the 2006 Indenture, as amended and supplemented, is contained in Exhibit 4B to Part 4 of our Annual Information Statement and is included herein by specific cross-reference.

Another financing document that provides security for the offered bonds is the Amended and Restated Master Trust Agreement dated as of July 1, 2005, as amended (as so amended, the “MTA”), between us and Manufacturers and Traders Trust Company, as trustee, or any successor thereto (the “MTA Trustee”), and the Project Finance Agreement dated as of June 1, 2006, as supplemented, among us, the Authority and The City of New York (the “City”), as supplemented and amended. We summarize the provisions of the MTA in Exhibit 2A to our Annual Information Statement.

In addition to being secured by the 2006 Indenture, pursuant to the terms of the MTA, subordinated NYCMWFA bonds (including the offered bonds) are secured on a subordinated basis by certain moneys expected to be released from time to time from the lien of the 2010 Master Financing Indenture dated as of June 1, 2010 (the “2010 MFI” and “2010 MFI program”), between us and Manufacturers and Traders Trust Company, as trustee, or any successor thereto as herein described.

* Preliminary, subject to change.

The offered bonds are not our general obligations and are not a charge against our general credit. They are our special limited obligations, which means they are payable solely from the funds pledged or made available for such payment as described herein. The offered bonds are not a debt of the State, the City or the Authority. We have no taxing power.

See **SECURITY AND SOURCES OF PAYMENT FOR THE OFFERED BONDS** in this official statement.

USE OF PROCEEDS

We will issue the offered bonds to provide financial assistance to the Authority to finance or refinance clean water and drinking water projects.

See **SOURCES AND USES OF FUNDS** in this official statement.

NEW YORK STATE ENVIRONMENTAL FACILITIES CORPORATION

We are governed by a board of directors, three of whom are required to be the following State officials: the Commissioner of the New York State Department of Environmental Conservation (“DEC”) (who is also designated as the chair of EFC), the Commissioner of the New York State Department of Health (“DOH”) and the Secretary of State. The four remaining directors are appointed by the Governor and confirmed by the State Senate.

Our main offices are located at 625 Broadway, Albany, New York 12207, and our telephone number is (518) 402-6924. Our website address is *www.efc.ny.gov*.

We are empowered by State law:

- to administer and finance the SRFs established by the State as set forth in the EFC Act pursuant to the federal Water Quality Act and the federal Safe Drinking Water Act;
- to finance certain State Contributions to each of our SRFs and certain environmental infrastructure projects;
- to finance, through the issuance of special obligation revenue bonds under our Industrial Finance Program, water management, solid waste disposal, sewage treatment and pollution control projects undertaken by or on behalf of private entities; and
- to render technical advice and assistance to private entities, state agencies and local government units on sewage treatment and collection, pollution control, recycling, hazardous waste abatement, solid waste disposal and other related subjects.

For additional information about us, see Exhibit 1A – **ADDITIONAL INFORMATION REGARDING THE CORPORATION** and Exhibit 1B – **EFC AUDITED ANNUAL FINANCIAL STATEMENT** in our Annual Information Statement.

NEW YORK STATE DEPARTMENT OF ENVIRONMENTAL CONSERVATION

The Department of Environmental Conservation is established under the Environmental Conservation Law of the State as a State agency responsible for carrying out the environmental policy of the State, including conserving, improving and protecting the State’s natural resources and environment

and controlling water, land and air pollution. DEC has certain statutory responsibilities with respect to the clean water SRF program described herein. DEC has entered into a memorandum of understanding with us, which delineates the respective obligations of DEC and EFC concerning the operation of this program. See Part 1 to our Annual Information Statement under the heading **NEW YORK STATE DEPARTMENT OF ENVIRONMENTAL CONSERVATION** for more detail.

NEW YORK STATE DEPARTMENT OF HEALTH

The Department of Health is established under the Public Health Law of the State as a State agency responsible for carrying out the public health policy of the State, including conserving, improving and protecting the State's drinking water. DOH has certain statutory responsibilities with respect to the drinking water SRF program described herein. DOH has entered into a memorandum of understanding with us, which delineates the respective obligations of DOH and EFC concerning the operation of this program. See Part 1 to our Annual Information Statement under the heading **NEW YORK STATE DEPARTMENT OF HEALTH** for more detail.

STATE REVOLVING FUNDS PROGRAMS

Establishment of SRFs

The federal Water Quality Act and the federal Safe Drinking Water Act each require that, as a condition for receipt of certain federal financial assistance, each state establish a clean water revolving fund and a drinking water revolving fund, respectively, administered by the state or an instrumentality of the state.

The purpose of our clean water SRF is to provide a financial resource for certain types of financial assistance to eligible recipients for the construction of publicly-owned wastewater treatment facilities, other eligible clean water projects, and certain facilities undertaken as part of an estuary conservation and management plan.

The purpose of our drinking water SRF is to provide a financial resource for certain types of financial assistance to various public drinking water systems (including systems owned by for-profit entities and not-for-profit entities) for expenditures for projects that will facilitate compliance with national and state drinking water regulations or otherwise advance the health protection objectives of the federal Safe Drinking Water Act.

The equity contributions to our SRFs are funded by federal capitalization grants and State matching funds. Financial assistance under either SRF program may be provided either from federal capitalization grants, State matching funds, recycled federal and State moneys, investment income or from proceeds of our bonds.

Since the inception of our SRF financing programs, we have been awarded \$6.1 billion in federal capitalization grants and State matching funds for the clean water SRF program and \$1.5 billion in federal capitalization grants and State matching funds for the drinking water SRF program. As of November 1, 2018, we have issued approximately \$19.2 billion in SRF bonds (including refunding bonds) under the clean and drinking water SRF programs, of which approximately \$5.7 billion are currently outstanding.

Our SRF financing programs are called the state *revolving* fund programs because the payments from recipients and the releases from the reserve funds, net of payments required for SRF bonds and other obligations, are re-used to provide financial assistance to recipients and to fund new reserve deposits if required.

Sources of Funding SRFs

The SRFs are each funded through the following:

- federal capitalization grants awarded to the State and appropriated by the State to fund the applicable SRF;
- State matching funds from the State;
- SRF bond proceeds;
- recycled funds from de-allocated reserve accounts;
- interest earnings on SRF funds on deposit; and
- recycled recipient financing payments.

With certain exceptions, in order to receive federal capitalization grants, the State must contribute its matching funds in a ratio of at least \$1 of State matching funds for every \$5 of federal capitalization grants.

SRF moneys relating to the clean water SRF and the drinking water SRF are applied and maintained separately. Separate accounts or subaccounts for each SRF are established and maintained in each of the funds and accounts created under the 2006 Indenture and the MTA, each of which is described in more detail in Parts 4 and 2 and Exhibits 4A, 4B and 2A, respectively, to our Annual Information Statement.

Uses of SRF Moneys

We use the terms “applicable SRF” to mean the clean water SRF or the drinking water SRF, as appropriate, and “applicable Commissioner” to mean the Commissioner of DEC or the Commissioner of DOH, as appropriate.

The EFC Act requires that we apply the moneys in the clean water SRF and the drinking water SRF at the direction of the applicable Commissioner to provide financial assistance to recipients for construction of eligible projects and certain other purposes permitted by the federal Water Quality Act and the federal Safe Drinking Water Act, respectively, including providing for the administrative and management costs of the applicable SRF. Under the EFC Act, upon consultation with the Director of the Budget of the State and the applicable Commissioner, we are also authorized to apply, and have applied, moneys in the clean water SRF and the drinking water SRF for other purposes permitted by the federal Water Quality Act and the federal Safe Drinking Water Act, respectively.

We are authorized to apply moneys in each SRF for various types of financial assistance to eligible recipients in connection with eligible projects, including, but not limited to, the following: buying or refinancing certain debt obligations; making loans; guarantying or purchasing insurance for local obligations where such action would improve market access or reduce interest costs; and using funds in the SRF as a source of revenue or security for the payment of principal and interest on revenue or general obligation bonds issued by us if the proceeds thereof will be deposited in the SRF.

DEC and the U.S. Environmental Protection Agency (“EPA”) have entered into an SRF Operating Agreement for the clean water SRF, which sets forth rules, procedures and activities governing

EPA and the State in administering federal capitalization grants and the clean water SRF. DOH and EPA have similarly entered into an SRF Operating Agreement for the drinking water SRF that sets forth rules, procedures and activities governing EPA and the State in administering federal capitalization grants and the drinking water SRF.

SRF Financing Programs

We will issue revenue bonds under our NYCMWFA Program and will continue to issue revenue bonds under our 2010 MFI program. The NYCMWFA Program also authorizes us to enter into agreements with providers of credit and liquidity facilities that secure or support payment of NYCMWFA bonds issued under such program, which agreements may be secured on parity with such bonds.

We refer to our NYCMWFA Program and our 2010 MFI program as our “SRF financing programs” and to any bonds issued to fund any of our SRF financing programs as “SRF bonds”.

We describe our NYCMWFA Program and our 2010 MFI program in more detail in Parts 2, 3 and 4 of our Annual Information Statement and summarize the provisions of our financing documents relating to our NYCMWFA Program and our 2010 MFI program in Exhibits 2A, 3A, 4A and 4B to our Annual Information Statement.

Federal and State Legislation and Regulation

The administration of the SRFs and our financing programs may be impacted from time to time by the enactment of federal or state legislation and the adoption of regulations, policies or guidelines by the applicable federal and state regulatory agencies.

NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY (NYCMWFA) PROGRAM

We will issue the offered bonds under our NYCMWFA Program and the 2006 Indenture. Our NYCMWFA Program includes both clean water and drinking water components. We may issue both *senior* and *subordinated* bonds under our NYCMWFA Program. The offered bonds are *subordinated* NYCMWFA bonds. We refer to the provision of financial assistance to a qualified recipient, including the Authority, from the proceeds of our offered bonds, as a “leveraged financing.”

Leveraged Financing Administration

To obtain a leveraged financing, we require the Authority to submit financial information and, if applicable, demographic and system information, as well as additional documentation that may include recent official statements, capital and operating budgets, engineering reports and environmental review documentation.

In connection with a leveraged financing, we review the materials submitted and work with the Authority to determine whether a project proposed to be financed meets our program, credit, legal and policy guidelines. If those criteria are satisfied, a recommendation with supporting documentation is prepared. This recommendation is then reviewed and, if appropriate, approved by our application approval committee comprised of certain senior team members. NYCMWFA leveraged financings approved by that committee are further reviewed and approved by our Board and the State’s Public Authorities Control Board. Approval by our Board and the State’s Public Authorities Control Board is required prior to closing NYCMWFA leveraged financings.

NYCMWFA leveraged financing payments are scheduled to be paid by the Authority no later than the date payment is due on the related NYCMWFA bonds. The Authority has not missed a principal or interest payment, and we have never drawn on any reserve to cover a default relating to a NYCMWFA leveraged financing.

The Authority, the Water Board and the System

The Authority, the New York City Water Board (the “Water Board”), and the City, acting by and through its Department of Environmental Protection, have certain responsibilities with respect to one or more of constructing, financing, operating and maintaining the System (defined below) and setting the rates and charges for the use of the System. The System is comprised of and includes all of the public facilities for the collection, transmission and distribution of water to the City (the “Water System”) and all of the public facilities for collection, treatment and disposal of sewage generated within the City (the “Sewer System,” and together with the Water System, the “System”). We have no responsibility for the maintenance and operation of the System or the setting or collection of rates and charges for the services of the System. See **Attachment 1** “*Certain Information Relating to the New York City Municipal Water Finance Authority and to the System*” hereto for more detail.

SECURITY AND SOURCES OF PAYMENT FOR THE OFFERED BONDS

The revenue bonds issued in our NYCMWFA Program, which include the offered bonds, are our *special limited* obligations, which means they are payable *solely* from specific sources of money that we have pledged or made available under particular financing documents. **The offered bonds are not our general obligations and are not a charge against our general credit. The offered bonds are not a debt of the State, the City or the Authority and none of the State, the City or the Authority shall have any liability with respect to the offered bonds.**

NYCMWFA bonds may be issued on a *senior* or *subordinated* basis for the purpose of financing or refinancing the Authority’s clean water and drinking water projects. Senior NYCMWFA bonds and subordinated NYCMWFA bonds also may be issued to refund outstanding NYCMWFA bonds. The offered bonds will be issued on a *subordinated* basis and we refer to those bonds as “subordinated NYCMWFA bonds.”

Security for Subordinated NYCMWFA Bonds, Including the Offered Bonds

Payment on the offered bonds will be secured as follows:

- **Authority Payments.** Under our NYCMWFA Program, the Authority’s payments to us on NYCMWFA Second Resolution Bonds issued by the Authority in connection with our issuance of subordinated NYCMWFA bonds are pledged to the payment of the NYCMWFA bonds. Such pledged Authority payments are expected to be the primary source of payment for debt service on the NYCMWFA bonds. Each series of subordinated NYCMWFA bonds is secured separate and apart from any other series of subordinated NYCMWFA bonds by payments required to be made by the Authority on the related NYCMWFA Second Resolution Bonds. Each series of NYCMWFA Second Resolution Bonds issued in connection with the issuance of subordinated NYCMWFA bonds will be on a parity, as to security and source of payment, with all other NYCMWFA Second Resolution Bonds issued from time to time. Since a portion of certain leveraged financings have been funded with a combination of subordinated NYCMWFA bond proceeds and amounts available in the clean water SRF and drinking water SRF equity accounts, pledged Authority payments due in

respect of such financings will, in the aggregate, be in excess of the debt service on such subordinated NYCMWFA bonds.

- **General Reserve Fund.** Our subordinated NYCMWFA bonds are also secured by moneys, if any, available from time to time in a General Reserve Fund under the 2006 Indenture. We will use any available moneys in this fund to cure or prevent defaults *not only* on the offered bonds, *but also* on other subordinated NYCMWFA bonds.
 - We will deposit in the General Reserve Fund certain principal and interest payments we expect to receive on NYCMWFA Second Resolution Bonds that we have acquired from the Authority. Such NYCMWFA Second Resolution Bonds have been or will be acquired with SRF equity, not bond proceeds. We will also deposit in the General Reserve Fund certain principal and interest payments we expect to receive on bonds of certain other recipients of SRF financial assistance that were pledged at or about the same time as the issuance of certain other subordinated NYCMWFA bonds. The principal and interest payments on such NYCMWFA Second Resolution Bonds and the bonds of such other recipients, together with any additional bonds of NYCMWFA or other recipients funded with SRF equity and not bond proceeds which may be similarly pledged and deposited in the General Reserve Fund, are collectively referred to as “Pledged DF Recipient Bond Payments.” The Pledged DF Recipient Bond Payments are expected to be in the aggregate amounts shown in the column headed “General Reserve Fund Payments” in the table on page 13 of this official statement. **To the extent that the Authority defaults on its payment obligation on the NYCMWFA Second Resolution Bonds acquired with the proceeds of our subordinated NYCMWFA bonds referred to above under “Authority Payments,” it will have similarly defaulted on the NYCMWFA Second Resolution Bonds which are the source of a portion of the Pledged DF Recipient Bond Payments.** Such a default would reduce or delay and could end the deposit of amounts to the General Reserve Fund to cure or prevent defaults on subordinated NYCMWFA bonds. We are permitted to substitute payments on bonds issued by other recipients of SRF financial assistance as Pledged DF Recipient Bond Payments at any time, but we are not required to do so, even if Pledged DF Recipient Bond Payments are not made when due.
 - We will deposit in the General Reserve Fund any amounts released and transferred from any debt service reserve fund established for any other series of subordinated NYCMWFA bonds. No debt service reserve fund will be established in connection with the issuance of the offered bonds.
 - On any debt service payment date on which any payment of interest on NYCMWFA bonds is due, the Trustee will transfer from the General Reserve Fund and deposit in the Debt Service Fund the moneys held in the General Reserve Fund constituting a portion of the Committed Subsidy Amount then available to the Recipient, determined in accordance with our agreement with the Authority.
 - On any debt service payment date for subordinated NYCMWFA bonds, after application of any moneys in any other debt service reserve fund established under the 2006 Indenture, the Trustee will transfer from any amounts held in the General Reserve Fund to the Debt Service Fund, any amounts due on such debt service payment date but not yet available in the Debt Service Fund for such payment.

Amounts so transferred from the General Reserve Fund would be applied to pay all subordinated NYCMWFA bonds.

- After making any transfers described above, we will direct the Trustee to transfer amounts, if any, held within the General Reserve Fund in excess of the “General Reserve Fund Requirement” to the Trustee under the Master Trust Agreement for deposit in the De-Allocated Reserve Account in an amount equal to the amount released and transferred from the Debt Service Reserve Funds to the General Reserve Fund as described above, with the balance, if any to be deposited in our Equity Fund. The General Reserve Fund Requirement on the date of issue of the offered bonds is zero, and we do not expect to maintain a balance in the General Reserve Fund. The “General Reserve Fund Requirement,” as of any date of determination, will be the total of (a) the sum of all deficiencies in all debt service reserve funds established to secure those series of subordinated NYCMWFA bonds for which a debt service reserve fund has been established, and (b) the amount, if any, required to be retained in the General Reserve Fund in order to satisfy a “General Reserve Fund Release Test” established under the 2006 Indenture. The “General Reserve Fund Release Test” is based upon a calculation by us demonstrating that the projected cash flow we expect to be available to pay the subordinated NYCMWFA bonds in each bond year from (i) pledged Recipient Bond payments, (ii) Pledged DF Recipient Bond Payments, (iii) payments of principal and interest we receive on any investments held in the Debt Service Fund, any Debt Service Reserve Fund and the General Reserve Fund, (iv) any uninvested moneys held in the General Reserve Fund, any Debt Service Reserve Fund and the Debt Service Fund and (v) moneys expected to be available, if needed, as “Available De-allocated Reserve Account Release Moneys” as described below will equal at least 120% of the amount necessary to pay all scheduled debt service on all subordinated NYCMWFA bonds in such bond year. We have no obligation to deposit moneys in the General Reserve Fund from any sources other than those described above.
- **Available De-allocated Reserve Account Release Moneys.** Our subordinated NYCMWFA bonds are also secured by moneys available from time to time in the De-allocated Reserve Account and the Deficiency Reserve Account, but only after that money has been used, to the extent necessary, to pay debt service on or replenish reserve requirements for senior NYCMWFA bonds. See below in this official statement under **Available De-allocated Reserve Account Release Payments** for more information about the availability of money released from the De-allocated Reserve Account.
- **Prior Indenture Support Account Moneys.** Our subordinated NYCMWFA bonds are also secured by moneys, if any, available from time to time in the Prior Indenture Support Account created pursuant to our MTA, but only after such moneys have been used, to the extent necessary, to pay debt service on senior NYCMWFA bonds and to replenish any reserve fund for such bonds. See Part 3 to our Annual Information Statement under the heading **SECURITY AND SOURCES OF PAYMENT FOR 2010 MFI OBLIGATIONS – Security For Prior Indenture Bonds**, and Exhibit 4A – “**CERTAIN DEFINITIONS AND SUMMARY OF 2010 MFI (2010 MFI PROGRAM) – SUMMARY OF THE 2010 MFI – Pledge of Funds Created under the 2010 MFI - Application of Pledged Revenues**” and Exhibit 2A – “**CERTAIN DEFINITIONS AND SUMMARY OF MASTER TRUST AGREEMENT – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT – Establishment of Funds and Accounts and Application**

Thereof – *Creation and Custody of Prior Indenture Support Account*” in our Annual Information Statement for more detail.

Committed Subsidies Relating to the Offered Bonds

We have agreed with the Authority that, subject to certain conditions, including compliance by the Authority with SRF program eligibility requirements relating to the financed projects, we will provide a “committed subsidy” which will reduce the interest that would otherwise be payable by the Authority with respect to the leveraged financing they receive. We expect that the moneys we use for such committed subsidy will principally be derived from a portion of the Pledged DF Recipient Bond Payments described above. We may identify other sources of committed subsidy in the future in lieu of, or in addition to, such source.

Amounts made available as committed subsidy will reduce the effective interest rate paid by the Authority. Under the terms of our financing agreement with the Authority, to the extent that such committed subsidy is not available to reduce the interest payable by the Authority on the leveraged financing, the Authority is obligated to make payments of principal and interest, together with any other moneys available under the financing indenture pursuant to which the offered bonds were issued, sufficient to pay principal and interest on the offered bonds. We would continue to be obligated to the Authority to make any committed subsidy available to the Authority to the extent required by our agreement with the Authority.

Reserve Allocations for Senior NYCMWFA Bonds

The amounts pledged under the MTA for each series of NYCMWFA bonds include moneys available from time to time in the De-allocated Reserve Account and the Deficiency Reserve Account established for such series of SRF bonds.

The De-allocated Reserve Account and the Deficiency Reserve Account are funded solely from excess amounts released from the Debt Service Reserve Funds securing NYCMWFA bonds. Such excess amounts are decreasing annually. Therefore, the money available to fund the Deallocated Reserve Account and the Deficiency Reserve Account is also decreasing.

As principal on a recipient bond is repaid, we release an amount from the related Debt Service Reserve Fund so that the amount remaining in the related subaccount of the Debt Service Reserve Fund, together with the remaining amounts available to be drawn under the Capitalization Grant Agreement and from State matching funds and allocated as reserve allocation for that leveraged financing, *is equal to* the reserve allocation for the leveraged financing.

The scheduled final release of reserves under our NYCMWFA Program is the final maturity date of the senior NYCMWFA bonds (June 15, 2036) – which is before the final maturity date of the offered bonds. We expect to issue additional subordinated NYCMWFA bonds to refund senior NYCMWFA bonds, which may result in the earlier release of reserves under our NYCMWFA Program. We also retain the right under the MTA to change or reduce the amount of individual reserve allocations securing senior SRF bonds provided that the minimum aggregate reserve allocation requirements for such senior bonds are met. Such a change or reduction could affect the timing and amount of reserve free ups.

A significant portion of our SRF reserve funds is invested in investment contracts with financial institutions. For a description of those investment contracts and other investments of SRF reserve funds, see Part 4 under the heading **Investment of Reserve Allocations**, and Exhibit 2B in our Annual Information Statement.

Available De-allocated Reserve Account Release Payments

De-allocated Reserve Account. We release those amounts not necessary to satisfy the Debt Service Reserve Fund Requirement for each series of NYCMWFA bonds into the *De-allocated Reserve Account*.

After any release of amounts to the De-allocated Reserve Account, we apply that money:

- *first*, to make up any past due payments of principal or interest on any series of senior NYCMWFA bonds;
- *second*, to the extent of any deficiency in any Debt Service Reserve Fund securing NYCMWFA bonds, to the Deficiency Reserve Account created for SRF bonds in an amount equal to such deficiency, to be applied to senior NYCMWFA bonds, prior to subordinated NYCMWFA bonds and obligations (collectively, “subordinated NYCMWFA obligations”), including the offered bonds;
- *third*, to make up any past due payments of principal or interest on any 2010 MFI bonds, to be applied first to pay any senior 2010 MFI obligations and then to pay any subordinated 2010 MFI obligations; and
- *fourth*, to make any past due payments of principal or interest on the commercial paper program that we may establish.

Any remaining amounts in the De-allocated Reserve Account are then released to the *Unallocated Corpus Subaccounts* of the equity accounts of the clean water SRF and drinking water SRF and no longer secure any NYCMWFA bonds. No amounts representing proceeds of any NYCMWFA bonds are deposited in the Deficiency Reserve Account or the De-allocated Reserve Account.

We describe the allocation of reserves and the release of such reserves in our NYCMWFA Program in more detail in Part 4 of our Annual Information Statement and summarize the provisions of our financing documents relating to such reserves in Exhibits 4A and 4B to the Annual Information Statement.

Deficiency Reserve Account. We will use money in this account to make payments to cure or prevent defaults, *first*, on bonds issued to fund our NYCMWFA Program – in an amount equal to the aggregate of *all* deficiencies in *all* reserves established for *all* those senior NYCMWFA bonds, *then* to pay any debt service or reserve deficiencies on subordinated NYCMWFA obligations, including the offered bonds, *then* to pay any debt service on senior obligations issued or incurred under our 2010 MFI program, and *then* to pay debt service on subordinated obligations issued or incurred under our 2010 MFI program.

Aggregate Historical Cash Flow and Reserves. The tables below set forth, for the NYCMWFA Program and the 2010 MFI program, certain historical balances and cash flows. You should not use these tables to predict future results.

NYCMWFA Program

(Amounts in thousands)

Year Ending Sep. 30	NYCMWFA Debt Service			Interest Subsidies	Net Recipient Financing Payments	De-allocations to De-allocated Reserve Account	Balance in Reserves
	Senior	Subordinated	Total				
2014	\$188,941	\$236,390	\$425,331	\$91,421	\$333,910	\$55,289	\$956,187
2015	170,874	256,813	427,687	88,294	339,393	52,194	903,995
2016	160,898	273,599	434,497	84,477	350,055	53,440	850,554
2017	138,552	298,484	437,036	80,526	356,511	54,438	796,116
2018	115,431	348,212	463,643	76,557	387,090	56,233	694,141

2010 MFI Program

(Amounts in thousands)

Pledged Recipient Payments, 2010 MFI Bond Debt Service and Coverage

Year Ending Sep. 30	A	B	C	D
	Net Recipient Financing Payments	Aggregate Bond Debt Service	Excess Coverage: A-B	Coverage: A/B
2014	\$131,250	\$ 78,927	\$52,323	1.66
2015	154,529	100,944	53,585	1.53
2016	196,695	151,546	45,149	1.30
2017	205,335	152,809	52,526	1.34
2018	212,960	155,974	56,986	1.37

Projected Cash Flow and Reserves. The tables below set forth, for the NYCMWFA Program (both senior and subordinate), certain projected balances and cash flows. The tables project future performance based on scheduled debt service. We retain the right under the Master Trust Agreement to change or reduce the amount of individual reserve allocations securing senior bonds provided that the minimum aggregate reserve allocation requirements for such senior bonds are met. Such a change or reduction could affect the timing and amount of reserve free ups.

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NYCMWFA Program (Senior)
(Amounts in thousands)

Bonds Outstanding, Scheduled Debt Service and Projected Reserve De-Allocations⁽¹⁾

Year Ending Sep. 30	<u>Senior Bonds</u>				De-allocated Reserve Account Release Payments	Balance in Reserves ⁽²⁾
	Bonds Outstanding	Scheduled Debt Service	Interest Subsidies	Net Senior Authority Payments		
2019	\$512,800	\$88,528	\$22,429	\$66,098	\$37,947	\$485,900
2020	455,365	76,913	20,797	56,116	36,400	449,500
2021	430,390	42,181	19,216	22,965	37,579	411,921
2022	370,110	76,795	18,164	58,631	38,803	373,117
2023	346,120	38,007	16,480	21,527	40,041	333,077
2024	305,040	54,377	15,390	38,988	33,842	299,235
2025	263,715	53,015	13,880	39,135	34,272	264,963
2026	227,870	45,881	12,353	33,527	32,167	232,796
2027	191,560	44,941	10,906	34,035	32,887	199,908
2028	162,705	36,043	9,428	26,615	28,190	171,718
2029	138,975	29,928	8,126	21,802	24,416	147,303
2030	115,170	29,145	6,962	22,184	24,760	122,543
2031	90,990	28,631	5,780	22,851	25,430	97,113
2032	66,210	28,309	4,566	23,743	26,115	70,998
2033	40,845	27,930	3,320	24,610	26,818	44,180
2034	21,000	21,418	2,036	19,382	21,680	22,500
2035	8,695	13,121	1,005	12,116	13,228	9,273
2036	0	9,035	409	8,626	9,273	
Total		<u>\$744,198</u>	<u>\$191,247</u>	<u>\$552,951</u>	<u>\$523,847</u>	

(1) Column totals do not add due to rounding of yearly amounts.

(2) Recipient reserves associated with NYCMWFA bonds secure only such bonds and are only available as security for the payment of other SRF bonds to the extent released to the De-Allocated Reserve Account in accordance with the applicable financing indenture.

NYCMWFA Program (Subordinated)*

(Amounts in thousands)

Bonds Outstanding, Scheduled Debt Service, Security Payments and Projected Coverage ⁽¹⁾⁽²⁾

	A	B	C	D	E	F	G	H	I	J	K	L
	Subordinated Bonds											
Year Ending Sep. 30	Bonds Outstanding	Scheduled Debt Service	Subordinated Authority Payments	De-allocated Reserve Account Release Payments ⁽³⁾	Series 2013A Debt Service Reserve Fund Payments	Series 2014A Debt Service Reserve Fund Payments	Series 2017A Debt Service Reserve Fund Payments	General Reserve Fund Payments ⁽⁴⁾	Prior Indenture Support Account Payments ⁽⁵⁾	Total Available Security for Bonds (C through I)	Excess Coverage: J-B	Coverage %: J/B ⁽⁶⁾
2019	\$3,827,685	\$376,900	\$376,900	\$37,947	\$8,060	\$6,769	\$6,884	\$41,210	\$52,518	\$530,289	\$153,389	1.41
2020	3,626,705	388,296	388,296	36,400	8,024	6,709	6,912	43,895	49,356	539,592	151,296	1.39
2021	3,419,430	385,104	385,104	37,579	7,990	6,645	4,362	59,476	44,785	545,940	160,836	1.42
2022	3,242,350	345,024	345,024	38,803	7,951	6,582	1,502	62,461	43,626	505,949	160,925	1.47
2023	3,024,890	376,918	376,918	40,041	7,834	6,517	1,505	59,596	41,288	533,700	156,782	1.42
2024	2,836,070	337,552	337,552	33,842	7,485	6,448	1,506	47,370	35,747	469,949	132,397	1.39
2025	2,644,115	331,331	331,331	34,272	7,446	6,004	-	48,498	35,906	463,457	132,126	1.40
2026	2,445,925	328,192	328,192	32,167	7,406	5,936	-	49,141	32,237	455,079	126,887	1.39
2027	2,256,395	310,006	310,006	32,887	7,249	5,832	-	66,744	32,959	455,678	145,672	1.47
2028	2,072,880	294,631	294,631	28,190	7,212	5,761	-	81,489	33,326	450,609	155,978	1.53
2029	1,887,335	287,635	287,635	24,416	7,163	5,691	-	85,522	33,473	443,900	156,265	1.54
2030	1,705,500	274,735	274,735	24,760	7,115	5,614	-	76,854	30,605	419,683	144,948	1.53
2031	1,526,045	263,177	263,177	25,430	7,065	5,540	-	73,542	31,496	406,250	143,073	1.54
2032	1,369,470	231,397	231,397	26,115	7,012	5,460	-	63,088	31,182	364,254	132,857	1.57
2033	1,220,075	216,543	216,543	26,818	-	5,381	-	58,913	30,142	337,796	121,253	1.56
2034	1,082,965	196,792	196,792	21,680	-	5,296	-	60,665	27,938	312,372	115,579	1.59
2035	956,835	178,915	178,915	13,228	-	-	-	62,510	27,837	282,490	103,575	1.58
2036	828,035	175,509	175,509	9,273	-	-	-	64,416	27,400	276,598	101,089	1.58
2037	721,045	147,762	147,762	-	-	-	-	65,990	28,220	241,972	94,210	1.64
2038	622,750	133,773	133,773	-	-	-	-	67,962	27,945	229,680	95,907	1.72
2039	542,515	110,672	110,672	-	-	-	-	67,885	23,826	202,383	91,711	1.83
2040	471,965	96,870	96,870	-	-	-	-	70,247	22,433	189,550	92,680	1.96
2041	397,930	96,828	96,828	-	-	-	-	69,471	21,092	187,392	90,564	1.94
2042	333,800	83,221	83,221	-	-	-	-	72,181	19,432	174,834	91,613	2.10
2043	266,675	83,155	83,155	-	-	-	-	74,879	16,862	174,896	91,741	2.10
2044	196,405	83,095	83,095	-	-	-	-	67,920	13,216	164,231	81,136	1.98
2045	122,825	83,048	83,048	-	-	-	-	71,081	7,644	161,774	78,725	1.95
2046	52,500	76,278	76,278	-	-	-	-	66,637	4,866	147,781	71,503	1.94
2047	16,100	39,025	39,025	-	-	-	-	34,461	2,111	75,597	36,572	1.94
2048	-	16,905	16,905	-	-	-	-	14,438	-	31,343	14,438	1.85
Total		\$6,349,289	\$6,349,289	\$523,847	\$105,012	\$96,185	\$22,671	\$1,848,543	\$829,469	\$9,775,018	\$3,425,729	

(1) Column totals do not add due to rounding of yearly amounts.

(2) This table reflects the issuance of the offered bonds, scheduled to close on or about November 29, 2018.

(3) The De-allocated Reserve Account and Deficiency Reserve Account are available to secure subordinated NYCMWFA bonds only after being used to pay debt service on or replenish reserve requirements for senior NYCMWFA bonds.

(4) Amounts shown represent principal and interest payments expected to be received from certain NYCMWFA Second Resolution Bonds and certain principal and interest payments on bonds issued by other recipients of SRF financial assistance. All such bonds have been acquired with SRF equity.

(5) The Prior Indenture Support Account is available to secure subordinated NYCMWFA bonds only after being used to pay debt service on or replenish reserve requirements for senior NYCMWFA bonds.

(6) Projected coverage will vary as additional subordinated NYCMWFA bonds are issued and as available security changes.

* Preliminary, subject to change.

Remedies

In the event of a default, except as otherwise provided in the financing indenture, neither the Trustee nor the owners of the offered bonds will have the right to declare the offered bonds immediately due and payable.

Additional NYCMWFA Obligations

We are permitted to issue additional senior NYCMWFA bonds on a parity with other senior NYCMWFA bonds and senior to the offered bonds; provided that we make a reserve allocation of at least 33 1/3% of the principal amount of the leveraged financings provided by such series of additional senior NYCMWFA bonds and the Authority delivers its related Second Resolution Bonds to us. We are permitted to issue additional subordinated NYCMWFA bonds on a parity with the offered bonds, except with respect to any debt service reserve fund established for any series of subordinated NYCMWFA bonds.

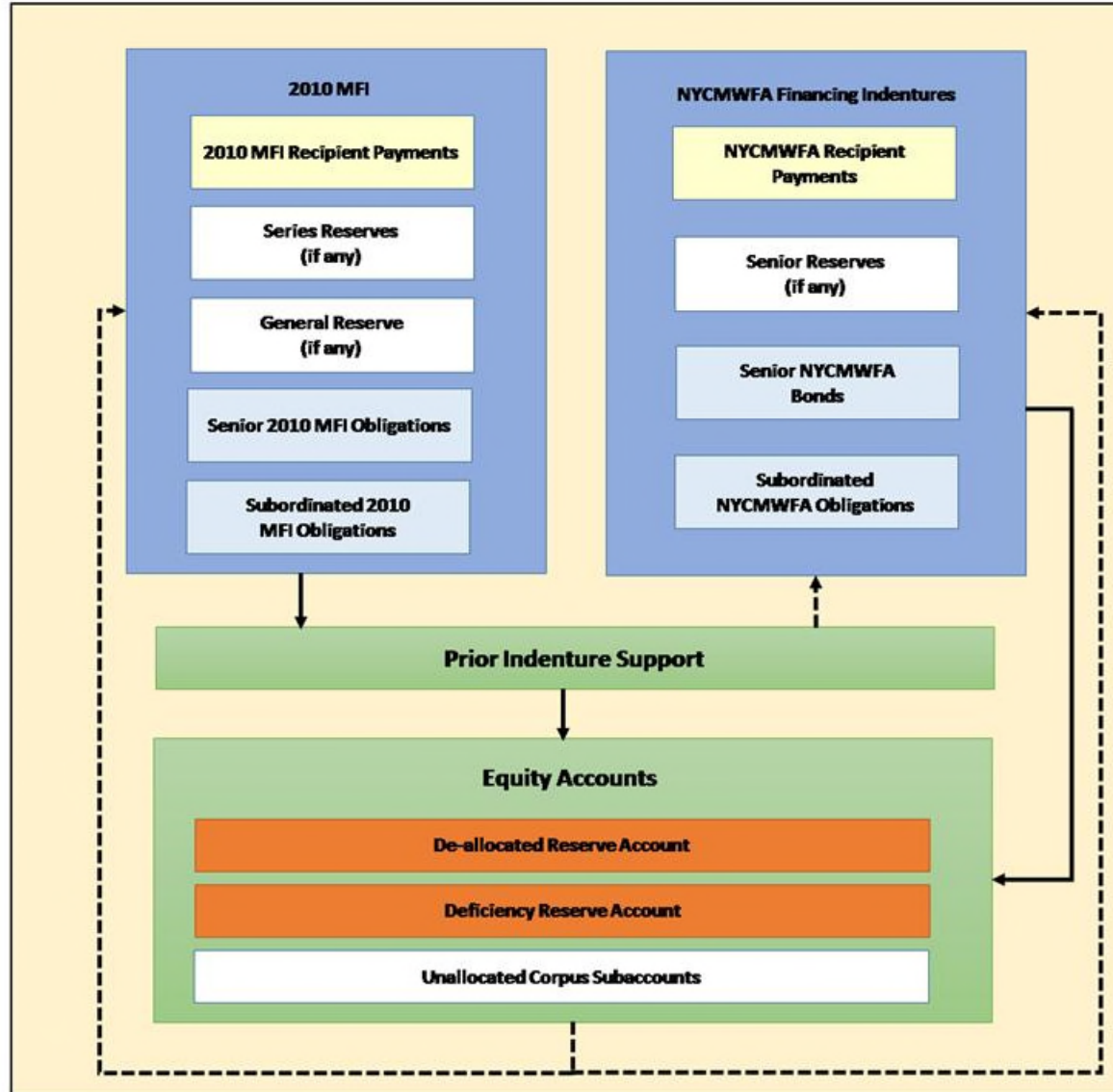
Additional Information

For additional information relating to matters such as the security for SRF bonds, including our NYCMWFA bonds, leveraged financing repayments, issuance of additional NYCMWFA bonds and separation of clean water SRF and drinking water SRF moneys, see Exhibit 4A, Exhibit 4B, and Exhibit 2A, respectively, to our Annual Information Statement.

The chart on the following page provides an overview of our SRF financing programs and is qualified by reference to the detailed summaries in our Annual Information Statement.

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New York State Environmental Facilities Corporation SRF Bond Financing Programs*



*Simplified for graphic presentation purposes

— Planned Flows

- - - - - Contingent Cash Flows

Please refer to security and sources of payment of Offered Bonds and AIS for complete description of cash flows.

SOURCES AND USES OF FUNDS

We anticipate that the proceeds of the offered bonds (including net original issue premium/discount) will be used as follows:

Sources*

Par Amount of the offered bonds	\$
Net Original Issue [Premium/Discount]	
EFC Equity for Direct Financing	
Total Sources	<u>\$</u>

Uses*

Project Costs	\$
Underwriters' Discount	
Costs of Issuance and Other Issuance Charges	
Deposit to Series 2018 B Debt Service Fund	
Total Uses	<u>\$</u>

DESCRIPTION OF THE OFFERED BONDS

General

The offered bonds are being issued pursuant to the EFC Act, the 2006 Indenture and a Supplemental Indenture dated as of November 1, 2018 between us and the Trustee.

Rates, Maturities, and Denominations. The offered bonds will bear interest at the rates and mature in the amounts and on the dates shown on the inside cover of this official statement. All offered bonds are fully registered in denominations of \$5,000 each or whole multiples of \$5,000. Interest on the offered bonds will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.

Book-Entry Only. The DTC Book-Entry Only System will apply to all offered bonds. Bond payments will go to DTC, and DTC will then be responsible to remit the payments to its participants for payment to bondowners. For more detailed information regarding DTC and the Book-Entry Only System see Exhibit 1C – **BOOK-ENTRY ONLY SYSTEM** to the Annual Information Statement.

Interest Payment Dates. Each offered bond will be dated the date of delivery, and will bear interest from that date payable as shown on the inside cover of this official statement. While the Book-Entry Only System applies to the offered bonds, Cede & Co. (DTC's nominee) will be the sole registered owner of all of the offered bonds, all interest payments will go to DTC by wire transfer of immediately available funds and DTC's Participants will be responsible for payment of interest to bondowners.

Transfers and Exchanges. While DTC is the securities depository for the offered bonds, transfers of ownership interests in the offered bonds will occur through the Book-Entry Only System. If the offered bonds are not held by a securities depository, registered bondowners may surrender and transfer their bonds in person or by a duly authorized attorney, at the principal corporate trust office of the Trustee. In this instance, registered bondowners must complete an approved transfer form and pay any taxes or governmental charges which apply to the transfer.

* Preliminary, subject to change.

Redemption Prior to Maturity

Mandatory Redemption

The term offered bonds are subject to mandatory sinking fund redemption, in part, by lot, on each of the dates stated on the inside cover of this official statement and in the tables below, at a redemption price equal to the principal amount shown on the inside cover of this official statement and in the tables below.

For Series 2018 B Term Bonds maturing June 15, 20__		For Series 2018 B Term Bonds maturing June 15, 20__	
<u>Date</u>	<u>Sinking Fund Payment</u>	<u>Date</u>	<u>Sinking Fund Payment</u>

Optional Redemption

The offered bonds maturing on or after June 15, 20__ are subject to redemption prior to maturity at our option in whole or in part at any time on or after June 15, 20__ at par, plus accrued interest to the redemption date.

Redemption Notices. So long as the offered bonds remain under the Book-Entry Only System the Trustee must mail redemption notices to DTC during a 30-to-60-day period before the redemption date. At our election, the redemption notice may state that such redemption will be conditioned upon the availability of funds sufficient to pay the redemption price of the affected offered bonds, and such notice will be of no further force and effect unless sufficient funds for that purpose are available. A redemption of the offered bonds is valid and effective even if DTC's procedures for notice fail to give you notice directly. You should consider arranging to receive redemption notices or other communications to DTC affecting you, including notice of interest payments through DTC participants. **Please note that all redemptions are final - even if you did not receive your notice, and even if your notice had a defect.**

Redemption Process. If the Trustee gives a redemption notice and holds money to pay the redemption price of the affected offered bonds, then on the redemption date the bonds called for redemption will become due and payable and you must cash them in with the Trustee. Thereafter, no interest will accrue on those bonds, and your only right as a bondowner will be to receive payment of the redemption price upon surrender of the offered bonds.

TAX MATTERS

Federal Tax Status

In the opinion of each Co-Bond Counsel, under existing statutes and court decisions and relying on certain representations and assuming compliance with certain covenants, interest on the offered bonds is

- excluded from a bondholder's federal gross income under the Internal Revenue Code,
- not a preference item for a bondholder under the federal alternative minimum tax, and

- included in the adjusted current earnings of certain corporations under the federal corporate alternative minimum tax imposed for taxable years beginning prior to January 1, 2018.

The Internal Revenue Code imposes requirements on the offered bonds that must continue to be met after the offered bonds are issued. These requirements generally involve restrictions on the way that proceeds of the offered bonds must be used and invested. If these requirements are not met, it is possible that a bondholder may have to include interest on the offered bonds in its federal gross income on a retroactive basis to the date of issue. We, the Authority and the Water Board have covenanted to take actions necessary to meet the requirements of the Internal Revenue Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the offered bonds. This is possible if a bondholder is in any of the following categories, in which case the bondholder should consult its tax advisor:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit, or
- a borrower of money to purchase or carry the offered bonds.

Original Issue Discount

Each maturity of the offered bonds will have “original issue discount” if the price paid by a bondholder is less than the principal amount of those bonds. Each Co-Bond Counsel is of the opinion that the original issue discount on the offered bonds as it accrues is not included in a bondholder’s federal gross income under the Internal Revenue Code. The tax accounting treatment of original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder’s tax basis in those bonds will be increased. Each Co-Bond Counsel is also of the opinion that the original issue discount on these offered bonds as it accrues is exempt from personal income taxes imposed by New York State and its political subdivisions, including The City of New York. If a bondholder owns one of those bonds, it should consult its tax advisor regarding the tax treatment of original issue discount.

Bond Premium

If a bondholder purchases a bond being offered for a price that is more than the principal amount, generally the excess is “bond premium” on that bond. The tax accounting treatment of bond premium is complex. It is amortized over time and as it is amortized a bondholder’s tax basis in that bond will be reduced. A bondholder in certain circumstances may realize a taxable gain upon the sale of an offered bond with bond premium, even though that bond is sold for an amount less than or equal to the bondholder’s original cost. If a bondholder owns any offered bond with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

State Tax Status

In each Co-Bond Counsel's opinion, under existing statutes interest on the offered bonds is exempt from personal income taxes imposed by the State of New York and its political subdivisions, including The City of New York.

Backup Withholding

Under the Internal Revenue Code, interest on the offered bonds is subject to "backup withholding" if the recipient of the interest does not complete a Form W-9, Request for Taxpayer Identification Number and Certification, or otherwise provide to the payor a taxpayer identification number. "Backup withholding" means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Internal Revenue Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient of interest receives its payments of interest or who collects such payments on behalf of such recipient. In general, it is expected that bondowners purchasing the offered bonds through a brokerage account will have executed a W-9 in connection with the establishment of such account so that no backup withholding will occur. The backup withholding requirement does not affect the excludability of the interest on the offered bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the bondowner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the offered bonds under Federal or state law or otherwise prevent beneficial owners of the offered bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the offered bonds. For example, the recent federal tax legislation that was enacted on December 22, 2017 reduces corporate tax rates, modifies individual tax rates, eliminates many deductions, repeals the corporate alternative minimum tax (for taxable years beginning after December 31, 2017) and eliminates the tax-exempt advance refunding of tax-exempt bonds, among other things. Additionally, investors in the offered bonds should be aware that future legislative actions might increase, reduce or otherwise change (including retroactively) the financial benefits and the treatment of all or a portion of the interest on the offered bonds for federal income tax purposes for all or certain taxpayers. In all such events, the market value of the offered bonds may be affected and the ability of bondholders to sell their offered bonds in the secondary market may be reduced. The offered bonds are not subject to special mandatory redemption, and the interest rates on the offered bonds are not subject to adjustment, in the event of any such change in the tax treatment of interest on the offered bonds.

Prospective purchasers of the offered bonds should consult their own tax advisors regarding the foregoing matters.

Opinion of Counsel

See *Exhibit A* to this official statement for the form of opinion that Co-Bond Counsel expect to deliver when the offered bonds are delivered. Co-Bond Counsel are not responsible for updating their respective opinions after the issue date of the offered bonds.

LEGALITY FOR INVESTMENT

The EFC Act provides that the offered bonds are securities in which the following investors may properly and legally invest funds, including capital in their control or belonging to them:

- all public officers and bodies of the State and all municipalities and political subdivisions in the State,
- 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, building and loan associations, investment companies and other persons carrying on a banking business,
- all administrators, guardians, executors, trustees and other fiduciaries, and
- all other persons whatsoever who are now or who may hereafter be authorized to invest in bonds or other obligations of the State.

Certain of those investors, however, may be subject to separate restrictions which limit or prevent their investment in the offered bonds.

RATINGS

S&P Global Ratings, Moody's Investors Service and Fitch Ratings have assigned their ratings, specified on the cover, to the offered bonds. Those ratings reflect only the views of the organizations assigning them. You may obtain an explanation of the significance of the ratings from each agency, identified as follows:

S&P Global Ratings
55 Water Street
New York, New York 10041
(212) 438-2400
www.spratings.com

Moody's Investors Service
7 World Trade Center
250 Greenwich Street
New York, New York 10007
(212) 553-0377
www.moody.com

Fitch Ratings
33 Whitehall Street
New York, New York 10004
(212) 908-0500
www.fitchratings.com

We have furnished to each rating agency information about ourselves, our recipients, and the offered bonds. Generally, each rating agency bases its ratings on that information and on independent investigations, studies, and assumptions made by that rating agency. You have no assurance that ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by a rating agency if, in the judgment of that rating agency, circumstances warrant the revision or withdrawal. Those circumstances may include, among other things, changes in or unavailability of information relating to us or the offered bonds. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the offered bonds.

LITIGATION

There is no pending litigation challenging the validity or enforceability of the offered bonds or seeking to restrain or enjoin the issuance, sale or delivery of the offered bonds, and there is no pending litigation challenging any financing made from the proceeds of any previously issued SRF bonds. In addition, each recipient described has represented to us that, to its knowledge, there is no pending or threatened litigation contesting the enforceability of that recipient's obligation to us.

MUNICIPAL ADVISOR

In their role as our municipal advisors, FirstSouthwest, a Division of Hilltop Securities Inc. (“FirstSouthwest”), and TKG & Associates LLC have provided advice on the plan of financing and structure of the offered bonds, reviewed certain legal and disclosure documents – including this official statement for financial matters relating to the offered bonds – and reviewed the pricing of the offered bonds. Neither FirstSouthwest nor TKG & Associates LLC has independently verified the factual information contained in this official statement, but each has relied on the information supplied by us and other sources.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase from us the offered bonds at an aggregate underwriters’ discount from the initial public offering prices corresponding to the prices or yields set forth on the inside cover page equal to the amount shown above as a line item in the table under **SOURCES AND USES OF FUNDS** in this official statement, and to reoffer the offered bonds at the public offering prices corresponding to the prices or yields set forth on the inside cover page. The offered bonds may be offered and sold to certain dealers (including dealers depositing the offered bonds into investment trusts) at prices lower than those public offering prices, and those prices may be changed, from time to time, by the Underwriters. The Underwriters’ obligations are subject to certain conditions precedent, and they will be obligated to purchase *all* the offered bonds if *any* offered bonds are purchased. Siebert Cisneros Shank & Co., L.L.C. is the representative designated by the Underwriters.

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

The Underwriters have requested the addition of the following: 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 EFC, for which they 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 EFC.

LEGAL MATTERS

All legal proceedings in connection with the issuance of the offered bonds are subject to the approval of Squire Patton Boggs (US) LLP and D. Seaton and Associates, P.A., P.C., Co-Bond Counsel. Co-Bond Counsel have advised us that they assume no responsibility for the accuracy, completeness or fairness of this official statement. The proposed form of the opinion of each Co-Bond Counsel is set forth in *Exhibit A* to this official statement.

Certain legal matters will be passed upon for us by Maureen A. Coleman, Esq., General Counsel. Certain legal matters will be passed upon for the Underwriters by Barclay Damon LLP, Albany, New York and McGlashan Law Firm, P.C., New York, New York, co-counsel to the Underwriters.

Co-Bond Counsel and co-counsel to the Underwriters from time to time may serve as bond counsel to certain of the recipients of financial assistance from our SRF programs.

CONTINUING DISCLOSURE

The offered bonds will be subject to the continuing secondary market disclosure requirements of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"). For a copy of the form of our Continuing Disclosure Agreement with respect to the offered bonds, please see **Exhibit B**. The Continuing Disclosure Agreement, however, may be amended or modified without the consent of the owners of the offered bonds under certain circumstances. Pursuant to the Continuing Disclosure Agreement, we have agreed to provide certain financial information and operating data by no later than nine months following the end of the our fiscal year (March 31) commencing with our 2018/2019 fiscal year and certain notices. That annual information is to include, among other things, portions of the information contained herein and information of the type included in Exhibit 2B to our Annual Information Statement. Our annual audited financial statements prepared in accordance with generally accepted accounting principles will be delivered, or if unavailable, unaudited financial statements will be delivered until audited statements become available. We have undertaken to file that information with EMMA.

NEW YORK STATE ENVIRONMENTAL
FACILITIES CORPORATION

By: _____
Sabrina M. Ty
President and CEO

FORM OF CO-BOND COUNSEL OPINION

November __, 2018

New York State Environmental Facilities Corporation
625 Broadway
Albany, New York 12207-2997

We have served as bond counsel to our client, the New York State Environmental Facilities Corporation (the “Corporation”) in connection with the issuance by the Corporation of its \$_____ State Clean Water and Drinking Water Revolving Funds Revenue Bonds (New York City Municipal Water Finance Authority Projects - Second Resolution Bonds) Series 2018 B Subordinated SRF Bonds (the “Bonds”), dated the date of this letter.

The Bonds are issued under and pursuant to the Constitution and laws of the State of New York, particularly the New York State Environmental Facilities Corporation Act, as amended, being Chapter 744 of the Laws of 1970, as amended, and constituting Title 12 of Article 5 of the Public Authorities Law and Chapter 43 A of the Consolidated Laws of the State of New York (the “Act”) and under and in accordance with a Financing Indenture of Trust dated as of June 1, 2006, as heretofore supplemented and amended and as supplemented by the Fifteenth Supplemental Series Indenture of Trust, dated as of November 1, 2018 (collectively referred to herein as the “Financing Indenture”), between the Corporation and Manufacturers and Traders Trust Company, as trustee (the “Trustee”). The Bonds are also secured by an Amended and Restated Master Trust Agreement (the “Master Trust Agreement”), dated as of July 1, 2005, as heretofore amended and supplemented, between the Corporation and Manufacturers and Traders Trust Company, as trustee (the “Master Trustee”) and as custodian thereunder.

The Bonds constitute “Subordinated Bonds” as defined in the Master Trust Agreement. The Master Trust Agreement provides that senior lien Bonds (as defined in the Master Trust Agreement) are entitled to a prior lien on the moneys held under the Master Trust Agreement which are pledged as security for Subordinated Bonds under the Master Trust Agreement. Several outstanding series of Subordinated Bonds have previously been issued, and the Master Trust Agreement provides that the Corporation may issue additional Subordinated Bonds for the purposes stated therein. All Subordinated Bonds are equally and ratably secured by funds pledged and available therefor under the Master Trust Agreement.

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the Bonds, the documents set forth below and such other documents, matters and law as we deem necessary to render the opinions set forth in this letter.

We have also examined executed copies of the Financing Indenture, the Master Trust Agreement, and the Project Finance Agreement dated as of June 1, 2006, as heretofore amended and supplemented and as supplemented by the Fifteenth Supplemental Project Finance Agreement, dated as of November 1, 2018 (collectively referred to herein as the “Project Finance Agreement”) among the Corporation, the New York City Municipal Water Finance Authority (the “Recipient”) and The City of New York (the “City”), whereby the Corporation has agreed to use a portion of the proceeds of the Bonds to finance or refinance certain clean water and drinking water projects. Under the Project Finance Agreement, the Recipient has agreed to execute and deliver to the Trustee certain obligations of the Recipient (the “Series

2018 B Recipient Bonds”) issued under the Recipient’s Water and Sewer System Second General Revenue Bond Resolution adopted March 30, 1994, as amended and supplemented (the “Recipient Second Resolution”). Such bonds of the Recipient together with all other bonds of the Recipient heretofore and hereafter issued to the Corporation by the Recipient under the Project Finance Agreement are collectively hereinafter referred to as “Recipient Bonds.” We have also examined copies of certain Project Finance Agreements (referred to herein as the “DF Project Finance Agreements”) among the Corporation, the Recipient and the City, whereby the Corporation agreed to use certain moneys other than bond proceeds to purchase certain obligations of the Recipient (the “Pledged DF Recipient Bonds”) issued under the Recipient Second Resolution in order to finance or refinance the costs of certain projects described in the DF Project Finance Agreements. Under the DF Project Finance Agreements, the Recipient executed and delivered to the Trustee the Pledged DF Recipient Bonds. The City is not liable with respect to the Recipient Bonds or the Pledged DF Recipient Bonds. We have also examined the Tax Regulatory Agreement, dated the date hereof, among the Recipient, the Corporation and the Trustee (the “Tax Regulatory Agreement”), in which the Recipient, the New York City Water Board (the “Water Board”) and the Corporation have made representations, warranties and covenants relating to the exclusion of interest on the Bonds from gross income for federal income tax purposes, including, but not limited to, certain representations with respect to the use of the proceeds of the Bonds and to the investment of certain funds.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

1. The Corporation is a body corporate and politic constituting a public benefit corporation, and is duly created and validly existing under the Constitution and laws of the State of New York, including particularly the Act, and has the right and lawful authority to issue the Bonds and purchase the Series 2018 B Recipient Bonds from the Recipient with proceeds of the Bonds for the purposes described above and as contemplated by the Project Finance Agreement and the Financing Indenture, to receive and pledge the revenues and receipts derived pursuant to the Recipient Bonds and the Pledged DF Recipient Bonds as provided in the Financing Indenture and to secure the Bonds in the manner contemplated by the Financing Indenture and the Master Trust Agreement.
2. The Corporation has the right and power pursuant to the Act to enter into and perform its obligations under the Financing Indenture, and the Financing Indenture has been duly authorized, executed and delivered by the Corporation, is in full force and effect and constitutes a legal, valid and binding obligation of the Corporation enforceable in accordance with its terms.
3. The Corporation has the right and power pursuant to the Act to enter into and perform its obligations under the Master Trust Agreement, and the Master Trust Agreement has been duly authorized, executed and delivered by the Corporation, is in full force and effect and constitutes a legal, valid and binding obligation of the Corporation enforceable in accordance with its terms.
4. The Corporation has the right and power pursuant to the Act to enter into and perform its obligations under the Project Finance Agreement and the DF Project Finance Agreements, and the Project Finance Agreement and the DF Project Finance Agreements have each been duly authorized, executed and delivered by the Corporation, and each is in full force and effect and constitutes a legal, valid and binding agreement of the Corporation enforceable in accordance with its terms.

5. The Corporation has the right and power pursuant to the Act to enter into and perform its obligations under the Tax Regulatory Agreement, and the Tax Regulatory Agreement has been duly authorized, executed and delivered by the Corporation, is in full force and effect and constitutes a legal, valid and binding agreement of the Corporation enforceable in accordance with its terms. Those rights and interests of the Corporation under the Tax Regulatory Agreement assigned by the Corporation to the Trustee for the benefit of the Bondowners have been duly and legally assigned.
6. The Bonds have been duly authorized, executed and delivered and issued by the Corporation in accordance with the Financing Indenture and the Constitution and the laws of the State of New York, including the Act.
7. The Bonds are enforceable in accordance with their terms and the terms of the Financing Indenture and are entitled to the benefits of the Act, the Financing Indenture and the Master Trust Agreement (to the extent provided therein). All conditions precedent to the delivery of the Series 2018 B Bonds have been fulfilled.
8. The Bonds constitute special limited obligations of the Corporation, and the principal of and interest and any premium on (collectively, “debt service”) the Bonds, together with debt service on any other obligations issued and outstanding on a parity with the Bonds as provided in the Financing Indenture and the Master Trust Agreement, are payable from and secured solely by a valid lien on and pledge of, the Recipient Bonds and the Pledged DF Recipient Bonds and the payments by the Recipient of principal, premium, if any, and interest thereon and other moneys held by the Trustee under the Financing Indenture and available therefor and, subject to a prior lien in favor of senior lien Bonds (as defined in the Master Trust Agreement), moneys held by the Master Trustee under the Master Trust Agreement and pledged and available therefor, all in the manner provided in the Financing Indenture and the Master Trust Agreement, respectively. The Bonds are not general obligations of the Corporation, are not a charge against its general credit and the Corporation has no taxing power. The Bonds are not a debt of the State or any political subdivision thereof.
9. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, interest on the Bonds is included in the calculation of a corporation’s adjusted current earnings for purposes of, and thus may be subject to, the corporate alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. Interest on the Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers. We express no opinion as to any other tax consequences regarding the Bonds.

In rendering the opinions set forth in paragraphs 4, 5 and 8 above, we have relied with your approval upon the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the Recipient, with respect to the due authorization, execution and delivery of the Project Finance Agreement, the DF Project Finance Agreements, the Tax Regulatory Agreement, the Recipient Second Resolution, the Series 2018 B Recipient Bonds and the Pledged DF Recipient Bonds by the Recipient.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such

opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined and (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any parties other than the Corporation.

In rendering those opinions with respect to treatment of the interest on the Bonds under the federal tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined, including those of the Corporation, the Water Board and the Recipient. Failure to comply with certain of those covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance.

The rights of the owners of the Bonds and the enforceability of the Financing Indenture, the Master Trust Agreement, the Tax Regulatory Agreement, the Recipient Bonds, the Pledged DF Recipient Bonds, the Project Finance Agreement and the DF Project Finance Agreements are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer, and other laws relating to or affecting the rights and remedies of creditors generally; to the application of equitable principles, whether considered in a proceeding at law or in equity; to the exercise of judicial discretion; and to limitations on legal remedies against public entities.

No opinions other than those expressly stated herein are implied or shall be inferred as a result of anything contained in or omitted from this letter. The opinions expressed in this letter are stated only as of the time of its delivery and we disclaim any obligation to revise or supplement this letter thereafter. Our engagement as bond counsel in connection with the original issuance and delivery of the Bonds is concluded upon delivery of this letter.

Respectfully submitted,

EXHIBIT B

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated November ____, 2018 by and between New York State Environmental Facilities Corporation (the “Issuer”) and Manufacturers and Traders Trust Company, as trustee (the “Trustee”) under a Financing Indenture of Trust dated as of June 1, 2006, as heretofore supplemented and amended, and as supplemented by a Fifteenth Supplemental Series Indenture of Trust dated as of November 1, 2018 (the “Indenture”), is executed and delivered in connection with the issuance of the Issuer’s State Clean Water and Drinking Water Revolving Funds Revenue Bonds (New York City Municipal Water Finance Authority Projects - Second Resolution Bonds) Series 2018 B Subordinated SRF Bonds in the amount of \$_____ (the “Bonds”). The proceeds of the Bonds are being advanced by the Issuer to New York City Municipal Water Finance Authority (the “Recipient”) pursuant to a Project Finance Agreement, dated as of June 1, 2006, as amended, and as supplemented by a Fifteenth Supplemental Project Finance Agreement, dated as of November 1, 2018 (the “Project Finance Agreement”). Capitalized terms used in this Agreement which are not otherwise defined in the Indenture shall have the respective meanings specified above or in Article IV hereof.

In order to permit the Underwriter to comply with the provisions of Rule 15c2-12 in connection with the public offering of the Bonds, the parties hereto, in consideration of the mutual covenants herein contained and other good and lawful consideration, hereby agree as follows:

ARTICLE I The Undertaking

Section 1.1. Purpose. This Agreement shall constitute a written undertaking for the benefit of the owners of the Bonds, and is being executed and delivered solely to assist the Underwriter in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) The Issuer shall provide Annual Financial Information with respect to each fiscal year of the Issuer, commencing with fiscal year ended March 31, 2019 by no later than 9 months after the end of the respective fiscal year, to the MSRB.

(b) The Issuer shall provide, in a timely manner, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Issuer shall provide Audited Financial Statements, when and if available, to the MSRB.

Section 1.4. Event Notices. The Issuer shall provide to the MSRB and the Trustee, in a timely manner, notice of any of the following events, not in excess of ten (10) business days after the occurrence of such event, with respect to the Bonds (such notice hereinafter referred to as an “Event Notice”):

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;

- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to the rights of holders of the Bonds, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Issuer;
- (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Section 1.5. Additional Information. Nothing in this Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or Event Notice, in addition to that which is required by this Agreement. If the Issuer chooses to include any information in any Annual Financial Information or Event Notice in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Financial Information or Event Notice.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, <http://emma.msrb.org>) or (ii) filed with the SEC. If such a document is the Official Statement, it also must be available from the MSRB.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time, and may be provided by delivery of an official statement which includes such information.

Section 2.3. Event Notices. Each Event Notice shall be so captioned and shall prominently state the title, date and series of the Bonds.

Section 2.4. Transmission of Information and Notices. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is <http://emma.msrb.org>.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 2.5. Fiscal Year. Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer's current fiscal year is April 1, 2018 - March 31, 2019, and the Issuer shall promptly notify (i) the MSRB and (ii) the Trustee of each change in its fiscal year.

ARTICLE III Termination, Amendment and Enforcement

Section 3.1. Termination. (a) With respect to any Bonds, the Issuer's and the Trustee's obligations under this Agreement shall terminate upon a legal defeasance pursuant to Section XIV of the Indenture, prior redemption or payment in full of such Bonds.

(b) This Agreement, or any provision hereof, shall be null and void in the event that the Issuer (1) delivers to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the effect that those portions of the Rule which require the provisions of this Agreement, or any of such provisions, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the owners of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the Issuer shall have delivered to the Trustee an opinion of Counsel or a determination by a person unaffiliated with the Issuer (such as the Trustee), acceptable to the Issuer, addressed to the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the owners of the Bonds or (ii) the owners of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Indenture with consent of owners of Bonds pursuant to Section 13.02 of the Indenture as in effect on the date of this Agreement, and (5) the Issuer shall have delivered copies of such opinion(s) and amendment to the MSRB.

(b) In addition to subsection (a) above, this Agreement may be amended and any provision of this Agreement may be waived, by written agreement of the parties, without the consent of

the owners of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the effect that performance by the Issuer and Trustee under this Agreement as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule and (3) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall inure solely to the benefit of the owners from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement.

(b) Except as provided in this subsection (b), the provisions of this Agreement shall create no rights in any person or entity. The obligations of the Issuer to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any owner of Outstanding Bonds, or by the Trustee on behalf of the owners of Outstanding Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the owners of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. Neither the Issuer, its directors, officers or employees shall have any liability hereunder for any act or failure to act hereunder; the owners' and Trustee's sole remedy with respect to enforcement of the provisions of this Agreement shall be a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be owners of Bonds for purposes of this subsection (b).

(c) Any failure by the Issuer or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses

matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (i) the financial information or operating data with respect to the Issuer, for each fiscal year of the Issuer, as follows:

(y) included in the Official Statement under the captions STATE REVOLVING FUNDS PROGRAMS – Establishment of SRFs (fifth paragraph only), NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY (NYCMWFA) PROGRAM – Leveraged Financing Administration (second paragraph only) and SECURITY AND SOURCES OF PAYMENT FOR THE OFFERED BONDS – Available De-allocated Reserve Account Release Payments – *Aggregate Historical Cash Flow and Reserves*” and “– *Projected Cash Flow and Reserves*”;

(z) concerning the State Revolving Funds programs of the type appearing in Exhibit 2B to the Corporation’s Annual Information Statement, dated October 1, 2018 (the “Annual Information Statement”), and incorporated by reference in the Official Statement;

and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall also include Audited Financial Statements, if then available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the Issuer, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that the Issuer may from time to time, if required by federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall include a reference to the specific federal or State law or regulation describing such accounting basis and shall be provided by the Issuer to the MSRB.

(3) “Recipient Undertaking” means the separate agreement of the Recipient, dated November 1, 2018, to provide continuing disclosure relating to (i) certain financial and operating data relating to its affairs and (ii) notice of its failure to provide such financial and operating data.

(4) “Counsel” means Squire Patton Boggs (US) LLP and D. Seaton and Associates, P.A., P.C. or other nationally recognized bond counsel or counsel expert in federal securities laws as they relate to municipal securities.

(5) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(6) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

(7) “Official Statement” means the “final official statement,” as defined in paragraph (f)(3) of the Rule, relating to the Bonds.

(8) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(9) “SEC” means the United States Securities and Exchange Commission.

(10) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(11) “Underwriter” means the underwriter, underwriters or other purchasers that have contracted to purchase the Bonds upon initial issuance.

ARTICLE V

Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of Trustee. Article XI of the Indenture is hereby made applicable to this Agreement as if this Agreement were (solely for this purpose) contained in the Indenture. Without limiting the generality of the foregoing, the Trustee shall have only those duties hereunder which are specifically set forth in this Agreement whether or not a default or event of default has occurred hereunder, under the Indenture, Project Finance Agreement or any document expected in connection herewith. The Trustee, its officers, directors, employees and agents, shall be held harmless against any loss, expense or liability which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Trustee’s negligence or willful misconduct in the performance of its duties hereunder to the same extent and from the same sources as shall be available to the Trustee and such persons in connection with actions taken under the Indenture. The obligations of the Issuer under this Section shall survive the termination of this Agreement and the payment of the Bonds.

The Trustee shall have no liability, duty or obligation under this Agreement for, with respect to or arising out of: (i) the selection of Counsel or the determination whether such counsel is a recognized expert in federal securities law; (ii) the adequacy, completeness or sufficiency, for any purpose, of the Annual Information; (iii) the determination of whether an event requiring an Event Notice pursuant to Section 1.04 has occurred or communicating to any party or persons whether such event has occurred; and (iv) the providing of Annual Financial Information to any party or persons.

Section 5.2. No Issuer Responsibility or Liability with Respect to Recipient Undertaking. The Trustee acknowledges that the Issuer has undertaken no responsibility, and shall not be required to undertake any responsibility, with respect to any reports, notices or disclosures required by or provided pursuant to the Recipient Undertaking, and neither the Issuer, its directors, officers, nor employees have

any responsibility or liability to any person, including any holder of the Bonds, with respect to any such reports, notices or disclosures or for the sufficiency, performance, or enforcement of the Recipient Undertaking.

Section 5.3. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

NEW YORK STATE ENVIRONMENTAL
FACILITIES CORPORATION

By: _____

MANUFACTURERS AND TRADERS TRUST
COMPANY, as Trustee

By: _____

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ATTACHMENT 1

**CERTAIN INFORMATION RELATING TO THE
NEW YORK CITY MUNICIPAL WATER FINANCE AUTHORITY
AND TO THE SYSTEM**

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

Board of Directors

Melanie Hartzog, <i>ex officio</i>	<i>Member</i>
Basil Seggos, <i>ex officio</i>	<i>Member</i>
Jacques Jiha, <i>ex officio</i>	<i>Member</i>
Vincent Sapienza, P.E., <i>ex officio</i>	<i>Member</i>
Marc V. Shaw	<i>Member</i>
Max Von Hollweg	<i>Member</i>

Officers

Alan L. Anders	<i>Chief Executive Officer</i>
Olga Chernat	<i>Executive Director</i>
Sanna Wong-Chen	<i>Deputy Executive Director</i>
Prescott D. Ulrey	<i>Secretary</i>
Jeffrey M. Werner	<i>Assistant Secretary</i>
Albert Rodriguez	<i>Assistant Secretary</i>
Robert L. Balducci	<i>Comptroller</i>
Nameca Sharma	<i>Assistant Comptroller</i>
Jason Rhee	<i>Assistant Treasurer</i>
Laura Tarbox	<i>Assistant Treasurer</i>

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

Water Board

Alfonso L. Carney, Jr.	<i>Chair</i>
Tawan Davis	<i>Member</i>
Evelyn Fernandez-Ketcham	<i>Member</i>
Adam Freed	<i>Member</i>
Jonathan E. Goldin	<i>Member</i>
Jukay Hsu	<i>Member</i>
Arlene M. Shaw	<i>Member</i>

Officers

Joseph Murin	<i>Executive Director</i>
Omar A. Nazem	<i>Treasurer</i>
Albert Rodriguez	<i>Secretary</i>

Authority Consultants

Co-Bond Counsel	<i>Nixon Peabody LLP Hardwick Law Firm, LLC</i>
Consulting Engineer Financial Advisors	<i>AECOM USA, Inc. Lamont Financial Services Corporation Drexel Hamilton, LLC</i>
Rate Consultant	<i>Amawalk Consulting Group LLC</i>

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SUMMARY STATEMENT

The following is a brief summary of the information contained in this Attachment 1 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 Attachment 1.

Use of Proceeds:	The proceeds of the Authority's Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2019 Series 2 and Fiscal 2019 Series 3 (the "Fiscal 2019 Series 2 and 3 Bonds") are expected to be applied to (i) refund certain Authority Second Resolution bond anticipation notes issued to the New York State Environmental Facilities Corporation (the "Corporation") and (ii) pay certain of the Corporation's costs of issuance.
Description of the Bonds:	The Fiscal 2019 Series 2 and 3 Bonds are being issued by the Authority in the principal amount of \$484,000,000* pursuant to its Water and Sewer System Second General Revenue Bond Resolution, adopted on March 30, 1994, as amended (the "Authority Second Resolution"), and its Supplemental Resolutions No. 140 and 141 adopted on October 12, 2018.
The System:	The Water System provides approximately 1,000 million gallons per day ("mgd") of water to approximately 834,000 accounts in the City. It supplies water to approximately 9.6 million residents, of which approximately 8.6 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):

	(in millions)				
	Historical (1)			Projected (1) (2)	
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues Available for Authority First Resolution Debt Service.....	\$3,960.7	\$3,981.4	\$3,722.4	\$3,866.1	\$3,926.5
Authority Expenses	47.0	50.9	52.5	56.2	59.0
Revenues Available for Authority First and Second Resolution Debt Service.....	3,913.7	3,930.5	3,669.9	3,809.9	3,867.5
Board Expenses	35.7	43.9	37.7	51.2	53.8
Net Operating Expenses (3).....	1,259.7	1,225.5	1,375.6	1,485.1	1,534.4
Cash Financed Capital Construction (4)	-	-	125.0	550.0	400.0
Cash Defeasance of Debt.....	948.6	974.1	825.0	-	-
Base Rental Payment to the City of New York.....	137.0	-	-	-	-
Deposits to O&M Reserve Fund.....	21.9	(13.5)	7.1	2.3	7.2
Total Expenses (5).....	2,449.9	2,280.9	2,422.9	2,144.8	2,054.4
Total Authority First Resolution Debt Service	120.7	107.7	59.3	136.9	194.8
Net Debt Service on FGR Subordinated Indebtedness (6).....	404.1	388.7	300.2	608.4	745.0
Non-Recurring Cash Receipts / Escrow Release	(35.2)	(8.3)	(16.5)	(16.6)	(16.6)
Net Year-end Balance.....	\$1,021.2	\$1,212.3	\$ 956.5	\$ 992.7	\$ 948.9
Authority First Resolution Debt Service Coverage.....	32.81x	36.97x	62.8x	28.24x	20.16x
Authority First and Second Resolution Debt Service Coverage (6) (7)..	7.46x	7.92x	10.2x	5.11x	4.12x
Rate Increase	2.97%	0.00%	0.00%	2.36%(8)	2.31%

Totals may not add due to rounding. Figures are calculated on a cash basis.

- (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 June 1, 2018.
- (3) Includes credits or charges for prior year O&M payment reconciliation. Excludes Authority and Board expenses.
- (4) Funds may also be used for the defeasance of Authority debt.
- (5) Includes Authority and Board 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.

Total Authority Debt Outstanding:

As of the date of this Attachment 1, the Authority has approximately \$1.6 billion of Authority First Resolution Bonds (defined below) and \$28.2 billion of Authority Second Resolution Bonds (defined below) Outstanding, not including \$540.6 million in draws on bond anticipation notes issued to the Corporation. See “CAPITAL IMPROVEMENT AND FINANCING PROGRAM – Debt Service Requirements.” In addition, the Authority has a \$600 million commercial paper program, none of which is currently outstanding.

Capital Program:

The City’s Ten Year Capital Strategy, which is updated every two years, was released on April 26, 2017 (the “Ten Year Capital Strategy”). The Ten Year Capital Strategy includes the projected contractual commitments for capital improvements to the System for Fiscal Years 2018 through 2027. The City’s Current Capital Plan (the “Current Capital Plan”), which covers Fiscal Years 2019 through 2022, was published on October 10, 2018, is typically updated three times each Fiscal Year, and supersedes the Ten Year Capital Strategy for Fiscal Years 2019 through 2022. Projected contractual commitments for capital improvement costs to the System for Fiscal Years 2019 through 2027 are reflected in the Capital Improvement Program (the “CIP”), which consists of the Current Capital Plan and the last five years of the Ten Year Capital Strategy. The CIP is

Bond Financing Program:

designed to maintain a satisfactory level of service, to improve operation of the System and to address future System requirements.

The following table shows, as of June 1, 2018, total Bonds expected to be issued, excluding refunding bonds, from Fiscal Year 2019 to Fiscal Year 2023.

<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>Period Total</u>
\$1,893	\$1,721	\$1,778	\$2,086	\$2,245	\$9,723

As of the date of this Attachment 1, during Fiscal Year 2019 the Authority has issued \$100 million of Authority Second Resolution Bonds, not including refunding bonds and draws on bond anticipation notes.

Security for the Authority Second Resolution Bonds:
Revenue Pledge:

The Authority Second Resolution Bonds are special obligations of the Authority, payable solely from and secured by a pledge of amounts on deposit in the FGR Subordinated Indebtedness Fund established under the Authority First Resolution and all moneys and securities in any of the funds and accounts established under the Authority 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 Authority First Resolution Bonds Outstanding and on any Projected Series of Authority 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 Authority Second Resolution Bonds and other FGR Subordinate Indebtedness) to the extent required to be paid from Revenues for such Fiscal Year.

Additional Bonds Test:

Additional Authority Second Resolution Bonds may be issued for capital purposes under the Authority Second Resolution only if the Revenues for either of the last two Fiscal Years preceding the Fiscal Year in which the Authority 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 Authority First Resolution Bonds, the Authority Second Resolution Bonds and certain other FGR Subordinated Indebtedness issued on parity with Authority Second Resolution Bonds (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 Authority Second Resolution Bonds and certain other FGR Subordinated Indebtedness issued on parity with Authority Second Resolution Bonds). Authority Second Resolution Refunding Bonds may be issued under the Authority Second Resolution either upon satisfaction of such conditions or other conditions.

No Debt Service Reserve Fund:

The Fiscal 2019 Series 2 and 3 Bonds will not be secured by the Debt Service Reserve Fund.

Rates:	Rates, fees and charges are imposed by the Board and are not subject to regulatory approval except for those rates charged to a limited class of upstate users representing approximately 2.2% of Revenues.
The Authority:	The Authority, a separate legal entity established in 1984, has the power to (i) issue bonds, bond anticipation notes and other obligations for the purpose of financing the renovation and improvement of the System, (ii) refund its bonds and notes and general obligation bonds of the City issued for water or sewer purposes, (iii) require the Board to fix rates sufficient to pay the costs of operating and financing improvements to the System and (iv) require the City to maintain the System adequately. The Authority has no taxing power.
The Board:	The Board, a separate legal entity established in 1984, has leased the System from the City. It is authorized to fix and collect rates, fees and charges adequate to pay the cost of operating and financing the System.
The Agreement:	Pursuant to the Agreement, the Authority has agreed to finance capital projects for the System, both current work and work commenced in prior years, through the issuance of bonds, notes or other indebtedness secured by revenues of the System.
The Lease:	Pursuant to the Lease, the Board has acquired the System from the City for a term continuing until provision has been made for the repayment of all Outstanding Authority First Resolution Bonds, Authority Second Resolution Bonds or other indebtedness of the Authority.

INTRODUCTORY STATEMENT

General

The purpose of this Attachment 1 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 2019 Series 2 and Fiscal 2019 Series 3 (the “Fiscal 2019 Series 2 and 3 Bonds”). Capitalized terms used in this Attachment 1 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 “Authority First Resolution” and, bonds issued thereunder the “Authority First Resolution Bonds”), or subordinate obligations of the Authority under its Authority 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 2019 Series 2 and 3 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 “Authority Second Resolution”), and its Supplemental Resolutions No. 140 and 141 adopted on October 12, 2018 (the “Fiscal 2019 Series 2 and 3 Supplemental Resolutions”). All bonds issued under the Authority Second Resolution are referred to herein as “Authority Second Resolution Bonds.” The Authority Second Resolution and the Fiscal 2019 Series 2 and 3 Supplemental Resolutions are collectively referred to herein as the “Resolutions.” U.S. Bank National Association 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 Authority Second Resolution.

The Authority Second Resolution Bonds are special obligations of the Authority, payable solely from and secured by a pledge of amounts on deposit in the FGR Subordinated Indebtedness Fund established by the Authority First Resolution and all moneys or securities in any of the funds and accounts established under the Authority Second Resolution, subject only to provisions of the Authority 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 all Authority First Resolution Bonds to become due in such Fiscal Year on all Authority First Resolution Bonds, plus 100% of the operation and maintenance expenses of the System certified by the City and of Required Deposits (which includes the debt service on the Authority 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 AUTHORITY 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 AUTHORITY SECOND RESOLUTION BONDS.”

Rates, fees and charges are imposed by the Board and are not subject to regulatory approval under current law except for the rates charged to a limited class of upstate users, representing approximately 2.2% of Revenues. See “RATES AND BILLINGS.”

The federal administration has discussed changes in existing federal spending programs, as well as regulations which could affect the System and the Authority. It is not possible at this time to predict what form these changes may ultimately take and, when taken as a whole, the effect they will have on the System and the Authority.

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 Attachment 1 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 Attachment 1, 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 June 1, 2018, and are expected to be updated annually. Actual financial results will differ from these projections.

PLAN OF FINANCE

The proceeds of the Fiscal 2019 Series 2 and 3 Bonds will be applied to (i) refund certain Authority Second Resolution bond anticipation notes issued to the New York State Environmental Facilities Corporation (the “Corporation”) and (ii) pay certain of the Corporation’s costs of issuance.

AMENDMENTS OF THE AUTHORITY SECOND RESOLUTION

In October 2015, the Authority adopted its One-Hundred and Fifteenth Supplemental Resolution providing for the amendment of the Authority Second Resolution. As more fully described in APPENDIX C, such amendment will become effective immediately with respect to the Fiscal 2019 Series 2 and 3 Bonds, but only to the extent moneys are separately segregated or allocated to the Fiscal 2019 Series 2 and 3 Bonds, and with respect to all Authority Second Resolution Bonds upon consent thereto of the holders of at least a majority of the principal amount of Outstanding Authority Second Resolution Bonds. The amendment to the Authority Second Resolution would amend the following definitions of the Authority Second Resolution: (i) “Defeasance Obligations,” (ii) “Investment Securities,” and (iii) “Ratings Agencies”. The amendment to the Authority Second Resolution amends the definitions of (i) “Defeasance Obligations” to clarify the use of certain securities issued or guaranteed by federal instrumentalities or government sponsored enterprises provided, at the time acquired, it is rated in the highest category by at least two Rating Agencies, one of which maintains a rating on the Outstanding Authority Second Resolution Bonds; (ii) “Investment Securities” to include obligations of any state, agency, political subdivision or public authority within the United States, provided, at the time acquired, it is rated in the highest category by at least two Rating Agencies, one of which maintains a rating on the Outstanding Authority Second Resolution Bonds; to provide that substantially all of the Investment Securities must be rated in one of the two highest rating categories by at least two Rating Agencies; to include repurchase agreements collateralized by certain obligations of any state, agency, political subdivision or public authority within the United States and require collateral valuation no less than weekly and (iii) “Ratings Agencies” mean nationally recognized statistical rating organizations (“NRSROs”) registered with the Securities and Exchange Commission. The proposed amended definitions are set forth in APPENDIX C under the caption “Glossary – Definition of Certain Terms Used in the Authority Second Resolution.”

The Authority may seek the consent of the holders of currently Outstanding Authority Second Resolution Bonds and will seek the consent of the holders of Authority Second Resolution Bonds to be issued in the future in order to obtain the consent of at least a majority of the holders of Outstanding Authority Second Resolution Bonds. As of November 7, 2018, the Authority had received consents from the holders of \$11.5 billion of the \$28.2 billion (or approximately 40.9%) of currently Outstanding Authority Second Resolution Bonds.

The Corporation has approved and agreed to the amendment of the Authority Second Resolution described herein.

THE FISCAL 2019 SERIES 2 AND 3 BONDS

The Fiscal 2019 Series 2 and 3 Bonds initially delivered to the Corporation will be dated their date of delivery. The Fiscal 2019 Series 2 Bonds will mature on and will bear interest at the rates sufficient in the aggregate to pay the principal of, premium, if any, and interest on the Corporation's Series 2018 B Subordinated SRF Bonds when due. Principal of, redemption premium, if any, and interest on the Fiscal 2019 Series 2 Bonds will be payable in lawful money of the United States of America. The Fiscal 2019 Series 3 Bonds will evidence a direct loan to the Authority from the Corporation. The Fiscal 2019 Series 2 and 3 Bonds in aggregate, will be pledged as security for the Corporation's Series 2018 B Subordinated SRF Bonds when due.

SECURITY FOR THE AUTHORITY 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 Authority First Resolution the Revenues in the Local Water Fund, for deposit in the Revenue Fund established under the Authority 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 FGR Subordinated Indebtedness Fund, including amounts required for payment of the Authority 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 Authority 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 Authority First Resolution Revenue Fund until the total of all amounts deposited in the Authority 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 Authority Second Resolution, amounts deposited into the Authority First Resolution Revenue Fund in any Fiscal Year in excess of the amounts required to be deposited into the Authority First Resolution's Debt Service Fund, Authority Expense Fund, Debt Service Reserve Fund, and Arbitrage Rebate Fund are to be deposited into the FGR Subordinated Indebtedness Fund established under the Authority 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 Authority Second Resolution, equals the Aggregate Debt Service for such Fiscal Year on Authority 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 Authority First Resolution" and "Summary of the Agreement."

Amounts on deposit in the FGR Subordinated Indebtedness Fund will be available to pay debt service on Authority Second Resolution Bonds to the extent not utilized under the terms of the Authority First Resolution to pay debt service on Authority First Resolution Bonds. As soon as practicable in each calendar month a portion of the amounts on deposit in the FGR Subordinated Indebtedness Fund will be transferred free and clear of the lien of the Authority First Resolution to the Revenue Fund under the Authority Second Resolution in an amount sufficient, together with the amount on deposit in the Revenue Fund and Debt Service Fund established under the Authority Second Resolution, to make the amount on deposit therein equal the Monthly Balance (as defined in the Authority Second Resolution). The Monthly Balance is the amount required to provide for timely payment of all Debt Service on Outstanding Authority 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 the Authority Second Resolution – Monthly Balance."

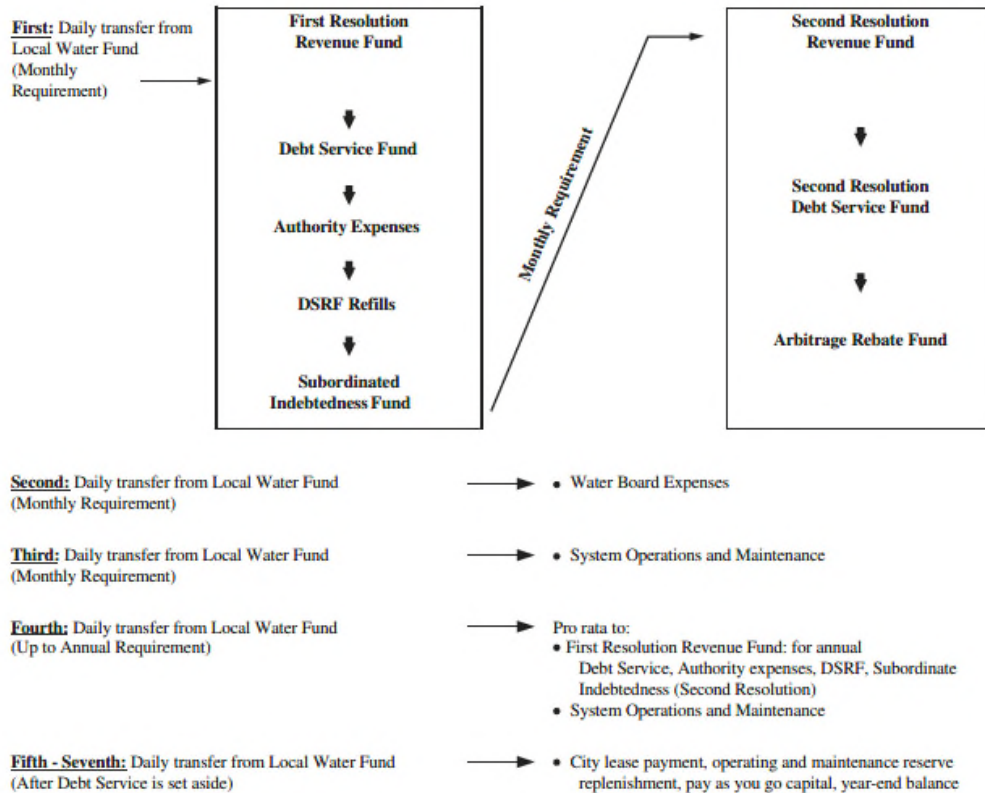
In addition, beginning on the day when no Authority First Resolution Bonds are Outstanding, Revenues are to be deposited from the Local Water Fund into the Revenue Fund established under the Authority Second Resolution. As described below, such Revenues will be used to make payments to the Authority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

Amounts on deposit in the Revenue Fund established under the Authority Second Resolution are to be paid to the following funds established under the Authority Second Resolution in the following order of priority: first, to the Debt Service Fund; second, if no Authority 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 Authority First Resolution Bonds are then Outstanding, to the SGR Subordinated Indebtedness Fund established under the Authority 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 Authority Second Resolution – Payments into Certain Funds."

The Fiscal 2019 Series 2 and 3 Bonds will be on a parity with all other outstanding Authority Second Resolution Bonds heretofore and hereafter issued. The Fiscal 2019 Series 2 and 3 Bonds are payable from and secured by a pledge of (a) amounts on deposit in the FGR Subordinated Indebtedness Fund, subject, however, to the first lien on such amounts in favor of Authority 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 Authority Second Resolution, except the Arbitrage Rebate Fund. See "APPENDIX C – GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS – Summary of the Authority Second Resolution" and "Summary of the Agreement."

Pursuant to the Agreement, the Authority First Resolution and the Authority 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 Authority First Resolution and the Authority Second Resolution.

Consolidated Flow of Funds



Debt Service Reserve Fund

No deposit will be made to the Debt Service Reserve Fund established under the Authority Second Resolution upon the issuance of the Fiscal 2019 Series 2 and 3 Bonds, and the Fiscal 2019 Series 2 and 3 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 Authority Second Resolution, see “APPENDIX C – GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS – Summary of the Authority 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 Authority First Resolution Bonds, and the principal of and interest on any other indebtedness of the Authority (which includes Authority 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 Authority 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 (including debt service on Authority 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 under the Rate Covenant of Refundable Principal Installments designated under the Authority Second Resolution, see “– Refundable Principal Installments” below.

Under the Authority First Resolution and the Authority 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 Authority Second Resolution Bonds

The Authority may issue additional Authority Second Resolution Bonds to pay for capital improvements to the System, to pay or provide for the payment of Authority First Resolution Bonds, Authority 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 Authority Second Resolution such additional Authority Second Resolution Bonds may be issued on a parity with all Outstanding Authority 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 Authority Second Resolution Bonds are to be issued were at least equal to the sum of 110% of the Aggregate Debt Service on Outstanding Authority First Resolution Bonds, Authority 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 Authority Second Resolution Bonds, Parity Bond Anticipation Notes and Parity Reimbursement Obligations).

The Authority may issue additional Authority 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 Authority Second Resolution Bonds does not exceed the average annual debt service on the Authority Second Resolution Bonds to be refunded, and
- (b) the maximum debt service in any Fiscal Year on the refunding Authority Second Resolution Bonds does not exceed the maximum debt service in any Fiscal Year on the Authority Second Resolution Bonds to be refunded.

See “APPENDIX C – GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS – Summary of the Authority Second Resolution.”

Authority Debt

At the date of this Attachment 1, the Authority has approximately \$1.6 billion aggregate principal amount of Outstanding Authority First Resolution Bonds (Capital Appreciation Bonds are included at their full accreted value at maturity). In addition, at the date of this Attachment 1, the Authority has approximately \$28.2 billion aggregate principal amount of Outstanding Authority Second Resolution Bonds, not including \$540.6 million in draws on bond anticipation notes issued to the New York State Environmental Facilities Corporation. Of such Authority First Resolution Bonds and Authority Second Resolution Bonds, approximately \$4.6 billion are adjustable rate demand bonds and \$200 million are index rate 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").

Authority Second Resolution Bonds are payable from, among other sources, and secured by a pledge of, amounts on deposit in the FGR Subordinated Indebtedness Fund, subject to the first lien on such amounts in favor of the Authority First Resolution Bonds. Amounts on deposit in the FGR Subordinated Indebtedness Fund will be available, to the extent not utilized for Authority First Resolution Bonds, to pay debt service on Authority 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 or letters of credit. 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. The Authority's index rate bonds consist of bonds that were purchased by a financial institution through direct placement and were not offered to the public. Such bonds pay interest based on a specified index and provide for an increased rate of interest of 9% commencing on an identified step up date if such bonds are not converted or refunded. For a list of index rate bonds and information relating to agreements supporting the Authority's adjustable rate demand bonds see APPENDIX E hereto.

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"), none of which is currently outstanding. 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 required to be secured by a standby line of credit agreement to provide 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, Authority First Resolution Bonds or Authority 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 FGR 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 FGR Subordinated Indebtedness Fund is subject and subordinate to the pledge thereof made by the Authority First Resolution for the benefit of the holders of Authority First Resolution Bonds and on parity with the pledge securing the Authority 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 FGR Subordinated Indebtedness Fund on a parity with the pledge to secure the Authority 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 Authority First Resolution Bonds and on parity with the pledge securing the Authority Second Resolution Bonds.

Refundable Principal Installments

As permitted by the Authority Second Resolution, the Authority has designated the maturities of certain Authority Second Resolution Bonds as "Refundable Principal Installments." A "Refundable Principal Installment" is an installment of principal of such Authority Second Resolution Bonds 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 Authority Second Resolution, the stated principal amount of a Refundable Principal Installment is treated as if it were payable over a period extending from the maturity 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. The table included before the debt service requirements schedule under "CAPITAL IMPROVEMENT AND FINANCING PROGRAM – Debt Service Requirements" sets forth, by applicable Series, the outstanding Refundable Principal Installments, the stated maturity dates thereof, the actual interest costs at which the assumed amortizations are calculated and the last dates on which such Series could have been authorized to be paid under the Act.

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 Authority First Resolution Bonds and Authority 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 Authority First Resolution Bonds and Authority 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:

<u>Member</u>	<u>Occupation</u>
Melanie Hartzog (1)	Director of Management and Budget of the City
Basil Seggos (1).....	Commissioner of Environmental Conservation of the State
Jacques Jiha (1)	Commissioner of Finance of the City
Vincent Sapienza, P.E. (1).....	Commissioner of Environmental Protection of the City
Marc V. Shaw (2)	Interim Chief Operating Officer, City University of New York
Max Von Hollweg (2)	Retired Partner, Sidley Austin LLP

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- (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 (“OMB”). 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.

Olga Chernat, Executive Director

Ms. Chernat was appointed Executive Director in June 2017. Prior to her appointment, Ms. Chernat most recently served as Deputy Director of Finance at the Metropolitan Transportation Authority (the “MTA”), where she had been employed since 2009. Prior to joining the MTA, Ms. Chernat worked at the Authority for over two years where she served in several capacities, including most recently as Treasurer. Ms. Chernat began her public finance career as an Assistant Vice President at Roosevelt & Cross, Inc. Ms. Chernat earned a Bachelor of Business Administration degree in finance and investments from the City University of New York in 2002 and achieved a Chartered Financial Analyst designation in 2008.

Sanna Wong-Chen, Deputy Executive Director

Ms. Wong-Chen was appointed Deputy Executive Director in June 2017. Ms. Wong-Chen also serves as Assistant Director of Financing Policy and Coordination for OMB. Prior to joining OMB in September 2016, Ms. Wong-Chen most recently served as Director of Finance at the Long Island Power Authority and prior to that as a Senior Vice President at Siebert Cisneros Shank & Co., L.L.C., a public finance investment bank. Ms. Wong-Chen previously worked at OMB for approximately six years, ending in 2008, where she served in several capacities. Ms. Wong-Chen received her Bachelor of Science Degree from Cornell University in 2000.

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 OMB. 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 OMB. 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.

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.

Jason Rhee, Assistant Treasurer

Mr. Rhee was appointed Assistant Treasurer in June 2017. Mr. Rhee has worked for the Authority since January 2014. Mr. Rhee received a Bachelor of Arts degree in Economics in 2011 and a Masters of Public Administration degree in 2012, both from New York University.

Laura Tarbox, Assistant Treasurer

Ms. Tarbox was appointed Assistant Treasurer in June 2017. Ms. Tarbox also works for OMB, in the Financing Policy and Coordinate Unit, where she has worked since 2008. Prior to her work at OMB, she worked as a municipal credit analyst for CIFG Services, Inc. Ms. Tarbox received a Bachelor of Science degree from Cornell University.

THE BOARD

Purpose and Powers

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

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

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

Membership

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

The current members of the Board are:

<u>Member</u>	<u>Occupation</u>
Alfonso L. Carney, Jr., Chair.....	Principal, Rockwood Partners LLC
Tawan Davis.....	Chief Executive Officer, Steinbridge Group
Evelyn Fernandez-Ketcham	Executive Director, Workforce Development, Hostos Community College
Adam Freed	Principal, Sustainability Practice, Bloomberg Associates
Jonathan E. Goldin	General Counsel, Goldin Associates
Jukay Hsu	Founder, Coalition for Queens
Arlene M. Shaw.....	Director, Brightwood Capital Advisors LLC

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

Joseph Murin, Executive Director

Mr. Murin was appointed Executive Director of the Board in February 2017. Mr. Murin was appointed Chief Financial Officer of DEP in February 2017, after serving as Acting Chief Financial Officer since July 2016. Mr. Murin joined DEP in 2000 and prior to being appointed Chief Financial Officer served as Assistant Commissioner of Budget for DEP since 2007. Since beginning his City service in 1989, Mr. Murin has held budget and financial management positions with the Department of Transportation, the Office of Management and Budget, and the Board of Education's Division of School Facilities. Mr. Murin began his career as an auditor with Arthur Andersen & Co. Mr. Murin received a Bachelor of Science in Accounting from New York University.

Omar A. Nazem, Treasurer

Mr. Nazem was appointed Treasurer in March 2016. Prior to joining DEP, Mr. Nazem worked in investment management, most recently at Exium Partners, Coller Capital, and J.P. Morgan Asset Management. Mr. Nazem is a graduate of Harvard University and is a CFA charterholder.

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.

The Bureau of Sustainability 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 Chief Financial Officer oversees the Budget Office, the Bureau of Customer Services, the Office of the Agency Chief Contracting Officer, the Office of the Agency Chief Engineer, Information Technology, Engineering Audit, Fleet Management and other administrative divisions. The Chief Administrative Officer oversees Labor Relations, Discipline, Organizational Development and Human Resources, and Environmental Health and Safety.

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 the Bureau of Public Affairs.

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

Vincent Sapienza, P.E., Commissioner

Mr. Sapienza was appointed Commissioner on October 3, 2017, after serving as Acting Commissioner since June 30, 2016. Mr. Sapienza previously served as the Deputy Commissioner of the Bureau of Engineering Design and Construction from November 2014 to June 2016 and 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.

Joseph Murin, Chief Financial Officer

Mr. Murin was appointed Chief Financial Officer in February 2017, after serving as Acting Chief Financial Officer since July 2016. Mr. Murin joined the DEP in 2000 and prior to being appointed Chief Financial Officer served as Assistant Commissioner of Budget for DEP since 2007. Since beginning his City service in 1989, Mr. Murin has held budget and financial management positions with the Department of Transportation, the Office of Management and Budget, and the Board of Education's Division of School Facilities. Mr. Murin began his career as an auditor with Arthur Andersen & Co. Mr. Murin received a Bachelor of Science in Accounting from New York University.

Ana Barrio, Deputy Commissioner

Ms. Barrio was appointed Deputy Commissioner of the Bureau of Engineering Design and Construction in July 2018. Prior to joining DEP in 2018, Ms. Barrio had worked for the New York City Department of Design and Construction since 1996, most recently serving as Acting Commissioner. Ms. Barrio received a Bachelor of Science in Industrial Engineering from the New York Institute of Technology and is a graduate of Brooklyn Technical High School.

Zoe Ann Campbell, Deputy Commissioner of Organizational Development and Human Resources

Ms. Campbell was appointed Deputy Commissioner, Organizational Development and Human Resources in November 2017. She has spent her entire career in DEP, first joining the Agency in November 1978. Prior to being appointed Deputy Commissioner, Organizational Development and Human Resources, she served in various capacities including Deputy Commissioner, Human Resources from February 2008 to November 2017; Assistant Commissioner, Human Resources from November 2003 to February 2008; and Director of Human Resources from April 2002 to November 2003. Ms. Campbell received her Bachelor of Arts in American Literature from Queens College.

David M. Cohen, Esq., Chief Administrative Officer

Mr. Cohen was appointed Chief Administrative Officer in July 2016, having previously served as Deputy Commissioner for Labor Relations and Discipline since 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 to 2006, was a human resources consultant from 1989 to 1996, and served as Labor Counsel of the Metropolitan Transportation Authority and Director of Labor Relations for the Long Island Rail Road from 1984 to 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.

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.

Elissa Stein Cushman, General Counsel

Ms. Cushman was appointed General Counsel in January 2016. Ms. Cushman previously served as Deputy General Counsel of DEP's Bureau of Legal Affairs, with a focus on business and employment issues, from 2010 to 2012. From 2012 to 2015 she served as Deputy Commissioner at the New York City Department of Information

Technology and Telecommunications and General Counsel of the New York City Technology Development Corporation. From 2002 to 2010, she served as Chief of the Legal Counsel Bureau of the Nassau County Attorney's Office. She started her legal career in 1988 as an Assistant Corporation Counsel in the Legal Counsel Division of the New York City Law Department. Ms. Cushman received a Master's degree in Public Administration from the Kennedy School of Government at Harvard University and a J.D. from Harvard Law School.

Pam Elardo, P.E., Deputy Commissioner

Ms. Elardo was appointed Deputy Commissioner for the Bureau of Wastewater Treatment in June 2016. Prior to joining DEP, Ms. Elardo was the Director of the Wastewater Treatment Division in the King County Department of Natural Resources and Parks where she led the largest waste utility service provider in the Pacific Northwest collecting and treating wastewater for over 1.5 million customers throughout the Seattle Metropolitan area. Prior to working for King County, Ms. Elardo worked for 15 years as an environmental engineer for the State of Washington Department of Ecology performing engineering, regulatory analysis, and enforcement under the Clean Water Act and other programs. Previous to that work, Ms. Elardo worked as a Peace Corps volunteer designing and constructing community drinking water systems and sanitation projects in Eastern Nepal. Ms. Elardo is a Professional Engineer in the State of Washington and holds a Group IV Wastewater Treatment Plant Operator Certificate. She received a Master of Science in Environmental Engineering from the University of Washington and a Bachelor of Science in Chemical Engineering from Northwestern University.

Anastasios Georgelis, P.E., Deputy Commissioner

Mr. Georgelis was appointed Deputy Commissioner of the Bureau of Water and Sewer Operations in July 2018, after having served as Acting Deputy Commissioner of the Bureau since October 2016. Mr. Georgelis has been with DEP since June 1992, serving in numerous capacities. Since November 2009, Mr. Georgelis has served as Director of Field Operations with overall responsibility for maintenance and repair of infrastructure and appurtenances throughout the City's five boroughs. Prior to that, from 2001 to 2009, Mr. Georgelis served as Deputy Chief of Construction where he managed a staff of Engineers engaged in construction, inspections and capital projects citywide. Mr. Georgelis is a Registered Professional Engineer and a graduate of the Cooper Union for the Advancement of Science and Art, New York, where he earned his Bachelor's Degree in Civil Engineering. In 2001, DEP named Mr. Georgelis the Thomas D. O'Connell P.E., Water Supply Engineer of the Year in recognition of his outstanding contribution in the area of potable water supply to the City.

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. In her current position overseeing the Bureau of Environmental Planning and Analysis, Bureau of Environmental Compliance, and the Office of Green Infrastructure, she is responsible for implementing critical initiatives for stormwater management, regulatory reform, ecological restoration, Superfund cleanups, air quality, and noise reduction. Ms. Licata has helped launch many innovative projects and developed an impressive list of studies, including rate studies, consumption tracking, and demand projections. 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.

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.

Cyber-Security

To protect the System from cyber-attacks, DEP, through its Office of Information and Technology, works with a range of City, State, and federal law enforcement agencies, including the City's Department of Information Technology and Telecommunication, the New York City Cyber Command and the Federal Bureau of Investigation's Joint Terrorism Task Force. The New York City Cyber Command was created pursuant to executive order of the Mayor in July 2017 and is charged with setting information security policies and standards for the City for directing the City's citywide cyber defense and incident response, deploying defensive technical and administrative controls and providing guidance to the Mayor and City agencies, including DEP, on cyber defense.

Labor Relations

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"). Those DEP employees who are not members of labor unions have generally received salary and benefit increases consistent with DC 37. Projected operation and maintenance expenses in this Attachment 1 include an annual 1% increase for Fiscal Years 2019 through 2023 to reflect allowances for changes in staffing, salary and wage adjustments covering all DEP employees, including collective bargaining increases for such Fiscal Years and other factors. An agreement with DC 37, covering the period from September 26, 2017 through May 25, 2021, was ratified on August 14, 2018. The agreement provides for a retroactive increase of 2% effective September 26, 2017, followed by increases of 2.25% effective September 26, 2018 and 3% effective October 26, 2019 and would result in expenditures beyond the 1% per year assumed in the projected operation and maintenance expenses for personal services costs of \$4.7 million, \$10.0 million, \$12.8 million, \$12.8 million and \$12.8 million in Fiscal Years 2019 through 2023, respectively. The application of the DC 37 pattern to all DEP employees would result in expenditures beyond those assumed in the projected operation and maintenance expenses of approximately \$12.3 million, \$25.9 million, \$33.1 million, \$33.1 million and \$33.1 million in Fiscal Years 2019 through 2023, respectively.

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

CAPITAL IMPROVEMENT AND FINANCING PROGRAM

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

The City's Ten Year Capital Strategy, which is updated every two years, was released on April 26, 2017 (the "Ten Year Capital Strategy"). The Ten Year Capital Strategy includes the projected contractual commitments for capital improvements to the System for Fiscal Years 2018 through 2027. The City's Current Capital Plan (the "Current Capital Plan"), which covers Fiscal Years 2019 through 2022, was published on October 10, 2018, is typically updated three times each Fiscal Year and supersedes the Ten Year Capital Strategy for Fiscal Years 2019 through 2022.

Projected capital commitments to the System for Fiscal Years 2019 through 2027 are reflected in the Capital Improvement Program (the "CIP"), which consists of the Current Capital Plan and the last five years of the 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."

Amawalk Consulting, the Authority's rate consultant, has compared the anticipated capital commitments as reflected in the CIP with the capital improvement programs of other large U.S. cities and has concluded that the CIP commitments per capita are reasonable compared to other cities.

The CIP is presented in the following table:

**CAPITAL IMPROVEMENT PROGRAM
(Thousands of Dollars)**

CITY FUNDS	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
WATER SUPPLY AND TRANSMISSION										
Conveyance/Water For The Future	\$ 14,819	\$ 5,000	\$ 21,473	\$ 482	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,774
Hillview Reservoir Improvements	-	18,500	-	128,000	30,000	143,000	20,000	-	-	339,500
City Tunnel No. 3, Stage 2.....	91,184	256,891	20,483	305,000	-	-	-	-	-	673,558
Kensico-Eastview Tunnel.....	49,239	-	97,000	676,000	52,000	265,000	90,000	-	-	1,229,239
Miscellaneous Program.....	1,000	-	-	-	-	-	-	-	-	1,000
Subtotal.....	156,242	280,391	138,956	1,109,482	82,000	408,000	110,000	-	-	2,285,071
WATER DISTRIBUTION										
Croton Filtration Project.....	\$ 88,272	\$ 8,917	\$ 23,386	\$ 125	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 120,700
Dam Safety Program.....	38,904	35,678	130,300	68,929	90,000	-	10,000	68,000	394,000	835,811
Trunk Distribution and Main Extension.....	3,814	12,090	36	3,606	4,000	14,197	-	-	40,585	78,328
Trunk Distribution and Main Replacement.....	129,735	259,749	205,625	168,093	93,367	143,824	78,841	94,751	75,358	1,249,343
Water Quality Preservation.....	207,182	391,748	346,804	286,000	27,853	35,537	26,000	4,299	-	1,325,423
Extensions.....	24,199	2,468	7,038	27,454	-	-	-	-	-	61,159
Other System Improvements.....	31,718	131,279	24,587	31,563	11,508	-	-	-	-	230,655
Subtotal.....	523,824	841,929	737,776	585,770	226,728	193,558	114,841	167,050	509,943	3,901,419
WATER POLLUTION CONTROL										
Consent Decree Upgrading & Construction.....	\$ 19,713	\$ 28,153	\$ 30,000	\$ 58,137	\$ 77,000	\$ -	\$ 1,076	\$ -	\$ -	\$ 214,079
Plant Upgrading & Reconstruction	479,880	688,713	842,324	533,801	345,956	61,833	140,000	155,300	70,000	3,317,807
Sludge Disposal	(943)	-	-	-	-	-	-	-	-	(943)
Plant Component Stabilization.....	32,440	25,501	2,700	15,100	-	-	-	-	-	75,741
Green Infrastructure Program	294,156	260,277	169,123	35,126	22,750	20,750	2,250	68,482	15,750	888,664
Water Quality Mandates	167,273	213,054	324,100	284,921	164,416	253,250	178,750	255,000	103,000	1,943,764
Subtotal.....	992,519	1,215,698	1,368,247	927,085	610,122	335,833	322,076	478,782	188,750	6,439,112
SEWERS										
Replacement or Augmentation.....	\$ 239,335	\$ 468,776	\$ 543,914	\$ 384,797	\$ 73,146	\$ 61,872	\$ 59,243	\$ 39,053	\$ 24,150	\$ 1,894,286
Extensions to Accommodate New Development	29,677	128,981	62,290	74,207	8,000	20,760	12,426	90,000	35,915	462,256
Programmatic Replacement and Reconstruction.....	4,594	36,087	71	5,878	98,820	77,950	292,870	-	-	516,270
Replacement of Chronically Failing Components.....	201,854	141,581	90,545	89,138	63,663	81,786	61,271	50,000	55,000	834,838
Bluebelt Program.....	30,875	122,361	14,090	58,023	10,000	10,000	10,000	10,000	-	265,349
Trunks	7,352	9,595	4,233	176	-	-	-	-	-	21,356
Subtotal.....	513,687	907,381	715,143	612,219	253,629	252,368	435,810	189,053	115,065	3,994,355
EQUIPMENT										
Conservation.....	\$ 10,950	\$ 24,779	\$ 9,072	\$ 9,541	\$ 8,156	\$ 10,000	\$ -	\$ -	\$ 10,000	\$ 82,498
Management Information Systems.....	43,309	29,002	44,520	45,125	12,025	125	-	10,000	10,000	194,106
Facility Purchases & Reconstruction	19,976	21,220	12,800	68,750	3,900	8,000	1,500	1,200	-	137,346
Utility Relocation	15,213	23,571	25,247	18,311	10,000	10,000	10,000	10,000	10,000	132,342
Water Meter.....	5,129	-	-	-	-	-	-	-	-	5,129
Vehicles and Equipment	15,919	16,413	5,706	7,098	628	1,000	4,344	2,000	2,000	55,108
Subtotal.....	110,496	114,985	97,345	148,825	34,709	29,125	15,844	23,200	32,000	606,529
TOTAL CITY FUNDS	2,296,768	3,360,384	3,057,467	3,383,381	1,207,188	1,218,884	998,571	858,085	845,758	17,226,486
STATE, FEDERAL, AND PRIVATE FUNDS										
Plant Upgrading & Reconstruction	\$ 38,143	\$ 168,850	\$ 4,500	\$ 4,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 215,993
Plant Component Stabilization.....	-	3,600	3,600	-	-	-	-	-	-	7,200
Trunk Distribution and Main Replacement	7,692	-	-	23	-	-	-	-	-	7,715
Other System Improvements.....	12,679	997	-	32	-	-	-	-	-	13,708
Bluebelt Program.....	-	26,513	-	-	-	-	-	-	-	26,513
TOTAL NON-CITY FUNDS.....	58,514	199,960	8,100	4,555	-	-	-	-	-	271,129
TOTAL FUNDS	\$ 2,355,282	\$ 3,560,344	\$ 3,065,567	\$ 3,387,936	\$ 1,207,188	\$ 1,218,884	\$ 998,571	\$ 858,085	\$ 845,758	\$17,497,615

Following is an explanation of the major capital program elements within the CIP. For additional information about this infrastructure and the associated projects and regulatory requirements, see “THE SYSTEM.”

Water Supply and Transmission

Conveyance and Water Supply/Water for the Future. 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. For additional information, see “THE SYSTEM – The Water System – Water Collection and Distribution – *The Rondout-West Branch Tunnel.*”

Hillview Reservoir Improvements. The improvements include new chemical addition facilities and flow control improvements. For additional information regarding Hillview Reservoir, see “THE SYSTEM – The Water System – Governmental Regulation – Hillview Reservoir.”

Tunnel 3. Stage II includes completion of the Brooklyn/Queens segment. Stage I became operational in July 1998. 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.”

Kensico-Eastview Connection. The Kensico-Eastview Connection will provide a second connection between the Kensico Reservoir and the Catskill/Delaware ultraviolet facility, which is necessary to provide redundancy in the water supply system.

Water Distribution

Croton Filtration Project. The City operates a water treatment facility to filter Croton System water. See “THE SYSTEM – The Water System – Governmental Regulation.”

Dam Safety Program. DEP has a dam safety program for dams within the City, including the dams at Hillview, Jerome Park, Central Park, and Silver Lake reservoirs, as well as for dams in the watershed.

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) for 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, including the retrofitting of six plants to achieve additional nitrogen treatment and upgrades at the Newtown Creek plant to improve plant operations, have been completed. Two additional plants have not yet been retrofitted. 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 two additional 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 stormwater and improving water quality by reducing the frequency of CSO events through the construction of rainwater capture facilities such as bioswales and green roofs.

Water Quality Mandates. USEPA and NYSDEC have imposed various water quality requirements on DEP, including mandates to mitigate CSOs, mandates to reduce chlorine discharge at wastewater treatment plants and mandates to reduce pollutants in stormwater runoff in areas of the City served by separate sewers designed to carry only stormwater. 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 systems in populated areas to avoid health problems associated with viruses, bacteria and other sewage-related pollutants and to minimize 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 stormwater management system that connects natural drainage corridors, such as streams and wetlands, to conventional storm sewers to reduce local flooding.

Equipment

Conservation. This program includes toilet replacement, leak detection and 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 2014 through 2018. 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 2014		FY 2015		FY 2016		FY 2017		FY 2018	
	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)
Commitments										
Water Supply and										
Transmission (3).....	\$ 21	\$ 21	\$ 737	\$ 737	\$ 17	\$ 17	\$ 162	\$ 162	\$ 225	\$ 225
Water Distribution.....	343	345	553	553	418	419	867	883	620	624
Water Pollution										
Control	412	408(4)	367	367	709	708(4)	667	675(7)	362	371
Sewers	300	302	344	355	352	353	670	685	637	652
Equipment	84	84	91	91	93	93	86	86	53	53
Total	\$ 1,160	\$ 1,160	\$ 2,092	\$ 2,103	\$ 1,589	\$ 1,590	\$ 2,452	\$ 2,491	\$ 1,897	\$ 1,925
Expenditures (5)(6)										
Water Supply and										
Transmission (3).....	\$ 158	\$ 153(7)	\$ 124	\$ 117(7)	\$ 120	\$ 122	\$ 111	\$ 111	\$ 140	\$ 140
Water Distribution.....	600	555(7)	489	488(7)	443	433(7)	459	460	549	550
Water Pollution										
Control.....	548	516(7)	449	400(7)	460	456(7)	464	466	461	471
Sewers	274	287	275	287	305	311	357	360	366	376
Equipment	71	67(7)	86	81(7)	55	56	55	55	83	83
Total	\$ 1,651	\$ 1,578	\$ 1,423	\$ 1,373	\$ 1,383	\$ 1,378	\$ 1,446	\$ 1,452	\$ 1,599	\$ 1,620

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 non-City contracts 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 \$23 million in Fiscal Year 2014, \$15 million in Fiscal Year 2015, \$10 million in Fiscal Year 2016, \$10 million in Fiscal Year 2017 and \$7 million in Fiscal Year 2018, which are reported in the System's financial statements as operating costs.
- (7) Accounting adjustments, including payment refunds, caused the All Funds expenditure level to fall below the System Funds level.

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 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 98% 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 June 1, 2018, excluding refunding bonds, in each of the Fiscal Years 2019 through 2023 averages approximately \$1.9 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 Authority Second Resolution Bonds.

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 \$27.6 million. The Authority expects to receive the remaining funds in the current fiscal year. The projected issuance of Authority debt in Fiscal Years 2019 through 2023 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 \$445.2 million in funds for certain projects through the Clean Water State Revolving Fund and \$205.1 million in funds for certain projects through the Drinking Water State Revolving Fund. To date, the Authority has received approximately \$513.0 million and issued bond anticipation notes totaling such amount to the Corporation. The Authority expects to refinance the notes with loans from the Fiscal 2019 Series 2 and 3 Bonds.

Sources and Uses of Capital Funds

The following table presents the projected sources and uses of the funds for the System as of June 1, 2018. See "INTRODUCTORY STATEMENT – Financial Projection Assumptions."

Sources and Uses of Capital Funds (Millions of Dollars)

Line No.	Description	2019	2020	2021	2022	2023	Period Total
	Sources of Funds						
1	Proceeds from Sale of Bonds.....	\$1,893.0	\$1,721.0	\$1,778.0	\$2,086.0	\$2,245.0	\$9,723.0
2	Proceeds from Commercial Paper Notes & BANs	1,454.0	1,641.0	1,695.0	1,989.0	2,140.0	8,919.0
3	Total Sources of Funds.....	3,347.0	3,362.0	3,473.0	4,075.0	4,385.0	18,642.0
	Uses of Funds						
4	Refunding of Prior Bonds.....	-	-	-	-	-	-
5	Deposit to Construction Fund.....	1,454.0	1,641.0	1,695.0	1,989.0	2,140.0	8,919.0
6	Retirement of Commercial Paper Notes & BANs.....	1,831.0	1,641.0	1,695.0	1,989.0	2,140.0	9,296.0
7	Other (1).....	62.0	80.0	83.0	97.0	105.0	427.0
8	Total Uses of Funds.....	3,347.0	3,362.0	3,473.0	4,075.0	4,385.0	18,642.0
	Construction Fund						
9	Beginning Balance (2).....	300.1	300.1	300.1	300.1	300.1	300.1
10	Transfer from Proceeds from Commercial Paper Notes & BANs.....	1,454.0	1,641.0	1,695.0	1,989.0	2,140.0	8,919.0
11	Cash Financed Capital Construction (3).....	550.0	400.0	400.0	400.0	300.0	2,050.0
12	Total Available Construction Funds.....	2,304.1	2,341.1	2,395.1	2,689.1	2,740.1	11,269.1
13	Less: Total Capital Spending (4)	(2,004.0)	(2,041.0)	(2,095.0)	(2,389.0)	(2,440.0)	(10,969.0)
14	Ending Balance.....	\$ 300.1	\$ 300.1	\$ 300.1	\$ 300.1	\$ 300.1	\$ 300.1

- (1) Includes deposits to the Debt Service Reserve Fund and costs of issuance.
- (2) The projected beginning balance in Fiscal Year 2019 is as of June 1, 2018. The actual beginning balance in Fiscal Year 2019 was \$488.9 million.
- (3) Funds projected for Cash Financed Capital Construction may also be used for the defeasance of Bonds.
- (4) 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 June 1, 2018. For additional information, see "– Debt Service Requirements."

**Forecasted Debt Service Requirements
(Millions of Dollars)**

Line No.	Description	Bond Issues	2019	2020	2021	2022	2023
Authority First Resolution Debt Service							
1	Outstanding Bonds		\$ 124.0	\$ 157.6	\$ 125.4	\$ 159.5	\$ 270.9
Anticipated Future Bonds							
2	Fiscal Year 2019 Bonds	\$ 431.0	12.9	25.9	25.9	25.9	25.9
3	Fiscal Year 2020 Bonds	378.0	-	11.3	22.7	22.7	22.7
4	Fiscal Year 2021 Bonds	393.0	-	-	11.8	23.6	23.6
5	Fiscal Year 2022 Bonds	475.0	-	-	-	14.3	28.5
6	Fiscal Year 2023 Bonds	518.0	-	-	-	-	15.5
7	Total Authority First Resolution Debt Service .		<u>136.9</u>	<u>194.8</u>	<u>185.7</u>	<u>245.9</u>	<u>387.1</u>
Subordinated Obligations							
Authority Second Resolution Authority Debt Service (1)							
8	Outstanding Authority Bonds issued to the Public		1,140.0	1,158.6	1,210.0	1,193.0	1,126.0
Anticipated Future Authority Second Resolution Bonds to be issued to the Public							
9	Fiscal Year 2019 Bonds	1,162.4	33.5	70.3	70.3	70.3	70.3
10	Fiscal Year 2020 Bonds	1,043.0	-	30.1	63.0	63.0	63.0
11	Fiscal Year 2021 Bonds	1,085.0	-	-	31.3	65.5	65.5
12	Fiscal Year 2022 Bonds	1,311.0	-	-	-	37.8	79.2
13	Fiscal Year 2023 Bonds	1,427.0	-	-	-	-	41.1
14	Interest Payments on Commercial Paper Notes Outstanding Authority Second Resolution Bonds issued to EFC		17.0	17.0	17.0	17.0	17.0
15	Bonds issued to EFC		552.1	539.8	519.4	511.8	503.5
Anticipated Future Authority Second Resolution Bonds to be issued to EFC							
16	Fiscal Year 2019 Bonds	300.0	8.9	21.7	21.7	21.7	21.7
17	Fiscal Year 2020 Bonds	300.0	-	8.9	21.7	21.7	21.7
18	Fiscal Year 2021 Bonds	300.0	-	-	8.9	21.7	21.7
19	Fiscal Year 2022 Bonds	300.0	-	-	-	8.9	21.7
20	Fiscal Year 2023 Bonds	300.0	-	-	-	-	8.9
21	Less: Current EFC Subsidy (2)		(104.0)	(99.7)	(95.5)	(91.0)	(86.2)
22	Less: Future EFC Subsidy (3)		<u>(3.0)</u>	<u>(9.0)</u>	<u>(15.0)</u>	<u>(20.0)</u>	<u>(26.0)</u>
23	Total Debt Service on FGR Subordinated Indebtedness		1,644.6	1,737.7	1,852.8	1,921.5	1,949.2
24	Less: Carryforward Net Year-end Balance		<u>(1,036.2)</u>	<u>(992.7)</u>	<u>(948.9)</u>	<u>(997.3)</u>	<u>(981.7)</u>
25	Net Debt Service on FGR Subordinated Indebtedness		608.4	745.0	903.8	924.2	967.5
26	Total Debt Service Payable from Current Revenues		<u>\$ 745.3</u>	<u>\$ 939.8</u>	<u>\$ 1,089.5</u>	<u>\$ 1,170.1</u>	<u>\$ 1,354.5</u>

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

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 6.0% for Fiscal Year 2019 through Fiscal Year 2023. Interest rates on future Authority Second Resolution Bonds issued to the Corporation are assumed to be 5.95% for Fiscal Year 2019 through Fiscal Year 2023, prior to expected interest rate subsidies. For Fiscal Year 2019 through Fiscal Year 2023, existing and future adjustable rate bonds and Commercial Paper Notes are assumed to bear interest at 4.25%.

Debt Service Requirements

The debt service requirements schedule on the following page sets forth as of the date of this Attachment 1 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 4.25% for each Fiscal Year with interest computed on the basis of a 30-day month and a 360-day year. The debt service requirements schedule does not include debt service on any outstanding Commercial Paper Notes or payments under interest rate exchange agreements.

Refundable Principal Installments in the aggregate principal amount of \$184,715,000 are assumed to be amortized as described herein under “SECURITY FOR THE AUTHORITY SECOND RESOLUTION BONDS – Refundable Principal Installments” at the following actual interest rates from the Series maturity dates through the following assumed amortization dates (*i.e.*, the last date on which the Series could have been authorized to be paid under the Act):

Outstanding Refundable Principal Installments

Series	Maturity Date (June 15)	Principal Amount	Series Actual Rate	Assumed Amortization Through (June 15th)
2016 Subseries BB-2	2021	\$21,815,000	4.12%	2052
2017 Subseries CC-2	2023	88,340,000	4.24	2053
2018 Subseries CC-2	2024	21,270,000	2.30	2052
2018 Subseries CC-2	2024	5,390,000	2.30	2053
2018 Subseries CC-2	2025	32,900,000	2.30	2053
2012 Series DD	2027	15,000,000	2.59	2051

For additional information regarding Refundable Principal Installments, see “SECURITY FOR THE AUTHORITY SECOND RESOLUTION BONDS – Refundable Principal Installments.”

Debt Service Requirements

FY Ending June 30	Debt Service on Outstanding Authority Bonds		Fiscal 2019 Series 2 & 3		Debt Service on Authority Second Resolution Bonds, including Fiscal 2019 Series 2 & 3 (1)(2)(3)	Debt Service on Authority First and Second Resolution Bonds(1)(2)(3)
	Authority First Resolution Bonds	Authority Second Resolution Bonds(1)(2)(3)	Principal	Interest(1)		
2019*	\$ 92,808,491	\$ 1,547,263,919				\$ 1,640,072,411
2020	144,173,362	1,612,689,753				1,756,863,115
2021	111,968,363	1,646,131,630				1,758,099,992
2022	146,123,363	1,627,954,087				1,774,077,450
2023	95,010,863	1,668,770,227				1,763,781,089
2024	118,417,113	1,701,051,566				1,819,468,679
2025	103,260,863	1,701,619,961				1,804,880,823
2026	73,835,863	1,763,648,958				1,837,484,820
2027	50,171,113	1,775,463,207				1,825,634,319
2028	56,446,113	1,778,764,959				1,835,211,072
2029	49,857,363	1,787,122,965				1,836,980,327
2030	49,857,363	1,603,604,797				1,653,462,160
2031	60,397,363	1,799,165,772				1,859,563,134
2032	181,269,413	1,669,378,641				1,850,648,053
2033	292,409,413	1,532,990,618				1,825,400,031
2034	32,920,738	1,751,145,141				1,784,065,879
2035	234,575,738	1,655,668,055				1,890,243,793
2036	92,280,400	1,799,804,248				1,892,084,648
2037	22,312,500	1,695,063,497				1,717,375,997
2038	22,312,500	1,785,646,403				1,807,958,903
2039	22,312,500	1,765,162,255				1,787,474,755
2040	22,312,500	1,957,036,507				1,979,349,007
2041	22,312,500	2,077,951,292				2,100,263,792
2042	22,312,500	1,990,373,919				2,012,686,419
2043	22,312,500	1,932,745,804				1,955,058,304
2044	222,312,500	1,634,654,218				1,856,966,718
2045	338,812,500	1,653,069,792				1,991,882,292
2046	–	1,988,734,581				1,988,734,581
2047	–	1,809,284,586				1,809,284,586
2048	–	1,075,408,399				1,075,408,399
2049	–	752,511,275				752,511,275
2050	–	483,707,524				483,707,524
2051	–	114,582,525				114,582,525
2052	–	7,578,150				7,578,150
2053	–	5,280,976				5,280,976
Total	\$2,703,095,791	\$53,151,030,209				\$55,854,126,000

Totals may not add up due to rounding.

* Amounts remaining to be paid by the Authority as of the date of this Attachment 1.

- (1) Net of projected subsidy from the Corporation.
- (2) Does not reflect the interest subsidy provided by the federal government on Build America Bonds pursuant to the Recovery Act.
- (3) Assumes that the outstanding Fiscal 2012 Series DD Bonds, Fiscal 2016 Subseries BB-2 Bonds, Fiscal 2017 Subseries CC-2 Bonds and Fiscal 2018 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 AUTHORITY 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 2014 through 2018, 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 2014 through 2018.

System Revenues (Millions of Dollars)

Line No.	Description	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Operating Revenues						
1	User Payments (1)	\$ 3,500.0	\$ 3,661.2	\$ 3,723.7	\$ 3,739.2	\$ 3,467.5
2	Upstate Revenues	<u>73.5</u>	<u>76.9</u>	<u>84.6</u>	<u>85.4</u>	<u>79.7</u>
3	Subtotal Service Revenue	3,573.5	3,738.1	3,808.3	3,824.6	3,547.2
4	Miscellaneous Revenues (2)	<u>39.0</u>	<u>71.1</u>	<u>44.6</u>	<u>52.4</u>	<u>55.4</u>
5	Subtotal Operating Revenue	<u>3,612.5</u>	<u>3,809.2</u>	<u>3,852.9</u>	<u>3,877.0</u>	<u>3,602.6</u>
Nonoperating Revenues						
6	Interest Income on System Funds (3)	46.2	32.3	37.4	34.1	49.4
7	Federal Subsidy on Build America Bonds	<u>70.1</u>	<u>70.0</u>	<u>70.4</u>	<u>70.3</u>	<u>70.5</u>
8	Subtotal Nonoperating Revenues	116.3	102.3	107.8	104.4	119.9
9	Total Revenues	<u>\$ 3,728.8</u>	<u>\$ 3,911.5</u>	<u>\$ 3,960.7</u>	<u>\$ 3,981.4</u>	<u>\$ 3,722.4</u>

Totals may not add due to rounding. Figures are calculated on a cash basis.

- (1) Includes both current payments and payments relating to accounts in arrears.
- (2) Miscellaneous Revenues exclude subsidy payments from the Corporation on Authority First Resolution Bonds or Authority Second Resolution Bonds. Miscellaneous Revenues include 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, the 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 2014 through 2018 on a cash basis, and are derived from budget records. The System reimburses the City based on budgeted expense amounts certified by the City’s Director of Management and Budget pursuant to the Lease Agreement. Credits or payments between the City and the System are made in the subsequent Fiscal Year based on a reconciliation between the actual expenses incurred and the amounts reimbursed to the City by the System.

System Expenses
(Millions of Dollars)

Description	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Authority Expenses.....	\$ 43.2	\$ 45.3	\$ 47.0	\$ 50.9	\$ 52.5
Board Expenses	24.4	33.4	35.7	43.9	37.7
Water Operations (1)					
Personal Services (2)	199.3	206.2	214.5	225.5	237.1
Other Than Personal Services (3)	352.2	376.1	375.5	370.0	351.1
Total Water Operations	551.5	582.3	590.0	595.5	588.2
Wastewater Operations (1)					
Personal Services (2)	348.9	361.5	370.1	401.3	424.5
Other Than Personal Services (3)	295.5	307.3	317.5	346.6	332.3
Total Wastewater Operations.....	644.4	668.8	687.6	747.9	756.8
City Agency Support Costs.....	49.7	49.7	49.0	49.1	47.2
Indirect Expenses.....	19.4	19.4	19.4	19.4	9.9
Judgments and Claims	8.0	8.0	8.0	8.0	8.0
Net Operating Expenses	1,273.0	1,328.2	1,354.0	1,419.9	1,410.1
Less: Credit or Payment for Prior Year City Expenses.....	(123.7)	3.6	(94.3)	(194.4)	(34.5)
Net Operating Expense Payments (4)	1,149.3	1,331.8	1,259.7	1,225.3	1,375.6
Cash Defeasance of Debt.....	300.0	399.1	802.7	948.6	825.0
Cash Financed Capital Construction	225.0	25.6	-	-	125
Base Rental Payment to the City of New York	211.8	204.0	137.0	-	-
Deposits to O&M Reserve Fund.....	8.9	3.5	21.9	(13.5)	7.1
Total Expenses.....	<u>\$ 2,061.7</u>	<u>\$ 2,446.3</u>	<u>\$ 2,449.9</u>	<u>\$ 2,280.9</u>	<u>\$ 2,422.9</u>

Totals may not add due to rounding. Figures are calculated on a cash basis.

- (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) Includes salaries, fringe benefits and pension costs.
- (3) Includes real estate taxes paid to upstate communities for watershed properties, sludge disposal costs and for electricity, chemicals and supply costs.
- (4) Not including Authority and Board expenses.

Projected Revenues

As indicated in the table below, “Subtotal Service Revenue” is projected as of June 1, 2018 to increase from approximately \$3.8 billion in Fiscal Year 2019 to approximately \$4.2 billion in Fiscal Year 2023 due to projected rate increases in those Fiscal Years. Upstate revenues are projected to increase from approximately \$84 million in Fiscal Year 2019 to approximately \$100 million in Fiscal Year 2023. This projected revenue growth assumed increases in the cost of water supply services in each of Fiscal Years 2019 through 2023. As of the date hereof, the Board has taken no action to increase Upstate Water Rates for Fiscal Year 2019. For more information, see “RATES AND BILLINGS – Rates – Upstate Water Rates.”

City-wide water consumption by metered customers in Fiscal Year 2018 was about 0.36% higher than such consumption in Fiscal Year 2017. City-wide consumption by metered customers in the first four months of Fiscal Year 2019 is about 0.9% higher than such consumption during the same period in Fiscal Year 2018. The projected revenues assume that water consumption will decline at the rate of 1.0% per year in Fiscal Years 2019 through 2023.

For the first four months of Fiscal Year 2019, water and sewer payments, not including payments received from the City, were \$6.8 million or 0.4% higher than projected in June 2018 for this period.

**Projected Revenues
(Millions of Dollars)**

Line No.	Description	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Operating Revenues						
1	User Payments (1).....	\$ 3,673.1	\$ 3,731.3	\$ 3,825.2	\$ 3,940.2	\$ 4,084.4
2	Upstate Revenues	84.2	87.5	91.1	95.4	100.2
3	Subtotal Service Revenue	3,757.3	3,818.8	3,916.3	4,035.6	4,184.7
4	Miscellaneous Revenues (2)	18.0	18.9	19.8	20.8	21.9
5	Subtotal Operating Revenue	3,775.3	3,837.7	3,936.1	4,056.5	4,206.5
Nonoperating Revenues						
6	Interest Income on System Funds (3).....	21.0	19.0	22.0	24.0	24.0
7	Federal Subsidy on Build America Bonds (4).....	69.9	69.8	69.7	69.6	69.5
8	Subtotal Nonoperating Revenue	90.9	88.8	91.7	93.6	93.5
9	Total Revenues	\$ 3,866.1	\$ 3,926.5	\$ 4,027.8	\$ 4,150.0	\$ 4,300.0

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 Authority Second Resolution Bonds. Miscellaneous Revenues include fees paid for a variety of services provided by DEP such as new connections to the System and the review of developers' plans.
- (3) Includes interest income on the Construction Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund.
- (4) Reflects a reduction of the federal subsidy due to federal sequestration, assumed to be 7.2% for each year through Fiscal Year 2023.

Projected Operating and Maintenance Expenses

The table set forth below shows, for Fiscal Years 2019 through 2023, the System's projected operation and maintenance expenses as of June 1, 2018. See "INTRODUCTORY STATEMENT – Financial Projection Assumptions."

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

Line No.	Description	FY2019	FY 2020	FY 2021	FY 2022	FY 2023
1	Authority Operations	\$ 56.2	\$ 59.0	\$ 61.9	\$ 65.0	\$ 68.3
2	Board Operations	51.2	53.8	56.5	59.3	62.2
Water Operations						
3	Personal Services	257.7	266.3	268.8	276.8	285.1
4	Other Than Personal Services.....	381.6	384.3	389.3	401.0	413.1
5	Total Water Operations.....	639.3	650.6	658.1	677.9	698.2
Wastewater Operations						
6	Personal Services	462.2	479.6	486.2	500.8	515.8
7	Other Than Personal Services.....	365.7	386.4	371.3	382.5	394.0
8	Total Wastewater Operations.....	827.9	865.9	857.6	883.3	909.8
9	Indirect Expenses.....	9.9	9.9	9.9	9.9	9.9
10	Judgments and Claims	8.0	8.0	8.0	8.0	8.0
11	Net Operating Expenses	1,592.5	1,647.2	1,652.0	1,703.4	1,756.4
12	Deposits to O&M Reserve Fund.....	2.3	7.2	7.4	10.1	5.4
13	Cash Defeasance/Cash Financed Capital Construction	550.0	400.0	400.0	400.0	300.0
14	Total Expenses.....	\$ 2,144.8	\$ 2,054.4	\$ 2,059.4	\$ 2,113.5	\$ 2,061.8

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 \$13.5 million in Fiscal Year 2019 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 include payments for the Service Line Protection Program ("SLPP") which is managed by a third party, American Water Resources. In Fiscal Year 2019, SLPP payments are expected to be \$46 million. Corresponding revenues for the SLPP are included in user payments and are based on monthly charges for water service lines and/or sewer service lines. Enrollment in the SLPP is optional for customers. Other expenses of the Board include lock box services and professional services firms retained by the Board.

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 2019 through 2023 reflect an allowance for fringe benefit and pension costs which are expected to be 50.11% of salaries and wages. For information on assumptions with respect to labor settlements and a recent settlement agreement with DC 37, 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 \$165.8 million in Fiscal Year 2019. Property taxes on all watershed properties are assumed to increase at the rate of 3% annually through Fiscal Year 2023.

DEP adds chemicals, including fluoride and chlorine, to drinking water and uses other chemicals in the treatment of wastewater. In Fiscal Year 2019, the anticipated cost of chemicals for the System is approximately \$50.7 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 2019 include \$62.3 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 2019, operation and maintenance expenses for the Croton Filtration Plant and the UV Facility are projected to be a total of \$38.0 million. This amount includes allowances for police and security but excludes property taxes for the UV Facility. Operating expenses for these plants are assumed to increase in Fiscal Year 2020 through Fiscal Year 2023 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 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 2019 are approximately \$96.1 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 2019 is \$13.0 million. Another major component of other than personal services costs for the Sewer System is biosolids management, which is projected to be \$56.3 million in expenses in Fiscal Year 2019.

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 9 of the table, reflect costs allocated to the System for support provided by various City agencies and departments. Services provided include budget preparation and review, cost and revenue accounting, billing and collection, and legal support. The method of allocating these costs to the System is based upon costs initially allocated to DEP and subsequently divided between those attributable to water and sewer and those costs associated with other activities of DEP. The costs allocated to DEP as a whole are derived from the total costs of City support agencies and departments and a formalized cost allocation plan which distributes the costs to affected departments and agencies. DEP’s billing and collection expenses are included in the operation and maintenance costs of the Water System and the Wastewater System.

In Fiscal Years 2017 and 2018, the City did not request the base rental payment, described in Section 8.2 of the Lease. See “APPENDIX C – GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS – Summary of the Lease – Base Rental Payments.” Projections assume the continued waiver of the base rental payment through the forecast period.

Projected Financial Operations

The following table shows a summary of the forecasted cash flows for the Authority as of June 1, 2018 for Fiscal Year 2019 through Fiscal Year 2023. 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 following table, positive net year-end balances are projected to be maintained throughout the reporting period. Actual carryforward revenues applied to Fiscal Year 2019 were \$956.5 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 Authority First Resolution and Authority Second Resolution debt service by current revenues available for debt service less Authority expenses.

As of September 30, 2018, funds to pay 100% of Fiscal Year 2019 projected debt service payments and Authority expenses were being held by the Trustee or have been paid as interest on its bonds and Commercial Paper Notes or have paid Authority expenses.

The projected revenues in Fiscal Year 2019 reflect the anticipated effects of the 2.36% increase in water and sewer rates adopted by the Board, effective July 1, 2018. Projected revenues in Fiscal Year 2020 and subsequent years assume further rate increases in those years. See “Rates.”

Forecasted Cash Flows
(Millions of Dollars)

Line No.	Description	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Operating Revenues						
1	User Payments	\$3,673.1	\$3,731.3	\$3,825.2	\$3,940.2	\$4,084.4
2	Upstate Revenue	84.2	87.5	91.1	95.4	100.2
3	Miscellaneous Revenue.....	18.0	18.9	19.8	20.8	21.9
Other Revenues						
4	Interest on Funds	21.0	19.0	22.0	24.0	24.0
5	Federal Subsidy on Outstanding Build America Bonds	69.9	69.8	69.7	69.6	69.5
6	Revenues Available for Authority First Resolution Debt Service	3,866.1	3,926.5	4,027.8	4,150.0	4,300.0
Authority First Resolution Debt Service						
7	Outstanding Bonds	124.0	157.6	125.4	159.5	270.9
8	Anticipated Future Bonds.....	12.9	37.2	60.3	86.4	116.2
9	Total Authority First Resolution Debt Service	136.9	194.8	185.7	245.9	387.1
Debt Service on Subordinated Indebtedness (1)						
10	Outstanding Authority Second Resolution Bonds issued to the public	1,140.0	1,158.6	1,210.0	1,193.0	1,126.0
11	Anticipated Future Authority Second Resolution Bonds to be issued to the public	33.5	100.4	164.6	236.7	319.2
12	Interest Payments on Commercial Paper Notes	17.0	17.0	17.0	17.0	17.0
13	Outstanding Authority Second Resolution Bonds issued to EFC	552.1	539.8	519.4	511.8	503.5
14	Anticipated Future Authority Second Resolution Bonds to be issued to EFC.....	8.9	30.6	52.3	74.0	95.6
15	Less: EFC Subsidy and Capitalized Interest on FGR Subordinated Bonds	(107.0)	(108.7)	(110.5)	(111.0)	(112.2)
16	Actual Debt Service on FGR Subordinated Indebtedness.....	1,644.6	1,737.7	1,852.8	1,921.5	1,949.2
17	Less: Carryforward Revenues	(1,036.2)	(992.7)	(948.9)	(997.3)	(981.7)
18	Net Debt Service on FGR Subordinated Indebtedness	608.4	745.0	903.8	924.2	967.5
19	Total Debt Service Payable from Current Revenues	745.3	939.8	1,089.5	1,170.1	1,354.5
Operating Expenses						
20	Authority Operations.....	56.2	59.0	61.9	65.0	68.3
21	Board Operations	51.2	53.8	56.5	59.3	62.2
22	Net Authority Expense for the Defeasance of Debt.....	-	-	-	-	-
23	Water System.....	639.3	650.6	658.1	677.9	698.2
24	Wastewater System.....	827.9	865.9	857.6	883.3	909.8
25	Indirect Expense.....	9.9	9.9	9.9	9.9	9.9
26	Judgments and Claims.....	8.0	8.0	8.0	8.0	8.0
27	Net Operating Expenses	1,592.5	1,647.2	1,652.0	1,703.4	1,756.4
28	Deposits to O&M Reserve Fund	2.3	7.2	7.4	10.1	5.4
29	Base Rental Payment to the City of New York (2).....	-	-	-	-	-
30	Cash Defeasance/Cash Financed Capital Construction (3).....	550.0	400.0	400.0	400.0	300.0
31	Total Expenses	2,144.8	2,054.4	2,059.4	2,113.5	2,061.8
32	Cash Released from Escrow (4)	(16.6)	(16.6)	(118.4)	(115.3)	(87.2)
33	Net Year-end Balance (line 6-line 19-line 31-line 32)	\$ 992.7	\$ 948.9	\$ 997.3	\$ 981.7	\$ 970.9
34	Authority First Resolution Debt Service Coverage (line 6/line 9).....	28.24x	20.16x	21.69x	16.88x	11.11x
35	Authority First and Second Resolution Debt Service Coverage ((line 6-line 20)/line 19).....	5.11x	4.12x	3.64x	3.49x	3.12x

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) In Fiscal Years 2017 and 2018, the City did not request the base rental payment. Projections assume the continued waiver of the base rental payment through the forecast period.
- (3) 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.
- (4) Funds projected to be released from escrows set up to economically defease Outstanding Authority Bonds.

RATES AND BILLINGS

Rates

The Board is responsible for setting rates in compliance with the Rate Covenant. See “SECURITY FOR THE AUTHORITY 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. Approximately, 2.2% 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 2009:

History of Water and Sewer Rate Increases

Effective Date	Applicable Fiscal Year	Increase in Flat-Rate Water/Metered Water	Metered Water Rate (per ccf)(1)	Sewer Rate
July 1, 2009	2010	12.90%	\$2.61	159% of water charge
July 1, 2010	2011	12.90	2.95	159% of water charge
July 1, 2011	2012	7.50	3.17	159% of water charge
July 1, 2012	2013	7.00	3.39	159% of water charge
July 1, 2013	2014	5.60	3.58	159% of water charge
July 1, 2014	2015	3.35	3.70	159% of water charge
July 1, 2015	2016	2.97	3.81	159% of water charge
July 1, 2016	2017	0.00	3.81	159% of water charge
July 1, 2017	2018	0.00	3.81	159% of water charge
July 1, 2018	2019	2.36	3.90	159% of water charge

(1) ccf: 100 cubic feet.

Projected Rates. As of June 1, 2018, forecasted debt service, operating and other costs for the System indicated the anticipated future increases in rates to be set by the Board for water and sewer services combined are 2.3% in Fiscal Year 2020, 3.8% in each of Fiscal Years 2021 and 2022 and 4.8% in Fiscal Year 2023.

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.

Minimum Charge. Customers who use less than approximately 100 gallons of water per day receive a minimum bill for water and sewer use. Historically, the minimum per day charge has increased by the same percentage as the metered water rate. However, there has been no increase to the minimum charge in recent years, which remains at \$1.27 per day, the level that became effective on July 1, 2013.

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. The current sewer charge applicable 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”), and the Public Authorities Law, § 1045-a et seq. The 1905 Act provides that rates shall be based on the System’s actual cost of service for water supply. There are also individual agreements between various communities and the City and/or Board addressing the sale of water and rates and charges. The current upstate water rate per million gallons for daily per capita amounts not in excess of daily per capita consumption within the City (referred to as the “Entitlement Rate”) is \$1,728.99, which has remained unchanged since Fiscal Year 2016. In those instances where the community per capita consumption exceeds that in the City, the specified rate of charge for the excess (the “Excess Rate”) is the rate charged for retail service in the City. Upstate communities have pending several challenges to the Excess Rate and the Entitlement Rate. For more information, see “LITIGATION.”

Comparative Charges. The following table presents comparative annual water and sewer charges in 30 large cities based upon a survey conducted in February 2018 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 – 11, for Commercial – 17, and for Industrial – 20.

The table presented below illustrates the single family residential charges for each utility on the basis of 70,000 gallons per year. For informational purposes, if charges were instead computed on the basis of the previous figure of 80,000 gallons per year, New York’s annual charge would be \$1,055 versus a 30-city average of \$1,205, ranking 13th.

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	\$ 446	1	Memphis	\$ 6,645	1	Memphis	\$ 445,947
2	Phoenix	\$ 455	2	St. Louis	\$ 8,370	2	Milwaukee	\$ 631,745
3	Chicago	\$ 633	3	Chicago	\$ 9,045	3	Dallas	\$ 696,547
4	Miami-Dade	\$ 702	4	Dallas	\$ 9,703	4	St. Louis	\$ 721,643
5	Milwaukee	\$ 739	5	Milwaukee	\$ 9,776	5	Indianapolis	\$ 727,981
6	Denver	\$ 752	6	Phoenix	\$ 9,806	6	Denver	\$ 745,133
7	Dallas	\$ 777	7	San Antonio	\$ 10,037	7	San Antonio	\$ 804,999
8	San Antonio	\$ 797	8	Fort Worth	\$ 10,870	8	Philadelphia	\$ 899,043
9	Fort Worth	\$ 877	9	Denver	\$ 10,901	9	Jacksonville	\$ 905,132
10	St. Louis	\$ 911	10	Jacksonville	\$ 11,821	10	Fort Worth	\$ 914,718
11	New York	\$ 923	11	Houston	\$ 12,020	11	Columbus	\$ 928,269
12	Columbus	\$ 924	12	Columbus	\$ 12,156	12	Louisville	\$ 959,094
13	Houston	\$ 935	13	San Jose	\$ 12,424	13	Chicago	\$ 990,865
14	Charlotte	\$ 944	14	Charlotte	\$ 12,462	14	Charlotte	\$ 997,299
15	Jacksonville	\$ 979	15	Indianapolis	\$ 12,536	15	San Jose	\$ 1,070,930
16	Detroit	\$ 999	16	Louisville	\$ 12,857	16	Detroit	\$ 1,110,187
17	Los Angeles	\$ 1,021	17	New York	\$ 13,192	17	Houston	\$ 1,112,206
18	Louisville	\$ 1,051	18	San Diego	\$ 13,583	18	Phoenix	\$ 1,150,496
19	Philadelphia	\$ 1,068	19	Los Angeles	\$ 13,602	19	San Diego	\$ 1,283,300
20	Boston	\$ 1,176	20	Philadelphia	\$ 15,865	20	New York	\$ 1,319,238
21	Indianapolis	\$ 1,224	21	Miami-Dade	\$ 16,938	21	Los Angeles	\$ 1,328,126
22	San Jose	\$ 1,238	22	Baltimore	\$ 17,450	22	Baltimore	\$ 1,349,862
23	Baltimore	\$ 1,296	23	Cleveland	\$ 17,933	23	Austin	\$ 1,644,879
24	San Diego	\$ 1,302	24	Boston	\$ 18,506	24	Washington, D.C.	\$ 1,671,539
25	Austin	\$ 1,327	25	Detroit	\$ 19,030	25	Cleveland	\$ 1,686,116
26	Cleveland	\$ 1,441	26	San Francisco	\$ 20,681	26	Miami-Dade	\$ 1,856,815
27	Washington, D.C.	\$ 1,445	27	Austin	\$ 21,502	27	San Francisco	\$ 2,025,256
28	Atlanta	\$ 1,756	28	Atlanta	\$ 28,922	28	Boston	\$ 2,039,116
29	San Francisco	\$ 1,903	29	Washington, D.C.	\$ 29,990	29	Seattle	\$ 2,617,754
30	Seattle	\$ 2,314	30	Seattle	\$ 31,710	30	Atlanta	\$ 2,920,834
	Average	\$ 1,079		Average	\$ 15,011		Average	\$ 1,251,836

- (1) User charges are based upon information provided by the utilities serving 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 utilities 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 utilities 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 single Family Residential are based on 70,000 gallons per year of consumption; Commercial is based on one million gallons per year and Industrial is based on 100 million gallons per year.
- (3) Charges for all cities reflect rate schedules in effect on February 2018.

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. Approximately 99% of all water and sewer accounts have meters installed. Since July 2000, unmetered properties which have not taken steps to install a meter have been required to pay a surcharge doubling their annual water and sewer charge. A surcharge was levied on 3,852 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 October 2018, approximately 801,000 accounts, representing 96% of total accounts and 75% of total revenues, are billed on a metered basis. Most meter-based charges are billed quarterly, except for larger accounts that are read and billed monthly. However, DEP has begun offering monthly billing as an option for all customers, and in Fiscal Year 2016, the Board introduced a program to provide a \$10 credit to customers who enroll in monthly eBilling.

Approximately 34,000 accounts, representing 4% 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 on a fixed rate per dwelling unit per year. Currently, approximately 25,000 accounts are billed on MCP. All accounts enrolled in the MCP must have meters, automatic meter reading ("AMR") devices, and high efficiency plumbing fixtures installed, or have until December 31, 2018 to comply with MCP requirements. Accounts which fail to comply with the MCP requirements will be subject to an additional ten percent surcharge on their accounts.

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 825,000 automatic meter reading transmitters, representing 98% 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 the installation of automatic meter readers, DEP has seen a large decrease in estimated bills.

Certain institutions may be exempt under State law from the payment of all or a portion of their water and sewer charges. 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 is in the process of preparing to replace CIS. The new system will replace CIS with more state-of-the-art technology. Expected enhancements are expected to include new features allowing customers to more closely monitor their bills and water usage, more dynamic business management reporting capabilities, including stronger customer data analytics and accounts receivable reporting, and overall improvements to the system's speed and flexibility. There is no current estimate of the costs of such replacement, though \$32 million is included in the CIP.

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. Since 2007, the lien sale program authorization has expired and been reauthorized three times. The most current authorization expires on December 31, 2020.

Starting in July 2013, DEP has been working 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 is able to reduce the number of service terminations each year.

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 560 stand-alone parking lots on an annual basis at a rate of \$0.0662 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.

The Board, at its annual meeting on May 8, 2015, incorporated the Home Water Assistance Program in its Water and Wastewater Rate Schedule starting in Fiscal Year 2016. As so adopted, this program provides an annual credit, which is currently \$115.89 in Fiscal Year 2019, to approximately 53,000 low-income homeowners who (1) receive a Home Energy Assistance Program grant administered by the New York City Human Resources Administration or (2) receive one or both of the following exemptions administered by the New York City Department of Finance: (a) the Senior Citizen Homeowners' Exemption or (b) the Disabled Homeowners' Exemption.

The Board, at its meeting on June 16, 2017, authorized the implementation, effective July 1, 2017, of two previously announced affordability initiatives: (1) an expansion of the Home Water Assistance Program to include approximately 12,000 additional qualifying senior citizen homeowners, each of whom will receive the annual bill credit described above, and (2) the Multi-family Water Assistance Program. The Multi-family Water Assistance Program provides an annual \$250 credit to as many as 40,000 units, provided that the property involved (1) is a multi-family affordable housing property identified by the Department of Housing Preservation & Development ("HPD") with at least four residential dwelling units; (2) charges average rent or maintenance that is affordable for an average household earning no more than 60% of area median income; (3) has 100% of its units at an affordable level, as provided for in an agreement with HPD or the New York City Housing Development Corporation ("HDC"); (4) has an executed agreement with HPD or HDC to preserve affordability for at least a 15-year period from July 1, 2017 or the date of contract execution; and (5) is in compliance with conservation requirements for metering and high-efficiency fixtures.

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 8.6 million residents. The Water System provides an average of approximately 1,000 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 1,310 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 1,230 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.

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 watershed, 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. 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 furnishes water to users in portions of four of the eligible northern counties. The Water System provides water to nearly 90% of the residents in Westchester County and approximately 10% of the residents in Putnam, Orange and Ulster Counties.

Although all water delivered from the Croton System must be pumped, approximately 95% of the total water supply delivered from the Catskill/Delaware Systems is delivered to buildings by gravity.

See “New York City Water Supply System” map in APPENDIX F.

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

Collecting Reservoirs

<u>Name</u>	<u>Useable Capacity(1) (Billion Gallons)</u>	<u>Original In-Service Date</u>
Croton		
New Croton	19.0	1905
Croton Falls Main.....	14.2	1911
Cross River.....	10.3	1908
West Branch.....	10.1	1895
Titicus.....	7.2	1893
Amawalk	6.7	1897
East Branch	5.2	1891
Muscot.....	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.....	125.4	1915
Schoharie.....	19.6	1926
Total	145.0	
Delaware		
Pepacton	148.7	1955
Cannonsville.....	96.0	1964
Rondout	51.8	1950
Neversink	36.7	1954
Total	333.1	
Total Useable Capacity.....	566.7(2)	

Totals may not add due to rounding.

- (1) Volume above minimum operating level.
- (2) Queens wells are currently not in use, but add an additional 2.6 billion gallons of storage capacity, when in use.

Balancing Reservoirs and Distribution Facilities

<u>Name</u>	<u>Storage Capacity (billion gallons)</u>	<u>Original In-Service Date</u>
Balancing Reservoirs		
Kensico.....	30.6	1915
Hillview.....	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 for each of the water supply systems.

Water System Dependable Yield

<u>System</u>	<u>Dependable Yield (mgd)</u>
Croton.....	240
Catskill	470
Delaware.....	580
Queens wells.....	33
Total.....	1,323

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 2014 through Fiscal Year 2018.

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

Fiscal Year	City Use	Upstate	Total
2014	366,951	40,485	407,436
2015	366,070	40,745	406,815
2016	364,998	40,878	405,876
2017	364,541	41,342	405,883
2018	366,422	40,129	406,551

Totals may not add due to rounding.

The Croton System is available to supplement the Catskill/Delaware Systems. Use of the Croton System is 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 and Delaware Systems together currently provide the vast majority of the City’s daily water supply. The Catskill System watersheds occupy sparsely populated areas in the central and eastern portions of the Catskill Mountains. 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. DEP is currently upgrading the dam to meet safety guideline for new dams. The estimated cost to complete the rehabilitation of the dam is \$23 million, all of which is funded in the CIP.

DEP will be making improvements to the structures and mechanical systems at the Ashokan Reservoir including upgrading and stabilizing the thirteen dikes and dams that impound the Reservoir to bring them up to modern standards. The estimated cost of the improvements at the Ashokan Reservoir to be performed in the years covered by the CIP is \$750 million, \$688 million of which is included 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 Downsview Dam across the East Branch of the Delaware River); and Neversink Reservoir (formed by the Neversink Dam across the Neversink River, a tributary to the Delaware River). 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.

The System’s water supply is transported through an extensive system of tunnels and aqueducts. See “New York City Water Tunnels” map in APPENDIX F. The City’s water supply is then transported through over

6,800 miles of water mains. 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 is treated at the Croton Water Filtration Plant, located under Van Cortlandt Park, and then conveyed through finished water tunnels 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. Hillview Reservoir serves as a balancing reservoir. Water from the Catskill and Delaware Systems is mixed in the Kensico Reservoir, and is conveyed via the Catskill/Delaware UV Facility 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. 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 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 two and one-half mile long bypass tunnel. Connection of the bypass to the existing tunnel is expected to require that the tunnel be shut down for up to eight months or two or three shut downs of shorter duration, starting in 2022, during which periods supply augmentation and demand management practices are expected to be needed. The estimated remaining 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 \$100 million, \$97 million of which is funded 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. Stage II consists of the Manhattan segment and the Brooklyn/Queens segment. The Manhattan segment of Stage II was completed in October 2013. The tunnel and most of the infrastructure work for the Brooklyn/Queens segment of Stage II are complete, with two final shafts to be designed and constructed. Construction of the shafts is expected to begin in 2020. The Brooklyn/Queens segment of Stage II is being maintained under pressure and is ready for rapid activation in the unlikely event of a major disruption in water delivery from Tunnel 2 as an emergency back-up water source for Tunnel 2. Designs are also underway to connect the Brooklyn/Queens segment to the Richmond Downtake Chamber, which will provide Tunnel 3 water to Staten Island. The estimated cost of work on Stage II is expected to be \$632 million, \$626 million of which is funded in the CIP. The Stage III project is now referred to as the "Kensico-City Tunnel" and will extend from the Kensico Reservoir to Tunnel 3, south of Hillview Reservoir. All costs associated with the Kensico-City Tunnel are expected to be incurred in the years beyond the CIP. 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.

Kensico-Eastview Connection. The Kensico-Eastview Connection will connect the Kensico Reservoir to the UV Facility (defined below under "LT2"), providing critical redundancy in the water supply system. The project is expected to begin in 2018 and is estimated to cost \$1.3 billion, \$1.2 billion of which is included in 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 November 5, 2018, the System's reservoirs were filled to 92.9% of capacity. Normal levels at this time of year are approximately 75.3% 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 maximizes 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 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 local municipal 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 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 has constructed a full scale water treatment facility to filter Croton System water. While the facility is operational, it is anticipated that the total remaining cost to complete the Croton filtration plant will be \$48 million, all of which is included in the CIP. Additionally, DEP is mandated to construct a permanent golf club house. The cost of such club house is estimated to be \$72 million, all of which is included in the CIP for its construction.

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, DEP has operated the Catskill and Delaware Systems pursuant to a series of Filtration Avoidance Determinations (“FADs”) under which the City is not required to filter water from such systems. Each FAD has required the City to take certain actions to protect the Catskill and Delaware Water supplies. Based on an analysis performed in 2007, DEP estimated that if the City were to have to filter water from the Catskill and Delaware Systems, construction costs would be \$6 billion. An updated analysis is to be performed as part of the 2017 FAD, as defined below. DEP expects that any updated estimate will exceed \$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, watershed communities, USEPA, and several environmental groups (the “Watershed Memorandum of Agreement”).

In December 2017, NYSDOH issued a new FAD (the “2017 FAD”), which supersedes previous FADs. The 2017 FAD will remain in effect until a further determination is made, anticipated in 2027. The estimated capital cost of complying with the 2017 FAD is \$479 million, of which \$278 million is funded in the CIP.

The 2017 FAD continues many of the protective actions within the watershed included in previous FADs, including land acquisition; working with farmers to prevent farm runoff from reaching streams; upgrading wastewater

infrastructure; and stabilizing streambanks to withstand flood events and reduce erosion. In addition, the 2017 FAD includes enhancements to existing programs, including a new focus on acquiring lands in stream buffers and flood prone areas; resizing municipal infrastructure like bridges and culverts to better accommodate high stream flows; and expanding eligibility to small businesses to access funds to repair failing septic systems. Further, the 2017 FAD requires the City to allocate an additional \$69 million for its core land acquisition program, as well as an additional \$11 million for agricultural conservation easements, and up to \$11 million for the streamside acquisition program.

On June 29, 2015, NYSDEC issued a findings statement, completing its eight-year environmental review of natural gas drilling using high volume hydraulic fracturing (“HVHF”) in New York State, including the Catskill/Delaware watershed, concluding that the public health risks of HVHF cannot adequately be avoided or mitigated. While HVHF is now effectively banned based on the environmental review, low volume hydraulic fracturing is currently allowed Statewide, including in the watershed. However, NYSDEC has stated its belief 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. Although in 2011, USEPA announced that as part of a periodic review of existing regulations, it would review LT2, in December 2016, USEPA notified the City that it did not plan to revise LT2 at that time. Therefore, DEP is required under LT2 to cover 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 an administrative order with NYSDOH (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 a 2010 administrative order with USEPA (the “Federal Hillview Administrative Order”), the City’s deadline to begin constructing the cover was extended to January 31, 2017, with a construction completion date of May 31, 2028. The State Hillview Administrative Order was 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.

In March 2013, DEP requested that NYSDOH and USEPA extend the deadline to begin construction of the cover for an additional six years beyond the existing January 31, 2017 deadline, but negotiations were suspended while USEPA completed its review of LT2. DEP has not begun construction of the cover and is therefore not in compliance with the January 31, 2017 deadline to start construction. In light of USEPA’s decision in December 2016 not to amend LT2, USEPA and USDOJ are negotiating a federal consent decree to cover the reservoir with DEP.

The most recent estimate of the cost of constructing a concrete cover over the Hillview Reservoir, as DEP originally proposed, is approximately \$1.6 billion. DEP has initiated procurement of a facility planning contract to analyze alternatives for achieving LT2 compliance. The CIP does not include funding to construct a cover.

Tap Water Testing Program. Pursuant to USEPA and NYSDOH regulations that require water suppliers to monitor for lead and copper that may have leached from pipes into drinking water (the “Lead and Copper Rule”), DEP manages a sampling program whereby consumers who have lead service lines or copper pipes with lead solder, and have agreed to participate in the sampling program, submit samples of drinking water from their taps. To reduce the leaching of metals, DEP adds food grade orthophosphate and sodium hydroxide to the water before it enters the distribution system, which promotes the formation of a protective coating inside pipes and plumbing and minimizes corrosion. DEP is currently in compliance with the Lead and Copper Rule. In addition, DEP manages a free residential lead and copper testing program in which residents can have their tap water tested for lead and copper by DEP at no cost. While this program is not required by USEPA and NYSDOH regulations, it provides valuable information directly to residents regarding lead and copper within their homes and recommendations on reducing exposure to lead.

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. A series of agreements among the parties to the 1954 Decree required 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. A new agreement among the Decree Parties was reached in October 2017, which establishes a new 10-year program. The agreement protects the available supply of drinking water for the City, and expands efforts to enhance flood attenuation and support recreational use of the upper Delaware River. The parties to the agreement have committed to pursue a number of scientific studies to refine management of the resources to advance the myriad interests connected to the Delaware River. 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 the federal court’s determination in 2003 that a State Pollutant Discharge Elimination System (“SPDES”) permit is required for the City’s transfer of water through the Shandaken Tunnel, DEP applied for and obtained the Shandaken Tunnel SPDES permit in 2006. As a result of state court litigation challenging the terms of the SPDES permit, in 2008, DEP applied for variances with respect to the permit’s temperature and turbidity limits. The State has not acted on DEP’s variance application. Under USEPA’s Water Transfers Rule, adopted in 2008 as the State Court litigation was concluding, the Clean Water Act permit program does not apply to transfers of untreated water (such as the Shandaken Tunnel). Several entities brought litigation challenging the Water Transfers Rule. On January 18, 2017, the Second Circuit Court of Appeals reversed the Southern District of New York’s 2014 decision vacating the Water Transfers Rule, finding that the rule reflects a reasonable interpretation of the Clean Water Act and therefore reinstating it. On February 26, 2018, the U.S. Supreme Court denied two petitions seeking review of the Second Circuit decision. Accordingly, the Water Transfers Rule is in effect, and the City does not believe it is required to maintain a SPDES permit for this water transfer under federal law. However, the SPDES permit is still in place. Additional conditions on the Shandaken Tunnel could require DEP to undertake costly capital projects.

Catalum 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 (“Catalum SPDES Permit”). Among other things, the Catalum 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 Catalum SPDES Permit. DEP and NYSDEC executed an administrative consent order in October 2013, which requires, among other things, that DEP seek a modification of the Catalum 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 F.

Sewage Collection and Treatment

The Sewer System’s plants treat approximately 1,230 mgd of wastewater. The Sewer System is divided into 14 drainage areas corresponding to the 14 wastewater treatment plants (“WWTPs”) 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.”

Most of the biosolids from DEP’s WWTPs are dewatered at one of the six dewatering facilities located at DEP WWTPs; a small percentage of liquid sludge is sent for processing at a facility operated by the Passaic Valley Sewerage Commission under an intergovernmental agreement. The dewatered biosolids are trucked to landfill sites by private contractors.

Governmental Regulation

Under the Clean Water Act, USEPA oversees compliance with federal environmental laws, regulations and guidelines concerning sewage. Included in that regulatory framework are 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 NYSDEC.

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

DEP’s 14 in-City WWTPs are governed by plant-specific SPDES permits which require compliance with myriad conditions. The current permits were issued October 15, 2015.

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 as recently as the 1980s, 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 required DEP to upgrade five wastewater treatment plants, in order to reduce nitrogen discharges at those plants. Pursuant to a series of amendments, including the “First Amended Nitrogen Consent Judgment,” executed in 2011, DEP committed to construct nitrogen upgrades at a total of eight wastewater treatment plants, encompassing the four plants that discharge into Jamaica Bay and the four Upper East River plants. Construction at

the Upper East River Plants was completed in 2017. Construction at the Jamaica Bay plants is required, under the First Amended Nitrogen Consent Judgment, to be completed by the end of 2020, but while construction is complete at two of the plants (26th Ward and Jamaica), construction at the other two Jamaica Bay plants (Coney Island and Rockaway) is delayed, for which DEP is subject to stipulated penalties under the Judgment. DEP expects construction to continue through late 2022. The remaining cost of complying with the Nitrogen Consent Judgment, as amended by the First Amended Nitrogen Consent Judgment, is approximately \$41 million, all of which is included in the CIP.

Newtown Creek/Full Secondary Treatment Requirements. The Newtown Creek WWTP was upgraded to meet secondary treatment standards, pursuant to the terms of a State court consent judgment between NYSDEC and DEP. In July 2017, DEP certified completion of all the terms of the consent judgment. All of the System's 14 in-City WWTPs now meet secondary treatment requirements.

Combined Sewer Overflows. The System is required to develop programs to reduce the impacts to water quality of combined sewer overflows ("CSOs"). The City's CSO program has been subject to a series of consent orders since 1992.

In September 2010, DEP released a Green Infrastructure Plan (the "Green Infrastructure Plan"), that offered a new approach to reducing CSOs through a cost-effective mix of Grey Infrastructure and methods such as bioswales, rain gardens, and green roofs to either retain and/or detain flow during rain events ("Green Infrastructure"). In March 2012, DEP and NYSDEC entered into a further modification to the CSO Consent Order (the "2012 Modified CSO Consent Order") that incorporated the goals of the Green Infrastructure Plan. The 2012 Modified CSO Consent Order eliminates nine projects that were contemplated by the CSO Consent Order and deferred 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 eleven CSO long-term control plans ("LTCPs"), for each CSO water body, between 2013 and 2018. LTCPs include projects designed to ensure that the water bodies comply with Clean Water Act requirements. DEP has submitted ten LTCPs under the 2012 Modified CSO Consent Order, nine of which have been approved by NYSDEC. The selected projects in the approved LTCPs are now enforceable requirements under the CSO Consent Order. DEP estimates the cost of complying with the 2012 Modified CSO Consent Order through the end of the CIP to be \$3.1 billion, \$2.8 billion 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.

Prior to approving the Alley Creek LTCP, in 2013 NYSDEC sought penalties under the CSO Consent Order for the period that there was a disapproved LTCP. That claim was discontinued but NYSDEC may seek to revive it in the future.

DEP is required to submit one additional LTCP in 2018, and to respond to NYSDEC's comments and requests for information, for other water bodies in accordance with the 2012 Modified CSO Consent Order. DEP has requested that NYSDEC revise the submission date for the last LTCP from December 31, 2018 to March 31, 2020 and the request is pending. DEP could be subjected to stipulated penalties if such request is not approved and DEP does not comply with the existing December 31, 2018 submission date.

On June 29, 2017, a coalition of environmental groups sued USEPA challenging the State's 2015 water quality standards – which form the basis for the approved LTCPs and those DEP is continuing to develop – as inconsistent with the federal Clean Water Act. The lawsuit alleges that the State's use of fecal coliform bacteria to set the standard is outdated and inconsistent with recreational water quality criteria issued by USEPA in 2012, which are based on enterococcus bacteria rather than fecal coliform. The City and State intervened in the lawsuit. On March 7, 2018, USEPA disapproved the State standards because they are based on coliform bacteria and directed NYSDEC to adopt new water quality criteria to protect primary contact recreation. If the court finds that recreational water quality criteria apply and therefore that water quality standards for enterococcus must be developed and met, or if USEPA's disapproval otherwise results in the adoption of new standards, DEP could be compelled to revise its LTCPs to meet the new standards. This could impose potentially significant additional costs of complying with the 2012 Modified CSO Consent Order. Such potential additional costs are not reflected in the CIP or the projected operating costs of the System.

USEPA Request for Information/Sewer Backups. In January 2010 and again in July 2015, DEP received requests for information, pursuant to Section 308 of the Clean Water Act, from USEPA concerning the City's 14 wastewater treatment plants, focusing particularly on sewer backups into homes from the wastewater collection system and DEP's programs to address them. DEP provided the information requested. On August 31, 2016, USEPA served the City with an Administrative Order asserting that sewer backups constitute violations of the Clean Water Act. Under the Administrative Order, the City is required to submit an Operations and Maintenance Plan (the "Plan") for USEPA approval to work toward the goal of eliminating sewer backups from the Sewer System. The Plan must include a number of elements including benchmarks for annual reduction of sewer backups and targeted reductions in areas most heavily impacted by backups. Under the Administrative Order, USEPA seeks to have oversight of the Plan for at least 7 years. The City does not believe that USEPA has jurisdiction to regulate sewer backups that do not reach navigable waters. DEP provided a Sewer Backup Prevention and Response Plan to USEPA on May 31, 2017, which includes a targeted pilot program for sewer inspections in select geographic area. In July 2017, DEP commenced the pilot program.

Superfund Designation. DEP is a potentially responsible party ("PRP") 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 (the "Canal"), a waterway located in Brooklyn, New York, as a federal Superfund site under CERCLA. USEPA considers the City a PRP under CERCLA, based on contaminants from currently and formerly City-owned and operated properties, as well as from the City's CSOs. 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 estimates that the tanks will actually cost in excess of \$750 million, which is included in the CIP. On May 28, 2014, USEPA issued a unilateral administrative order ("Unilateral 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. As required by the Unilateral Order, DEP submitted its siting recommendations for the two CSO tanks to USEPA on June 30, 2015. As set forth in a consent order, which was fully executed on June 9, 2016, USEPA agrees with the City's preferred location for one of the tanks and, with respect to the other tank, USEPA has directed the City to site the tank at the City's preferred location subject to certain milestones. In addition, the City is participating in an ongoing arbitration process with approximately 20 other parties to determine each party's share of liability for the design of the in-canal (dredging and capping) portion of the remedy.

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 eleven 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 12, 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 material on-site and via the Sewer System. In 2013, USEPA, in cooperation with City and State agencies, completed a response action to implement certain interim remedial measures at the Wolff-Alport Site to address the Site's short-term public health risks. From 2015 to 2017, USEPA undertook a remedial investigation and feasibility study that assessed, among other things, impacts to the sewer system and City right-of-way from operations at the Wolff-Alport Site, and evaluated a range of remedial alternatives. In September 2017, USEPA issued its ROD identifying its selected remedy. The ROD requires jet washing and replacement of sewers, and excavation of contaminated portions of the right-of-way. USEPA estimated work for the entire Wolff-Alport Site to cost \$39 million. The City anticipates that the costs for the portion of the work in the sewers and the right-of-way could significantly exceed that estimate. In December 2017, USEPA notified the City of its status as a PRP for the work on City property and sought to have the City perform some of the work. In February 2018, the City notified USEPA that, subject to certain conditions, it was willing to undertake such work and will be negotiating an agreement with USEPA to address that work.

Storm Sewer Infrastructure. Certain parts of the City do not have built-out storm sewer infrastructure, including areas of southeast Queens and Staten Island. Those areas of Staten Island are being addressed through DEP's Bluebelt Program. See "CAPITAL IMPROVEMENT AND FINANCING PROGRAM – Ten Year Capital Strategy, Current Capital Plan and the Capital Improvement Program – Sewers". For southeast Queens, the City is planning to construct storm sewer infrastructure, which is expected to take forty-five years. A complete cost estimate is not available, though \$1.5 billion is included in the CIP.

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. Until August 2015, the SPDES requirements for the City's separate sewers were incorporated into the SPDES permits for the 14 wastewater treatment plants. On August 1, 2015, a new Citywide MS4 permit took effect. The costs of complying with the permit will include both operating and capital expenses. Pursuant to the permit, the City is required to conduct a fiscal analysis of the resources necessary to fund the costs of complying with the permit. Responsibility for such costs is shared across a number of City agencies, including DEP. DEP does not yet have an estimate of the costs associated with these new requirements through the years covered by the CIP, which could be substantial. The CIP currently includes \$10 million for DEP's share of capital costs associated with complying with the permit.

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

ENVIRONMENTAL MATTERS

Sandy

On Monday, October 29, 2012 Hurricane Sandy hit the Mid-Atlantic East Coast as a tropical storm ("Sandy"). The City continues to expend funds to address the impact of Sandy on the System, but anticipates that the costs to the System relating to the storm will largely be paid from non-City sources, primarily the federal government.

Climate Change

DEP has been engaged in an ongoing review of the effects of climate change on the System, including the impact of rising sea levels and changes to the intensity and frequency of precipitation events throughout the System, including the impact on the System's water supply assets and sewer and wastewater assets. In June 2013, the City released a report, updated in April 2015 with the release of One New York: the Plan for a Strong and Just City (the "Report"), which presents a long-term plan to address the City's, including DEP's, goals of resiliency, sustainability, equity and growth for the City. As stated in the section entitled "Vision 4" in the Report, the City's climate resiliency planning is based on the climate change impact projections from the New York City Panel on Climate Change ("NPCC"), a body of more than a dozen leading independent climate and social scientists. The NPCC has identified that the City is already experiencing the impacts of climate change and projects dramatic impacts from climate change on the City in the future. The NPCC has published three reports, most recently in 2015, and an updated report is expected in December 2018. Progress reports on One New York: the Plan for a Strong and Just City are issued on an annual basis, with the last progress report released on April 20, 2018.

In October 2013, DEP released two studies informed by the report issued in June 2013 summarizing certain climate-related impacts on the System's water and sewer assets. First, the NYC Wastewater Resiliency Plan summarized the results of a study of the System's principal wastewater assets and proposed measures to protect such assets from future storms and rising sea levels. Since the System's wastewater assets are located along waterbodies, they are particularly at risk from rising sea levels and major storms. Second, the Phase I Assessment of the Climate Change Integrated Modeling Project summarized the prospective effects of climate change on the quantity and quality of water on the System's water supply.

Building on the recommendations contained in the reports and plans discussed above, the System is in the process of implementing climate resiliency projects directed toward mitigating the risks identified in the NPCC report, as well as other risks identified by DEP. Such plans include both stand-alone resiliency projects and the integration of resiliency protection into DEP's ongoing investments. Such projects include structural upgrades and improvements to the Ashokan Reservoir, improvements to wastewater treatment assets to protect them from flooding, and resiliency projects along the East River. A portion of the cost of completing such projects is included in the Capital Improvement Program. The total cost of these projects is expected to be substantial. These projects are in various stages of feasibility review, design and construction and/or implementation. Some projects are expected to require additional funding to the extent that they are in the planning stages or current funding does not provide for the costs of construction. In addition to such projects, DEP expects that additional resiliency projects will be identified and implemented in the coming years, addressing the risks identified in the NPCC report including coastal storms, sea level rise, extreme heat and intense rainfall, as well as other risks the DEP may identify.

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 8.6 million, is an international center of business and culture. Its non-manufacturing economy is broadly based, with the banking and securities, insurance, information services, communications, technology, hospitality, 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 2018 through 2022 assumes that the gradual increase in economic activity that began in the second half of 2010 will continue through the financial plan period.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 2006 to 2016 (the most recent year for which City personal income data are available). For the period from 2006 through 2008, annual personal income growth averaged 4.5% and 4.8% for City and the nation, respectively. Total personal income in the City decreased by 3.4% in 2009, and increased by an average of 4.8% from 2010 through 2016. The following table sets forth information regarding personal income in the City from 2006 to 2016.

Personal Income(1)

<u>Year</u>	<u>Total City (\$ billions)</u>	<u>Per Capita City</u>	<u>Per Capita U.S.</u>	<u>Per Capita City as a Percent of U.S.</u>
2006.....	\$ 378.0	\$ 47,289	\$ 38,144	124%
2007.....	409.5	51,099	39,821	128%
2008.....	412.9	51,176	41,082	125%
2009.....	398.8	49,042	39,376	125%
2010.....	412.6	50,370	40,277	125%
2011.....	446.8	53,939	42,461	127%
2012.....	476.2	56,952	44,282	129%
2013.....	492.6	58,481	44,493	131%
2014.....	513.7	60,631	46,494	130%
2015.....	536.9	63,039	48,451	130%
2016.....	547.7	64,146	49,246	130%

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, securities, insurance, information services, communications, technology, hospitality, fashion, design, retailing, education and healthcare services industries. Over the past two decades the City has experienced a number of business cycles. From 1992 to 2000, the City added 456,700 private sector jobs (growth of 17%). From 2000 to 2003, the City lost 173,100 private sector jobs (decline of 5%). From 2003 to 2008, the City added 257,400 private sector jobs (growth of 9%). From 2008 to 2009, the City lost 103,000 private sector jobs (decline of 3%). From 2009 to 2016, the City added 648,700 private sector jobs (growth of 21%). All such changes are based on average annual employment levels through and including the years referenced. As of September 2018, total employment in the City was 4,493,600 compared to 4,422,500 in September 2017, an increase of approximately 1.6% 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 2008 to 2017.

Employment Distribution

	Average Annual Employment (In thousands)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Goods Producing Sectors										
Construction.....	132.7	120.8	112.5	112.3	116.1	122.2	129.2	139.3	147.2	151.1
Manufacturing.....	95.6	81.6	76.3	75.7	76.3	76.4	76.6	77.8	76.1	73.1
Service Producing Sectors										
Trade Transportation and Utilities.....	574.6	552.7	559.7	575.6	590.5	605.0	620.6	630.2	630.4	634.3
Information.....	169.5	165.2	165.9	170.8	175.7	179.2	185.0	189.0	192.6	197.1
Financial Activities.....	464.6	433.9	428.3	439.1	438.8	437.5	449.2	459.3	465.9	469.8
Professional and Business Services.....	603.4	569.2	575.3	597.5	619.3	642.9	669.0	700.0	722.3	742.3
Education and Health Services..	736.3	752.6	771.6	789.2	805.6	831.1	866.4	896.9	928.7	963.4
Leisure and Hospitality.....	310.2	308.5	322.2	342.2	365.7	385.4	408.5	427.8	440.2	452.1
Other Services.....	160.8	160.3	160.6	165.2	170.4	174.9	180.2	185.7	190.1	191.5
Total Private	<u>3,247.7</u>	<u>3,144.7</u>	<u>3,172.5</u>	<u>3,267.5</u>	<u>3,358.5</u>	<u>3,454.5</u>	<u>3,584.7</u>	<u>3,705.9</u>	<u>3,793.5</u>	<u>3,874.7</u>
Government	<u>564.1</u>	<u>567.0</u>	<u>558.0</u>	<u>550.6</u>	<u>546.1</u>	<u>544.4</u>	<u>545.4</u>	<u>549.9</u>	<u>552.3</u>	<u>552.1</u>
Total	<u>3,811.8</u>	<u>3,711.7</u>	<u>3,730.5</u>	<u>3,818.1</u>	<u>3,904.6</u>	<u>3,998.9</u>	<u>4,130.1</u>	<u>4,255.8</u>	<u>4,345.7</u>	<u>4,426.7</u>

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 2016, the City's service producing sectors provided approximately 3.6 million jobs and accounted for approximately 82% 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 2016, 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 45%. In the nation, those same service producing sectors accounted for only approximately 20% of employment and 26% of earnings in 2016. 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 2016 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2016⁽¹⁾

	Employment		Earnings(2)	
	NYC	U.S.	NYC	U.S.
Goods-Producing Sectors				
Mining	0.0%	0.5%	0.0%	1.5%
Construction	3.4	4.7	3.6	6.1
Manufacturing	1.8	8.6	1.1	9.4
Total Goods-Producing	5.1	13.7	4.7	16.9
Service-Producing Sectors				
Trade, Transportation and Utilities	14.5	18.9	9.4	15.4
Information	4.4	1.9	7.7	3.4
Financial Activities.....	10.7	5.7	24.1	9.1
Professional and Business Services	16.6	13.9	21.2	17.0
Education and Health Service.....	21.4	15.7	12.0	13.0
Leisure & Hospitality	10.1	10.8	5.1	4.6
Other Services	4.4	3.9	3.2	3.7
Total Service-Producing	82.2	70.9	82.6	66.3
Total Private Sector	87.3	84.6	88.3	83.2
Government(3)	12.7	15.4	11.7	16.8

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

Sources: The primary sources of employment and earnings information are New York State Department of Labor, 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 proprietor's income. The latest information available is 2016 data.
- (3) Excludes military establishments.

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

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

Sectoral Distribution of Employment and Earnings⁽¹⁾

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

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.

The United States Census Bureau estimates that the City's population increased to 8,622,698 in July 2017.

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 2019 Series 2 and 3 Bonds, or in any way contesting or affecting the validity of the Fiscal 2019 Series 2 and 3 Bonds, or any proceedings of the Authority, the Board or the City taken with respect to the issuance or sale of the Fiscal 2019 Series 2 and 3 Bonds, or with respect to the Resolution, the Authority Second Resolution or the pledge or application of any money or security provided for the payment of the Fiscal 2019 Series 2 and 3 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 \$22 million, \$11 million, \$16 million, \$24 million, \$14 million, \$18 million, \$16 million and \$32 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 October 30, 2013, various upstate communities filed a petition against the Water Board with the New York Public Service Commission ("PSC") for a declaratory ruling that the rate charged by the Water Board for water supplied in excess of the statutory entitlement of water in Fiscal Year 2014 was unreasonably high. The same entities filed a Supplemental Joint Petition on June 30, 2015 to challenge the Excess Rates in effect for Fiscal Years 2015 and 2016. The Water Board believes that the Excess Rates are reasonable and established in compliance with all statutory and regulatory requirements. The Water Board also believes that the PSC lacks jurisdiction over the dispute and is seeking to have the petition dismissed. In addition to challenges to the Excess Rate, on June 30, 2015, upstate communities sought review from NYSDEC of Entitlement Rates for Fiscal Years 2015 and 2016. On August 18, 2016, they filed another petition with NYSDEC seeking review of the Entitlement Rate for Fiscal Year 2017 and seeking to determine whether the PSC or NYSDEC has jurisdiction to review the Excess Rate. On February 9, 2018, the NYSDEC administrative law judge ruled that NYSDEC has jurisdiction to review the Excess Rate. This ruling may be appealed.

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 brought 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 was also brought in connection with injuries sustained during the accident. The federal Occupational Safety and Health Administration ("OSHA") investigated the accident and cited Halmar for two serious violations of workplace safety standards and proposed a fine of \$14,000 against Halmar. Halmar entered into a settlement agreement with OSHA pursuant to which it paid a penalty of \$7,000.

On January 15, 2014, a 36-inch water main located at Fifth Avenue and East 13th Street in Manhattan failed resulting in significant flooding. Seventy-two notices of claim were served on the City alleging property damage, and 30 actions naming the City, and in some cases, Con Edison have been filed. Both the City and Con Edison have denied liability. In October 2017, the court granted the City's counterclaims against The New School, which was one of the properties involved in the flooding, due to The New School's large excavation and construction projects. The other properties involved include retail, medical, residential, residential storage units, and vehicles in two parking garages. The water main and other infrastructure items were retrieved from the location and preserved as evidence. A forensic investigation of the causes of the water main failure is ongoing.

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. Sixty-three lawsuits (with 171 plaintiffs) have been commenced against the City, including eight for wrongful death. The remainder allege personal injury, property damage, and/or business interruption. Plaintiffs assert generally that the City was negligent in inspecting and maintaining infrastructure, including gas and water lines. The National Transportation Safety Board ("NTSB") investigated the cause of the explosion. The NTSB completed its investigation into the probable cause of the explosion and issued its findings on June 9, 2015. The NTSB issued two probable cause findings. First, that Con Edison installed a defective fusion joint between its gas main and a service pipe, which failed. Second, that DEP did not repair a known breach in the City sewer, allowing supporting soil under the gas main to wash into the sewer, causing the gas pipe to sag; and that the sagging gas pipe led to a separation of the defective fusion joint, allowing gas to escape, fueling the explosion. The New York State Department of Public Service ("DPS") issued its final report regarding its investigation on November 19, 2015. DPS concluded that Con Edison's improper installation of the fusion joint at 1642 Park Avenue, which failed, was the primary source of natural gas that caused the explosion. DPS identified thirteen regulations that Con Edison appears to have violated, as well as four other areas of concern related to Con Edison. DPS also concluded that the gas main was caused to move downward due to supporting soil being washed away from the pre-existing sewer breach, and due to excess loading from repeated layers of asphalt roadway, which led to the fusion joint failure. It is not clear at this point how the NTSB and DPS findings will affect the City's potential liability with respect to this matter. Discovery is proceeding in the underlying cases.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the Fiscal 2019 Series 2 and 3 Bonds is subject to the approval of legality by Nixon Peabody LLP, New York, New York, and Hardwick Law Firm, LLC, New York, New York, Co-Bond Counsel. Certain legal matters will be passed upon for the City and the Board by the City's Corporation Counsel.

FINANCIAL ADVISORS

Lamont Financial Services Corporation and Drexel Hamilton, LLC are serving as financial advisors to the Authority with respect to the sale of the Fiscal 2019 Series 2 and 3 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 Authority First Resolution and the Authority 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 Authority First Resolution and the Authority Second Resolution are available for inspection during normal business hours at the office of the Authority.

Any statements in this Attachment 1 involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. Neither this Attachment 1 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 2019 Series 2 and 3 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 2019 Series 2 and 3 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 2019 Series 2 and 3 Bonds (“Bondholders”) that it will:

(1) within 270 days after the end of the 2018 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”), post 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 Attachment 1 under the captions “CAPITAL IMPROVEMENT AND FINANCING PROGRAM,” “FINANCIAL OPERATIONS,” “RATES AND BILLING” and “THE SYSTEM”; and

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

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

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 2019 Series 2 and 3 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 2019 Series 2 and 3 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.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS

The financial statements of the System as of and for the years ended June 30, 2018 and June 30, 2017 (the "Audited System Financial Statements") included in APPENDIX D to this Attachment 1 have been audited by Marks Paneth LLP, independent certified public accountants, as stated in their report appearing therein. Marks Paneth LLP, the Authority's independent auditor has not reviewed, commented on or approved, and is not associated with, this Attachment 1. The report of Marks Paneth LLP relating to the Authority's financial statements for the fiscal years ended June 30, 2018 and 2017, which is a matter of public record, is included in this Attachment 1. However, Marks Paneth 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 Attachment 1, since the date of such report and has not been asked to consent to the inclusion of its report in this Attachment 1.

ENGINEERING FEASIBILITY REPORT AND FORECASTED CASH FLOWS

Certain information contained in this Attachment 1 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 Attachment 1 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.

**LETTER OF
AECOM USA, INC.
CONSULTING ENGINEERS**

November __, 2018

Ms. Olga Chernat, CFA
Executive Director
New York City Municipal Water Finance Authority

Subject: New York City Municipal Water Finance Authority Water and Sewer System Authority Second Resolution
Revenue Bonds, Fiscal 2019 Series 2 and 3

Dear Ms. Chernat,

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 Attachment 1.

Based on the information set forth in this Attachment 1, 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 and managed in a professional and prudent manner with an appropriate regard for the level of service afforded to the users within the available funding. 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 2019 are adequate for the continued reliable operation of the System. The expense budget projections for Fiscal Year 2019 are currently under review based upon the projected new needs of the System.
- The Capital Improvement Program (the “CIP”) for Fiscal Years 2019-2027 is responsive to the long-term operating requirements of the System.
- Current staffing levels of the System are sufficient for proper operation and maintenance. DEP is evaluating future staffing needs to improve operation and maintenance efficiency of the System.

AECOM hereby consents to the inclusion of those opinions and conclusions attributed to it in the Attachment 1.

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 2019 Series 2 and 3. Certain studies and analyses were performed in anticipation of the creation of the Authority and were used in developing the information in the Attachment 1 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 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 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 City were conducted, current engineering and financial reports, System operating data and other documents were reviewed and major facilities were visited. 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 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 Attachment 1 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.

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Amawalk Consulting Group LLC

90 BROAD STREET, SUITE 707A, NEW YORK, NY 10004 • TEL: 212.361.0050 • FAX: 212.361.0055

November __, 2018

Ms. Olga Chernat
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 2019 Series 2 and 3

Dear Ms. Chernat:

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 2019 through 2023 (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 2019 Series 2 and 3 (the "Fiscal 2019 Series 2 and 3 Bonds"). Proceeds from the Fiscal 2019 Series 2 and 3 Bonds are expected to be used to (i) refund certain Outstanding Authority Second Resolution bond anticipation notes issued to the New York State Environmental Facilities Corporation (the "Corporation") and (ii) pay certain of the Corporation's costs of issuance. In conducting the analysis, the Amawalk Consulting Group LLC has prepared the following tables which are included in this Attachment 1 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 "Authority First Resolution") and obligations issued under the Authority's Second General Resolution (the "Authority Second Resolution") and additional Bonds and Authority Second Resolution Bonds whose issuance by the Authority during the five years ending June 30, 2023 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 Authority First Resolution. The term "Revenues," as defined by the Authority 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 Authority Second Resolution are to be derived from: (i) all available amounts on deposit in the Subordinated Indebtedness Fund established under the Authority First Resolution and (ii)

all moneys or securities in any of the funds and accounts established under the Authority 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 Attachment 1 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 Authority 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 Authority 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 Authority 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 Attachment 1, 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

GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS**GLOSSARY**

Set forth below are definitions of certain terms contained in the Agreement, the Lease, the Authority First Resolution and the Resolutions and not otherwise defined in this Attachment 1.

Definition of Certain Terms Used in the Authority First Resolution

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

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

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

Authority Expenses: All reasonable or necessary current expenses of the Authority, including all salaries, administrative, general, commercial, engineering, advertising, public notice, auditing and legal expenses, insurance and surety bond premiums, fees paid to banks, insurance companies or other financial institutions for the issuance of Credit Facilities, consultants' fees and charges, payment to pension, retirement, health and hospitalization funds, costs of public hearings, ordinary and current rentals of equipment and other property, lease payments for real property or interests therein, expenses, liabilities and compensation of any Fiduciary and all other expenses necessary, incidental or convenient for the efficient operation of the Authority. Bond Counsel has determined that payments made under an Interest Rate Exchange Agreement are deemed Authority Expenses if the Interest Rate Exchange Agreement relates to Authority 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 Authority First Resolution (and as used in this Attachment 1 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 Authority 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.

(Definition of Certain Terms Used in the Authority First Resolution)

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 Authority 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

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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 Authority 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.

THE FOLLOWING DEFINITION HAS BECOME EFFECTIVE WITH RESPECT TO AUTHORITY FIRST RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015, BUT ONLY TO THE EXTENT MONEYS ARE SEPARATELY SEGREGATED OR ALLOCATED TO THE AUTHORITY FIRST RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015. THE FOLLOWING DEFINITION WILL BECOME EFFECTIVE WITH RESPECT TO ALL OTHER AUTHORITY FIRST RESOLUTION BONDS AT SUCH TIME AS THE APPROVAL OF TWO-THIRDS IN PRINCIPAL AMOUNT OF THE HOLDERS OF ALL OUTSTANDING AUTHORITY FIRST RESOLUTION BONDS HAS BEEN OBTAINED, AT WHICH TIME THE DEFINITION OF DEFEASANCE OBLIGATIONS WILL BE AMENDED TO READ AS FOLLOWS FOR ALL OUTSTANDING AUTHORITY FIRST RESOLUTION BONDS.

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Defeasance Obligations shall mean

(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) of this clause;

(C) a non-callable obligation of the United States of America which has been stripped by the United States Department of the Treasury itself or by any Federal Reserve Bank (not including “CATS,” “TIGRS” and “TRS” unless the Authority obtains Rating Confirmation with respect to the Outstanding Bonds to be defeased);

(D) the interest component of REFCORP bonds for which separation 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 Section 1201 of the Second General Resolution, is rated in the highest rating category by at least two Rating Agencies, one of which then maintains a rating on the Outstanding Bonds, (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) and (F), which fund may be applied only to the payment of the principal of and 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 Agricultural Mortgage Corporation (Farmer Mac), Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac), Federal National Mortgage Corporation (FNMA-Fannie Mae), Financing Corporation (FICO), Resolution Funding Corporation (REFCORP) and the Tennessee Valley Authority, or any other instrumentality or government sponsored enterprise of the United States of America and (ii) rated in the highest rating category by at least two Rating Agencies, one of which maintains a rating on the Outstanding Bonds, unless such obligations have a maturity of 360 days or less in which case such obligations are rated in the highest short-term rating category, without regard to qualification of such rating symbols such as “+” or “-”, by at least two Rating Agencies, at least one of which then maintains a rating on the Outstanding Bonds; provided, further, that the term “Defeasance Obligations” shall not mean any interest in a unit investment trust or a mutual fund.

FGR 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 FGR Subordinated Indebtedness Fund.

FGR Subordinated Indebtedness Fund: The Subordinated Indebtedness Fund established pursuant to the Authority First Resolution.

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

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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 Authority 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 Authority 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

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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.

THE FOLLOWING DEFINITION HAS BECOME EFFECTIVE WITH RESPECT TO AUTHORITY FIRST RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015, BUT ONLY TO THE EXTENT MONEYS ARE SEPARATELY SEGREGATED OR ALLOCATED TO THE AUTHORITY FIRST RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015. THE FOLLOWING DEFINITION WILL BECOME EFFECTIVE WITH RESPECT TO ALL OTHER AUTHORITY FIRST RESOLUTION BONDS AT SUCH TIME AS THE APPROVAL OF TWO-THIRDS IN PRINCIPAL AMOUNT OF THE HOLDERS OF ALL OUTSTANDING AUTHORITY FIRST RESOLUTION BONDS HAS BEEN OBTAINED, AT WHICH TIME THE DEFINITION OF INVESTMENT SECURITIES WILL BE AMENDED TO READ AS FOLLOWS FOR ALL OUTSTANDING AUTHORITY FIRST RESOLUTION BONDS.

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) *obligations of any state, agency, political subdivision or public authority within the United States, provided such obligations are rated, at the time of purchase, in one of the two highest*

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rating categories by at least two Rating Agencies, one of which maintains a rating on the 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, subdivision, department, division or instrumentality thereof or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency, subdivision, department, division 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); securities under this clause include but are not limited to those issued by the US Treasury (bills, notes, bonds, STRIPS, TIPS), Government National Mortgage Association (GNMA), Farm Credit System Financial Assistance Corporation (FCSFAC), General Service Administration (GSA), Maritime Administration, Small Business Administration and the Federal Financing Bank;

(iii) obligations of any agency, subdivision, department, division, instrumentality or government sponsored enterprise of the United States of America; or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division, instrumentality or government sponsored enterprise of the United States of America; provided, however, that at the time of purchase such obligations are rated in one of the two highest rating categories by at least two Rating Agencies, at least one of which then maintains a rating on the Outstanding Bonds, unless such obligations have a maturity of 360 days or less in which case such obligations are rated in the highest short-term rating category, without regard to qualification of such rating symbols such as “+” or “-”, by at least two Rating Agencies, at least one of which then maintains a rating on the Outstanding 2019 Series AA Bonds; securities under this clause include but are not limited to those issued by the Federal Agricultural Mortgage Corporation (Farmer Mac), Federal Farm Credit bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac), Federal National Mortgage Corporation (FNMA – Fannie Mae), Financing Corporation (FICO), Resolution Funding Corporation (REFCORP) and the Tennessee Valley Authority;

(iv) banker’s acceptances or certificates of deposit issued by a commercial bank (A) whose long-term debt obligations are rated in one of the two highest long-term rating categories by at least two Rating Agencies, one of which then maintains a rating on the Outstanding Bonds (B) that has its principal place of business within the United States 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 at least two Rating Agencies, one of which then maintains a rating on the Outstanding Bonds, in its highest rating category;

(vi) repurchase agreements collateralized by securities described in clauses (i), (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 at least two Rating Agencies, one of which then maintains a rating on the 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 \$200,000,000, 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 weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation and (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%;

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(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 at least two Rating Agencies, one of which then maintains a rating on the Outstanding Bonds;*

(viii) *money market funds rated in the highest rating category for comparable types of obligations by at least two Rating Agencies, one of which then maintains a rating on the Outstanding 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 (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 at least two Rating Agencies, one of which then maintains a rating on the Outstanding 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 Authority 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 Authority First Resolution either:

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(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 Authority 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 Authority 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

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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.

THE FOLLOWING DEFINITION HAS BECOME EFFECTIVE WITH RESPECT TO AUTHORITY FIRST RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015, BUT ONLY TO THE EXTENT MONEYS ARE SEPARATELY SEGREGATED OR ALLOCATED TO THE AUTHORITY FIRST RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015. THE FOLLOWING DEFINITION WILL BECOME EFFECTIVE WITH RESPECT TO ALL OTHER AUTHORITY FIRST RESOLUTION BONDS AT SUCH TIME AS THE APPROVAL OF TWO-THIRDS IN PRINCIPAL AMOUNT OF THE HOLDERS OF ALL OUTSTANDING AUTHORITY FIRST RESOLUTION BONDS HAS BEEN OBTAINED, AT WHICH TIME THE DEFINITION OF RATING AGENCIES WILL BE AMENDED TO READ AS FOLLOWS FOR ALL OUTSTANDING AUTHORITY FIRST RESOLUTION BONDS.

Rating Agencies shall mean a nationally recognized statistical rating organization ("NRSRO") registered with the Securities and Exchange Commission.

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 Authority 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 Authority 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 Authority First Resolution.

Reimbursement Obligation: The obligation of the Authority described in the Authority 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 FGR Subordinated Indebtedness Fund but only to the extent such payments are required to be made from Revenues pursuant to the Authority 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

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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.

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 Authority 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.

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“**Account**” shall mean one of the special accounts created and established pursuant to Article V of the Authority Second Resolution.

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

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

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

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

“**Authority 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 Authority Second Resolution.

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

“**Authority 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.

“**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

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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 Authority 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 Authority Second Resolution.

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

“**Bond Counsel’s Opinion**” or “**Opinion of Bond Counsel**” shall mean an opinion signed by Nixon Peabody 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 Authority 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 Authority First Resolution Bonds, (ii) the Projected Debt Service for such Fiscal Year on Authority 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 Authority Second Resolution.

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

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

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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 Authority Second Resolution.

“Debt Service Reserve Fund” shall mean the fund by that name established pursuant to the Authority 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

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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 Authority 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.

THE DEFINITION OF "DEFEASANCE OBLIGATIONS" SET FORTH ON PAGE C-4 HAS BECOME EFFECTIVE WITH RESPECT TO AUTHORITY SECOND RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015, INCLUDING THE FISCAL 2019 SERIES 2 AND 3 BONDS, BUT ONLY TO THE EXTENT MONEYS ARE SEPARATELY SEGREGATED OR ALLOCATED TO THE AUTHORITY SECOND RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015. THE DEFINITION OF "DEFEASANCE OBLIGATIONS" SET FORTH ON PAGE C-4 WILL BECOME EFFECTIVE WITH RESPECT TO ALL OTHER AUTHORITY SECOND RESOLUTION BONDS AT SUCH TIME AS THE APPROVAL OF A MAJORITY IN PRINCIPAL AMOUNT OF THE HOLDERS OF ALL OUTSTANDING AUTHORITY SECOND RESOLUTION BONDS HAS BEEN OBTAINED, AT WHICH TIME THE DEFINITION OF "DEFEASANCE OBLIGATIONS" SET FORTH ON PAGE C-4 WILL BE AMENDED TO READ AS SET FORTH ON PAGE C-4 FOR ALL OUTSTANDING AUTHORITY SECOND RESOLUTION BONDS.

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

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

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

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

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

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

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

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

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

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“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 Authority Second Resolution.

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

“Fiscal Year” shall have the meaning ascribed to such term in the Agreement. **“Fund”** shall mean any fund established pursuant to the Authority Second Resolution.

“Interest Rate Exchange Agreement” means an agreement entered into by the Authority relating to Bonds or Authority 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 Authority 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 Authority First 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

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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.

THE DEFINITION OF "INVESTMENT SECURITIES" SET FORTH ON PAGES C-6 THROUGH C-8 HAS BECOME EFFECTIVE WITH RESPECT TO AUTHORITY SECOND RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015, INCLUDING THE FISCAL 2019 SERIES 2 AND 3 BONDS, BUT ONLY TO THE EXTENT MONEYS ARE SEPARATELY SEGREGATED OR ALLOCATED TO THE AUTHORITY SECOND RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015. THE DEFINITION OF "INVESTMENT SECURITIES" SET FORTH ON PAGES C-6 THROUGH C-8 WILL BECOME EFFECTIVE WITH RESPECT TO ALL OTHER AUTHORITY SECOND RESOLUTION BONDS AT SUCH TIME AS THE APPROVAL OF A MAJORITY IN PRINCIPAL AMOUNT OF THE HOLDERS OF ALL OUTSTANDING AUTHORITY SECOND RESOLUTION BONDS HAS BEEN OBTAINED, AT WHICH TIME THE DEFINITION OF "INVESTMENT SECURITIES" SET FORTH ON PAGES C-6 THROUGH C-8 WILL BE AMENDED TO READ AS SET FORTH ON PAGES C-6 THROUGH C-8 FOR ALL OUTSTANDING AUTHORITY SECOND RESOLUTION BONDS.

"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

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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 Authority 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 Authority 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 Authority Second Resolution and a Supplemental Resolution.

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

(Definition of Certain Terms Used in the Authority Second Resolution)

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 Authority 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 Authority 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 Authority 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 Authority 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 amount is secured by a Credit Facility which is not in default and (z) the principal amount of any Parity Reimbursement Obligation) of such Series due (or so tendered for purchase or payment) on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date.

“Projected Debt Service” for any Fiscal Year or part thereof shall mean, unless used in relation to Authority 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 Authority First Resolution Bonds, shall have the meaning ascribed thereto in the Authority First Resolution.

(Definition of Certain Terms Used in the Authority Second 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.

THE DEFINITION OF “RATING AGENCIES” SET FORTH ON PAGE C-10 HAS BECOME EFFECTIVE WITH RESPECT TO AUTHORITY SECOND RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015, INCLUDING THE FISCAL 2019 SERIES 2 AND 3 BONDS, BUT ONLY TO THE EXTENT MONEYS ARE SEPARATELY SEGREGATED OR ALLOCATED TO THE AUTHORITY SECOND RESOLUTION BONDS ISSUED OR REOFFERED AFTER OCTOBER 21, 2015. THE DEFINITION OF “RATING AGENCIES” SET FORTH ON PAGE C-10 WILL BECOME EFFECTIVE WITH RESPECT TO ALL OTHER AUTHORITY SECOND RESOLUTION BONDS AT SUCH TIME AS THE APPROVAL OF A MAJORITY IN PRINCIPAL AMOUNT OF THE HOLDERS OF ALL OUTSTANDING AUTHORITY SECOND RESOLUTION BONDS HAS BEEN OBTAINED, AT WHICH TIME THE DEFINITION OF “RATING AGENCIES” SET FORTH ON PAGE C-10 WILL BE AMENDED TO READ AS SET FORTH ON PAGE C-10 FOR ALL OUTSTANDING AUTHORITY SECOND RESOLUTION BONDS.

“**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 Authority Second Resolution.

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

“**Reimbursement Obligation**” shall mean the obligation of the Authority described in the Authority 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 Authority 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 Authority 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 Authority 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 Authority Second 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 Authority 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 Authority 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

(Definition of Certain Terms Used in the Authority Second Resolution)

Service Reserve Requirement and (v) the amount, if any, withdrawn from the Construction Account pursuant to the Authority 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.

“SGR 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 SGR Subordinated Indebtedness Fund or Other Moneys, or both, which is subordinate to the pledge thereof made under the Authority Second Resolution.

“SGR Subordinated Indebtedness Fund” shall mean the Subordinated Indebtedness Fund established pursuant to the Authority Second Resolution.

“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 Authority 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.

“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 Authority Second Resolution, adopted in accordance with Article VIII of the Authority Second Resolution.

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

“System” shall mean the “Water System” and the “Sewer System” as such quoted terms are defined in Sections 1045-b(14) and (21) of the Act.

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

“Trustee” shall mean U.S. Bank, National Association, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the Authority Second Resolution.

(Definition of Certain Terms Used in the Authority 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 Authority First Resolution and the Authority 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 Authority 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, Authority 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 Authority 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 Authority First Resolution.

The Authority shall authorize payment of such Costs in the manner set forth in the Authority 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 Authority 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 Depository: the Board Expense Fund and the Operation and Maintenance Reserve Fund, with the General Account therein. The Board shall hold such funds as trust funds and the amounts on deposit shall only be applied for the purposes provided in the Agreement.

Beginning on the first day of each month in each Fiscal Year, the Board is required to apply the Revenues in the Local Water Fund, *first*, to the Trustee for deposit in the Revenue Fund until the amount on deposit in the Revenue Fund equals the Minimum Monthly Balance for such month and the Trustee shall have received the amounts, if any, required to be deposited in the Authority Expense Fund, the Debt Service Reserve Fund and the FGR 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 FGR Subordinated Indebtedness) payable within the then current Fiscal Year, together with all other amounts necessary to make the required deposits

(Summary of the Agreement)

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.

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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 Authority 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 Authority 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 Authority 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

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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 Authority 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

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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 Authority 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 Authority 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*)

(Summary of the Agreement)

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 Authority First Resolution or the respective provisions of the Act pursuant to which the Authority 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 Authority 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 Authority 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 Authority 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 Authority First Resolution. (*Section 10.1*)

Conflicts. The Agreement provides that its provisions shall not change or in any manner alter the terms of the Authority 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 Authority First Resolution or any Bond, the provisions of the Authority 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

(Summary of the Lease)

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*)

(Summary of the Lease)

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 Authority First Resolution

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

Pledge of Revenues and Funds. The Authority pledges for the payment of the Principal Installments or Redemption Price of and any interest on the Bonds, in accordance with their terms and the provisions of the Authority First Resolution: (i) all Revenues, (ii) all moneys or securities in any of the Funds and Accounts created under the Authority 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 Authority 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 Authority First Resolution; subject only to the provisions of the Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority First Resolution also establishes in the Debt Service Reserve Fund a separate account to be known as the "Capitalized Interest Account".

(Summary of the Authority First Resolution)

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 Authority 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 Authority 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 Authority 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

(Summary of the Authority First Resolution)

(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 FGR Subordinated Indebtedness Fund. Any remaining amounts shall be credited to the Revenue Fund. (*Section 507*)

Debt Service Reserve Fund. The Authority First Resolution establishes a Debt Service Reserve Fund and a Common Account therein. In addition, the Authority 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

(Summary of the Authority First Resolution)

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 FGR 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 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 Authority 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*)

FGR Subordinated Indebtedness Fund. The Trustee shall apply amounts on deposit in the FGR Subordinated Indebtedness Fund solely to the maintenance of reserves for, or the payment of, FGR Subordinated Indebtedness (or as otherwise provided by the resolution of the Authority authorizing each issue of FGR Subordinated Indebtedness). The Trustee shall withdraw from the FGR 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 Authority 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*)

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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*)

FGR Subordinated Indebtedness. The Authority may issue FGR 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 FGR Subordinated Indebtedness, however, shall be issued only for the purposes set forth in the Authority First Resolution and shall be secured by a pledge subordinate in all respects to the pledge created by the Authority 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 Authority First Resolution with the Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of the Authority First Resolution, and each of the Funds established by the Authority First Resolution shall be a trust fund for the purposes thereof.

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

Investment of Certain Funds. Moneys held in the Debt Service Fund, the Debt Service Reserve Fund and the FGR Subordinated Indebtedness Fund (subject to the terms of any resolutions or other instruments securing any issue of FGR 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.

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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 Authority 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, FGR 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 Authority 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 Authority 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 Authority First Resolution and any Series of Refunding Bonds issued pursuant to Section 207 of the Authority 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 Authority 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 Authority 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 Authority 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

(Summary of the Authority First Resolution)

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 Authority First Resolution. The Authority may also pledge the Revenues to the payment of the interest on, and subject to Section 707 of the Authority First Resolution, the principal of such notes. A copy of the Authority 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 Authority 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 Authority First Resolution provides that the Authority shall not issue any bonds, or other evidences of indebtedness, other than the Bonds, Bond Anticipation Notes, FGR 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 Authority 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 Authority 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 Authority 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*)

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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 Authority 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 Authority First Resolution. (*Section 714*)

Supplemental Resolutions. The Authority 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 Authority 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 Authority First Resolution; to confirm any pledge under the Authority 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 Authority 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 Authority First Resolution or to insert such provisions clarifying matters or questions arising under the Authority First Resolution as are necessary or desirable, and are not contrary to or inconsistent with the Authority 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 Authority 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 Authority 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

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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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 accountants¹, 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 Authority 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; *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

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.

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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 Authority First Resolution. (*Section 1201*)

Defeasance of Option Bonds. Under the Authority First Resolution, Option Bonds shall be deemed paid in accordance with the Authority 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 Authority Second Resolution

Terms used in this Summary of the Authority Second Resolution shall have the meanings ascribed thereto in "APPENDIX C – GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS – Glossary – Definition of Certain Terms Used in the Authority 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 Authority Second Resolution, subject only to the provisions of the Authority Second Resolution, the Authority First Resolution, the Act and the Agreement permitting the application thereof for or to the purposes and on the terms and conditions of the Authority 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 Authority 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 Authority Second Resolution and (v) from and after the time that the pledge of Revenues made in the Authority First Resolution shall be discharged and satisfied in accordance with the Authority First Resolution, all Revenues; *provided, however*, that such pledge shall be in all respects subordinate to the provisions of the Authority First Resolution and the lien and pledge created by the Authority 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 Authority 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 Authority 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 Authority 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 Authority Second Resolution, (ii) the pledges made by the Authority Second Resolution and each pledge made to secure obligations of the Authority which, by the terms set forth in the Authority 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 Authority 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 Authority Second Resolution that is prior to or of equal rank with the pledge made by the Authority Second Resolution and neither the Revenues nor any other property pledged by the Authority Second Resolution have been described in any financing statement. Except as expressly permitted by the Authority 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 Authority Second Resolution that is prior to or of equal rank with the pledge made by the Authority 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 Authority 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

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assignment, transfer and pledge are and shall be in all respects subject and subordinate to the assignment, transfer and pledge made by the Authority First Resolution; *provided, further*, that the assignment made by the Authority 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 Authority First Resolution and the Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 be deposited therein pursuant to the Authority 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 be deposited in the Construction Fund as soon as practicable after the date on which there are no Authority First Resolution Bonds Outstanding. From and after the date on which no Authority 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 Authority First Resolution, the Construction Account may only be expended to pay Costs of Water Projects (including

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Costs of Issuance). The Trustee shall, subject to certain exceptions contained in the Authority First Resolution and the Authority 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 Authority 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 Authority Second Resolution or the Agreement to be so deposited.

In addition to the payments to be made from the FGR Subordinated Indebtedness Fund, as soon as practicable in each month the amount in the FGR 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 SGR 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 Authority 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

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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 Authority 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.

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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 Authority Second Resolution establishes a Debt Service Reserve Fund and a Common Account therein. In addition, the Authority 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 Authority 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 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 Authority 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.

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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 successor 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

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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 Authority 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*)

SGR Subordinated Indebtedness Fund. The Trustee shall apply amounts on deposit in the SGR Subordinated Indebtedness Fund solely to the maintenance of reserves for, or the payment of, SGR Subordinated Indebtedness (or as otherwise provided by the resolution of the Authority authorizing each issue of SGR Subordinated Indebtedness). The Trustee shall withdraw from the SGR 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 Authority 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 Authority 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 Authority Second Resolution with the Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of the Authority Second Resolution and the applicable provisions of the Authority 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 Depository that any moneys or securities credited to a Fund or an Account under the Authority Second Resolution which are deposited

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with such Depository shall be identified to be part of such Fund or Account and subject to the pledge in favor of the Trustee created under the Authority Second Resolution. Prior to the first deposit of any moneys or securities with each Depository, the Authority and the Trustee shall obtain from such Depository 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 Depository governing the establishment and operation of such account shall provide the moneys or securities from time to time deposited with such Depository shall be held by such Depository as such agent in pledge in favor of the Trustee; *provided, however*, that, except as otherwise expressly provided in the Authority 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 Depository and apply the same for the purposes specified in the Authority Second Resolution and, subject to Section 515 of the Authority Second Resolution, the Authority shall be permitted to invest amounts in any such account in Investment Securities.

Each Depository holding moneys or securities in trust for the Trustee shall be a bank or trust company organized under the laws of the State or a national banking association (having its principal office within the State), having capital stock, surplus and undivided earnings aggregating at least \$100,000,000 (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 Authority Second Resolution. (*Section 513*)

Investment of Certain Funds. Moneys held in the Debt Service Fund, the Debt Service Reserve Fund and the SGR Subordinated Indebtedness Fund (subject to the terms of any resolutions or other instrument securing any issue of SGR 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 Depository 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, Authority 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 Authority 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 Authority Second Resolution and in one or more Series as therein provided.

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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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 SGR 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 Authority 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 Authority 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 Authority Second Resolution, the principal of such notes. A copy of the Authority Second Resolution of the Authority authorizing such notes, certified by an Authorized Representative of the Authority, shall be delivered to the Trustee

(Summary of the Authority Second Resolution)

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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority First 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 Authority Second Resolution shall be discharged and satisfied as provided in Section 1201 of the Authority Second Resolution, or from issuing bonds or notes or other obligations for the corporate purposes of the

(Summary of the Authority Second Resolution)

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 Authority Second Resolution and the lien and pledge created by the Authority Second Resolution.

The Authority will not issue any bonds, notes or other evidences of indebtedness or otherwise incur any indebtedness, other than Bonds or Authority 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 Authority 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 Authority 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 Authority Second Resolution or by the Agreement or Authority 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 Authority 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

(Summary of the Authority Second Resolution)

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 Authority Second Resolution. (*Section 713*)

Amendments to Authority First Resolution, Agreement and Lease. Except as otherwise provided in the Authority Second Resolution, the Authority 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 Authority 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 Authority First Resolution:

(ii) amends Section 207 or Section 209 of the Authority First Resolution in any manner which would permit Authority 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 Authority 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 Authority First Resolution, or

(v) amends the Authority First Resolution, the Agreement or the Lease in any manner which would indirectly modify the provisions of any of the Sections of the Authority First Resolution referred to in clauses (i), (ii), (iii) or (iv) of Section 714(a) of the Authority 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 Authority First Resolution and Agreement.”

Notwithstanding the provisions of the preceding paragraph, the amendments to the Authority 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 Authority 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 Authority First Resolution, Agreement and Lease” the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or

(Summary of the Authority Second Resolution)

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 Authority 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 Authority First Resolution, Agreement and Lease,” Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the Authority 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, change, modification or alteration, and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds.

For the purposes of the provisions under this heading “Amendments to Authority 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 Authority 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 Authority 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 Authority Second Resolution; to confirm any pledge under the Authority 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 Authority 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 Authority Second Resolution or to insert such provisions clarifying matters or questions arising under the Authority Second Resolution as are necessary or desirable, and are not contrary to or inconsistent with the Authority Second Resolution as theretofore in effect; or to modify any provision of the Authority 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 Authority 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 Authority Second Resolution in the manner provided in the Authority 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 Authority 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

(Summary of the Authority Second Resolution)

or observance of any other of its covenants, agreements or conditions in the Authority 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 Authority First Resolution Bonds are then Outstanding under the Authority First Resolution or if the principal of all Authority First Resolution Bonds then Outstanding has been declared to be due and payable immediately pursuant to Section 803 of the Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority Second

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.

(Summary of the Authority Second Resolution)

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 Authority 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 Authority Second Resolution. (*Section 1201*)

Defeasance of Option Bonds. Under the Authority Second Resolution, Option Bonds shall be deemed paid in accordance with the Authority 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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FINANCIAL STATEMENTS

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NEW YORK CITY WATER AND SEWER SYSTEM

A COMPONENT UNIT OF THE CITY OF NEW YORK

**Combining Financial Statements
(Together with Independent Auditors' Report)**

June 30, 2018 and 2017

**NEW YORK CITY WATER AND SEWER SYSTEM
(A Component Unit of The City of New York)**

**COMBINING FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the Members of the Joint Audit Committee of the
New York City Municipal Water Finance Authority and
New York City Water Board

We have audited the accompanying combining financial statements 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, which comprise the combining statements of net position (deficit) as of June 30, 2018 and 2017, and the related combining statements of revenues, expenses and changes in net position (deficit) and cash flows for the years then ended, and the related notes to the combining financial statements.

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 entity'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 entity'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 financial position of the New York City Municipal Water Finance Authority and the New York City Water Board as of June 30, 2018 and 2017, and the changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the System has restated its combining financial statements as of and for the year ended June 30, 2017 during the current year to retroactively implement Governmental Accounting Standards Board Statement No. 83, *Certain Asset Retirement Obligations*. Our opinion is not modified with respect to this matter.

Other Matter – 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, the schedule of changes for total OPEB liability and related ratios on page 66, the schedule of the Authority's proportionate share of the net pension liability on page 67, and the schedule of the Authority's pension contributions on page 67 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.

Marks Paneth LLP

New York, NY
October 16, 2018

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2018 and 2017. 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 "Water Board"). The System is a component unit of The City of New York ("The City").

The financial statements consist of four parts (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) the notes to the financial statements and (4) required supplementary information.

The basic financial statements of the System, which include the combining statements of net position (deficit), the combining statements of revenues, expenses and changes in net position (deficit) 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") requirements. These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Financial Analysis and Results of Operations

The following summarizes the activities of the System for the fiscal years 2018, 2017, and 2016 (in thousands):

	<u>Restated (a)</u>		<u>Variance</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 vs 2017</u>	<u>2017 vs 2016</u>
REVENUES:					
Operating revenue:					
Water supply and distribution	\$ 1,346,045	\$ 1,407,328	\$ 1,431,148	\$ (61,283)	\$ (23,820)
Sewer collection and treatment	2,140,214	2,237,652	2,275,524	(97,438)	(37,872)
Bad debt expense	(18,259)	(2,620)	(4,467)	(15,639)	1,847
Other operating revenues	187,308	186,355	185,793	953	562
Total operating revenues	<u>3,655,308</u>	<u>3,828,715</u>	<u>3,887,998</u>	<u>(173,407)</u>	<u>(59,283)</u>
Non-operating revenue:					
Subsidy income	175,620	166,715	164,502	8,905	2,213
Investment income	28,809	4,178	53,322	24,631	(49,144)
Total non-operating revenues	<u>204,429</u>	<u>170,893</u>	<u>217,824</u>	<u>33,536</u>	<u>(46,931)</u>
Total revenues	<u>3,859,737</u>	<u>3,999,608</u>	<u>4,105,822</u>	<u>(139,871)</u>	<u>(106,214)</u>
EXPENSES:					
Operations and maintenance	1,389,954	1,385,446	1,297,294	4,508	88,152
Other operating expenses	84,983	56,116	16,546	28,867	39,570
General and administrative	55,493	50,749	61,335	4,744	(10,586)
Depreciation and amortization expense	1,042,968	930,482	918,950	112,486	11,532
Capital distribution	22,789	45,789	11,082	(23,000)	34,707
Net loss on retirement of capital assets	48,609	44,452	4,488	4,157	39,964
Loss/(Gain) on defeasance	14,991	(4,808)	22,962	19,799	(27,770)
Interest expense and cost of issuance	1,190,802	1,176,402	1,172,811	14,400	3,591
Total expenses	<u>3,850,589</u>	<u>3,684,628</u>	<u>3,505,468</u>	<u>165,961</u>	<u>179,160</u>
Net gain (loss) before capital contributions	9,148	314,980	600,354	(305,832)	(285,374)
CAPITAL CONTRIBUTIONS	19,642	6,225	4,060	13,417	2,165
CHANGE IN NET POSITION (DEFICIT)	28,790	321,205	604,414	(292,415)	(283,209)
NET POSITION (DEFICIT) - Beginning	1,054,953	733,748	129,334	321,205	604,414
NET POSITION (DEFICIT) - Ending	<u>\$ 1,083,743</u>	<u>\$ 1,054,953</u>	<u>\$ 733,748</u>	<u>\$ 28,790</u>	<u>\$ 321,205</u>

(a) The restatement in fiscal year 2017 is the result of the System's implementing GASB 83.

The implementation is discussed further in Note 9.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Operating Revenue

Operating revenue is comprised of water supply and distribution, sewer collection and treatment, bad debt expense, and other operating revenues.

2018-2017

Operating revenues decreased by \$173 million largely due to the following: (i) a one-time credit issued to residential properties holders with three or fewer units totaling \$121 million and (ii) credits issued to multifamily residential properties subject to rental affordability agreements, credits to senior homeowners, and credits for leak forgiveness totaling \$19.3 million.

2017-2016

Operating revenues decreased by \$59.3 million or 1.5% largely due to a 1.8% decrease in consumption compared to fiscal year 2016.

Other Operating Revenue

The following further details other operating revenues for fiscal years 2018, 2017, and 2016 (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Variance</u>	
				<u>2018 vs 2017</u>	<u>2017 vs 2016</u>
Upstate water fees	\$ 79,688	\$ 85,410	\$ 85,221	\$ (5,722)	\$ 189
Late payment fees	54,020	45,859	53,716	8,161	(7,857)
Change in residual interest in sold liens	(2,034)	2,274	1,737	(4,308)	537
Connection fees and permits	19,588	19,979	17,204	(391)	2,775
Service line protection program	36,046	32,833	27,915	3,213	4,918
Total other operating revenues	<u>\$ 187,308</u>	<u>\$ 186,355</u>	<u>\$ 185,793</u>	<u>\$ 953</u>	<u>\$ 562</u>

2018-2017

Upstate water fees declined due to lower sales of water charged at both the entitlement and excess rates, in particular the reduction of excess water revenues from the City of Newburgh.

Fiscal year 2018 late payment fees returned to a typical range. In fiscal year 2017, late payment fees were reduced by a billing adjustment made mid-year to certain accounts relating to a change in interest rate. This lowered the total amount of late payment charges for fiscal year 2017. This amount fluctuates depending on the timeliness of customer payment.

The change in residual interest in sold liens decreased by \$4.3 million compared to fiscal year 2017. This was due to fewer residual liens from previous lien sales residing with the Lien Trust.

The amounts received for the service line protection program increased by \$3.2 million. The number of effective policies increased from approximately 254,000 on July 1, 2017 to approximately 270,000 by the end of fiscal year 2018.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

2017-2016

Upstate water fees increased slightly from fiscal year 2016 to fiscal year 2017. There was no rate increase in fiscal year 2017, however, water usage increased minimally.

Late payment fees decreased by \$7.9 million or 14.6% compared to fiscal year 2016. This amount fluctuates depending on the timeliness of customer payments. In fiscal year 2017, collection improved along with a mid-year reduction on the interest rate charged for outstanding balances, a decrease from 9% to 6%.

The change in residual interest in sold liens increased by \$0.5 million or 3.1% compared to fiscal year 2016. This was due to more residual liens from previous lien sales residing with the lien servicer.

The amounts received for the service line protection program increased by \$4.9 million. The number of effective policies steadily increased from approximately 220,000 on July 1, 2016 to approximately 254,000 by the end of fiscal year 2017.

Non-Operating Revenue

Non-operating revenue is comprised of subsidy income and investment income.

2018-2017

Investment income increased by \$24.6 million compared to fiscal year 2017. The increase was due to higher interest rates on invested assets and a decrease in arbitrage rebate payments, which is recorded as an offset to investment income.

2017-2016

Investment income decreased by \$49.1 million compared to fiscal year 2016. This is due to (a) the Water Board investment income that decreased by \$4.9 million due to realized losses on securities purchased and lower interest rates on investment balances held at the institutions and (b) the Authority's \$25.0 million of unrealized loss on investments, of which \$20.6 million relates to Forward Purchase Agreements ("FPA"), and arbitrage rebate payments of approximately \$14.3 million in fiscal year 2017. Excluding the unrealized loss on investments, the arbitrage rebate payments and the arbitrage accruals, investment income increased by \$9.9 million.

Operating Expenses

Operating expenses are comprised of operations and maintenance, general and administrative, depreciation and amortization expense, and other operating expenses.

2018-2017

Other operating expenses increased by \$28.9 million compared to fiscal year 2017. The Department of Environmental Protection ("DEP") pollution remediation obligations went up by approximately \$8.0 million in fiscal year 2018 due to several projects, including the reconstruction of facilities lighting at the North River Wastewater Treatment Plant ("WWTP"), Main Sewage Pump upgrades at the Bowery Bay WWTP, the activation of The City Tunnel No. 3, Stage 2, and asbestos removal at various DEP facilities. The filtration avoidance determination ("FAD") expense increased in fiscal year 2018 compared to fiscal year 2017. This

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

increase was due to the wastewater management program with various New York upstate counties for maintaining and enhancing water quality.

In fiscal year 2018, depreciation expense increased due to the addition of \$3.7 billion of new depreciable assets placed in service.

2017-2016

Total operations and maintenance expenses increased by approximately \$88.2 million or 6.8%. This increase was mainly due to the following: costs associated with dredging of the Flushing Bay, increased cost of sludge disposal, and increased costs associated with wastewater treatment.

General and administrative expenses decreased by \$11.0 million or 18.0% compared to fiscal year 2016 mainly due to decreased Water Board accrued expenses and consulting fees. The Authority's administrative and general expenses decreased marginally in fiscal year 2017.

Other operating expenses increased by \$39.6 million compared to fiscal year 2016. In fiscal year 2016, there was a write down of \$46.5 million of pollution remediation obligations. In fiscal year 2017, there was no write down to offset expenses.

Non-Operating Expenses

Non-operating expenses are comprised of interest expense, loss on defeasance, cost of issuance, net loss on retirement of capital assets, and capital distribution.

2018-2017

Net loss on retirement of capital assets increased by \$4.2 million due to the disposition of assets with carrying values greater than those in fiscal year 2017. This amount fluctuates depending on the amount of fixed asset disposed.

Interest expense and cost of issuance increased by \$14.4 million. This increase was primarily due to the issuance of additional debt.

Fiscal year 2018 cash defeasance resulted in an accounting loss of \$15.0 million. This represents the difference between the carrying value of the defeased bonds and the amount transferred to fund the escrow account (using current resources) to defease the bonds. This loss was reported in the Systems' combining statement of revenues, expenses and changes in net position (deficit) (see Note 9).

2017-2016

Net loss on retirement and impairment of capital assets increased by \$40.0 million due to the disposition of assets with carrying values greater than those in fiscal year 2016.

Interest expense and cost of issuance increased by \$3.6 million. This increase was primarily due to the issuance of additional debt.

Fiscal year 2017 cash defeasance resulted in an accounting gain of \$4.8 million. This represents the difference between the carrying value of the defeased bonds and the amount transferred to fund the escrow account (using

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

current resources) to defease the bonds. This gain was reported in the System's combining statement of revenues, expenses and changes in net position (deficit) (see Note 9).

Change in Net Position (Deficit)

2018-2017

The change in net position (deficit) represents the net total of operating revenue and expenses, non-operating revenues and expenses, and capital contributions. The change in net position (deficit) decreased by \$292 million in fiscal year 2018.

2017-2016

The change in net position (deficit) represents the net total of operating revenue and expenses, non-operating revenues and expenses, and capital contributions. The change in net position (deficit) decreased by \$283 million in fiscal year 2017.

Ending Net Position (Deficit)

2018-2017

The ending net position (deficit) represents the net total of operating revenue and expenses, non-operating revenues and expenses, capital contributions, and beginning balance of net position. Ending net position (deficit) increased by \$28.8 million in fiscal year 2018.

2017-2016

The ending net position (deficit) represents the net total of operating revenue and expenses, non-operating revenues and expenses, capital contributions, and beginning balance of net position (deficit). Ending net position (deficit) increased by \$321 million in fiscal year 2017.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

The following is a summary of the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (deficit) as of June 30 (in thousands):

	<u>Restated</u>			<u>Variance</u>	
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 vs 2017</u>	<u>2017 vs 2016</u>
Current assets	\$ 3,274,730	\$ 3,497,079	\$ 3,185,052	\$ (222,349)	\$ 312,027
Residual interest in sold liens	73,574	75,607	73,333	(2,033)	2,274
Capital assets	30,063,299	29,536,272	29,065,790	527,027	470,482
Total assets	33,411,603	33,108,958	32,324,175	302,645	784,783
Deferred outflows of resources:					
Accumulated decrease in fair value of hedging derivative	76,115	100,438	142,802	(24,323)	(42,364)
Deferred changes in net pension liability	(353)	(184)	275	(169)	(459)
Unamortized asset retirement obligation	15,454	16,752	-	(1,298)	16,752
Deferred changes in OPEB liability	31	-	-	31	-
Total deferred outflows of resources	91,247	117,006	143,077	(25,759)	(26,071)
Total assets and deferred outflows of resources	\$ 33,502,850	\$ 33,225,964	\$ 32,467,252	\$ 276,886	\$ 758,712
Current liabilities	\$ 1,251,166	\$ 1,369,149	\$ 1,285,910	\$ (117,983)	\$ 83,239
Long-term liabilities	31,158,544	30,785,167	30,430,785	373,377	354,382
Total liabilities	32,409,710	32,154,316	31,716,695	255,394	437,621
Deferred inflows of resources:					
Deferred changes in net pension liability	37	11	154	26	(143)
Deferred changes in OPEB liability	349	291	8	58	283
Unamortized deferred bond refunding costs	9,011	16,393	16,647	(7,382)	(254)
Total deferred inflows of resources	9,397	16,695	16,809	(7,298)	(114)
Net position (deficit):					
Net investment in capital assets	116,124	(204,403)	(430,201)	320,527	225,798
Restricted for debt service	1,501,529	1,781,994	1,457,332	(280,465)	324,662
Restricted for operations and maintenance	247,304	237,746	250,447	9,558	(12,701)
Unrestricted (deficit)	(781,214)	(760,384)	(543,830)	(20,830)	(216,554)
Total net position (deficit)	1,083,743	1,054,953	733,748	28,790	321,205
Total liabilities, deferred inflows of resources, and net position (deficit)	\$ 33,502,850	\$ 33,225,964	\$ 32,467,252	\$ 276,886	\$ 758,712

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Deferred Outflows of Resources

Deferred Outflows of Resources are comprised of accumulated decrease in fair value of hedging derivative, deferred changes in net pension liability, unamortized asset retirement obligations, and deferred changes in OPEB liability.

2018-2017

Accumulated decrease in fair value of hedging derivative decreased by \$24.3 million or 24.2% compared to fiscal year 2017 because of an increase in the fair value of the hedging derivative instruments.

2017-2016

Deferred outflows of resources from hedging decreased by \$42.4 million or 29.7% compared to fiscal year 2016 because of an increase in the fair value of the hedging derivative instruments.

Current Liabilities

Current liabilities are comprised of accounts payable, interest payable, revenue received in advance, current portion of bonds and notes payable, payable to The City of New York, and service credits on customer accounts.

2018-2017

Current liabilities decreased by \$118 million or 8.6% compared to fiscal year 2017. This was primarily due to a decrease in the current portion of bonds and notes payable.

2017-2016

Current liabilities increased by \$83.2 million or 6.5% compared to fiscal year 2016. This was due to an increase in the current portion of Bonds Anticipation Notes payable offset by a decrease of \$200 million in outstanding commercial paper.

Long-term Liabilities

Long-term liabilities are comprised of bonds and notes payable, pollution remediation obligation, interest rate swap agreement – net, revenue requirements payable to the Authority, net pension liability, net OPEB liability, and other long-term liability.

2018-2017

Long-term liabilities increased by \$373 million or 1.2% primarily due to the issuance of new debt to fund capital projects.

2017-2016

Long-term liabilities increased by \$354 million or 1.2% primarily due to the issuance of new debt for capital projects.

Capital Assets

The System's capital assets include buildings, machinery and equipment, vehicles, water supply and wastewater treatment systems, and water distribution and sewage collection systems, as well as utility construction.

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

The Authority issues debt to pay for the capital improvements to the System and related costs. Costs related to the System's filtration avoidance determination, including land acquisition in the upstate watershed area and certain costs associated with pollution remediation, are financed with debt but are not recorded as System assets on the combining statements of net position (deficit). The cumulative amount of expenses not capitalized as assets as of June 30, 2018 was \$1.4 billion. These costs or distributions are expensed in the System's combining statements of revenues, expenses, and changes in net position (deficit) in the years incurred. The land purchased is granted to The City and becomes The City's capital asset because it is not subject to the method of capitalization under which the System reports its capital assets.

Capital assets as of June 30, are detailed as follows (in thousands):

	Variance				
	2018	2017	2016	2018 vs 2017	2017 vs 2016
NONDEPRECIABLE ASSETS:					
Utility construction in progress	\$ 3,394,126	\$ 5,475,307	\$ 5,227,182	\$ (2,081,181)	\$ 248,125
DEPRECIABLE ASSETS:					
Utility plant in service:					
Buildings	35,767	34,937	34,877	830	60
Machinery and Equipment	4,826,881	3,940,876	3,826,694	886,005	114,182
Vehicles	250,359	246,899	292,404	3,460	(45,505)
Water supply and distribution and wastewater					
treatment and sewage collection systems	36,345,548	33,670,666	32,661,550	2,674,882	1,009,116
Total utility plant in service	41,458,555	37,893,378	36,815,525	3,565,177	1,077,853
Less accumulated depreciation for:					
Buildings	28,003	26,455	25,140	1,548	1,315
Machinery and Equipment	2,120,838	1,872,243	1,641,501	248,595	230,742
Vehicles	101,819	94,025	128,549	7,794	(34,524)
Water supply and distribution and wastewater					
treatment and sewage collection systems	12,538,722	11,839,690	11,181,727	699,032	657,963
Total accumulated depreciation	14,789,382	13,832,413	12,976,917	956,969	855,496
Total utility plant in service - net	26,669,173	24,060,965	23,838,608	2,608,208	222,357
Total capital assets - net	\$ 30,063,299	\$ 29,536,272	\$ 29,065,790	\$ 527,027	\$ 470,482

2018-2017

Total gross additions to nondepreciable assets utility construction in progress were \$1.6 billion and a total of \$3.7 billion of completed projects were moved from construction in progress into depreciable assets utility plant in service. This resulted in a \$2.1 billion reduction in construction in progress, representing a 38% net decrease compared to fiscal year 2017. The System completed the construction of the Croton filtration plant at a cost of \$2.4 billion, the Gowanus Canal facilities upgrade of \$204 million, carbon addition facilities at various treatment plants of \$121 million, supervisory control and data acquisition system at various treatment plants of \$92.0 million, Catskills Delaware shaft 4 interconnection of \$40.0 million, Tallman Island wet weather sewage

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

flow maximization of \$30.0 million and various other projects. Total depreciable assets, net of depreciation increased by \$527 million, a 2% increase from fiscal year 2017 (see Note 3).

2017-2016

The increase in the System's capital assets, net of depreciation during fiscal year 2017 was \$470 million or 1.6%. Additions to utility construction in progress for fiscal year 2017 were \$248 million. Total gross additions to utility construction in progress were \$1.4 billion, less deletions for fiscal year 2017 of \$1.2 billion. The System completed and placed in service over \$286 million of sewage treatment projects, \$352 million of water distribution capital projects, installed and upgraded over \$303 million sewage pipes, and \$108 million water pipes throughout the five boroughs of New York City. The System also completed numerous other projects (see Note 3).

Debt Administration

The debt program of the Authority includes commercial paper and long-term debt issued to the public; and Bond Anticipation Notes ("BANs") and interest-subsidized bonds issued to the New York State Environmental Facilities Corporation ("EFC"). The commercial paper program and BANs are interim financing instruments. Traditionally, they have been the main source of funds used to reimburse The City for payments made for water and sewer projects. The Authority periodically issues long-term debt to retire outstanding commercial paper and subsidized debt through EFC to retire BANs. From time to time, the Authority issues long-term bonds to pay for water and sewer projects foregoing the interim borrowing. The Authority also periodically issues refunding bonds to refinance higher coupon debt.

As of June 30, 2018, the total outstanding debt of the System was \$30.0 billion, of which \$215 million was outstanding BANs issued to EFC, and \$29.8 billion consisted of adjustable and fixed-rate bonds maturing in varying installments through 2053.

As of June 30, 2018, the total outstanding long-term debt including current portion were issued as follows (in thousands):

Issue Date	Principal Outstanding ¹
2018	\$ 3,124,497
2017	2,792,148
2016	2,330,180
2015	2,924,925
2014	2,628,372
2013 and prior	16,215,280
Total long-term debt	<u>\$ 30,015,402</u>

¹ Principal outstanding does not include premium or discount on bonds.

In fiscal year 2018, the Authority issued \$2.3 billion of water and sewer system revenue bonds to the public, including \$1.4 billion of refunding bonds and \$833 million of new money bonds. Additionally, the Authority issued \$669 million of new money water and sewer system revenue bonds to EFC. The Authority used new money bond proceeds to finance capital improvements to the System, to provide long-term financing of BANs that previously financed capital improvements to the System, and to pay for bond issuance costs (see Note 9).

NEW YORK CITY WATER AND SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

During fiscal year 2018, the Authority legally defeased \$769 million of outstanding bonds using current resources. This resulted in an accounting loss of \$15.0 million and a gross debt service savings of \$1.7 billion (see Note 9).

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 (DEFICIT)

June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
	(in thousands)			
ASSETS				
CURRENT ASSETS:				
Restricted cash and cash equivalents	\$ 9,007	\$ 1,265,802	\$ -	\$ 1,274,809
Restricted investments	247,302	932,776	-	1,180,078
Accrued interest and subsidy receivable	-	13,389	-	13,389
Accounts receivable:				
Billed - less allowance for uncollectable water and sewer receivables of \$404,018	429,663	-	-	429,663
Unbilled - less allowance for uncollectable water and sewer receivables of \$27,907	356,581	-	-	356,581
Receivable from The City of New York	20,210	-	-	20,210
Total current assets	1,062,763	2,211,967	-	3,274,730
NON-CURRENT ASSETS:				
Utility plant in service - less accumulated depreciation of \$14,789,382	26,669,173	-	-	26,669,173
Utility plant construction	3,394,126	-	-	3,394,126
Total capital assets	30,063,299	-	-	30,063,299
Residual interest in sold liens	73,574	-	-	73,574
Revenue required to be billed by and received from the Water Board	-	11,588,295	(11,588,295)	-
Total non-current assets	30,136,873	11,588,295	(11,588,295)	30,136,873
Total assets	31,199,636	13,800,262	(11,588,295)	33,411,603
DEFERRED OUTFLOWS OF RESOURCES:				
Accumulated decrease in fair value of hedging derivative	-	76,115	-	76,115
Deferred changes in net pension liability	-	(353)	-	(353)
Unamortized asset retirement obligations	15,454	-	-	15,454
Deferred changes in OPEB liability	-	31	-	31
Total deferred outflows of resources	15,454	75,793	-	91,247
Total assets and deferred outflows of resources	\$ 31,215,090	\$ 13,876,055	\$ (11,588,295)	\$ 33,502,850

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF NET POSITION (DEFICIT)

June 30, 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
	(in thousands)			
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	\$ 6,871	\$ 5,719	\$ -	\$ 12,590
Interest payable	-	53,203	-	53,203
Revenue received in advance	58,537	-	-	58,537
Current portion of bonds and notes payable	-	451,477	-	451,477
Payable to The City of New York	-	595,020	-	595,020
Service credits on customer accounts	80,339	-	-	80,339
Total current liabilities	145,747	1,105,419	-	1,251,166
LONG-TERM LIABILITIES:				
Bonds and notes payable	-	31,023,455	-	31,023,455
Pollution remediation obligation	37,561	-	-	37,561
Interest rate swap agreement - net	-	76,115	-	76,115
Revenue requirements payable to the Authority	11,588,295	-	(11,588,295)	-
Net pension liability	-	516	-	516
Net OPEB liability	-	1,457	-	1,457
Other long-term liability	18,051	1,389	-	19,440
Total long-term liabilities	11,643,907	31,102,932	(11,588,295)	31,158,544
Total liabilities	11,789,654	32,208,351	(11,588,295)	32,409,710
DEFERRED INFLOWS OF RESOURCES:				
Unamortized deferred bond refunding costs	-	9,011	-	9,011
Deferred changes in net pension liability	-	37	-	37
Deferred changes in OPEB liability	-	349	-	349
Total deferred inflows of resources	-	9,397	-	9,397
NET POSITION (DEFICIT):				
Net investment in capital assets	30,063,299	(29,947,175)	-	116,124
Restricted for debt service	-	1,501,529	-	1,501,529
Restricted for operations and maintenance	247,304	-	-	247,304
Unrestricted (deficit)	(10,885,167)	10,103,953	-	(781,214)
Total net position (deficit)	19,425,436	(18,341,693)	-	1,083,743
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 31,215,090	\$ 13,876,055	\$ (11,588,295)	\$ 33,502,850

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF NET POSITION (DEFICIT)

June 30, 2017 (RESTATED)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
	(in thousands)			
ASSETS				
CURRENT ASSETS:				
Restricted cash and cash equivalents	\$ 11,191	\$ 1,600,551	\$ -	\$ 1,611,742
Restricted investments	237,341	876,126	-	1,113,467
Accrued interest and subsidy receivable	-	5,455	-	5,455
Accounts receivable:				
Billed - less allowance for uncollectable water and sewer receivables of \$384,895	404,669	-	-	404,669
Unbilled - less allowance for uncollectable water and sewer receivables of \$28,772	327,231	-	-	327,231
Receivable from The City of New York	34,515	-	-	34,515
Total current assets	1,014,947	2,482,132	-	3,497,079
NON-CURRENT ASSETS:				
Utility plant in service - less accumulated depreciation of \$13,832,413	24,060,965	-	-	24,060,965
Utility plant construction	5,475,307	-	-	5,475,307
Total capital assets	29,536,272	-	-	29,536,272
Residual interest in sold liens	75,607	-	-	75,607
Revenue required to be billed by and received from the Water Board	-	12,113,674	(12,113,674)	-
Total non-current assets	29,611,879	12,113,674	(12,113,674)	29,611,879
Total assets	30,626,826	14,595,806	(12,113,674)	33,108,958
DEFERRED OUTFLOWS OF RESOURCES:				
Accumulated decrease in fair value of hedging derivatives	-	100,438	-	100,438
Deferred changes in net pension liability	-	(184)	-	(184)
Unamortized asset retirement obligations	16,752	-	-	16,752
Total deferred outflows of resources	16,752	100,254	-	117,006
Total assets and deferred outflows of resources	\$ 30,643,578	\$ 14,696,060	\$ (12,113,674)	\$ 33,225,964
See notes to combining financial statements.				(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM
COMBINING STATEMENTS OF NET POSITION (DEFICIT)
June 30, 2017 (RESTATED)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
	(in thousands)			
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	\$ 3,249	\$ 16,558	\$ -	\$ 19,807
Interest payable	-	51,706	-	51,706
Revenue received in advance	69,561	-	-	69,561
Current portion of bonds and notes payable	-	632,921	-	632,921
Payable to The City of New York	-	525,138	-	525,138
Service credits on customer accounts	70,016	-	-	70,016
Total current liabilities	142,826	1,226,323	-	1,369,149
LONG-TERM LIABILITIES:				
Bonds and notes payable	-	30,633,829	-	30,633,829
Pollution remediation obligation	29,500	-	-	29,500
Interest rate swap agreement - net	-	100,438	-	100,438
Revenue requirements payable to the Authority	12,113,674	-	(12,113,674)	-
Net pension liability	-	828	-	828
Net OPEB liability	-	1,412	-	1,412
Other long-term liability	18,051	1,109	-	19,160
Total long-term liabilities	12,161,225	30,737,616	(12,113,674)	30,785,167
Total liabilities	12,304,051	31,963,939	(12,113,674)	32,154,316
DEFERRED INFLOWS OF RESOURCES:				
Unamortized deferred bond refunding costs	-	16,393	-	16,393
Deferred changes in net pension liability	-	11	-	11
Deferred changes in OPEB liability	-	291	-	291
Total deferred inflows of resources	-	16,695	-	16,695
NET POSITION (DEFICIT):				
Net investment in capital assets	29,536,273	(29,740,676)	-	(204,403)
Restricted for debt service	-	1,781,994	-	1,781,994
Restricted for operations and maintenance	237,746	-	-	237,746
Unrestricted (deficit)	(11,434,492)	10,674,108	-	(760,384)
Total net position (deficit)	18,339,527	(17,284,574)	-	1,054,953
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 30,643,578	\$ 14,696,060	\$ (12,113,674)	\$ 33,225,964

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

**COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2018**

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
OPERATING REVENUES:			
Water supply and distribution	\$ 1,346,045	\$ -	\$ 1,346,045
Sewer collection and treatment	2,140,214	-	2,140,214
Bad debt expense	(18,259)	-	(18,259)
Other operating revenues	187,308	-	187,308
Total operating revenues	3,655,308	-	3,655,308
OPERATING EXPENSES:			
Operations and maintenance	1,389,954	-	1,389,954
General and administrative	5,661	49,832	55,493
Other operating expenses	84,983	-	84,983
Depreciation and amortization expense	1,042,968	-	1,042,968
Total operating expenses	2,523,566	49,832	2,573,398
OPERATING INCOME (LOSS)	1,131,742	(49,832)	1,081,910
NON-OPERATING REVENUE (EXPENSES):			
Interest expense	-	(1,171,567)	(1,171,567)
Loss on defeasance	-	(14,991)	(14,991)
Cost of issuance	-	(19,235)	(19,235)
Net loss on retirement and impairment of capital assets	(48,609)	-	(48,609)
Subsidy income	-	175,620	175,620
Capital distribution	(22,789)	-	(22,789)
Investment income	5,923	22,886	28,809
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,066,267	(1,057,119)	9,148
Capital Contribution	19,642	-	19,642
CHANGE IN NET POSITION (DEFICIT)	1,085,909	(1,057,119)	28,790
NET POSITION (DEFICIT) - Beginning of year	18,339,527	(17,284,574)	1,054,953
NET POSITION (DEFICIT) - End of year	\$ 19,425,436	\$ (18,341,693)	\$ 1,083,743

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

**COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2017 (RESTATED)**

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
OPERATING REVENUES:			
Water supply and distribution	\$ 1,407,328	\$ -	\$ 1,407,328
Sewer collection and treatment	2,237,652	-	2,237,652
Bad debt expense	(2,620)	-	(2,620)
Other operating revenues	186,355	-	186,355
Total operating revenues	3,828,715	-	3,828,715
OPERATING EXPENSES:			
Operations and maintenance	1,385,446	-	1,385,446
General and administrative	2,697	48,052	50,749
Other operating expenses	56,116	-	56,116
Depreciation and amortization expenses	930,482	-	930,482
Total operating expenses	2,374,741	48,052	2,422,793
OPERATING INCOME (LOSS)	1,453,974	(48,052)	1,405,922
NON-OPERATING REVENUE (EXPENSES):			
Interest expense	-	(1,153,116)	(1,153,116)
Gain on defeasance	-	4,808	4,808
Cost of issuance	-	(23,286)	(23,286)
Net loss on retirement and impairment of capital assets	(44,452)	-	(44,452)
Subsidy income	-	166,715	166,715
Capital distribution	(45,789)	-	(45,789)
Investment income	2,058	2,120	4,178
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,365,791	(1,050,811)	314,980
Capital Contribution	6,225	-	6,225
CHANGE IN NET POSITION (DEFICIT)	1,372,016	(1,050,811)	321,205
NET POSITION (DEFICIT) - Beginning of year	16,967,511	(16,233,763)	733,748
NET POSITION (DEFICIT) - End of year	\$ 18,339,527	\$ (17,284,574)	\$ 1,054,953

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 3,602,297	\$ -	\$ 3,602,297
Payments for operations and maintenance	(1,411,311)	-	(1,411,311)
Payments for administration	(2,042)	(50,201)	(52,243)
Net cash provided by (used in) operating activities	2,188,944	(50,201)	2,138,743
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings - net of issuance costs	-	3,858,636	3,858,636
Acquisition and construction of capital assets	292	(1,592,121)	(1,591,829)
Payments by the Water Board to the Authority	(2,187,383)	2,187,383	-
Repayments of bonds, notes and other borrowings	-	(3,582,676)	(3,582,676)
Interest paid on bonds, notes and other borrowings	-	(1,113,958)	(1,113,958)
Net cash provided by (used in) capital and related financing activities	(2,187,091)	(242,736)	(2,429,827)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales and maturities of investments	197,049	287,336	484,385
Purchases of investments	(205,582)	(368,337)	(573,919)
Interest on investments	4,496	39,189	43,685
Net cash provided by (used in) investing activities	(4,037)	(41,812)	(45,849)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,184)	(334,749)	(336,933)
CASH AND CASH EQUIVALENTS - Beginning of year	11,191	1,600,551	1,611,742
CASH AND CASH EQUIVALENTS - End of year	\$ 9,007	\$ 1,265,802	\$ 1,274,809

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

**COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
RECONCILIATION OF OPERATING INCOME/ (LOSS) TO NET CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,131,742	\$ (49,832)	\$ 1,081,910
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Amortization	1,299	-	1,299
Depreciation	1,041,669	-	1,041,669
Other operating expenses			
paid for with bond proceeds	34,280	-	34,280
Pollution remediation expense	6,979	-	6,979
Changes in assets and liabilities:			
Pollution remediation liability	8,061	-	8,061
Receivables - net	(54,343)	-	(54,343)
Receivable from The City	14,305	-	14,305
Residual interest in sold liens	2,034	-	2,034
Accounts payable	3,620	(369)	3,251
Revenues received in advance	(11,024)	-	(11,024)
Refunds payable	10,322	-	10,322
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 2,188,944	\$ (50,201)	\$ 2,138,743

The following are the noncash capital and related financing activities (in thousands):

Interest expense includes the amortization of net (premium) and discount in the amount of \$92,719 in 2018.

Capital expenditures in the amount of \$595,020 had been incurred but not paid at June 30, 2018.

The Water Board received federal, state, and other capital contributions of \$19,350 in 2018.

The Water Board received capital contributions of \$292 in 2018 from Westchester County.

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2017 (RESTATED)

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 3,876,746	\$ -	\$ 3,876,746
Payments for operations and maintenance	(1,263,445)	-	(1,263,445)
Payments for administration	(6,433)	(47,043)	(53,476)
Net cash provided by (used in) operating activities	2,606,868	(47,043)	2,559,825
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings - net of issuance costs	-	3,681,935	3,681,935
Acquisition and construction of capital assets	292	(1,478,319)	(1,478,027)
Payments by the Water Board to the Authority	(2,623,998)	2,623,998	-
Repayments of bonds, notes and other borrowings	-	(3,165,157)	(3,165,157)
Interest paid on bonds, notes and other borrowings	-	(1,081,883)	(1,081,883)
Net cash provided by (used in) capital and related financing activities	(2,623,706)	580,574	(2,043,132)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales and maturities of investments	1,819	14,213	16,032
Purchases of investments	(109,773)	(461,057)	(570,830)
Interest on investments	2,969	32,163	35,132
Net cash provided by (used in) investing activities	(104,985)	(414,681)	(519,666)
NET INCREASE (DECREASE) IN CASH AND CASHEQUIVALENTS	(121,823)	118,850	(2,973)
CASH AND CASHEQUIVALENTS - Beginning of year	133,014	1,481,701	1,614,715
CASH AND CASHEQUIVALENTS - End of year	\$ 11,191	\$ 1,600,551	\$ 1,611,742

See notes to combining financial statements.

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017 (RESTATED)

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
RECONCILIATION OF OPERATING INCOME/ (LOSS)			
TO NET CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,453,974	\$ (48,052)	\$ 1,405,922
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	930,482	-	930,482
Other operating expenses			
paid for with bond proceeds	11,207	-	11,207
Pollution remediation expense	9,943	-	9,943
Changes in assets and liabilities:			
Pollution remediation liability	(2,881)	-	(2,881)
Receivables - net	52,468	-	52,468
Receivable from The City	159,847	-	159,847
Residual interest in sold liens	(2,274)	-	(2,274)
Accounts payable	(3,735)	1,009	(2,726)
Revenues received in advance	808	-	808
Refunds payable	(2,971)	-	(2,971)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 2,606,868	\$ (47,043)	\$ 2,559,825

The following are the noncash capital and related financing activities (in thousands):

Interest expense includes the amortization of net (premium) and discount in the amount of \$80,967 in 2017.

Capital expenditures in the amount of \$525,137 had been incurred but not paid at June 30, 2017.

The Water Board received federal, state, and other capital contributions of \$5,931 in 2017.

The Water Board received capital contributions of \$292 in 2017 from Westchester County.

See notes to combining financial statements.

(Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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 citizenry of 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 “Water 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 (the “State”), as amended by Chapter 514 of the laws of 1984 of the State of New York. The Water Board was created by Chapter 515 of the laws of 1984 of the State of New York. The Act also empowers the Authority to issue debt 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 Water Board to lease the System from The City and to set and collect water rates, fees, rents and other charges for use of, or for services furnished, rendered, or made available by, the System to generate enough revenue 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, The New York City Municipal Water Finance Authority and the 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 of the System. It also sets forth the funding priority for 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 (“DEP”) subject to contractual agreements with the Authority and the Water Board.

In accordance with Governmental Accounting Standards Board (“GASB”) standards, the Water 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 Water 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 Water 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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Cash Equivalents—Investments and cash equivalents primarily consist of securities of the United States and its agencies, guaranteed investment contracts, forward purchase agreements, and the State of New York obligations. All investments are carried at fair value with the exception of money market funds that 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—Proceeds from the issuance of debt and monies set aside for debt service and operation and maintenance of the System are classified as restricted cash and cash equivalents and restricted investments in the combining statement of net position (deficit), these restrictions are based on the requirements of the applicable bond indentures.

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 Water Board receives the applicable sale proceeds. At the time of sale, the Water Board recognizes the proceeds as operating revenue and removes the related receivables. The Water Board maintains a residual interest in the liens, which represents the amount estimated to be received by the Water 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 Premium and Discount—Bond premiums and discounts are capitalized and amortized over the life of the related bond issue, using the effective yield method of amortization for bond premiums and discounts. Bond premiums and discounts are presented as additions or reductions to the face amount of the long-term bonds payable on the combining statements of net position (deficit). The amortized bond premiums and discounts are an off-set to interest expense on the combining statements of revenues, expenses and changes in net position (deficit). Bond issuance costs are recognized and expensed in the period incurred, except for bond insurance premiums that are amortized over the life of the related bonds.

Utility Plant—Utility plant acquired through purchase or internal construction is recorded at cost, net of retirements. It is the Water 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 accumulated depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

Asset	Years
Buildings	40–50
Water supply and wastewater treatment systems	15–50
Water distribution and sewage collection systems	15–75
Machinery and equipment	5–35
Vehicles	10

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are recorded as additions to utility plant. The System pays for certain improvements of 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 System's combining statements of revenues, expenses and changes in net position (deficit).

Operating Revenues and Operating Expenses—Operating revenues consist of services provided to customers of the System. Revenues are reported net of allowances, discounts and refunds and are based on billing rates imposed by the Water Board and upon customers' water and sewer usage or, in some cases, characteristics of customer properties. The System records unbilled revenue at year-end based on meter readings collected as of June 30. As of June 30, 2018 and 2017, the System reported credits of \$140.6 million and \$2.6 million, respectively.

Operating expenses include, but are not limited to costs incurred for maintenance, repair, and operations of the System; administration costs of the Water Board and the Authority; and rental payments to The City, if requested. In fiscal years 2018 and 2017, the City did not request a rental payment.

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 reported as a current liability "service credits on customer accounts", and is not included in accounts receivable.

Unamortized Deferred Bond Refunding Costs—Deferred bond refunding costs represent the accounting gains or losses incurred in advance and current bond refundings. It is reported as deferred outflows of resources or deferred inflows of resources and are amortized over the lesser of the remaining life of the old debt or the life of the new debt. The amortized deferred bond refunding cost is an off-set of interest expense on the combining statements of revenues, expenses and changes in net position (deficit).

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, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent 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—Net pension liabilities are required to be recognized and disclosed using the 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. The change in the Authority's proportion of the collective net

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

pension liability and collective deferred outflow of resources and deferred inflow of resources related to the 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 a pension through the pension plan.

For the contribution to the pension plan, the difference during the measurement period between the total amount of the 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.

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.

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. 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 other inputs are recognized as a deferred outflow of resources or a deferred inflow of resources related to the 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 discussions of the standards requiring implementation in the current year and standards that may impact the System in future years.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, ("GASB 83"). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations. This statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for asset retirement obligations. The requirements of GASB 83 are effective for fiscal years beginning after June 15, 2018, but was adopted by the System in the current year. The adoption of GASB 83 resulted in the restatement of the System's fiscal year 2017 combining financial statements to reflect the reporting of a deferred outflow of resources, a liability, and an expense for fiscal year 2017 amortization of the System's asset retirement obligation ("ARO"), in accordance with the provisions of GASB 83. Net position (deficit) as of July 1, 2017, decreased by \$1.3 million to reflect the cumulative retrospective effect of the adoption of GASB 83. AROs of \$18.0 million were reported under other long-term liabilities and \$16.7 million of deferred outflows of resources at June 30, 2017 (see Note 9).

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, (“GASB 84”). The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB 84 are effective for fiscal years beginning after December 15, 2018. The System has not completed the process of evaluating GASB 84, but does not expect it to have an impact on the System’s combining financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, (“GASB 86”). The primary objective of GASB 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets are acquired with only existing resources – resources other than the proceeds of refunding debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The requirements of GASB 86 are effective for fiscal years beginning after June 15, 2017. The adoption of GASB 86 required the System to disclose certain information discussing its defeasance transaction using resources other than bond proceeds in the Systems’ combining financial statements (see Note 9).

In June 2017, GASB issued Statement No. 87, *Leases*, (“GASB 87”). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of GASB 87 are effective for fiscal years beginning after December 15, 2019. The System has not completed the process of evaluating GASB 87. The System expects that GASB 87 will have an impact on its combining financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, (“GASB 88”). The objective of GASB 88 is to improve consistency in the information that is disclosed in notes to government financial statements related to debt by defining debt for the purpose of note disclosure and establishes additional note disclosure requirements related to debt obligations of governments, including direct borrowing and direct placements. The requirements of GASB 88 are effective for fiscal years beginning after June 15, 2018. The System has not completed the process of evaluating GASB 88, but does not expect it to have a significant impact on the System’s combining financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, (“GASB 89”). The objectives of GASB 89 are to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and to simplify accounting for certain interest costs by requiring interest costs incurred before the end of a construction period to be recognized as an expense/expenditure in governmental fund and government-wide financial statements. The requirements of GASB 89 are effective for fiscal years beginning after

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

December 15, 2019. The System has not completed the process of evaluating GASB 89, but does not expect it to have a significant impact on the System's combining financial statements.

3. UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2018 and 2017 (in thousands):

	Balance at			Balance at			Balance at
	06/30/16	Additions	Deletions	06/30/17	Additions	Deletions	06/30/18
NONDEPRECIABLE ASSETS:							
Utility construction in progress	\$ 5,227,182	\$ 1,444,117	\$ 1,195,992	\$ 5,475,307	\$ 1,617,305	\$ 3,698,486	\$ 3,394,126
DEPRECIABLE ASSETS:							
Utility plant in service:							
Buildings	34,877	59	-	34,936	831	-	35,767
Equipment	3,826,694	114,183	-	3,940,877	925,580	39,576	4,826,881
Vehicles	292,404	5,286	50,791	246,899	6,249	2,789	250,359
Water supply and distribution and wastewater							
treatment and sewage collection systems	32,661,550	1,076,464	67,348	33,670,666	2,765,826	90,944	36,345,548
Total depreciable assets	36,815,525	1,195,992	118,139	37,893,378	3,698,486	133,309	41,458,555
Less accumulated depreciation for:							
Buildings	25,140	1,315	-	26,455	1,548	-	28,003
Equipment	1,641,501	230,742	-	1,872,243	283,545	34,950	2,120,838
Vehicles	128,549	9,132	43,656	94,025	10,471	2,677	101,819
Water supply and distribution and wastewater							
treatment and sewage collection systems	11,181,727	687,995	30,032	11,839,690	746,105	47,073	12,538,722
Total accumulated depreciation	12,976,917	929,184	73,688	13,832,413	1,041,669	84,700	14,789,382
Total utility plant in service-net	23,838,608	266,808	44,451	24,060,965	2,656,817	48,609	26,669,173
Total capital assets- net	\$29,065,790	\$ 1,710,925	\$ 1,240,443	\$29,536,272	\$4,274,122	\$ 3,747,095	\$30,063,299

Contributed Capital—The System received federal, State and other capital contributions of \$19.6 million and \$6.2 million in fiscal years 2018 and 2017, 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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

4. DEPOSITS AND INVESTMENTS

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 creditworthiness 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. Cash was comprised of bank deposits; there was no difference between the carrying amounts and bank balances as of June 30, 2018 and 2017.

At June 30, 2018 and 2017, the cash deposit balances were \$193 million and \$246 million, respectively. Of the 2018 cash deposits, \$250 thousand was covered by federal depository insurance, and the remaining balance was collateralized. Of the 2017 cash deposits, \$250 thousand was covered by federal depository insurance, and the remaining balance was collateralized except for \$154 thousand that was uncollateralized and uninsured.

Restricted cash and cash equivalents were comprised of the following at June 30, 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Restricted cash and cash equivalents:		
Cash	\$ 192,724	\$ 245,484
Cash equivalents	1,082,085	1,366,258
Total restricted cash and cash equivalents	<u>\$ 1,274,809</u>	<u>\$ 1,611,742</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the System may not be able to recover its deposits that are in the possession of an outside party. As of June 30, 2018 and 2017, the System had \$0 and \$154 thousand of uninsured and uncollateralized deposits, respectively, that were exposed to custodial credit risk. The System’s deposit policy, which is not otherwise subject to limitations under the Authority’s Water and Sewer General Revenue Bond Resolution (the “Resolution”), is that deposits shall be held in a bank located in the State or national banking association having a capital surplus aggregating at least \$100 million.

Investments—Pursuant to the Resolution and the Authority’s investment guidelines, the Authority may generally invest in obligations of, or guaranteed by, the United States of America, certain highly rated obligations of the State of New York, 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

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

4. DEPOSITS AND INVESTMENTS (CONTINUED)

rated institutions, certain highly rated money market funds, and other certain highly rated municipal obligations. All the accounts held by the Water Board are invested as permitted by the Water Board's investment guidelines and may include investments in obligations of, or guaranteed by, the United States of America and certain repurchase agreements with highly rated institutions. The System invests funds that 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.

The System had the following investments at June 30, 2018 and 2017 (in thousands):

Investments	2018	2017
U.S. Agencies securities	\$ 1,166,844	\$ 1,680,184
U.S. Treasury securities	840,482	576,560
New York State instrumentalities	73,644	84,419
Money Market funds	59,818	-
Guaranteed Investment Contracts	96,680	104,443
Forward Purchase Agreements	24,695	34,119
	<hr/>	<hr/>
Total investments including cash equivalents	2,262,163	2,479,725
Less amounts reported as cash equivalents	(1,082,085)	(1,366,258)
	<hr/>	<hr/>
Total Investments	\$ 1,180,078	\$ 1,113,467

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

4. DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Hierarchy—The System categorizes its fair value measurements into the fair value hierarchy established by generally accepted accounting principles.

The System had the following recurring fair value measurements as of June 30, 2018 and 2017 (in thousands):

	2018 Fair Value Measurement			
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by fair value level				
Fixed income investments:				
U.S. Treasury securities	\$ 840,482	\$ -	\$ 840,482	\$ -
U.S. Agencies securities	1,166,844	-	1,166,844	-
New York State instrumentalities	73,644	-	73,644	-
Money Market funds	59,818	-	59,818	-
Guaranteed Investment Contracts	96,680	-	96,680	-
Forward Purchase Agreements	24,695	-	24,695	-
Total investments by fair value level	\$ 2,262,163	\$ -	\$ 2,262,163	\$ -
Hedging derivative instruments				
Interest rate swap (liability)	\$ (76,115)	\$ -	\$ (76,115)	\$ -
Total hedging derivative instruments	\$ (76,115)	\$ -	\$ (76,115)	\$ -
	2017 Fair Value Measurement			
	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by Fair Value Level				
Fixed income investments:				
U.S. Treasury securities	\$ 576,560	\$ -	\$ 576,560	\$ -
U.S. Agencies securities	1,680,184	-	1,680,184	-
New York State instrumentalities	84,419	-	84,419	-
Guaranteed Investment Contracts	104,443	-	104,443	-
Forward Purchase Agreements	34,119	-	34,119	-
Total investments by fair value level	\$ 2,479,725	\$ -	\$ 2,479,725	\$ -
Hedging Derivative Instruments				
Interest rate swap (liability)	\$ (100,438)	\$ -	\$ (100,438)	\$ -
Total hedging derivative instruments	\$ (100,438)	\$ -	\$ (100,438)	\$ -

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

4. DEPOSITS AND INVESTMENTS (CONTINUED)

Fixed income investments and derivative instruments classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques.

Credit Risk—Both the Water 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, 2018, and 2017 include obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Agriculture Mortgage Corporation, Resolution Funding Corporation, Freddie Mac, Fannie Mae and the Federal Farm Credit Bank. Also held by the Authority are direct obligations of 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 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 17.7% of the System’s investments are agreements to purchase securities or Guaranteed Investment Contracts (“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, 2018. 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 as of June 30, 2018 (in thousands):

<u>Maturity Date</u>	<u>Fair value amount</u>
Under 6 months	\$ 1,664,940
Over 6 months to 1 year	67,013
Over 1 year to 3 years	151,630
Over 3 years and beyond	343,242
Over 3 years and beyond (GIC and Forward Purchase Agreement adjustments) ¹	35,338
Total	\$ 2,262,163

¹ Includes the fair value of \$24,695 related to Forward Purchase Agreements and \$10,643 related to a GIC agreement.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

4. DEPOSITS AND INVESTMENTS (CONTINUED)

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. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty’s trust department or agent but not in the name of the System. All investments held by the Water Board’s custodian bank were registered in the Water Board’s name and therefore were not subjected to custodial credit risk. All of the Authority’s investments were held by the Trustee in the Trustee’s name pursuant to the Authority’s Trust Agreement, except for the GICs.

As of June 30, 2018 and 2017, the Authority had \$1.9 billion and \$2.1 billion of investments, respectively, that were registered in the name of the Trustee pursuant to the Authority’s Trust Agreement. The types and amounts of investments are listed in the table on page 31, except for the Authority’s GIC of \$96.7 million and \$104 million in 2018 and 2017, respectively, and the Water Board’s U.S. Treasury securities of \$247 million and \$237 million in 2018 and 2017, respectively.

5. DERIVATIVE INSTRUMENTS

As of June 30, 2018, 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	\$ (45,669)	Aa2/AA-/NR
Synthetic fixed rate	160,400	10/24/07	6/15/36	pay 3.439% receive 67% of 1-month LIBOR	(30,446)	Aa3/A+/AA-

LIBOR: London Interbank Offered Rate Index

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 counter-parties: one agreement with Goldman Sachs Mitsui Marine Derivative Products in the amount of \$241 million and the second agreement with Bank of America in the amount of \$160 million. These agreements allowed the Authority to achieve a fixed rate cost lower than the cost of 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 risk that the counterparty (or its guarantor) will default under its agreement and the Authority would be left with unhedged variable rate debt. To continue to be hedged, the Authority may

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

5. DERIVATIVE INSTRUMENTS (CONTINUED)

have to pay another entity to assume the position of the defaulting counterparty while not receiving an offsetting payment from the defaulting counterparty (full or in part). The Authority seeks to limit credit risk by contracting with highly rated counterparties or requiring highly rated guarantees of the counterparty's obligations. In the event that a counterparty loses its high rating, the Authority has built in two forms of protection into its swap agreements. First, the Authority has required the counterparty to post collateral if its ratings fall below "Aa3" by Moody's and "AA-" by Standard and Poor's and the mark-to-market in the Authority's favor exceeds specified threshold amounts. Second, the Authority has the right to terminate the Interest Rate Exchange Agreement if the counterparty is downgraded below "A3" and "A-" by Moody's and S&P, respectively. In addition, the Authority monitors the credit ratings and overall financial condition of its counterparties and may exercise its right to assign the agreement to another counterparty if necessary, in its judgment, to mitigate credit risk, even in the absence of a significant credit rating downgrade.

Termination Risk— The counterparties can 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 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 "Baa2" and "BBB" by Moody's and Standard & Poor's, respectively.

Basis Risk— Basis risk is the risk of a mismatch between two floating rates. For example, the amount the Authority receives under an Interest Rate Exchange Agreement may be lower than the amount the Authority is required to pay on the bonds associated with the transaction, which would require the Authority to make up the shortfall.

Interest Rate Risk— Interest rate risk is the risk that changes in long-term interest rates will adversely affect the mark-to-market values of the Authority's swap instruments which may result in termination payments.

Financial Statements Effect—The fair value of derivatives at June 30, 2018 and June 30, 2017 was negative \$76.1 million and negative \$100 million, respectively. The Authority does not currently own investment derivatives.

6. LEASE AGREEMENT

The Water Board is party to a long-term lease (the "Lease") with The City, which transfers the water and sewer related property to the Water 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 that are attributable to the leased

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

6. LEASE AGREEMENT (CONTINUED)

property, net of the amount of any federal, the State, or other operating grants received by The City and

- 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 that are not paid or reimbursed from any other source.

In addition to the payments described above, the Water Board pays rent to The City, if requested, 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.

A summary of operations and maintenance and rental expenses for the years ended June 30 is as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Water supply, treatment, transmission and distribution	\$ 506,831	\$ 508,682
Sewer collection and treatment systems	589,883	602,400
The City agency support cost	54,545	54,981
Fringe benefits	225,960	210,724
Judgments and claims	12,735	8,659
Operation and maintenance	1,389,954	1,385,446
Rental payments to The City	-	-
Total operations and maintenance expenses	<u>\$ 1,389,954</u>	<u>\$ 1,385,446</u>

7. PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2018 and 2017, all utility construction and other projects financed by the Authority debt and recorded by the System, which have not been reimbursed to The City, are recorded as a payable to The City. The Authority had a payable to The City of \$595 million and \$525 million, respectively, net of the amount of State or federal and other capital grants recognized by The City.

As of June 30, 2018 and 2017, the Water Board had receivables due from The City of \$20.2 million and \$34.5 million, respectively. The 2018 receivable from The City is a result of an over payment of \$20.2 million for operations and maintenance expense. The 2017 receivable from The City is a result of an over payment of \$34.5 million for operations and maintenance expense.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

8. OTHER OPERATING EXPENSES

A summary of other operating expenses for the years ended June 30 is as follows (in thousands):

	2018	2017
Pollution remediation	\$ 15,040	\$ 7,062
Payments for watershed improvements	34,280	11,208
Program expense	35,663	37,846
Total other operating expenses	\$ 84,983	\$ 56,116

The City's 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 that are paid for using the Authority's bond proceeds. Such long-term benefit projects include payment for environmental protection, related improvement in the watershed areas, and pollution remediation projects throughout the System. 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 the estimates. In fiscal year 2018, several projects including the reconstruction of facilities lighting at the North River Wastewater Treatment Plant ("WWTP"), Main Sewage Pump upgrades at the Bowery Bay WWTP, the activation of City Tunnel No. 3, Stage 2, and asbestos removal at various DEP facilities resulted in a higher than estimated amount. Filtration avoidance determination ("FAD") increased due to additional outlays on the wastewater management program in the New York upstate counties.

The System offers its residential customers the option to enroll into a protection program on their water and sewer lines against any breakage for a monthly fee. The fee is included in the participating customer utility bill. This protection program is offered by American Water Resources. In fiscal years 2018 and 2017, the System incurred program expenses of \$35.7 million and \$37.8 million, respectively.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. LONG-TERM LIABILITIES

Changes in Long-term Liabilities

In fiscal years 2018 and 2017, the long-term debt was as follows (in thousands):

Bonds/BANs Payable	Balance at June			Balance at June	
	30, 2017	Additions	Deletions	30, 2018	
First resolution bonds	\$ 2,429,956	\$ -	\$ 501,250	\$ 1,928,706	
Second resolution bonds	27,241,067	2,941,846	2,311,951	27,870,962	
Second resolution BANs	359,375	571,767	715,408	215,734	
Total before premium and discounts	30,030,398	3,513,613	3,528,609	30,015,402	
Premium/(discounts) - net	1,236,352	364,063	140,885	1,459,530	
Total debt	31,266,750	3,877,676	3,669,494	31,474,932	
Due within one year - bonds	(391,031)			(423,879)	
Due within one year - BANs	(241,890)			(27,598)	
Total long-term debt	\$ 30,633,829	\$ -	\$ -	\$ 31,023,455	

Bonds/BANs Payable	Balance at June			Balance at June	
	30, 2016	Additions	Deletions	30, 2017	
First resolution bonds	\$ 3,261,416	\$ -	\$ 831,460	\$ 2,429,956	
Second resolution bonds/BANs	26,254,580	3,482,222	2,136,360	27,600,442	
Total before premium and discounts	29,515,996	3,482,222	2,967,820	30,030,398	
Premium/(discounts) - net	1,113,359	223,003	100,010	1,236,352	
Total debt	30,629,355	3,705,225	3,067,830	31,266,750	
Due within one year - bonds	(363,793)			(391,031)	
Due within one year - BANs	(14,235)			(241,890)	
Total long-term debt	\$ 30,251,327	\$ -	\$ -	\$ 30,633,829	

As of June 30, 2018, the interest rates on the Authority's outstanding First and Second Resolution bonds ranged from a low of 0.77%, on a direct loan from the New York State Environmental Facilities Corporation ("EFC"), to a high of 6.49% on certain outstanding Build America Bonds ("BABs") prior to interest subsidies.

The debt program of the Authority includes commercial paper, long-term debt, Bond Anticipation Notes (BANs), and interest-subsidized bonds issued to EFC. While historically commercial paper program was the main source of short-term financing to reimburse The City for payments made for water and sewer projects, in fiscal year 2018, the Authority primarily relied on BANs and long-term bonds.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. LONG-TERM LIABILITIES (CONTINUED)

When it is time to retire short-term financings, the Authority issues long-term debt directly to the public or to EFC. The Authority also periodically issues refunding bonds to refinance higher-coupon debt and defeases bonds using revenues. With respect to all of the Authority debt, the Water 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 special obligations of the Authority payable solely from and secured by a pledge of and lien on the gross revenue of the System.

In case of the funding received through draws on BANs, each project was tracked for spending, and funding was received from EFC after submission of required documentation as of June 30, 2018, there was \$216 million of BANs outstanding.

In fiscal year 2018, the Authority issued \$834 million of new money bonds and an additional \$669 million of new money water and sewer system revenue bonds to EFC. The Authority used new money bond proceeds to finance capital improvements to the System, to provide long-term financing of BANs that previously financed capital improvements to the System, and to pay for bond issuance costs.

During fiscal year 2018, as further detailed below, the Authority issued \$1.44 billion of bonds to refund \$1.6 billion of outstanding bonds. These refundings resulted in an accounting loss of \$677 thousand. The Authority reduced its aggregate debt service for principal and interest by \$424 million and obtained an economic benefit (present value savings) of \$302 million.

On July 11, 2017, the Authority issued \$162 million of refunding tax exempt fixed rate Second Resolution bonds, 2018 Series AA. The bonds refunded \$185 million of the Authority's First Resolution bonds, 2008 Series A. The Authority reduced its overall debt service by \$60.6 million and obtained an economic gain of \$40.6 million.

On October 12, 2017, the Authority issued \$164 million of fixed rate tax exempt Second Resolution bonds, 2018 Subseries BB-2 to refund \$200 million of the Authority's adjustable rate bonds, 2006 Series AA-2 and 2006 Series AA-3. As a result of this transaction, the Authority reduced its debt service by \$40.0 million and obtained an economic gain of \$28.0 million.

On November 29, 2017, the Authority issued \$59.6 million of fixed rate tax exempt Second Resolution bonds, 2018 Subseries CC-2. The proceeds from the sale of the 2018 Subseries CC-2 refunded \$25.0 million of 2012 Series GG and \$45.0 million of 2014 Subseries CC-2. As a result of this transaction, the Authority increased its debt service by \$5.4 million and obtained an economic gain of \$4.4 million.

On March 20, 2018, the Authority issued \$220 million of refunding tax exempt fixed rate Second Resolution bonds, 2018 Subseries DD-2. The bonds refunded \$137 million of the Authority's First Resolution bonds, 2009 Series A, \$71.2 million of the Authority's Second Resolution bonds, 2008 Series DD and \$35.9 million of 2009 Series AA. The Authority reduced its overall debt service by \$75.0 million and obtained an economic gain of \$50.0 million.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. LONG-TERM LIABILITIES (CONTINUED)

On April 18, 2018, the Authority issued \$459 million of refunding tax exempt fixed rate Second Resolution bonds, 2018 Series EE. The bonds refunded \$153 million of the Authority's First Resolution bonds, 2009 Series A, and the following Second Resolution bonds: \$243 million of 2008 Series DD, \$83.1 million of 2009 Series CC and \$46 million of 2009 Series DD. The Authority reduced its overall debt service by \$152 million and obtained an economic gain of \$106 million.

On June 28, 2018, the Authority issued \$374 million of refunding tax exempt fixed rate Second Resolution bonds, 2018 Series FF. The bonds refunded \$11.3 million of the Authority's First Resolution bonds, 2009 Series A. The bonds also refunded the following Second Resolution bonds: \$137 million of 2008 Series DD, \$67.9 million of 2009 Series AA, \$50.0 million of 2009 Series CC and \$158 million of 2009 Series DD. The Authority reduced its overall debt service by \$102 million and obtained an economic gain of \$73.6 million.

During fiscal year 2018, the Authority legally defeased \$250 million of 2011 Series GG, \$346 million of 2012 Series AA and \$173 million 2012 Series CC using current revenue by depositing \$844 million into a defeasance escrow. This defeasance transaction resulted in an accounting loss of \$15.0 million that is reported in the System's combining statements of revenues expenses and changes in net position (deficit) and aggregate reduction of debt service of \$1.7 billion.

During fiscal year 2017, the Authority issued \$1.1 billion of bonds to refund \$1.1 billion of outstanding bonds. These refundings resulted in an accounting gain of \$3.8 million. The Authority reduced its aggregate debt service for principal and interest by \$204 million and obtained an economic benefit (present value savings) of \$158 million.

During fiscal year 2017, the Authority legally defeased \$782 million of outstanding bonds using current revenue. This resulted in an accounting gain of \$4.8 million that was reported in the System's combining statements of revenues expenses and changes in net position (deficit) and a gross debt service savings of \$1.5 billion.

The Authority had legally defeased some of its bonds by placing proceeds of refunding bonds or current revenue in irrevocable escrow accounts to provide for all future debt service payments on the defeased bonds. The escrow account assets and the liability for the defeased bonds are not included in the System's combining financial statements. As of June 30, 2018 and 2017, \$802 million and \$733 million, of the Authority's defeased bonds, respectively, were still outstanding.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. LONG-TERM LIABILITIES (CONTINUED)

Debt service requirements to maturity, including amounts relating to BANs with maturities greater than one year at June 30, 2018 are as follows (in thousands):

	Principal	Interest ¹	Total
Year ending June 30,			
2019	\$ 451,477	\$ 1,393,841	\$ 1,845,318
2020	476,216	1,379,433	1,855,649
2021	678,260	1,365,729	2,043,989
2022	517,739	1,344,999	1,862,738
2023	580,514	1,322,227	1,902,741
2024-2028	3,262,585	6,192,110	9,454,695
2029-2033	3,853,624	5,390,289	9,243,913
2034-2038	4,780,630	4,415,943	9,196,573
2039-2043	6,752,247	3,117,459	9,869,706
2044-2048	7,482,625	1,230,868	8,713,493
2049-2053	1,179,485	71,423	1,250,908
Total	\$ 30,015,402	\$ 27,224,321	\$ 57,239,723

¹Includes projected interest expense for variable rate bonds at 4.25% for fiscal year 2019 and thereafter. Variable rate bonds are remarketed daily or weekly, and interest rates are determined by the market on the day of sale.

Asset Retirement Obligations (“ARO”)

Existing laws and regulations require the System to take specific action when retiring chemical and petroleum storage tanks. The System has approximately 474 above and underground tanks with a capacity ranging from 10 to 100,000 gallons. The New York State Department of Conservation Under Title 6 of the New York Codes, Rules and Regulations requires that the System take specific steps to permanently take out the service including the removal, transportation and disposal of liquid, sludge, hazardous waste, piping and the tanks themselves; and to take remedial actions on the area surrounding the tanks. Based on contract estimates and invoice for similar projects, the System’s ARO for storage tanks was approximately \$15.2 million as of June 30, 2018 and 2017 with tanks having a remaining useful life ranging from 0 to 39 years.

The System has entered into office space lease agreements requiring the removal of affixed furnishings including condensed filing systems, HVAC units, and distributions systems and the restoration of premises to original condition existing prior to installation of fixtures. Based on engineer and architectural estimates, the System’s ARO for leases was approximately \$2.8 million as of June 30, 2018 and 2017 respectively. The remaining lease terms range from 4 to 5 years.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. LONG-TERM LIABILITIES (CONTINUED)

Commitments and Contingencies

Construction—The System had contractual commitments of approximately \$6.9 billion and \$6.5 billion at June 30, 2018 and 2017, respectively, for water and sewer projects.

Risk Financing Activities—The System is self-insured and carries no commercial or insurance policies other than directors and officer's 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 the claims and litigation section 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 Water 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 Water 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, 2018, the potential future liability attributable to the System for claims outstanding against The City was estimated to be \$321 million. This amount is included in the estimated liability for unsettled claims, which is reported in The City's statement of net position (deficit). The potential future liability is The City's best estimate based on available information. The estimate maybe 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 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 years 2018 and 2017, the System paid \$11.4 million and \$4 million, respectively, in arbitrage rebates. At June 30, 2018 and 2017, the Authority had a liability of \$1.4 million and \$11 million, respectively. These amounts are included in accrued payable expense in the combining statements of net position (deficit).

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

10. RESTRICTED ASSETS

As of June 30, 2018 and 2017, certain cash, investments, and accrued interest of the System were restricted as follows (in thousands):

	<u>2018</u>	<u>2017</u>
The Water Board		
Operation and maintenance reserve fund	\$ 247,304	\$ 237,746
Local water fund	9,005	10,786
Subtotal -The Water Board	<u>256,309</u>	<u>248,532</u>
The Authority		
Revenue fund	946,965	1,202,036
Debt service reserve fund	389,598	415,754
Construction fund	493,652	474,239
Ecsrow account	368,363	384,648
Subtotal -The Authority	<u>2,198,578</u>	<u>2,476,677</u>
Total restricted assets	<u>\$ 2,454,887</u>	<u>\$ 2,725,209</u>

The operation and maintenance reserve fund is established as a depository to hold the operations and maintenance reserve as required by the Resolution. At June 30 of each year, the reserve fund is required to hold one-sixth of the operating expenses as set forth in the following year's annual budget. It is funded through the cash receipts of the Water Board. The local water fund is established as the account to which all revenues are deposited. Its assets are subject to the payment priority set forth in the Resolution.

The revenue fund is established as a depository to fund the debt service, the Authority's expenses, debt service reserve, and escrow funds. It is funded through cash transfers from the Water 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. On or prior to June 30, the balances in the debt service fund are transferred to 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 account is established as a depository to refund debt in future years. It is funded through bond proceeds or the revenue fund.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

11. 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 (“NYCERS QPP” or “Pension Plan”). The Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan administered by NYCERS.

The Pension Plan functions in accordance with existing State statutes and The City laws which are the basis by which benefit terms and the Authority’s and its members’ 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 membership tier (“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 for Tier I to Tier IV and ten years of service for Tier VI. 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 I and Tier II of the NYCERS QPP have the right to make voluntary excess contributions, which are supplemental voluntary 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, Tier II, or Tier III members.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

11. PENSION PLANS (CONTINUED)

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, 2016 actuarial valuation was used for determining the fiscal year 2018 statutory contributions. 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 the Pension Plan assets to be sufficient to pay benefits when due. The aggregate statutory contribution due to NYCERS QPP from all participating employers for fiscal years 2018 and 2017 was \$3.4 billion and \$3.3 billion, respectively and the amount of the Authority’s contribution to the Pension Plan for such fiscal years 2018 and 2017 was \$111 thousand and \$136 thousand, respectively.

Information on the Employer’s Proportionate Share of the Collective Net Pension Liability

The Authority’s net pension liabilities reported at June 30, 2018 and 2017 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, 2016 and June 30, 2015, 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 QPP fiduciary net position has been determined on the same basis as that 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.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

11. 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, 2016 actuarial valuation to determine the fiscal year 2018 Authority contributions:

Actuarial Assumptions used for determining final fiscal year 2018 Authority's Contributions	
Item	Final Fiscal Year 2018 Authority's ¹
Valuation Date	June 30, 2016 (Lag)
Assumed Rate of Return on Investment ²	7.0% per annum, net of investment expense. Actual return for variable funds.
Post-Retirement Mortality	Tables adopted by the Boards of Trustee during fiscal year 2016 ³ .
Active Service:	
Withdrawal, Death, Disability ⁴	Tables adopted by the Boards of Trustee during fiscal year 2012 ⁵ .
Retirement	Tables adopted by the Boards of Trustee during fiscal year 2012 ⁵ .
World Trade Center Benefit	Estimates of certain obligations.
Salary Increases ²	Tables adopted by the Boards of Trustee during fiscal year 2012 ⁵ 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 II, Tier IV and certain Tier III and Tier VI retirees. 2.5% per year for certain Tier III and Tier VI retirees.
Liability Loads	Estimates of certain obligations.

¹ Based on actuarial assumptions and methods proposed by the Actuary during fiscal year 2012 adopted by the Boards of Trustees and enacted into law as Chapter 3/13 with revisions proposed by the Actuary and adopted by the Boards of Trustees in fiscal year 2017

² Developed using a long-term Customer Price Inflation (“CPI”) assumption of 2.5% per year.

³ See December 2015 Memoranda to the Boards of Trustees.

⁴ See the Reports entitled “Proposed Changes in Actuarial Assumptions and Methods for Determining Employer Contributions for Fiscal Years Beginning on and After July 1, 2011” dated February 10, 2012 (the “Silver Books”).

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

11. PENSION PLANS (CONTINUED)

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 the 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 NYCERS adopted those changes to actuarial assumptions that required the 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 investment expenses.

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of the Pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected 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 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rates of Return
U.S. Public Market Equities	29.00%	6.30%
International Public Market Equities	13.00%	7.00%
Emerging Public Market Equities	7.00%	9.50%
Private Market Equities	7.00%	10.40%
Fixed Income (Core, TIPS, HY, Opportunistic, Convertibles)	33.00%	2.20%
Alternatives (Real Assets, Hedge Funds)	11.00%	5.50%
Total	100.00%	

Discount Rate—The discount rate used to measure the total pension liability of the Pension Plan as of June 30, 2018 and 2017 was 7% per annum. 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 fiduciary 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 the Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

11. PENSION PLANS (CONTINUED)

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate—The following table presents the Authority's proportionate share of the net pension liability using the discount rate of 7.0%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.0%) or one-percentage point higher (8.0%) than the current rate (in thousands):

<u>Sensitivity Analysis</u>			
<u>Net Pension Liability as of June 30, 2018</u>			
	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Net Pension Liability	\$811	\$516	\$291

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

Pension Liability—At June 30, 2018 and 2017, the Authority reported a liability of \$516 thousand and \$828 thousand, respectively, for its proportionate share of the net pension liability. The Authority's portion 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, 2018 and 2017, the Authority's proportion was 0.003% and 0.004% respectively.

Pension Expense—For the years ended June 30, 2018 and 2017, the Authority recognized pension expense of \$111 thousand and \$136 thousand, respectively.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

11. PENSION PLANS (CONTINUED)

Deferred Outflows and Inflows of Resources—At June 30, 2018, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 51,105
Changes of assumptions	8,063	-
Net difference between projected and actual earnings on pension plan investments	-	29,677
Changes in proportion and difference between the Authority's contributions and proportionate share of contributions	(360,780)	(43,863)
The Authority's contributions subsequent to the measurement date	-	-
Total	<u>\$ (352,717)</u>	<u>\$ 36,919</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2018 will be recognized in pension expense as follows:

Year ended June 30,

2019	\$ 71,368
2020	92,304
2021	108,259
2022	73,376
2023	43,894
2024	435

12. OTHER POST-EMPLOYMENT BENEFITS

Plan Description—The Authority's Other Postemployment Benefits Plan ("OPEB Plan") is a single-employer defined benefit plan administered by the New York City Office of Labor Relations. The plan provides certain health and related benefits to eligible retirees and their beneficiaries/dependents of the New York City Municipal Water Finance Authority in accordance with GASB Statement No. 75, ("GASB 75") *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The OPEB Plan consists of three programs: (1) the New York City Health Benefits Program, (2) Welfare Fund Program, and (3) Medicare Part B Program. 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 The City retirees and eligible beneficiaries/dependents.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

There are three classes of employees: active, inactive and retirees.

The following presents a summary of the Authority's census data used in the June 30, 2018 and 2017 OPEB actuarial valuations:

Group	2018	2017
Active	9	10
Inactive	2	2
Retired	4	4
Total	<u>15</u>	<u>16</u>

Funding Policy—The Authority is not required to provide funding for the OPEB Plan, 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, 2018 and 2017, the Authority had four retirees and made contributions of \$20.3 thousand and \$14.9 thousand, respectively. Members are not required to contribute; although, retirees may elect basic health insurance programs and/or optional coverage that requires contributions. Plan retiree participants who opt for other basic or enhanced coverage must contribute 100% of the incremental costs above the premiums for the benchmark plan. The OPEB Plan also reimburses covered employees for 100% of the Medicare Part B premium rate applicable to a given year, and there is no retiree contribution to the welfare fund (the "Welfare Fund") that 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 is calculated based on the annual expense ("Expense"), an amount that was actuarially determined in accordance with the parameters of GASB 75. 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, 2017 for the fiscal year ending June 30, 2018, which was the basis for the fiscal year 2018 Expense calculation. Under this method, as used in this OPEB Plan 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 the valuation year is the employer normal cost. The portion of this APVB that is not provided for on the valuation date by the APV of future employer normal cost or future member contributions is the total OPEB Plan liability. The excess of the total OPEB Plan liability over the plan fiduciary net position, which represents the assets of the plan, is the net OPEB Plan liability.

All changes in the net OPEB liability as of June 30, 2018 and 2017 are being amortized over the future working lifetime of all plan participants for purposes of calculating the expense except for the amount of change in plan assets, which would be amortized over a 5-year period using level-dollar amortization. This plan however, is not assumed to have any assets.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Total OPEB Liability—The Authority’s total OPEB Plan obligation of \$1.5 million was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

The following table shows changes in the Authority’s net OPEB Plan liability for fiscal years 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Balance at beginning of the year	\$ 1,412	\$ 1,601
Changes for the year:		
Service cost	94	101
Interest	43	43
Difference between expected and actual experience	(106)	(96)
Changes in assumptions or other inputs	35	(222)
Actual benefit payments	<u>(21)</u>	<u>(15)</u>
Net changes	<u>45</u>	<u>(189)</u>
Net OPEB Plan obligation - end of the year	<u>\$ 1,457</u>	<u>\$ 1,412</u>

The Authority’s annual OPEB Plan expense for fiscal years 2018 and 2017 were as follows (in thousands):

	<u>2018</u>	<u>2017</u>
<u>Components</u>		
Service Costs	\$94	\$101
Interest on the Total OPEB Liability	43	43
Changes of Assumptions	(23)	(24)
Difference between Expected and Actual Experience	<u>(20)</u>	<u>(11)</u>
Total OPEB Expense	<u>\$94</u>	<u>\$109</u>

Funded Status and Funding Progress—As of June 30, 2018, the most recent actuarial measurement date, the cost was 0% funded. The total OPEB Plan liability for benefits was \$1.5 million, and the plan fiduciary net position was \$0, resulting in a net OPEB Plan liability of \$1.5 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was \$.9 million, and the ratio of the net OPEB liability to the covered payroll was 169.7%. The impact on the net OPEB Plan liability of a 1% increase or decrease in the discount rate and trend is included in the Required Supplementary Information.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods Assumptions and Other Inputs—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. The actuarial assumptions used in the fiscal year 2018 and the fiscal year 2017 OPEB Plan valuations are a combination of those used in the New York City Employee Retirement Systems (“NYCERS”) pension actuarial valuations and those specific to the OPEB Plan valuations.

Amounts determined regarding the funded status of the OPEB Plan and the annual Expense 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 the 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 total OPEB Plan liability, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the fiscal year 2018 and fiscal year 2017 OPEB Plan valuations are classified as those used in the New York City Retirement Systems (“NYCRS”) valuations and those specific to the OPEB valuations.

The OPEB Plan actuarial valuations incorporate only the use of certain NYCERS demographic and salary increase assumptions. The NYCERS demographic and salary scale assumptions are unchanged from the prior OPEB Plan actuarial valuation. For purposes of determining pension obligations, the demographic and salary scale assumptions requiring NYCERS Board approval (available on the website of the Office of the Actuary at www.nyc.gov/actuary) were adopted by each respective Board of Trustees during fiscal year 2012. Chapter 3 of the Laws of 2013 enacted those actuarial assumptions and methods that require New York State Legislation.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The OPEB Plan-specific actuarial assumptions used in the fiscal year 2018 OPEB Plan valuation are as follows:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Discount Rate	2.98% per annum for the June 30, 2017 measurement date. 3.13% for the June 30, 2017 valuation date. ¹
Actuarial Cost Method	Entry age calculated on an individual basis with the actuarial value of projected benefits allocated on a level basis over earnings from hire through age of exit.
Salary Increases	3.00% per annum which includes an inflation rate of 2.50% and a general wage increase rate of 0.50%. For more information see the Silver Books
Inflation	2.50%
Per-Capita Claims Costs	EBCBS and GHI plans are insured via a Minimum Premium arrangement while the HIP and many of the other HMOs are community rated. Costs reflect age adjusted premiums for all plans. HIP HMO and GHI/EBCBS non-Medicare premiums have been adjusted for Health Savings Agreement changes.

¹ Rates are based solely on the S&P Municipal Bond 20 Year High Grade Rate Index, since the plan has no assets, as per the guidance under GASB 75.

Employer premium contribution schedules for the month of July 2017 and January 2018 were reported by the New York City Office of Labor Relations (“OLR”). In most cases, the premium contributions remained the same throughout the year. HIP HMO Medicare rates varied by date and by specific Plan options. These variations are the result of differing Medicare reimbursements. The various monthly rates were blended by proportion of enrollment. For other rates, where the January 2017 premium rate was different than the July 2016 premium rate, the valuation assumed that the January 2017 premium rate was more representative of the long-term cost of the arrangement.

These assumptions are generally unchanged from the previous valuation except as noted below. The NYCERS pension assumptions are provided in the five “Silver Books” available on the Reports page of the OA website (www.nyc.gov/actuary).

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The probability of retirement set out in each of the Silver Books is assumed to be 100% at either age 63 or 70, depending upon the program of benefits for the individual employee. For the OPEB Plan valuation, 100% of the individuals remaining in service at these ages are assumed to either retire with a benefit or to terminate employment without a benefit, depending upon whether they have attained the requisite service.

Based on those assumptions, The City's OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees until 2025. After that time, benefit payments will be funded on a pay-as-you go basis. The discount rate is the single equivalent rate which results in the same present value as discounting future benefit payments made from assets at the long-term expected rate of return and discounting future benefit payments funded on a pay-as-you-go basis at the Municipal Bond 20-year Index Rate.

Results for the OPEB Plans for Component Units are presented using a discount rate of the Municipal Bond 20-year Index Rate, since there is no pre-funding assumed for these plans.

The initial monthly premium rates used in the valuations are shown in the following table:

<u>Plan</u>	<u>MONTHLY RATES</u>	
	<u>FY 2018</u>	<u>FY 2017</u>
HIP HMO		
Non-Medicare Single	\$ 652.44 ¹	\$ 600.18
Non-Medicare Family	1,598.47 ¹	1,470.45
Medicare	164.98	160.83
GHI/EBCBS		
Non-Medicare Single	620.08 ¹	567.48
Non-Medicare Family	1,625.27 ¹	1,487.47
Medicare	172.42	168.35
Other HMOs²		
Non-Medicare Single	1,018.56	1,030.56
Non-Medicare Family	2,223.80	2,226.45
Medicare Single	311.79	276.18
Medicare Family	621.50	546.28

¹For the fiscal year 2018 valuation, HIP HMO premiums are decreased by 4.13% and status quo fiscal year 2018 GHI/EBCBS Pre-Medicare premiums decreased 0.51% to reflect fiscal year 2018 Health Savings Agreement changes announced during fiscal year 2017.

² Other HMO premiums represent the total premium for medical (not prescription) coverage including retiree contributions.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Welfare Fund - For the fiscal year 2017 valuation, the Welfare Fund contribution reported for fiscal year 2017, including any reported retroactive amounts, was used as the per capita cost for valuation purposes.

Projected contributions reflect \$25 increases at July 1, 2017.

Reported annual contribution amounts for the last two years are shown in Appendix B, Tables 2a to 2e of the OPEB Plan valuation report dated September 14, 2018.

Welfare Fund rates are based on actual reported union Welfare Fund code for current retirees. Where a union Welfare Fund code was missing, the most recently reported union code was reflected.

The weighted average annual contribution rates used for future retirees is shown below.

	Annual Rate	
	2018	2017
NYCERS	\$ <u>1,850</u>	\$ <u>1,743</u>

Contributions are assumed to increase by 3.5% annually starting in fiscal year 2019.

Medicare Part B Premiums are as follows:

Calendar Year	Monthly Premium
2013 - 2015	\$ 104.90
2016	109.97
2017	113.63
2018	125.85

2018 Medicare Part B premiums are assumed to increase by Medicare Part B trend rates.

Medicare Part B premium reimbursement amounts have been updated to reflect the actual premium rates announced for calendar years through 2018. Due to limited cost-of-living increase in Social Security benefits for calendar year 2017 and 2018, some Medicare Part B participants will not be charged the Medicare Part B premium originally projected or ultimately announced for those years. Thus, the valuation uses a blended estimate as a better representation of future Part B premium costs.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

For the fiscal year 2018 OPEB Plan valuation, the annual premium used was \$1,436.89, which is equal to an average of the calendar year 2017 and 2018 monthly premiums shown.

For calendar year 2018, the monthly premium was determined as follows:

- (a) 28% of the basic \$104.90 monthly hold-harmless amount, assuming that there would be no claims made for the slight increase in Part B premiums for continuing retirees, and
- (b) 72% of the announced premiums of \$134.00 for calendar year 2018, representing the proportion of the Medicare population that will pay the announced amount.

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.

<u>Fiscal Year</u>	<u>Income-Related Medicare Part B Increase</u>
2018	4.5 %
2019	5.0
2020	5.2
2021	5.3
2022	5.4
2023	5.5
2024	5.6
2025	5.8
2026	5.9
2027 and later	6.0

Medicare Part B Premium Reimbursement Assumption - 90% of Medicare participants are assumed to claim reimbursement; based on historical data.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Health Care Cost Trend Rate (“HCCTR”) - Covered medical expenses are assumed to increase by the following percentages (unchanged from the last valuation). For purposes of measuring entry age calculations, actual historic plan increases are reflected to the extent known, with further historic trend rates based on the trend assumed for fiscal year 2017 (initial trend).

HCCTR ASSUMPTIONS

Year Ending ¹	Pre-Medicare Plans	Medicare Plans	Medicare Part B Premiums	Welfare Fund Contributions
2018 ²	7.6%	2.4%	7.7%	0.00%
2019	7.0	5.0	5.0	3.5
2020	6.5	5.0	5.0	3.5
2021	6.0	5.0	5.0	3.5
2022	5.5	5.0	5.0	3.5
2023 and later	5.0	5.0	5.0	3.5

¹ Fiscal year for Pre-Medicare and Medicare Plans and calendar year for Medicare Part B Premiums.

²Actual amounts based on the 2015 *Health Care Savings Agreement Initiative Report of Status of Healthcare Savings* dated March 29, 2018. Welfare Fund contribution rates assumed to increase based on current pattern bargaining (additional \$25 each for fiscal year 2018).

Age and Gender-Related Morbidity - The premiums are age and gender adjusted for GHI/EBCBS, HIP HMO and Other HMOs. The assumed relative costs of coverage are consistent with information presented in the 2013 study *Health Care Costs - From Birth to Death*, sponsored by the Society of Actuaries.

For non-Medicare costs, a sample of factors used are:

Age	Male	Female	Age	Male	Female
20	0.170	0.225	45	0.355	0.495
25	0.146	0.301	50	0.463	0.576
30	0.181	0.428	55	0.608	0.671
35	0.227	0.466	60	0.783	0.783
40	0.286	0.467	64	0.957	0.917

Children costs assumes a factor of 0.229.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

For Medicare costs, relative factors based on the Yamamoto Study for net Medicare costs for 2010 for inpatient, outpatient, and professional costs were blended. Prescription drug costs were not reflected as NYCHBP excludes most drugs from coverage. Professional costs were weighted at 64%, based on the GHI portion of the combined GHI/EBCBS premiums reported historically. Inpatient costs were weighted as twice as prevalent as outpatient costs based on the relative allocation suggested in the Yamamoto Study.

Costs prior to age 65 were approximated using the non-Medicare data, but they assume that individuals under age 65 on Medicare had an additional disability-related morbidity factor.

Medicare costs prior to age 65 assume an additional disability-related morbidity factor. A sample of factors are:

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
20	0.323	0.422	60	1.493	1.470
25	0.278	0.565	65	0.919	0.867
30	0.346	0.804	70	0.946	0.885
35	0.432	0.876	75	1.032	0.953
40	0.545	0.878	80	1.122	1.029
45	0.676	0.929	85	1.217	1.116
50	0.883	1.082	90	1.287	1.169
55	1.159	1.260	95	1.040	1.113
			99+	1.281	0.978

The age adjustment for the non-Medicare GHI/EBCBS premium reflects a 5% reduction in the GHI portion of the monthly premium (with the GHI portion representing \$292.12 out of the \$623.28 for single coverage and \$772.65 out of the \$1,633.66 for family coverage for fiscal year 2018 rates) and a 3% reduction in the EBCBS portion of the premium (with the EBCBS portion representing the remainder of the premiums) for the estimated margin that is expected to be returned.

Mortality Rates—For the fiscal year 2018, OPEB Plan and pension valuations, new tables of postretirement mortality were proposed by the Actuary and adopted by each of the NYECRS Boards during fiscal year 2016. These tables were based primarily on the experience of each system and the application of Mortality Improvement Scale MP-2015 published by the Society of Actuaries in October 2015. Scale MP-2015 applied on a generational basis replaced Mortality Improvement Scale AA which was applied on a static projection basis.

There were no changes to benefits.

Participation—Active participation assumptions are based on actual elections for current retirees. Portions of current retirees not eligible for Medicare are assumed to change elections upon attaining age 65 based on the patterns of elections of Medicare-eligible retirees. Detailed assumptions appear in the following table. The participation assumptions have been updated since the prior valuation to reflect recent experience.

NEW YORK CITY WATER AND SEWER SYSTEM

**NOTES TO COMBINING FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

PLAN PARTICIPATION ASSUMPTIONS	
Benefits	NYCERS
Pre-Medicare	
- GHI/EBCBS	72%
- HIP HMO	20
- Other HMO	4
- Waiver	4
Medicare	
- GHI	72
- HIP HMO	20
- Other HMO	4
- Waiver	4
Post-Medicare Migration	
- Other HMO to GHI	0
- HIP HMO to GHI	0
- Pre-Med. Waiver	
** To GHI @ 65	0
** To HIP @ 65	0

Waivers are assumed to include participants who do not qualify for coverage because they were working less than 20 hours a week at termination.

Dependent Coverage—Dependent coverage is assumed to terminate when a retiree dies.

Dependents—Dependent assumptions based on distribution of coverage of recent retirees are shown in the following table. Actual spouse data is shown for current retirees. Child dependents of current retirees are assumed to receive coverage until age 26.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Based on experience under the OPEB Plan for NYCERS, male retirees were assumed to be four (4) years older than their wives, and female retirees were assumed to be two (2) years younger than their husbands. Children are assumed to be covered for eight (8) years after retirement. For employees eligible to retire based only on service, children are assumed to be covered for an additional five (5) years.

DEPENDENT COVERAGE ASSUMPTIONS

Group	NYCERS %
Male	
- Single Coverage	40
- Spouse	40
- Child/No Spouse	5
- Spouse and Child	<u>15</u>
Total	<u>100%</u>
Female	
- Single Coverage	70
- Spouse	20
- Child/No Spouse	5
- Spouse and Child	<u>5</u>
Total	<u>100%</u>

Demographic Assumptions—The assumptions are the same as those that were used to value the pension benefits of the NYCERS for determining employer contributions for fiscal years beginning 2017.

COBRA Benefits—Although COBRA beneficiaries pay 102% of “premiums,” typical claim costs for COBRA participants run about 50% greater than costs for other participants.

There is no cost to The Authority for COBRA beneficiaries who enroll in community-rated HMOs, including HIP, since these individuals pay their full community rate. However, The City’s costs under the experience-rated GHI/EBCBS coverage are affected by the claims for COBRA-covered individuals.

In order to reflect the cost of COBRA coverage, the cost of excess claims for GHI-covered individuals and families is estimated assuming that 15% of employees not eligible for other benefits elect COBRA coverage for 15 months. A lump-sum COBRA cost of \$1,000 was assumed for terminations during fiscal year 2018. This lump-sum amount is increased by the Pre-Medicare HCCTR for future years but is not adjusted for age-related morbidity.

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Cadillac Tax - The OPEB Plan valuation includes an explicit calculation of the high-cost plan excise tax (“Cadillac Tax”) that will be imposed beginning in 2022 under NCR.

The tax is 40% of the excess of (a) over (b) where (a) is the cost of medical coverage and (b) is the statutory limits (\$10,200 for single coverage and \$27,500 for family coverage), adjusted for the following:

- For Pre-Medicare retirees above the age of 55, the limit will be further increased by \$1,650 for single coverage and \$3,450 for family coverage.
- For 2019, the limits are increased by CPI + 1% (e.g., 3.5%). For each year after 2019, the limits are further increased by CPI (e.g., 2.5%). The indexing of limits starts in 2018; the tax is first applied in 2022.

The impact of the Cadillac Tax for the program benefit is calculated based on the following assumptions about the cost of medical coverage:

- The cost for each benefit option without age adjustment (GHI, HIP, or Other HMO, combined with the average cost of Medicare Part B premium reimbursement, if applicable) was separately compared to the applicable limit.
- The additional Cadillac Tax due to the riders or optional benefit arrangements is assumed to be reflected in the contribution required for the rider or optional benefit.
- Pre-Medicare retirees under age 55 are not assumed to have the higher limits that apply to employees engaged in high-risk professions because the majority of employees included in this valuation are not in such professions.

In cases where the Authority provides only a portion of the OPEB Plan benefits, which give rise to the Cadillac Tax, the calculated Cadillac Tax is allocated to the appropriate paying entity in proportion to the OPEB liabilities for relevant OPEB Plan benefits.

Active/Inactive Liabilities – 40% of the measured liability of the Active/Inactive population. This is roughly equivalent to assuming that 60% of the Active/Inactive members will terminate membership prior to vesting and not receive OPEB.

Sensitivity of the Net OPEB Plan Liability to Changes in the Discount Rate

Sensitivity of the Authority’s Proportionate Share of the Net OPEB Plan Liability to Changes in the Discount Rate—The following table presents the Authority’s proportionate share of the net OPEB Plan liability using the discount rate of 3.13 percent, as well as what the Authority’s proportionate share of the net OPEB Plan liability would be if it were calculated using a discount rate that is one-percentage point lower (2.13 percent) or one-percentage point higher (4.13 percent) than the current rate (in thousands):

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

	<u>Sensitivity Analysis</u>		
	<u>Net OPEB Liability as of June 30, 2018</u>		
	<u>1% Decrease</u> <u>(2.13%)</u>	<u>Current Discount Rate</u> <u>(3.13%)</u>	<u>1% Increase</u> <u>(4.13%)</u>
Total OPEB Plan Liability	\$1,748	\$1,457	\$1,234

Sensitivity of the Net OPEB Plan Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB Plan liability of the Authority, as well as what the Authority's total OPEB Plan liability would be if it were calculated using healthcare cost trend rates that are 1-percent-point lower or 1-percent-point higher than the current healthcare cost trend rates:

	<u>Sensitivity Analysis</u>		
	<u>Net OPEB Liability as of June 30, 2018</u>		
	<u>1% Decrease</u> <u>(6.84%</u> <u>decreasing to</u> <u>4.0%)</u>	<u>Healthcare Cost Trend Rates</u> <u>(7.84%</u> <u>decreasing to</u> <u>5.0%)</u>	<u>1% Increase</u> <u>(8.84%</u> <u>decreasing to</u> <u>6.0%)</u>
Total OPEB Plan Liability	\$1,164	\$1,457	\$1,885

Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB Plan

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to the OPEB Plan from the following sources:

	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred Inflows</u> <u>of Resources</u>
Difference between expected and actual experience	\$ -	\$ 175
Changes of assumptions or other inputs	31	174
Total	\$ 31	\$ 349

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

12. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2019	\$ 43.5
2020	43.5
2021	43.5
2022	43.5
Thereafter	144.6

13. 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) a determination by the System that there is an imminent endangerment to public health and safety as a result of an existing pollution condition, (4) the System’s being named in a lawsuit to compel remediation or being identified by a regulator as a party responsible or potentially responsible for remediation, and/or (5) the System’s voluntarily commencement of remediation. As of June 30, 2018 and 2017, the System reported \$37.6 million and \$29.5 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 have been designated under federal law as Superfund sites to address alleged 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 the System’s facilities operated at these locations.

14. SUBSEQUENT EVENTS

- On July 12, 2018, the Authority drew down on \$90.3 million of Fiscal 2018 Series 3 BAN to pay for the costs of improvements to the System.
- On August 2, 2018, the Authority issued \$320 million of fixed rate refunding Second Resolution Bonds through EFC, Fiscal 2019 Series 1. Proceeds of the bonds were used to refund the following amounts of outstanding Second General Resolution Bonds: \$137 million Fiscal 2008 Series 1, \$157 million of Fiscal 2008 Series 2, and \$71.7 million of Fiscal 2013 Series 1 bonds. Proceeds of Fiscal

NEW YORK CITY WATER AND SEWER SYSTEM

NOTES TO COMBINING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

14. SUBSEQUENT EVENTS (CONTINUED)

2019 Series 1 also paid for bond issuance costs. As a result of this transaction, the Authority reduced its overall debt service by \$44.1 million and obtained an economic gain of \$36.5 million.

- On August 9, 2018, the Authority drew down on \$101 million of Fiscal 2018 Series 3 BAN to pay for the costs of improvements to the System.
- On August 15, 2018, the Authority converted the following bonds from adjustable rate to index rate through direct purchase: \$100 million of Fiscal 2008 Subseries BB3, \$50.0 million of Fiscal 2008 Subseries BB4, and \$50.0 million of Fiscal 2016 Subseries AA3.
- On August 21, 2018, the Authority issued \$264 million of fixed rate refunding Second Resolution Bonds, Fiscal 2019 Series AA. Proceeds of the bonds were used to fix out \$100 million of adjustable rate bonds, Fiscal 2008 Subseries 1B, \$100 million of adjustable rate bonds Fiscal 2008 Subseries B2, and \$100 million of adjustable rate bonds Fiscal 2008 Subseries B4. Proceeds of Fiscal 2019 Series AA also paid for bond issuance costs. As a result of this transaction, the Authority reduced its overall debt service by \$107 million and obtained an economic gain of \$101 million.
- On September 13, 2018, the Authority issued \$100 million of adjustable rate new money, Fiscal 2019 Series BB. The bonds are supported by a liquidity facility from a bank. Proceeds of the bonds were used to pay for the costs of improvements to the System and to pay for bond issuance costs.
- On September 13, 2018, the Authority drew down \$120 million of Fiscal 2018 Series 3 BAN to pay for the costs of improvements to the system.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

NEW YORK CITY WATER AND SEWER SYSTEM

Required Supplementary Information (UNAUDITED)

Schedule of changes for total OPEB liability and related ratios June 30 (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total OPEB Liability			
Service cost	\$ 94	\$ 101	\$ 136
Interest	42	43	43
Differences between expected and actual experience	(106)	(96)	(8)
Changes of assumptions	35	(222)	-
Benefits payments	(20)	(15)	(17)
Net change in total OPEB liability	45	(189)	154
Total OPEB liability - beginning	1,412	1,601	1,447
Total OPEB liability - ending	\$ 1,457	\$ 1,412	\$ 1,601
Covered-employee payroll	\$ 859	\$ 1,038	\$ 1,148
Total OPEB liability as a percentage of covered-employee payroll	169.6%	135.9%	139.5%

Notes to the Schedule:

Changes of assumption: Changes of assumption and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2018	2.98%
2017	3.13%
2016	2.71%

The Authority funds OPEB benefits on a pay-as-you-go basis and contributions are not actuarially determined. Therefore, the required supplementary information related to actuarially determined contributions for the 10 most current fiscal years is not applicable.

*This data is presented for those years for which information is available.

NEW YORK CITY WATER AND SEWER SYSTEM

Required Supplementary Information (UNAUDITED)

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years* (in thousands):

		2018	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability	%	0.003	0.004	0.005	0.005	0.005	0.005
Authority's proportionate share of the net pension liability	\$	516	828	1,215	1,012	901	1,154
Authority's covered-employee payroll	\$	859	1,038	1,148	1,289	1,181	1,124
Authority's proportionate share of the net pension liability as percentage of its covered employee payroll	%	60.07	79.77	105.84	78.51	76.29	102.67
Plan fiduciary net position as a percentage of the total pension liability	%	78.8	74.8	69.6	73.1	75.3	67.2

*This data is presented for those years for which information is available.

SCHEDULE OF THE AUTHORITY'S PENSION CONTRIBUTIONS

Last 10 Fiscal Years (in thousands):

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 111	\$ 136	\$ 170	\$ 161	\$ 141	\$ 136	\$ 157	\$ 113	\$ 121	\$ 55
Contribution in relation to the actuarially determined contribution	\$ (111)	\$ (136)	\$ (170)	\$ (161)	\$ (141)	\$ (136)	\$ (157)	\$ (113)	\$ (121)	\$ (55)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered -employee payroll ¹	<u>\$ 859</u>	<u>\$ 1,038</u>	<u>\$ 1,148</u>	<u>\$ 1,289</u>	<u>\$ 1,181</u>	<u>\$ 1,124</u>	<u>\$ 919</u>	<u>\$ 1,026</u>	<u>\$ 676</u>	<u>\$ 729</u>
Contribution as a percentage of covered-employee payroll	<u>12.92%</u>	<u>13.10%</u>	<u>14.81%</u>	<u>12.49%</u>	<u>11.94%</u>	<u>12.10%</u>	<u>17.08%</u>	<u>11.01%</u>	<u>17.90%</u>	<u>7.54%</u>

¹ Covered-employee payroll data from the actuarial valuation date with one-year lag.

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ADJUSTABLE RATE DEMAND BONDS

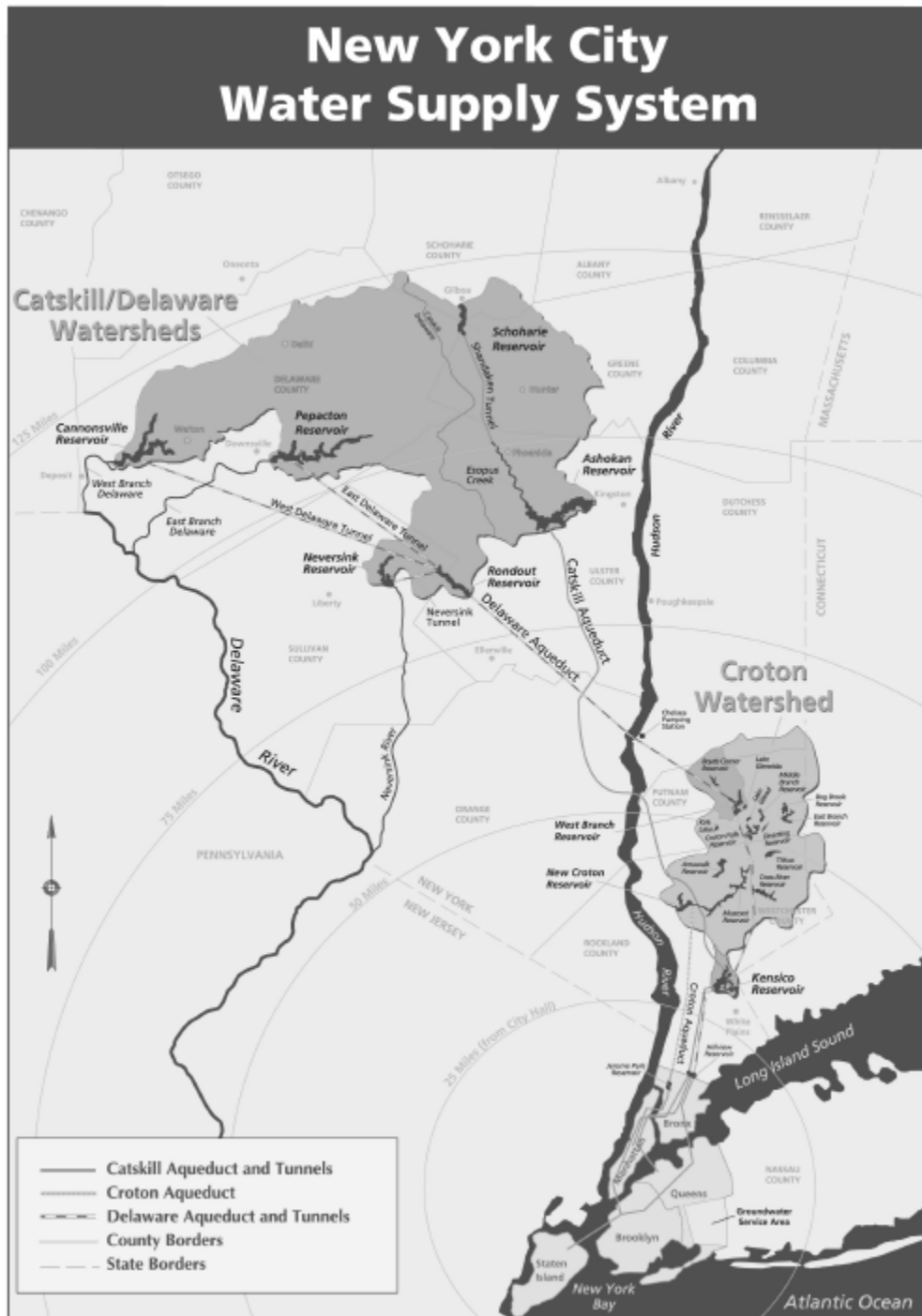
The Authority has entered into credit and liquidity agreements with the financial institutions listed below to support its Authority First Resolution Bonds and Authority Second Resolution Bonds. Reference is made to the disclosure relating to the individual series of obligations for information relating to the respective financial institutions and the terms and provisions of the related credit and liquidity agreements.

Series	Outstanding Principal Amount	Provider	Expiration or Optional Termination by Provider
2010 CC.....	\$ 200,000,000	Barclays Bank PLC	12/14/18
2001-F1.....	\$ 100,000,000	Mizuho Bank, Ltd.	04/11/19
2001-F2.....	\$ 84,130,000	JPMorgan Chase Bank, N.A.	04/11/19
2015 BB-2.....	\$ 100,000,000	Mizuho Bank, Ltd.	06/14/19
2014 AA-5.....	\$ 100,435,000	Mizuho Bank, Ltd.	08/19/19
2014 AA-6.....	\$ 100,435,000	Mizuho Bank, Ltd.	08/19/19
2012 A-1.....	\$ 100,000,000	Mizuho Bank, Ltd.	09/27/19
2012 A-2.....	\$ 100,000,000	Mizuho Bank, Ltd.	09/27/19
2011 DD-3A.....	\$ 50,000,000	US Bank, N.A.	10/16/19
2011 DD-3B.....	\$ 50,000,000	State Street Bank and Trust Company	10/16/19
2008 BB-2.....	\$ 101,000,000	Bank of America, N.A.	10/22/19
2008 BB-5.....	\$ 50,000,000	Bank of America, N.A.	10/22/19
2016 AA-1.....	\$ 100,000,000	Bank of America, N.A.	10/28/19
2008 B-3.....	\$ 135,000,000	Bank of America, N.A.	03/17/20
2011 FF-1.....	\$ 100,000,000	Bank of America, N.A.	03/17/20
2003 F-1-B.....	\$ 50,000,000	US Bank, N.A.	03/27/20
2000-C.....	\$ 107,500,000	Sumitomo Mitsui Banking Corporation	06/04/20
2014 AA-4.....	\$ 100,000,000	Bank of Montreal	08/11/20
2007 CC-2.....	\$ 50,000,000	Bank of Montreal	10/05/20
2017 BB-2.....	\$ 50,000,000	Bank of Montreal	10/05/20
2006 AA-1A.....	\$ 100,000,000	State Street Bank and Trust Company	10/07/20
2006 AA-1B.....	\$ 100,000,000	State Street Bank and Trust Company	10/07/20
2008 B-1A.....	\$ 100,000,000	Sumitomo Mitsui Banking Corporation	03/03/21
2012 B-1.....	\$ 100,000,000	US Bank, N.A.	03/06/21
2012 B-2.....	\$ 100,000,000	State Street Bank and Trust Company	03/06/21
2012 B-3.....	\$ 75,000,000	State Street Bank and Trust Company	03/06/21
2012 B-4.....	\$ 50,000,000	State Street Bank and Trust Company	03/06/21
2009 BB-1.....	\$ 100,435,000	Landesbank Hessen-Thüringen Girozentrale	06/15/21
2009 BB-2.....	\$ 100,435,000	Landesbank Hessen-Thüringen Girozentrale	06/15/21
2011 FF-2.....	\$ 100,000,000	Landesbank Hessen-Thüringen Girozentrale	06/15/21
2015 BB-1.....	\$ 100,000,000	Bank of America, N.A.	07/09/21
2019 BB.....	\$ 100,000,000	Industrial and Commercial Bank of China Limited, New York Branch	09/10/21
2008 BB-1.....	\$ 100,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	09/13/21
2013 AA-2.....	\$ 150,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	09/13/21
2014 AA-1.....	\$ 125,000,000	JPMorgan Chase Bank, N.A.	09/17/21
2014 AA-2.....	\$ 125,000,000	JPMorgan Chase Bank, N.A.	09/17/21
2013 AA-1.....	\$ 50,000,000	PNC Bank, NA	10/02/21
2007 CC-1.....	\$ 160,500,000	Sumitomo Mitsui Banking Corporation	10/05/21
2017 BB-1A.....	\$ 100,000,000	State Street Bank and Trust Company	10/05/21
2017 BB-1B.....	\$ 100,000,000	State Street Bank and Trust Company	10/05/21
2017 BB-3.....	\$ 39,500,000	Sumitomo Mitsui Banking Corporation	10/05/21
2003 F-2.....	\$ 101,655,000	Citibank, N.A.	10/26/21
2016 AA-2.....	\$ 100,000,000	PNC Bank, NA	10/26/21
2011 DD-2.....	\$ 75,000,000	JPMorgan Chase Bank, N.A.	11/12/21
2003 F-1-A.....	\$ 50,000,000	Barclays Bank PLC	06/17/22
2015 BB-4.....	\$ 100,000,000	Barclays Bank PLC	06/17/22
2015 BB-3.....	\$ 100,000,000	Sumitomo Mitsui Banking Corporation	07/07/23
2014 AA-3.....	\$ 100,000,000	TD Bank, N.A.	09/17/23
2011 DD-1.....	\$ 100,000,000	TD Bank, N.A.	11/16/23
	\$ 4,631,025,000		

INDEX RATE BONDS ⁽¹⁾

Series	Outstanding Principal Amount	Step Up Date
2008 BB-3	\$ 100,000,000	August 14, 2023
2008 BB-4	\$ 50,000,000	August 14, 2023
2016 AA-3	\$ 50,000,000	August 14, 2023

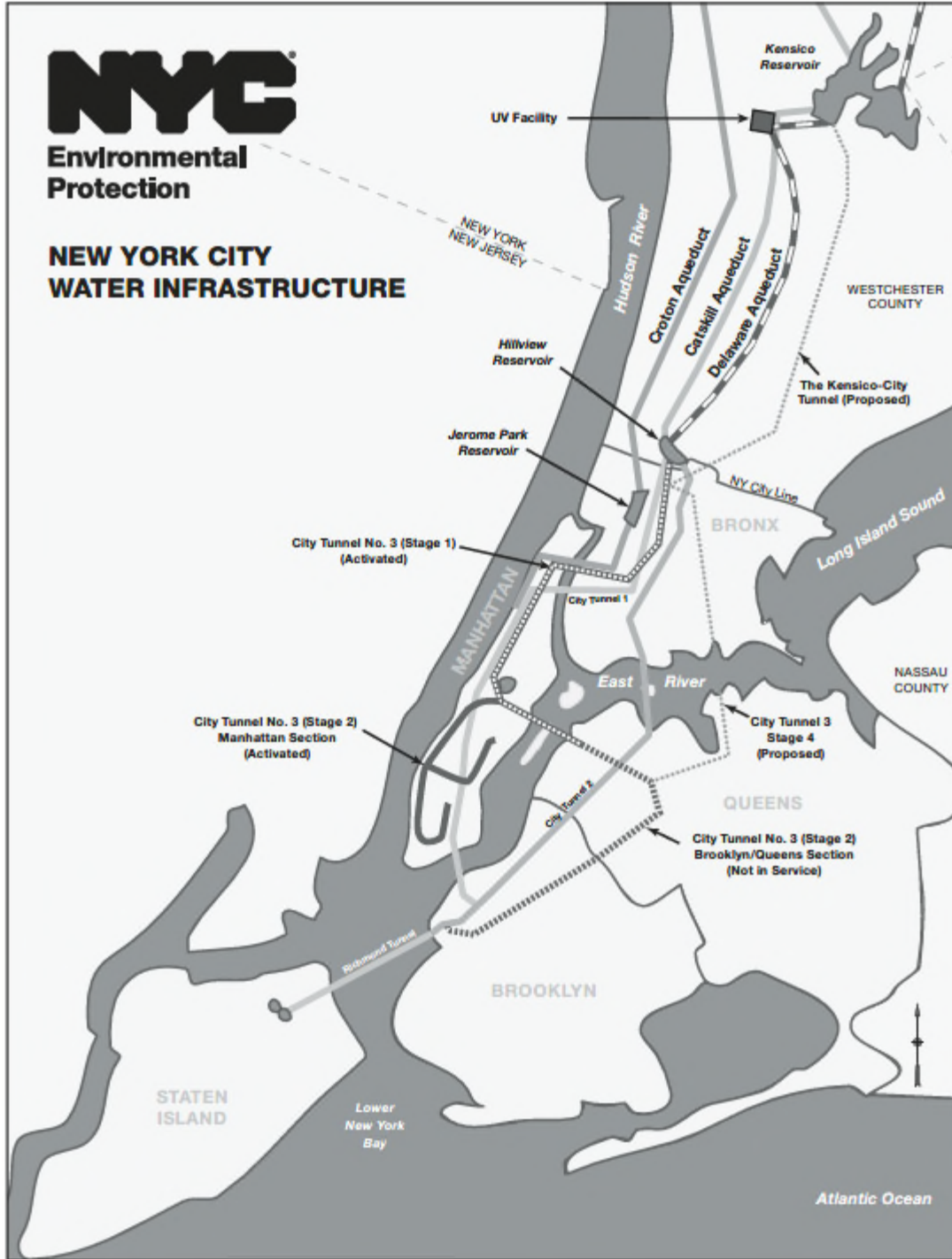
(1) The Authority's index rate bonds pay interest based on a specified index. Such bonds also provide for an increased rate of interest commencing on an identified step up date if such bonds are not converted or refunded.



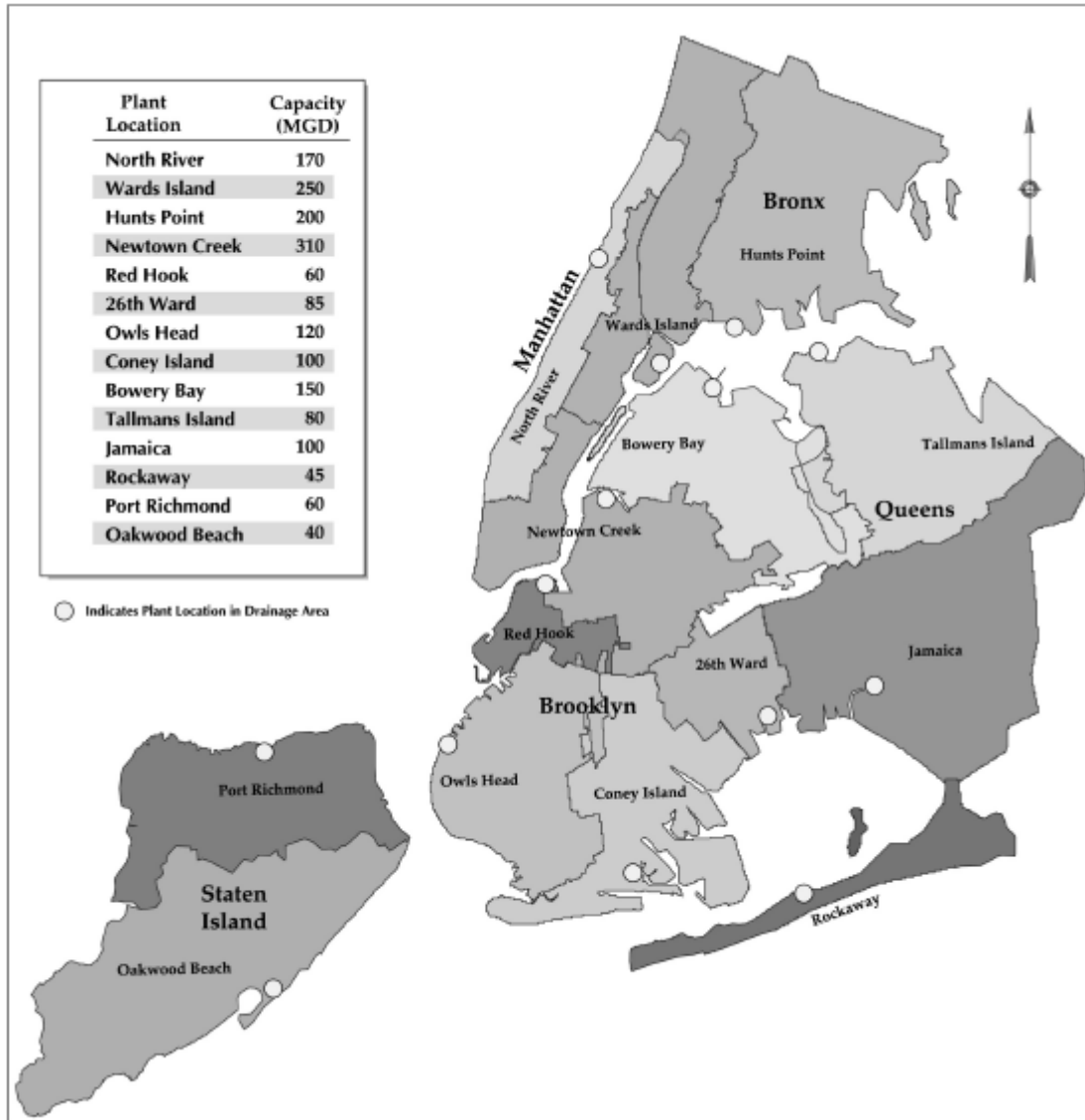


Environmental Protection

NEW YORK CITY WATER INFRASTRUCTURE



New York City Drainage Areas and Water Pollution Control Plants



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