NEW ISSUE - BOOK-ENTRY ONLY

Standard & Poor's: AA+
Moody's: Aa1
Fitch: AA+
See "Ratings"

$329,120,000
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) Subordinated SRF Bonds

$132,660,000
Series 2010 A

$196,460,000
Series 2010 B
(Federally Taxable Build America 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 offered bonds, which are designated in the series caption above, to provide financial assistance to the New York City Municipal Water Finance Authority, referred to as the "NYCMWFA," to finance or refinance water pollution control and drinking water projects. The Series 2010 A bonds, referred to as the offered 2010 A bonds, together with the Series 2010 B bonds, referred to as the offered 2010 B bonds, are referred to as the offered bonds.

THE OFFERED BONDS

Interest on the offered bonds is payable on June 15 and December 15 of each year commencing June 15, 2010. 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 bonds.

REDEMPTION

The offered bonds are subject to optional, mandatory and extraordinary 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 repayments we receive on related bonds issued by the NYCMWFA and, on a subordinated basis, moneys available from time to time in the De-allocated Reserve Account and the Deficiency Reserve Account after such moneys are applied, to the extent necessary, in connection with all Senior SRF Bonds secured by such Master Trust Agreement, as described in this official statement. Amounts so available secure the offered bonds on a parity basis with all other Subordinated SRF Bonds issued 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, or the NYCMWFA. We have no taxing power.

TAX EXEMPTION

In the opinion of Hawkins Delafield & Wood LLP, acting as our Bond Counsel, under existing statutes and court decisions, and relying on certain representations and assuming compliance with certain covenants, interest on the offered 2010 A 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
- not included in the adjusted current earnings of corporations under the federal corporate alternative minimum tax.

Also, in Bond Counsel's opinion, interest on the offered 2010 B bonds is included in gross income for federal income tax purposes pursuant to the Internal Revenue Code.

Also, in Bond Counsel's opinion, under existing statutes, interest on the offered 2010 A bonds and 2010 B 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 February 11, 2010.

FURTHER INFORMATION

We have prepared an Annual Information Statement (AIS) dated October 1, 2009, as amended, which describes our various financing programs. We have included by specific cross-reference in this official statement portions of our AIS. We have filed copies of the AIS with the MSRB through EMMA at http://emma.msrb.org/. You may obtain our AIS from our website at www.nysefc.org or you may obtain a hard copy from us directly.

Siebert Brandford Shank & Co., LLC

Citi
Fidelity Capital Markets
Goldman, Sachs & Co.
Grigsby & Associates Inc.
J.P. Morgan
Jefferies & Company

Lebenthal & Co., LLC
Loop Capital Markets, LLC
M♦R♦Beal & Company
Morgan Stanley

BofA Merrill Lynch

Ramirez & Co., Inc.
Raymond James & Associates, Inc.
RBC Capital Markets
Rice Financial Products Company
Roosevelt & Cross Incorporated
Wachovia Bank, National Association

February 3, 2010

$329,120,000
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) Subordinated SRF Bonds
Series 2010 A
Series 2010 B (Federally Taxable Build America Bonds)

$132,660,000 Series 2010 A Serial Bonds

Maturity	Principal Amount	Interest Rate	Yield	CUSIP[2]	Maturity	Principal Amount	Interest Rate	Yield		CUSIP[2]
June 15, 2010	$1,000,000	2.000%	0.185%	64986AF89	June 15, 2018	$2,125,000	3.000%	2.950%		64986AH79
June 15, 2011	3,120,000	2.000	0.380	64986AF97	June 15, 2018	3,245,000	5.000	2.950		64986AH87
June 15, 2011	4,730,000	5.000	0.380	64986AG21	June 15, 2019	5,600,000	4.000	3.160		64986AH95
June 15, 2012	2,530,000	2.000	0.760	64986AG39	June 15, 2020	5,825,000	3.500	3.300		64986AJ28
June 15, 2012	5,625,000	3.000	0.760	64986AG47	June 15, 2021	6,025,000	4.000	3.440	(1)	64986AJ36
June 15, 2013	1,560,000	3.000	1.070	64986AG54	June 15, 2022	6,265,000	3.500	3.550		64986AJ44
June 15, 2013	6,810,000	4.000	1.070	64986AG62	June 15, 2023	6,485,000	5.000	3.610	(1)	64986AJ51
June 15, 2014	3,510,000	2.000	1.440	64986AG88	June 15, 2024	6,810,000	5.000	3.690	(1)	64986AJ69
June 15, 2014	5,180,000	5.000	1.440	64986AG70	June 15, 2025	1,730,000	3.750	3.800		64986AJ77
June 15, 2015	1,305,000	2.500	1.920	64986AG96	June 15, 2025	5,420,000	5.000	3.770	(1)	64986AJ85
June 15, 2015	7,715,000	5.000	1.920	64986AH20	June 15, 2026	7,485,000	5.000	3.840	(1)	64986AJ93
June 15, 2016	2,805,000	3.000	2.370	64986AH46	June 15, 2027	7,860,000	5.000	3.910	(1)	64986AK26
June 15, 2016	6,635,000	4.000	2.370	64986AH38	June 15, 2028	4,870,000	4.000	4.050		64986AK34
June 15, 2017	2,165,000	4.000	2.670	64986AH61	June 15, 2029	5,255,000	5.000	4.030	(1)	64986AK42
June 15, 2017	2,970,000	5.000	2.670	64986AH53						

$196,460,000 Series 2010 B Serial Bonds

Maturity	Principal Amount	Interest Rate	Price	CUSIP[2]	Maturity	Principal Amount	Interest Rate	Price	CUSIP[2]
June 15, 2017	$5,000,000	4.005%	100%	64986AL33	June 15, 2023	$6,195,000	4.889%	100%	64986AK91
June 15, 2018	5,200,000	4.339	100	64986AL41	June 15, 2024	6,495,000	5.039	100	64986AL58
June 15, 2019	6,000,000	4.469	100	64986AK59	June 15, 2025	6,825,000	5.139	100	64986AL66
June 15, 2020	6,625,000	4.539	100	64986AK67	June 15, 2026	7,175,000	5.239	100	64986AL74
June 15, 2021	5,650,000	4.639	100	64986AK75	June 15, 2027	7,555,000	5.339	100	64986AL82
June 15, 2022	5,915,000	4.739	100	64986AK83					

$35,340,000 5.707% Term Bond Maturing June 15, 2030, Price: 100% CUSIP Number[2]: 64986AL90

$92,485,000 5.807% Term Bonds Maturing June 15, 2039, Price: 100% CUSIP Number[2]: 64986AL25

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[1] Priced to the June 15, 2020 optional redemption date at a redemption price of par.

[2] Copyright 2005, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the 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.

Specific Information about this Bond Issue

We have prepared this information to assist you in understanding certain specific terms of this bond issue, especially –

- the description of the series of offered bonds,
- the particular SRF program for which these bonds will be issued, and
- the financing documents and security for these bonds.

This official statement, which includes by specific cross-reference materials we file with the MSRB through EMMA (as hereinafter defined) and the exhibits and schedules to those materials, provides you with detailed information about the offered bonds. You must carefully review that detailed information before making a decision whether or not to purchase any of the bonds.

Designation of Offered Bonds	$132,660,000 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) Subordinated SRF Bonds Series 2010 A. $196,460,000 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) Subordinated SRF Bonds Series 2010 B (Federally Taxable Build America Bonds).
SRF Program for this Issue	New York City Municipal Water Finance Authority Projects.
Recipient of Proceeds of this Issue	NYCMWFA.
Use of Proceeds for this Issue	To provide financial assistance to the NYCMWFA for water pollution control and drinking water projects. See information for the offered bonds under the ***Sources and Uses of Funds*** heading on page iii.
Financing Documents for this Issue	The Financing Indenture dated as of June 1, 2006, as supplemented (the "2006 Indenture"), the Amended and Restated Master Trust Agreement, dated as of July 1, 2005, as amended (MTA) and the Project Finance Agreement dated as of June 1, 2006, as supplemented. See Attachment 2 to this Official Statement, which includes summaries of such documents.
Security and Sources of Payment	The offered bonds are Subordinated SRF Bonds payable from repayments we receive from the NYCMWFA, and on a subordinated basis, from moneys available from time to time in the De-allocated Reserve Account and the Deficiency Reserve Account established under the Master Trust Agreement after such moneys have been used, to the extent necessary, to pay debt service on or replenish reserve requirements for all senior SRF Bonds secured under the Master Trust Agreement, including senior NYCMWFA Bonds and MFI Bonds, all as described herein under the headings SECURITY AND SOURCE OF PAYMENT and FLOW OF FUNDS. Amounts so available from the De-allocated Reserve Account and the Deficiency Reserve Account secure the offered bonds on a parity basis with all other Subordinated SRF Bonds issued and which may be issued in the future. See "Security for Subordinated NYCMWFA Bonds" on page 30 of our Annual Information Statement.

	No reserve allocation will be established for the offered bonds. Reserve Allocations established for other SRF Bonds do not directly secure the offered bonds. Although no reserve allocation will be established for the offered bonds, we have agreed with the NYCMWFA that, subject to certain conditions including compliance by the NYCMWFA 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 NYCMWFA with respect to the leveraged financing they receive. We expect that the moneys we use for such committed subsidy will be derived from the repayment by the NYCMWFA of a financing we will make to the NYCMWFA from non-bond proceeds in an initial principal amount of approximately $67.4 million. The NYCMWFA obligations will be held in a subsidy reserve account we will establish. We reserve the right to identify other sources of committed subsidy in the future in lieu of the initial obligations deposited in the subsidy reserve account. Payments of principal and interest on obligations held in the subsidy reserve account will be applied to fund such committed subsidy. The subsidy reserve account secures only the offered bonds and no other bonds and any amounts held therein will also be available to pay debt service on the offered bonds in the event other moneys pledged and available therefore are not sufficient to pay debt service on the offered bonds. Amounts made available as committed subsidy will reduce the effective interest rate paid by the NYCMWFA. Under the terms of our financing agreement with the NYCMWFA, to the extent that such committed subsidy is not available to reduce the interest payable by the NYCMWFA on the leveraged financing, the NYCMWFA 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 NYCMWFA to make any committed subsidy available to the NYCMWFA to the extent required by our agreement with the NYCMWFA.
Designation of Offered 2010 B Bonds as "Build America Bonds".....	We intend to make an irrevocable election to treat the offered 2010 B bonds as "build America bonds" under Section 54AA of the Internal Revenue Code for which we will receive, pursuant to Sections 54AA(g) and 6431 of the Internal Revenue Code, a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by us on the build America bonds. Any such cash subsidy payments will be paid, upon receipt, to the NYCMWFA. Amounts received as such cash subsidy payments are not pledged as security for the offered 2010 B bonds nor are they available for the payment thereof. Such cash subsidy payments will not be credited against the payments due from the NYCMWFA under our financing agreement. The NYCMWFA is obligated to make all payments due under such financing agreement whether or not such cash subsidy payments are received. * * *

Trustee	Manufacturers and Traders Trust Company, Buffalo, NY.
Financial Advisor	Public Financial Management, Inc.
Underwriters	See cover. The Underwriters' representative is Siebert Brandford Shank & Co., LLC.
Bond Counsel	Hawkins Delafield & Wood LLP, New York, NY.
Underwriters' Counsel	Robinson & Cole LLP, New York, NY

Sources and Uses of Funds

We will issue the offered bonds to pay principal and interest on a portion of the NYCMWFA's outstanding commercial paper notes which were previously issued by the NYCMWFA to finance water pollution control and drinking water projects.

We anticipate that the proceeds of the offered bonds (including net original premium) and the initial amounts from the SRF will be used as follows:

	Series 2010 A	**Series 2010 B**
Sources		
Par Amount of Offered Bonds	$132,660,000.00	$196,460,000.00
Net Original Issue Premium	10,144,613.95	0.00
Total Sources	$142,804,613.95	$196,460,000.00
Uses		
Payment of Certain NYCMWFA Commercial Paper Notes	$140,587,074.00	$192,392,635.00
Underwriters' Discount	652,986.99	1,275,717.98
Costs of Issuance	1,558,888.45	2,788,182.55
Deposit to Debt Service Funds	5,664.51	3,464.47
Total Uses	$142,804,613.95	$196,460,000.00

Redemption Prior to Maturity

2010 A Bonds

Optional Redemption of Offered 2010 A Bonds. We may opt to redeem any offered 2010 A bonds, in whole or in part at any time on and after June 15, 2020 at a redemption price equal to the principal amount being redeemed plus accrued and unpaid interest to the redemption date. If we redeem only part of the offered 2010 A bonds of a given maturity and bearing interest at a particular rate and DTC is the securities depository, DTC will select those bonds by lot.

2010 B Bonds

Optional Redemption of Offered 2010 B Bonds. The offered 2010 B bonds are subject to redemption prior to their stated maturity dates at our option, in whole or in part on any date, at a redemption price (the "Make-Whole Redemption Price") equal to the greater of:

(1) the issue price (but not less than 100%) of the principal amount of such offered 2010 B bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such offered 2010 B bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such offered 2010 B bonds are to be redeemed, discounted to the date on which such offered 2010 B bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described below) plus 30 basis points;

plus, in each case, accrued interest on such offered 2010 B bonds to be redeemed to the redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular offered 2010 B bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days, but not more than 30 calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the offered 2010 B bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Mandatory Sinking Fund Redemption of Offered 2010 B Bonds maturing June 15, 2030. The term offered 2010 B bonds maturing June 15, 2030 are subject to mandatory sinking fund redemption, in part pro rata on each of the dates stated below, at a redemption price equal to the principal amount shown below.

For Series 2010 B Term Bonds maturing June 15, 2030

Date	Sinking Fund Payment
June 15, 2028	$11,350,000
June 15, 2029	11,805,000
June 15, 2030 †	12,185,000

†Final Maturity

We may from time to time direct the Trustee to purchase term offered 2010 B bonds maturing June 15, 2030 with moneys in the Debt Service Fund, at a price not greater than par, plus accrued interest to the date of such purchase, and apply such term offered 2010 B bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of the immediately succeeding mandatory sinking fund payment for such term

offered 2010 B bond. We may also purchase or redeem such term offered 2010 B bonds prior to maturity with other moneys available to do so, and apply such term offered 2010 B bonds so purchased or redeemed against any future mandatory sinking fund payment for such term offered 2010 B bonds.

Mandatory Sinking Fund Redemption of Offered 2010 B Bonds maturing June 15, 2039. The term offered 2010 B bonds maturing June 15, 2039 are subject to mandatory sinking fund redemption, in part pro rata on each of the dates stated below, at a redemption price equal to the principal amount shown below.

For Series 2010 B Term Bonds maturing June 15, 2039

Date	Sinking Fund Payment
June 15, 2031	$ 7,875,000
June 15, 2032	8,400,000
June 15, 2033	8,955,000
June 15, 2034	9,530,000
June 15, 2035	10,155,000
June 15, 2036	10,810,000
June 15, 2037	11,510,000
June 15, 2038	12,240,000
June 15, 2039 †	13,010,000

†Final Maturity

We may from time to time direct the Trustee to purchase term offered 2010 B bonds maturing June 15, 2039 with moneys in the Debt Service Fund, at a price not greater than par, plus accrued interest to the date of such purchase, and apply such term offered 2010 B bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of the immediately succeeding mandatory sinking fund payment for such term offered 2010 B bond. We may also purchase or redeem such term offered 2010 B bonds prior to maturity with other moneys available to do so, and apply such term offered 2010 B bonds so purchased or redeemed against any future mandatory sinking fund payment for such term offered 2010 B bonds.

Extraordinary Optional Redemption of Offered 2010 B Bonds. The offered 2010 B bonds are subject to redemption prior to their stated maturity dates at our option, in whole or in part upon the occurrence of an Extraordinary Event (described below), at a redemption price (the "Extraordinary Redemption Price") equal to the greater of:

(1) the issue price (but not less than 100%) of the principal amount of such offered 2010 B bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such offered 2010 B bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such offered 2010 B bonds are to be redeemed, discounted to the date on which such offered 2010 B bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points;

plus, in each case, accrued interest on such offered 2010 B bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), pertaining to the "build America bonds") is modified, amended or interpreted in a manner pursuant to which the 35% cash subsidy payment from the United States Treasury relating to the offered 2010 B bonds is reduced or eliminated.

Selection of Offered 2010 B Bonds to Be Redeemed. If the offered 2010 B bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the offered 2010 B bonds shall be allocated among the registered owners of such offered 2010 B bonds as nearly as practicable in proportion to the principal amounts of the offered 2010 B bonds owned by each registered owner, subject to the authorized denominations applicable to the offered 2010 B bonds. This will be calculated based on the following formula:

$$\frac{\text{(principal to be redeemed) x (principal amount owned by owner)}}{\text{(principal amount outstanding)}}$$

If the offered 2010 B bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the offered 2010 B bonds, partial redemptions will be done in accordance with DTC procedures. It is our intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between us and the Beneficial Owners be made in accordance with these same proportional provisions. However, we can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis.

Redemption Notices and Process for All Offered Bonds. 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 in the case of the offered 2010 A bonds and a 10-to-60-day period before the redemption date in the case of the offered 2010 B bonds. So long as the offered 2010 B bonds remain under the Book-Entry Only System, DTC may waive the 10-day notice period. 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.**

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 – 2010 A Bonds

Federal Tax Status

In the opinion of Bond Counsel, under existing statutes and court decisions and relying on certain representations and assuming compliance with certain covenants, interest on the offered 2010 A 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
- not included in the adjusted current earnings of corporations under the federal corporate alternative minimum tax.

The Internal Revenue Code imposes requirements on the offered 2010 A bonds that must continue to be met after the offered 2010 A bonds are issued. These requirements generally involve restrictions on the way that proceeds of the offered 2010 A 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 2010 A bonds in its federal gross income on a retroactive basis to the date of issue. We and our recipients 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 2010 A 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 2010 A bonds.

Original Issue Discount

Each maturity of the offered 2010 A bonds will have "original issue discount" if the "issue price" of the bonds of such maturity is less than the principal amount of those bonds. Bond Counsel's opinion is that the original issue discount on the offered 2010 A 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. Bond Counsel's opinion is also that the original issue discount on these offered 2010 A bonds as it accrues is exempt from personal income taxes imposed by New York State and its political subdivisions. 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 an offered 2010 A bond 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 2010 A 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 2010 A bond with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond

premium.

State Tax Status

In Bond Counsel's opinion, under existing statutes interest on the offered 2010 A 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 2010 A 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 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 2010 A 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 2010 A 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.

Opinion of Bond Counsel

See ***Exhibit C*** to this official statement for the form of opinion that Bond Counsel expects to deliver when the offered 2010 A bonds are delivered. Bond Counsel is not responsible for updating its opinion in the future.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the offered 2010 A bonds under federal or state law and could affect the market price or marketability of the offered 2010 A bonds.

Prospective purchasers of the offered 2010 A bonds should consult their own tax advisors regarding the foregoing matters.

Tax Matters – 2010 B Bonds

Federal Tax Status

In the opinion of Bond Counsel, interest on the offered 2010 B bonds is included in gross income for federal income tax purposes pursuant to the Internal Revenue Code.

We will elect to receive cash subsidy payments equal to 35 percent of the interest payable on the offered 2010 B bonds from the United States Treasury. As a result of such election, holders of the offered 2010 B bonds will not be eligible to receive the tax credit otherwise permitted under Section 54AA(a) of the Internal Revenue Code. The Internal Revenue Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the offered 2010 B bonds if we are to continue to receive such subsidy payments. These requirements generally involve restrictions on the way that proceeds of the offered 2010 B bonds must be used and invested. The interest subsidy payments are subject to offset by certain amounts that we may, for unrelated reasons, owe to the federal government or its agencies.

The following discussion is a brief summary of the principal United States federal income tax consequences of

the acquisition, ownership and disposition of the offered 2010 B bonds by the original purchasers who are "U.S. Holders." A "U.S. Holder" is a beneficial owner of an offered 2010 B bond that includes, among other persons or entities: (i) a citizen or resident of the United States, or (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or its political subdivision. This summary (i) is based on certain relevant provisions of the Internal Revenue Code that are subject to change at any time, possibly with retroactive effect, (ii) assumes that the offered 2010 B bonds will be held as "capital assets" and (iii) does not discuss all of the United States federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules.

Original Issue Discount

Each maturity of the offered 2010 B bonds will have "original issue discount" if the "issue price" of the bonds of such maturity is less than the principal amount of those bonds. In general, if original issue discount is greater than a certain statutorily defined *de minimis* amount, a holder of an offered 2010 B bond having a maturity of more than one year from its date of issue must include in federal gross income the original issue discount on the offered 2010 B bond as it accrues. The tax accounting treatment of original issue discount is complex. Original issue discount accrues on an actuarial basis and as it accrues, a bondholder's tax basis will be increased. Bond Counsel's opinion is that the original issue discount on the offered 2010 B bonds as it accrues is exempt from personal income taxes imposed by the New York State and its political subdivisions. If a bondholder owns one of the offered 2010 B bonds with original issue discount, it should consult its own tax advisor regarding the tax treatment of original issue discount.

Bond Premium

If a bondholder purchases an offered 2010 B bond 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. In general, if the holder of an offered 2010 B bond with bond premium elects to amortize the premium over the remaining or such other applicable required term of the bond on an actuarial basis, the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder's basis in such bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies or acquired afterwards. A bondholder in certain circumstances may realize a taxable gain upon disposition of an offered 2010 B bond with bond premium, even though that bond is sold or redeemed for an amount less than or equal to the holder's original cost. If a bondholder owns any offered 2010 B bond with bond premium, it should consult its tax advisor regarding the tax treatment of bond premium.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of an offered 2010 B bond, its holder will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder's adjusted tax basis in the bond.

We may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the offered 2010 B bonds to be legally defeased. For federal income tax purposes, such defeasance could result in a recognition by the holder of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the offered 2010 B bonds subsequent to any such defeasance could also be affected.

State Tax Status

In Bond Counsel's opinion, under existing statutes, interest on the offered 2010 B 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 and Information Reporting

In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest and the accrual of original issue discount on an offered 2010 B bond and the proceeds of the sale of the offered 2010 B bond before maturity within the United States. Backup withholding may apply to holders of the offered 2010 B bonds under Section 3406 of the Internal Revenue Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner of an offered 2010 B bond, and which constitute over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States federal income tax provided the required information is furnished to the Internal Revenue Service.

IRS Circular 230 Disclosure

The advice under the caption "*Tax Matters - 2010 B Bonds*" concerning certain income tax consequences of the acquisition, ownership and disposition of the offered 2010 B bonds was written to support the marketing of such bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, (i) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Internal Revenue Code and (ii) the bondholder should seek advice from an independent tax advisor based on the bondholder's particular circumstances.

Opinion of Bond Counsel

See ***Exhibit C*** to this official statement for the form of opinion that Bond Counsel expects to deliver when the offered 2010 B bonds are delivered. Bond Counsel is not responsible for updating its opinion in the future.

Miscellaneous

Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the federal or the New York State level, (i) may adversely affect the tax-exempt status of interest on the offered 2010 B bonds under the law of the New York State and our eligibility to receive cash subsidy payments from the United States Treasury with respect to the offered 2010 B bonds, and (ii) could affect the market price or marketability of the offered 2010 B bonds.

Prospective purchasers of the offered 2010 B bonds should consult their tax advisors regarding the foregoing matters.

Additional Information

We have also included as Attachment 1 to this document "Certain Information Relating to the New York City Municipal Water Finance Authority and to the System" and, as Attachment 2 to this document "Description of Subordinated NYCMWFA Bonds, Certain Definitions and Summary of Certain Basic Agreements Relating to Series 2010 A Bonds and Series 2010 B Bonds."

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 NYCMWFA included in Attachment 1 hereto has been prepared by the consultants to the NYCMWFA. UHY LLP has neither examined nor compiled such prospective financial information and, accordingly, does not express an opinion or any other form of assurance with respect thereto. The UHY LLP report included in our AIS, and incorporated herein by specific cross-reference, relates to our historical financial information only and does not extend to any financial information of the NYCMWFA.

MSRB and EMMA. Pursuant to amendments to Rule 15c2-12 effective July 1, 2009 and promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, 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, 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 overallot 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. The underwriters may offer and sell the offered bonds to certain dealers and others at prices lower or yields higher than the public offering prices or yields on the inside cover of this official statement.

Forward-Looking Statements. Statements in this official statement, and the documents included by specific cross-reference, that are not historical facts are forward-looking statements, which 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.nysefc.org*. 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.

NEW YORK STATE
ENVIRONMENTAL FACILITIES CORPORATION
625 Broadway
Albany, New York 12207

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OFFICIAL STATEMENT

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Cross References

The following portions of the **Annual Information Statement of New York State Environmental Facilities Corporation,** dated October 1, 2009, as amended, and filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access system (EMMA), are included by specific cross-reference in this 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 through EMMA to amend or update information previously filed.

- **For all offered bonds:**
  - Overview of Disclosure Practices
  - Part 1. Introduction
  - Part 2. State Revolving Funds Programs
- **For bonds designated for the "Pooled Financing Program":**
  - Part 3. MFI Pooled Financing Program
    - Exhibit 3A – Certain Definitions and Summary of Certain Basic Agreements (MFI Pooled Financing Program)
    - Exhibit 3B – Information Regarding Prior SRF Bonds and SRF Recipients
- **For bonds designated for "New York City Municipal Water Finance Authority Projects":**
  - Part 4. New York City Municipal Water Finance Authority Projects
    - Exhibit 4A – Certain Information Relating to the New York City Municipal Water Finance Authority and of the System
    - Exhibit 4B – Certain Definitions and Summary of Certain Basic Agreements (NYCMWFA Program)
- **For bonds designated as "Subordinated" bonds,** please see Part 3 for the **"Pooled Financing Program"** or Part 4 for the **"New York City Municipal Water Finance Authority Projects,"** as applicable, and the related exhibits.

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OFFICIAL STATEMENT
Relating to the
Offered Bonds

Prepared: as of October 1, 2009

INTRODUCTION

This official statement – which includes the forepart, the main body and the Exhibits – provides you with information about the offered bonds, which are designated as described in the series caption on the cover, together with information about how we administer our State Revolving Fund (SRF) financing programs.

We are issuing the offered bonds to provide financial assistance to the local governments and other eligible public or private recipients in the State of New York described above in the forepart of this official statement under ***Specific Information about this Bond Issue*** – each of which we refer to as a "recipient" of our assistance – under our SRF financing program described in detail below. When we provide financial assistance to a recipient from the proceeds of our offered bonds, we refer to this as a "leveraged financing."

You should refer to "Overview of Disclosure Practices" in our Annual Information Statement for a brief overview of our disclosure practices. We present transaction-specific information about our SRF financing programs, *i.e.,* information that varies from bond issue to bond issue, in the forepart of this official statement – the series caption, the cover and inside cover pages, the boxes beginning after those pages – and in the Exhibits. The main body of this official statement (pages 1-21) was prepared as of October 1, 2009, and we expect that it will remain uniform for all SRF bond issues through September 30, 2009, unless otherwise indicated in the forepart of this official statement.

Cross References. The information listed under the heading Cross References in the Table of Contents, as filed with 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.

The MSRB and EMMA. Pursuant to amendments to Rule 15c2-12 effective July 1, 2009 and promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, we now file annual information about ourselves and the security structure and terms of our bond issues with the MSRB and the EMMA system. 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/.*

Forward-Looking Statements. Statements in this official statement, and the documents included by specific cross-reference, that are not historical facts are forward-looking statements, which 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 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.

THE CORPORATION

We were created as the "New York State Environmental Facilities Corporation," sometimes referred to as "EFC" or the "Corporation," in 1970 by 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, referred to as the "EFC Act."

We are a public benefit corporation of the State, which means that we are a corporate entity separate and apart from the State itself, without any power of taxation – frequently called a "public authority."

We are governed by a board of directors, three of whom are required to be State officials – the Commissioner of Environmental Conservation (who is also designated as the chair), the Commissioner of Health, and the Secretary of State. The four remaining directors are required to be appointed by the Governor and confirmed by the State Senate.

STATE REVOLVING FUNDS

We administer New York's State Revolving Fund (SRF) programs, which were authorized by federal legislation – the Water Quality Act of 1987 for the clean water SRF and the Safe Drinking Water Act of 1996 for the drinking water SRF – to provide financial assistance to local governments, public authorities, and certain private entities, *i.e.,* recipients, for water pollution control projects and community water systems.

Purpose of SRFs. The SRFs were created in New York State to accept federal grants and State matching funds, which are used to reduce financing costs for recipients in financing those water pollution control projects and community water systems, by providing interest subsidies and reserves.

Federal and State Funding. Funding for our SRF programs is provided by State appropriations of both federal grants made to the State and matching funds provided by the State, in a $5-to-$1 federal-to-state ratio. With those funds, we have established and continue to make deposits in our clean water and drinking water SRFs. As of September 30, 2009, we have received federal awards and State matching funds of approximately $3.59 billion and $853 million, respectively, of which we have drawn down approximately $3.47 billion and $838 million, respectively.

Clean Water and Drinking Water SRFs. We initially allocate for each financing reserves from federal grants and State matching funds separately for clean water SRF and for drinking water SRF purposes. We maintain separate accounts for each purpose. We will use money derived from grants or matching funds for one purpose to cure or prevent a default on bonds issued to fund SRF leveraged financings made for the other purpose. In those cases, we treat that use as an investment by one fund to be repaid by the other.

State Oversight. We are required by law to apply money in the clean water SRF at the direction of the Commissioner of Environmental Conservation, and money in the drinking water SRF at the direction of the Commissioner of Health. Prior to each of our bond issues, we are required to obtain the

approval of the Public Authorities Control Board, and unless this is a competitively bid public sale, the State Comptroller.

Our SRF Revenue Bond Program. We issue revenue bonds, supported both by repayments from recipients of leveraged financings *and* by reserves derived from SRF funds. We use the proceeds of those bonds to provide assistance to eligible recipients for clean water and drinking water purposes or to refund bonds previously issued for those purposes. As we describe below, except, generally, in the case of subordinated bonds, we earmark, or make a "reserve allocation," from the amount on deposit in or available to our SRFs, to provide *reserves* to cure or prevent a default on those bonds, and we use the *investment earnings* on those reserves to *subsidize* the interest cost to the recipient on the related financing. We also issue subordinated revenue bonds, which are payable from repayments and reserves as described below.

Future SRF Financings. We are considering establishing a new SRF financing program under which we would issue revenue bonds. Such bonds would be secured by recipient bond payments and other revenues pledged thereto under the related indenture. Any lien on the reserves or revenues which already secure the offered bonds granted in favor of bonds issued under such new program will be subordinate to the liens securing the offered bonds. References herein to the "offered bonds" and to an "SRF financing program" do not refer to such new program or bonds issued thereunder**.** Such new program, and any bonds issued thereunder, will be described in an official statement relating thereto. If such new program is established, we expect it will become the program under which most of our leveraged financings (other than leveraged financings for NYCMWFA) are funded, rather than the MFI pooled financing program described herein. We expect to continue to issue bonds for NYCMWFA under the NYCMWFA program described herein**.**

Direct Loans. We also make direct loans and provide other types of financial assistance, such as buying or refinancing debt of eligible recipients and providing guarantees of local debt, with money in the SRFs.

Legislative Appropriations. Before any federal grants or State matching funds deposited in the SRFs become available to secure our bonds, such grants and funds must first be appropriated – *i.e.*, authorized to be spent – by the State Legislature. Although the Legislature has made, and we expect it to continue to make, the requisite appropriations each year, it is not bound by law to do so. Prior to issuing any series of bonds, including the offered bonds, we will, however, have available, from cash on hand or money already appropriated by the Legislature, any required reserves for the leveraged financings made with the proceeds of that series of bonds.

Sizing of Reserves. In connection with most leveraged financings we have allocated a reserve of at least one third of the principal balance of the leveraged financing for the recipient. For some leveraged financings there is no allocated reserve. You should refer to ***Exhibit B*** for the sizing of the reserve, if any, for each recipient in this bond issue.

Committed Subsidies. We may also provide committed subsidies, which are our contractual commitments to recipients to provide specified amounts of interest subsidies from earnings on reserve allocations or other SRF resources or a combination of both. You should refer to ***Exhibit B*** for the amount, if any, of the committed subsidy for each recipient in this bond issue.

SRF Programs. We will fund the specific SRF financing program identified above in the forepart of this official statement under ***Specific Information about this Bond Issue*** with the proceeds of the offered bonds. Each of our SRF programs includes clean water and drinking water components. In

the future, we may issue bonds under separate new SRF programs. We refer to all bonds issued to fund any of those programs as SRF bonds.

Revolving Nature of SRF Programs. Our financing programs are called the state *revolving* fund programs because in administering the programs for the State, when eligible recipients make repayments to the SRF, or when we release reserves as our recipients pay down their principal balances, we then *re-use* that money to establish new reserves for new leveraged financings funded with new bond proceeds, to make direct loans, and for other eligible purposes.

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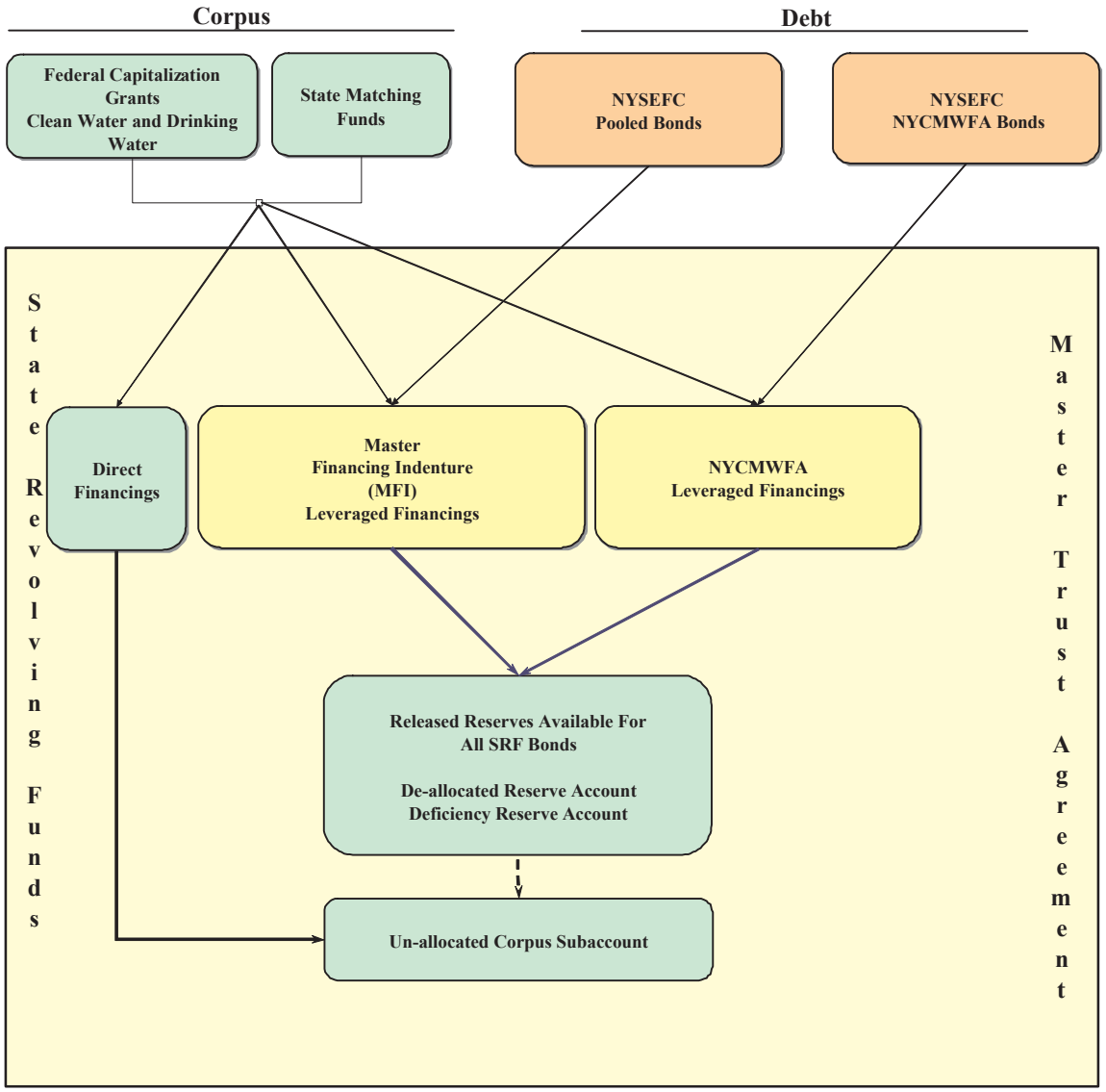
New York State Environmental Facilities Corporation
SRF Program Overview*



* Simplified for graphic presentation purposes

SECURITY AND SOURCE OF PAYMENT

It is important for you to keep in mind the specific financing program in which the offered bonds are issued and whether or not the bonds being issued are subordinated, so that you may understand the security provisions for those bonds. We provide that information in the forepart of this official statement.

Financing Documents. We will issue the offered bonds under *one* of two separate SRF financing programs identified above in the forepart of this official statement under ***Specific Information about this Bond Issue*** and in the series captions –

- ***Pooled Financing Program (MFI)*** bonds will be issued under an indenture, called the **"*Master Financing Indenture*,"** or "MFI," amended and restated as of July 1, 2005, between us and the MFI Trustee. As a result, this program is sometimes referred to as our "MFI pooled financing program," and SRF bonds issued for this program are sometimes referred to as "MFI bonds."

- ***New York City Municipal Water Finance Authority Projects (NYCMWFA)*** bonds will be issued under a Financing Indenture called the **"*NYCMWFA Indenture*,"** dated as of July 1, 2001, between us and the NYCMWFA Trustee. As a result, this program is sometimes referred to as our "NYCMWFA Program," and SRF bonds issued for this program are sometimes referred to as "NYCMWFA bonds."

Both of our SRF financing programs include both clean water and drinking water components.

Under each program – MFI and NYCMWFA – we may also issue *subordinated* bonds, described below on page 13 under the heading **Subordinated Bonds,** for purposes of refunding our previously issued bonds or to provide leveraged financings to recipients. Subordinated NYCMWFA bonds are issued under a separate financing indenture.

Another financing document that provides security for the offered bonds is called the "***Master Trust Agreement***," or "MTA," amended and restated as of July 1, 2005, between us and the MTA Trustee. The MTA provides that reserves freed up in each separate SRF financing program may be used to support debt service payments on SRF bonds issued in our other SRF program, so that the offered bonds in one program may be supported by reserves from our other SRF program.

We describe those documents in more detail in Exhibits 3A and 4B to our Annual Information Statement.

Summary Only. There follows a summary of the payment and security provisions of documents that we believe are important to you. Because it is a summary, it does not contain all of the information that you may consider important. We urge you to read the more detailed summaries we have prepared and filed with EMMA, because they, and not this description, more specifically describe your rights as a bondowner. Whenever we use the particular provisions or defined terms of those documents in this official statement, we use them as they are used in those documents.

No General Obligation. The revenue bonds issued in the financing program identified in the forepart of this official statement, 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 under particular financing agreements. **The offered bonds are *not* our general obligations and do *not* represent a charge against our general credit. The offered bonds are *not* an obligation of the State or any of our recipients. We do not have any taxing power.**

Sources of Payment. We have *two* main sources of money available to pay the debt service on the offered bonds:

- ***Repayments.*** Each of our recipients makes repayments on the leveraged financings funded with the proceeds of the offered bonds. Under our arrangement with each recipient, we require the aggregate repayments of principal and interest from all of them to be sufficient, together with investment earnings on related reserves, to pay, when due, debt service on the offered bonds, and on any other bonds secured by those repayments.

- ***SRF Reserves.*** The State appropriates money derived from federal grants and State matching funds deposited in our SRFs to support the clean water and drinking water SRF programs. We use that money to establish reserves for each eligible recipient, to cure or prevent a default resulting from a shortfall in the related repayments, and we use the *earnings* on those recipient reserves to *subsidize* the amount of interest our recipients are required to pay. A significant portion of our SRF reserve funds is invested in investment contracts with financial institutions. We use the income generated by these investment contracts and certain other investments to reduce the effective interest rate on recipient financings. For a description of those investment contracts and other investments of SRF reserve funds, see Part 3 under the heading **The MFI Pooled Financing Program - Investment of Reserve Allocations**, Part 4 under the heading **Financing Program For the Authority (NYCMWFA) - Investment of Reserve Allocations**, and Exhibit 3B, in our Annual Information Statement.

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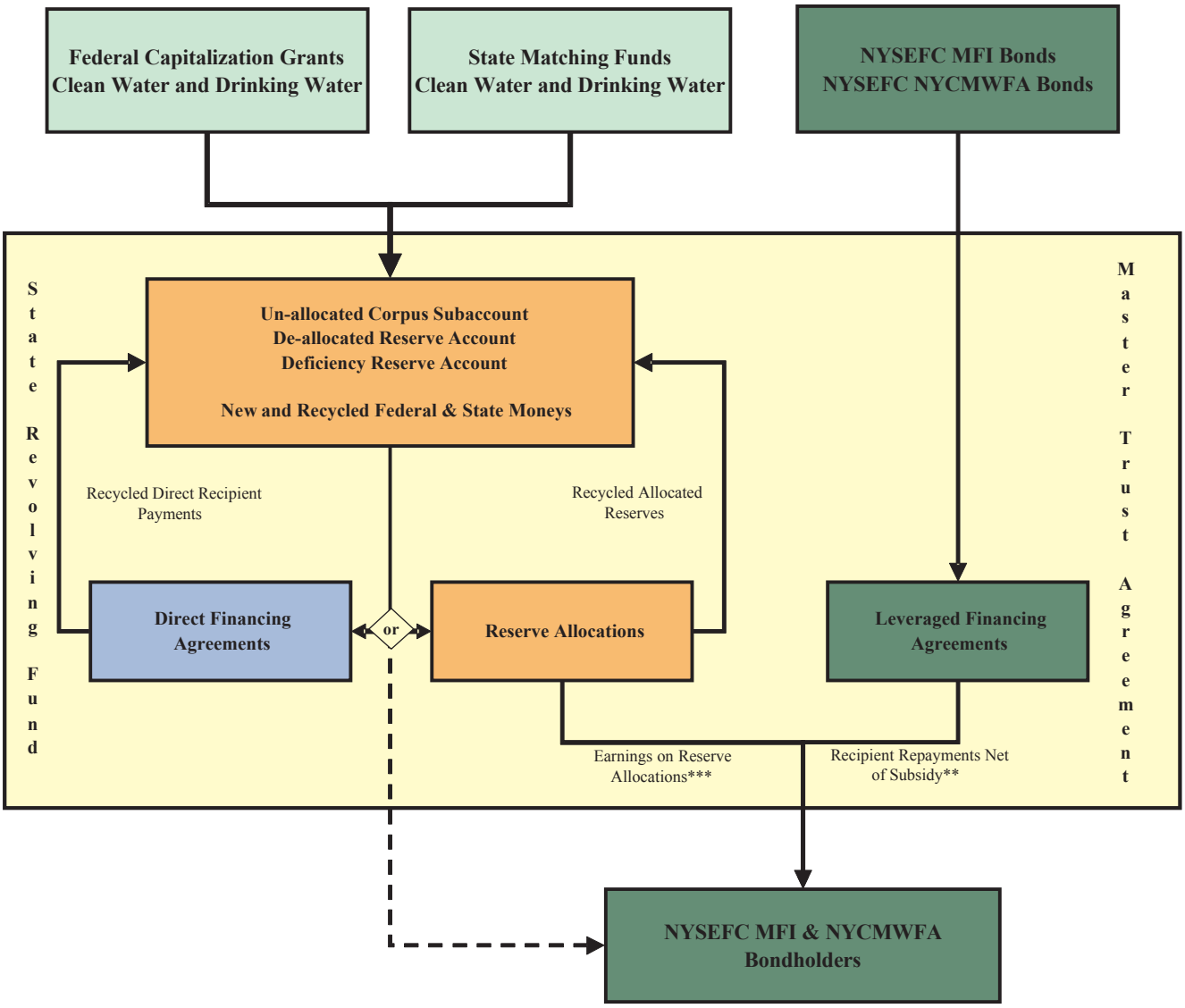
New York Environmental Facilities Corporation
SRF Program Flow of Funds*

Sources and Uses of SRF Funds



*** Simplified for graphic presentation purposes**
**** Recipient Repayments are made up of independent repayments from the MFI recipients and NYCMWFA as described in this official statement.**
*****Subsidy may be provided from earnings on reserve allocations or from other SRF program resources.**

Planned Flows

Contingent Flows

FLOW OF FUNDS

We have a different set of flow-of-funds provisions for the creation of, and priorities in, reserves in each of our two SRF programs — one for our MFI pooled financing program, and the other for our NYCMWFA program. Those different provisions are described below. In addition, through the MTA, we use SRF money to create common reserves for all SRF bonds issued under *both* programs, also described below.

We may also issue bonds on a *subordinated* basis, and we describe the flow of funds and priorities for those bonds on page 13 under the heading **Subordinated Bonds**.

Under the following headings, we describe the financing structure designed to secure payment of offered bonds, and the flow of funds created by our financing documents for each of our programs.

There have been no shortfalls in repayment from any of our recipients since the inception of our SRF programs. If, however, one of our recipients has a shortfall in repayments, we have structured each bond issue so that any shortfall is expected to be made up from reserves or other pledged cash flow, as described in the charts and text of this official statement and in our Annual Information Statement.

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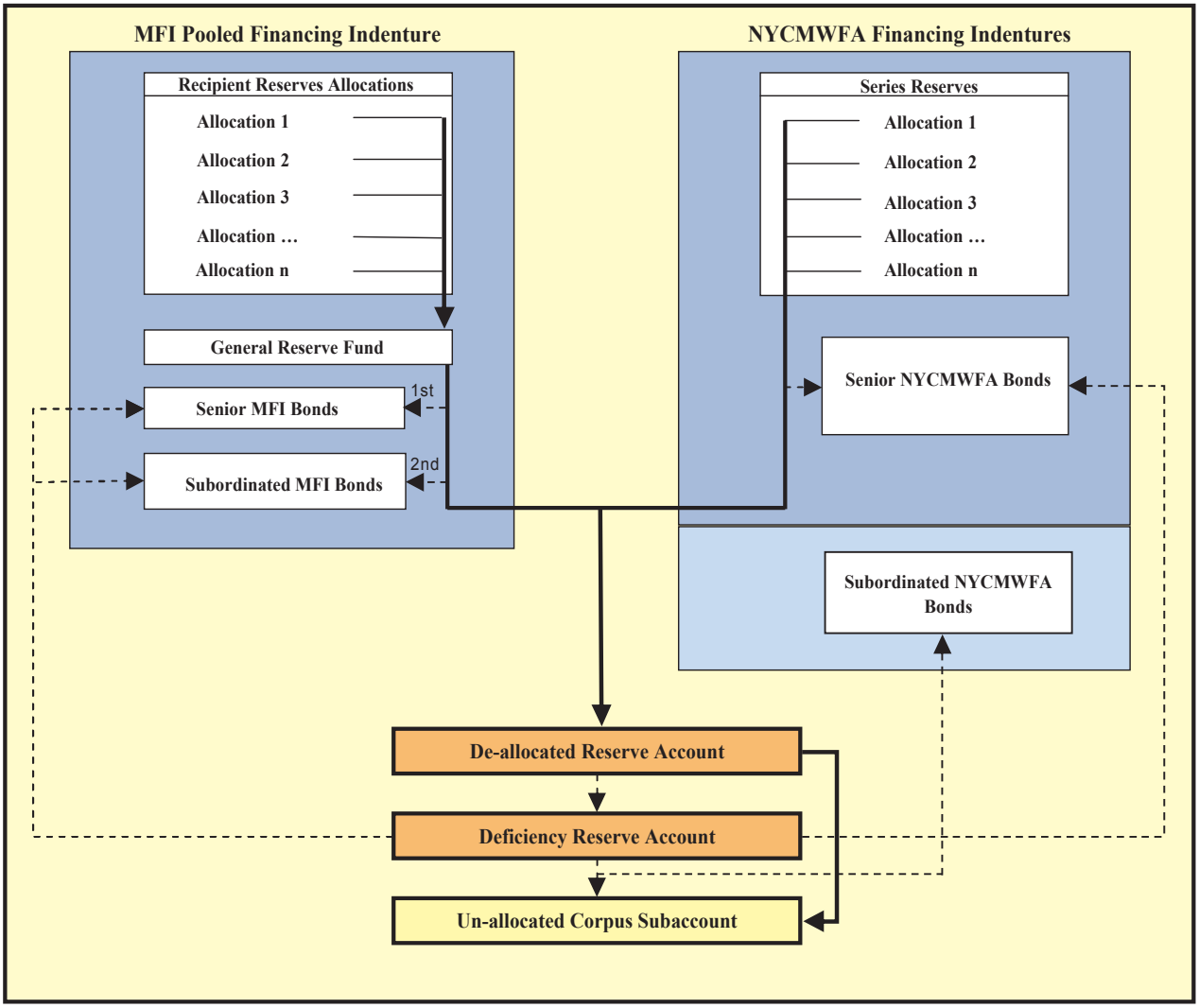
New York State Environmental Facilities Corporation
Reserve Release Flow of Funds*

State Revolving Fund/Master Trust Agreement



* Simplified for graphic presentation purposes

——— Planned Flows

- - - - - - - Contingent Cash Flows

Senior MFI Bonds

➢ ***For Bonds Designated for the "Pooled Financing Program" (MFI) Only.*** If the offered bonds are bonds in our MFI pooled financing program ***other than subordinated bonds*****,** then the following flow of funds applies:

- ***Repayments from Recipients***. We earmark these repayments to pay debt service *only* on the bonds issued to finance particular projects for those recipients.

  - o We require recipients of bond proceeds to make repayments, evidenced by their own bonds, sufficient, together with investment earnings on reserves, to pay when due the principal of and interest on the related senior MFI bonds.
  - o The security and source of payment for the bonds issued *by eligible recipients* are described below under the heading SECURITY FOR RECIPIENT BONDS and in more detail in Part 3 of our Annual Information Statement.
- ***Recipient Reserves.*** We earmark money in recipient reserves, and will use it to make payments, to cure or prevent defaults *only* by the particular recipients for which those reserves have been established. We use *investment earnings* on those reserves *to subsidize* related interest payments by recipients.

  - o We have sized separate recipient reserves, by allocating money in the SRF received (or available) from federal grants and State matching funds. The aggregate of the reserves for all leveraged financings funded by the offered bonds will be *at least* one third of the principal amount of the aggregate financings for all recipients of that series (excluding any portion of those financings used to fund additional recipient debt service reserve funds). Certain leveraged financings funded with the offered bonds may have no reserve allocations or have reserve allocations of *less than* one third, provided the aggregate requirement is met. We are permitted to adjust the reserve allocation for any leveraged financing funded with the offered bonds provided the aggregate requirement is met.
  - o We reduce the amount required to be held in each of those reserves as the related principal balance is paid down (including any portion of principal financed or refinanced with subordinated bonds).
  - o We transfer money released from each recipient reserve as a result of reductions in the related principal balance to the "general reserve fund" next described.
- ***General Reserve Fund***. We will use money in this fund to make payments to cure or prevent defaults *not only* on the offered bonds, *but also* on all other MFI bonds issued under the MFI pooled financing program.

  - o We deposit into this fund money transferred from the recipient reserves as the related principal balance is paid down.
  - o We are required to hold in this fund an amount at least equal to the aggregate of *all* deficiencies in the recipient reserves established for *all* bonds issued under *this* MFI pooled financing program.
  - o We promptly transfer money not required to be held and used in this fund, and not required to be used to pay *subordinated* MFI bonds described on page 13 under the heading ***Subordinated Bonds***, to the "de-allocated reserve account" described below, into which freed-up reserves from our other SRF program, our NYCMWFA program, next described, are also transferred.

Senior NYCMWFA Bonds

➢ ***For Bonds Designated for "New York City Municipal Water Finance Authority Projects" Only.*** If the offered bonds are our NYCMWFA bonds ***other than subordinated bonds*****,** then the following flow of funds applies:

- ***Repayments from Recipient***. In this program, we have only one recipient, the New York City Municipal Water Finance Authority, also called the "Authority." We first earmark these repayments from the Authority to pay debt service on the offered bonds.

  - o We require the Authority to make repayments, evidenced by its own bonds, sufficient, together with investment earnings on reserves, to pay when due the principal of and interest on the offered bonds.

  - o The security and source of payment for the bonds issued *by the Authority* are described below under the heading SECURITY FOR RECIPIENT BONDS and in more detail in Part 4 of our Annual Information Statement.

- ***Debt Service Reserve.*** We earmark the money in this reserve to cure or prevent defaults *only* by the Authority and in this program. We use *investment earnings* on this reserve *to subsidize* interest payments by the Authority.

  - o We have initially sized separate reserve amounts, by allocating from the SRF *at least* one third of the principal amount of each Authority financing.

  - o We reduce those initial allocations, proportionately, only as and when the related principal balance is paid down.

  - o We use money released as a result of reductions in the related principal balances to pay the aggregate of *any* deficiencies in the reserves established for *all* bonds *other than subordinated bonds* issued under the NYCMWFA program.

  - o We then transfer money not required to be so used to the "de-allocated reserve account" next described, into which freed-up reserves from our other SRF program, our MFI pooled financing program just described, are also transferred.

All SRF Bonds

- ***For All SRF Bonds, Including the Offered Bonds***. Freed-up reserves from *both* of our SRF programs – our MFI pooled financing program and our NYCMWFA program – are transferred to the following accounts, which are pledged to *all* SRF bonds issued in *both* programs, including the offered bonds:

  - ***De-allocated Reserve Account.*** We will use money in this account to make payments, to cure or prevent defaults on all bonds issued in this financing program (including the offered bonds), *as well as* on all bonds issued in our other SRF financing program.

    - We deposit into this account all money in our SRF that has been released from reserve allocations as the related principal balances have been paid down (to the extent that money is not required to be held under the terms of the related indenture as described above).

    - If and to the extent there are *no* past-due payments or reserve deficiencies relating to any bonds issued to fund this *or* our other SRF program, *including subordinated bonds described below,* then we transfer the money deposited in this account to our "un-allocated corpus subaccount" and release that sum from the lien of the instruments pledging that money to the payment of our bonds.

    - If and to the extent there *are* any past-due payments or reserve deficiencies relating to any SRF bonds *including any subordinated bonds described below,* then we transfer that amount to the "deficiency reserve account" next described.

  - ***Deficiency Reserve Account***. We will use money in this account to make payments, to cure or prevent defaults on *all* SRF bonds (including the offered bonds), *i.e.*, on bonds issued not only to fund this financing program but also to fund our other SRF program.

    - We deposit into this account money, initially paid to the *de-allocated reserve account* just described, to pay any past-due debt service or reserve deficiencies, *first*, on senior bonds issued to fund this or our other SRF financing program (which, for this purpose, includes subordinated MFI bonds) – in an amount equal to the aggregate of *all* deficiencies in *all* reserves established for *all* those SRF bonds, and *then* to pay any debt service or reserve deficiencies on subordinated bonds issued in the NYCMWFA program.

    - We transfer money not required to be so used back to the *un-allocated corpus subaccount*, where it no longer provides security for our bonds.

Subordinated Bonds

We expect to issue subordinated bonds under each of our SRF programs, to refund our previously issued bonds and to provide leveraged financings to recipients. We will identify subordinated bonds in the series caption and above in the forepart of this official statement under ***Specific Information about this Bond Issue.*** It is important for you to determine whether or not the offered bonds are subordinated bonds because that determines the nature and priority of the source of payment, security, and flow of funds for those bonds, which are described as follows:

➢ ***For subordinated bonds designated as "Pooled Financing Program - Subordinated MFI Bonds" —***

- ***Repayments from Recipients.*** We require recipients of subordinated bond proceeds to make repayments, evidenced by their own bonds, sufficient, together with investment earnings on reserves and committed subsidies, to pay when due the principal and interest on the related subordinated MFI bonds. For refundings, repayments from recipients are first available to pay debt service on the outstanding bonds originally issued to provide the leveraged financing that remain outstanding, if any, and next to pay debt service on subordinated MFI bonds.
- ***Recipient Reserve Allocations.*** For every series of subordinated MFI bonds we will indicate in the forepart of this official statement the extent to which reserves, if any, will be established. For many series of subordinated MFI bonds, there is no recipient reserve allocation when issued. This means that, for those subordinated bonds, there are no recipient reserve allocations available to pay debt service prior to the transfer of those reserves to the general reserve fund or to provide investment earnings to subsidize those debt service payments. For a more detailed description of subordinated MFI bonds, see Part 3 under the heading **Subordinated MFI Bonds** in our Annual Information Statement.
- ***Committed Subsidies.*** As described above, leveraged financings funded with subordinated MFI bonds may not have any associated reserve allocations (or, if there are associated reserve allocations, those reserve allocations will be less than *one third* of the related leveraged financings). However, we may utilize other available SRF moneys to provide recipients with an interest subsidy generally comparable to the subsidy that we provide from earnings on reserve allocations.
- ***Payment from General Reserve Fund.*** These subordinated MFI bonds will be paid also from moneys available in the general reserve fund under the MFI described above, *but only if* money in that fund is not first required to be used to pay debt service or replenish reserves for all senior MFI bonds.
- ***Payment from De-allocated and Deficiency Reserves.*** These subordinated MFI bonds will then be paid from moneys in de-allocated reserves or deficiency reserves on a *pari passu* basis with all senior bonds issued in both SRF financing programs.

➢ ***For subordinated bonds designated as "New York City Municipal Water Finance Authority Projects – Subordinated Bonds" —***

- ***Repayment from the Authority.*** We require the Authority to make repayment evidenced by its own bonds, sufficient, together with investment earnings on reserves and committed subsidies, to pay when due the principal of and interest on the subordinated NYCMWFA bonds.
- ***Payment from Reserves.*** For every series of subordinated NYCMWFA bonds we will indicate in the forepart of this official statement the extent to which reserves, if any, will be established. For many series of subordinated NYCMWFA bonds, there is no reserve allocation when issued. This means that, for those subordinated bonds, there are no reserve allocations available to pay debt service or to provide investment earnings to subsidize those debt service payments. Payments from de-allocated reserves held for other SRF bonds may be used to pay debt service on *all* subordinated NYCMWFA bonds, but only *after* those de-allocated reserves have been used to pay debt service or replenish reserves on *all* senior SRF Bonds, which for this purpose includes *subordinated* MFI bonds. For a more detailed description of subordinated NYCMWFA bonds, see Part 4 under the heading **Subordinated NYCMWFA Bonds** in our Annual Information Statement.
- ***Committed Subsidies.*** As discussed above, leveraged financings funded with subordinated NYCMWFA bonds may not have any associated reserve allocations (or, if there are associated reserve allocations, those reserve allocations will be less than *one third* of the related leveraged financings). However, we may utilize other available SRF moneys to provide the Authority with an interest subsidy generally comparable to the subsidy that we provide from earnings on reserve allocations.

Additional Bonds

We are authorized to issue additional bonds to provide leveraged financings under this financing program, as well as to allow additional financings under our other SRF financing programs. We are required to adopt the same security and source-of-payment provisions just described, as well as the same eligibility criteria for recipients, when we issue additional bonds. We describe the conditions for the issuance of additional bonds in more detail in Parts 3 and 4 of our Annual Information Statement and summarize the provisions of our financing documents relating to additional bonds in Exhibits 3A and 4B to the Annual Information Statement.

Remedies

Generally, in the event of a default under our financing documents, neither the Trustee nor bondowners will have the right to declare the offered bonds immediately due and payable. For more information about the remedies available to the Trustee and bondowners, please see Exhibits 3A and 4B to our Annual Information Statement.

HISTORICAL CASH FLOW AND RESERVES

The tables below set forth, for each SRF financing program, respectively, the aggregate amount of debt service (principal and interest) on the outstanding bonds, investment income from reserves applied to subsidize financing repayments, the aggregate amount of committed subsidies, the aggregate net amount of financing repayments (principal and interest) received from our recipients, the aggregate amount of reserve funds freed up during each year, and the aggregate amount available in our debt service reserve funds. Please refer to ***Exhibit A*** to this official statement for the *projected* financial impact of this bond issue on the financing program for which it has been issued. The tables indicate historical performance. You should not use these tables to predict future results. The tables do not indicate reserves available from our other SRF programs to cure or prevent defaults on bonds issued. Please see page 6 under the heading "***Sources of Payment - SRF Reserves***" for a discussion of our reserve investments.

Pooled Financing Program (MFI)

(Amounts in thousands)

	MFI Debt Service							
Year Ending	Senior	Subordinated	Total	Investment Income from Reserves	Committed Subsidies	Net Recipient Financing Payments	De-allocations to General Reserve Fund (1)	Balance in Reserves
9/30/2005	$202,889	$15,227	$218,116	$42,947	-	$175,169	$54,972	$916,627
9/30/2006	205,051	22,460	227,511	41,840	$1,476	184,195	56,635	859,022
9/30/2007	202,887	36,110	238,997	40,705	4,758	193,534	57,961	868,793
9/30/2008	205,836	38,679	244,515	38,996	5,830	199,689	59,064	811,310
9/30/2009	203,142	36,368	239,510	36,440	5,608	197,462	59,511	753,415

(1) Amounts de-allocated from reserves for senior MFI bonds fund the General Reserve Fund and are applied first to pay debt service and fund reserve requirements for senior MFI bonds and then to pay debt service for subordinated MFI bonds.

New York City Municipal Water Finance Authority Program (NYCMWFA)

(Amounts in thousands)

	NYCMWFA Debt Service							
Year Ending	Senior	Subordinated	Total	Investment Income from Reserves	Committed Subsidies	Net Recipient Financing Payments	De-allocations to De-allocated Reserve Account (1)	Balance in Reserves
9/30/2005	$237,662	$63,874	$301,536	$75,605	-	$225,931	$47,211	$1,761,796
9/30/2006	279,505	64,675	344,180	85,767	-	258,413	63,341	1,902,950
9/30/2007	300,862	57,290	358,152	91,649	$ 2,537	263,966	70,806	1,951,098
9/30/2008	313,652	72,182	385,834	93,927	7,897	284,011	76,881	1,943,995
9/30/2009	322,741	87,283	410,024	93,870	12,676	303,478	81,113	1,875,891

(1) Amounts de-allocated from reserves for senior NYCMWFA bonds are applied first to pay debt service and fund reserve requirements for senior NYCMWFA bonds and then to pay debt service for other SRF bonds.

DESCRIPTION OF THE BONDS

General

The offered bonds are issued pursuant to the EFC Act and the documents for this program described above in the forepart of this official statement under ***Specific Information about this Bond Issue***, above in ***Financing Documents*** under the heading SECURITY AND SOURCE OF PAYMENT and in more detail in Parts 3 and 4 and Exhibits 3A and 4B of our Annual Information Statement, as appropriate.

Use of Proceeds. The proceeds of the offered bonds will be used to provide financial assistance for water pollution control and drinking water projects, or to refund bonds previously issued for one or more of those purposes, to the recipient or recipients identified above in the forepart of this official statement under ***Specific Information about this Bond Issue***. Financial assistance made available from the proceeds of our offered bonds is referred to as a leveraged financing herein. Each recipient enters into an agreement with us providing for the terms of its leveraged financing. Under that agreement, each recipient also will deliver to us its own general or special obligation bonds.

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.

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 cover of this official statement. While the Book-Entry Only System applies to the offered bonds, Cede & Co. (DTC's nominee) is 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.

Redemption Prior to Maturity

Optional, Mandatory, Extraordinary or Other Redemption. We will describe any optional, mandatory, extraordinary or other redemption provisions applying to the offered bonds in the forepart of this official statement.

Redemption Notices and Process. We will describe the notice provisions, including any conditions relating thereto, as well as the process by which the offered bonds will be redeemed in the forepart of this official statement.

SECURITY FOR RECIPIENT BONDS

Recipients include local governments and State public authorities, and may include specified private companies. Before qualifying a recipient as eligible, we perform program, legal, and credit analysis (described under "MFI Leveraged Financing Administration" in Part 3 and "NYCMWFA Leveraged Financing Administration" in Part 4 of our Annual Information Statement) to assure ourselves of the eligibility of each recipient and the security for each recipient's bonds.

Local Governments. We require each local-government recipient (counties, cities, towns, villages, *etc.*) to evidence its obligation to make repayments by issuing its general obligation bond, containing a pledge of its full faith and credit for the payment of (the principal of and interest on) the related financing. State law authorizes each local-government recipient to levy *ad valorem* taxes on all taxable real property located within its geographical boundaries without limit as to rate or amount, in order to pay general obligation bonds. The EFC Act also provides for an intercept of State aid to any recipient receiving State aid, as additional security for the obligations of that recipient. We describe that intercept mechanism in more detail in Exhibit 3A to the Annual Information Statement under the caption "State and Federal Aid."

State Public Authorities. We require all recipients, including the New York City Municipal Water Finance Authority, that are State public authorities – those authorities do *not* have any taxing powers – to evidence their obligation to make repayments by issuing their own revenue bonds.

- ***For Recipients in our Pooled Financing Program (MFI)***, those revenue bonds are payable from and secured by their own revenues pledged under their respective statutes and bond resolutions.

- ***For the New York City Municipal Water Finance Authority (NYCMWFA),*** those revenue bonds are payable from and secured by a pledge of New York City's water system revenues, supported by a rate covenant designed to assure payment of all debt service and all operating expenses for that system. Please refer to Part 4 of our Annual Information Statement for a detailed description of our NYCMWFA program, including a description of bonds issued by the New York City Municipal Water Finance Authority that provide a principal source of payment for our NYCMWFA bonds.

Private Recipients. To date, we have not provided leveraged financings from the proceeds of any series of bonds to private entities. We plan to do so in the future. The Clean Water Act also permits us to provide financial assistance to private entities for certain purposes, such as "non-point source" projects, *e.g.,* projects designed to prevent agricultural-waste runoff. In order to provide leveraged financings from MFI bond proceeds directly to a private entity, we will amend the MFI to permit the use of parity bonds; but financial assistance directly to a public authority, which in turn advances proceeds to a private company for an eligible project, would not require such an amendment. The Drinking Water Act provides that we may provide financial assistance to certain community water systems, which may be owned by private entities, and to certain not-for-profit non-community water systems, from the drinking water SRF. We will only provide leveraged financings from bond proceeds to entities and systems that meet our underwriting requirements. For example, for private water entities that are not rated at least investment-grade, we will finance only systems that are regulated by, and have obtained sufficiently high rate-surcharge approval from, the New York State Public Service Commission.

Exhibit B to this official statement shows the recipients of leveraged financings from the proceeds of the offered bonds, the current status of related recipient financings, and application of recipient repayments.

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

Standard & Poor's Rating Service, Moody's Investors Service Inc. 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:

Standard & Poor's Rating Service 55 Water Street New York, New York 10041 (212) 438-2400 www.standardandpoors.com	Moody's Investors Service 7 World Trade Center 250 Greenwich Street New York, New York 10007 (212) 553-0377 www.moodys.com	Fitch Ratings One State Street Plaza 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 leveraged financing made from the proceeds of any previously issued SRF bonds. In addition, each recipient described represents to us that, to its knowledge, there is no pending or threatened litigation contesting the enforceability of that recipient's obligation to us.

FINANCIAL ADVISOR

In its role as our financial advisor, the firm identified above in the forepart of this official statement under ***Specific Information about this Bond Issue*** has 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 - and reviewed the pricing of the offered bonds. The financial advisor has not independently verified the factual information contained in this official statement, but has relied on the information supplied by us and other sources.

UNDERWRITING

If this is a negotiated underwriting, the Underwriters identified on the cover 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 or yields set forth on the inside cover page equal to the amount shown above as a line item in the Table under the heading ***Sources And Uses Of Funds*** in the forepart of this official statement**,** and to reoffer the offered bonds at the public offering 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. The representative designated by the Underwriters is shown above in the forepart of this official statement under ***Specific Information about this Bond Issue.***

If this is a competitively-bid public sale, the aggregate purchase price of the offered bonds by the Purchaser(s), together with the percentage of the aggregate principal amount of those bonds which that purchase price represents, is indicated above under the heading ***Sources and Uses of Funds*** in the forepart of this official statement. The Purchaser(s) may change, from time to time, those initial public offering prices. Also, the Purchaser(s) may allow concessions to certain dealers at prices lower than those initial public offering prices.

LEGAL MATTERS

All legal proceedings in connection with the issuance of the offered bonds are subject to the approval of Bond Counsel identified on the cover. Bond Counsel has advised us that it assumes no responsibility for the accuracy, completeness or fairness of this official statement. The proposed form of the opinion of Bond Counsel is set forth in ***Exhibit C*** to this official statement.

Certain legal matters will be passed upon for us by James R. Levine, Esq., Senior Vice President and General Counsel. Certain legal matters will be passed upon for the Underwriters or the Purchaser(s) by Counsel to the Underwriters or Disclosure Counsel, as applicable, each of which is identified above in the forepart of this official statement under ***Specific Information about this Bond Issue***, or by Counsel to the Purchaser(s), if any.

Bond Counsel, Counsel to the Underwriters or Purchaser(s) and Disclosure Counsel from time to time serve as bond counsel to certain of the recipients of financial assistance from our SRF programs.

CONTINUING DISCLOSURE

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 2009/2010 fiscal year. That annual information is to include, among other things, information concerning our SRF programs in

Exhibit 3B 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.

We have further agreed to deliver notice to EMMA of any failure to provide the annual information. We are also obligated to deliver notices of the following events, if material, to the MSRB:

- principal and interest delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of creditor liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax exempt status of the security;
- modifications to the rights of security holders;
- bond calls;
- defeasance;
- release, substitution, or sale of property securing repayment of the securities; and
- rating changes.

For a summary of the terms of our Continuing Disclosure Agreement, please see Exhibits 3A or 4B, as appropriate, to the Annual Information Statement.

NEW YORK STATE ENVIRONMENTAL
FACILITIES CORPORATION

By: _____
President

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EXHIBIT A

IMPACT OF THIS BOND ISSUE

The table on the next page shows, for each year ending December 31 the following:

debt service on all outstanding SRF NYCMWFA program bonds, both senior and subordinated, prior to the offered bonds;

- the aggregate debt service on SRF NYCMWFA program bonds, both senior and subordinated, after the issuance of the offered bonds;
- the aggregate net amount of financing repayments (principal and interest) received from the NYCMWFA;
- investment income from reserves applied to subsidize financing repayments;
- the aggregate amount available in our recipient reserves; and
- the aggregate amount of recipient reserves freed up during each year for release to the de-allocated reserve fund.

We release reserves from the recipient reserves established for each financing, proportionately, as and when the NYCMWFA pays down the balance of its financings, and we call this a "reserve de-allocation."

The *scheduled* release of reserves is subject to reduction if the NYCMWFA fails to repay its related financing on a timely basis, and that failure may result in a draw upon the recipient reserve allocated to that financing. If the NYCMWFA fails to repay its related financing, and that default results in a draw on those reserves, the amounts shown below representing "de-allocation of the reserve allocation" would be reduced substantially.

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Scheduled Debt Service and Reserve De-Allocation (1)

	SRF Debt Service on NYCMWFA Program Bonds						Subsidy Payments			De-allocations of Recipient Reserves		Balances in Recipient Reserves (2)	
Year Ending Dec.31	Prior Senior	Prior Subordinated	2010 A	2010 B	Total	Net Recipient Financing Repayments	Investment Income from Reserves	Committed Subsidies	Total Repayments and Reserve Income	Senior	Subordinated	Reserves Related to Senior Bonds	Reserves Related to Subordinated Bonds
2010	$ 324,210,599	$ 127,618,214	$ 5,659,144	$ 9,022,680	$ 466,510,637	$ 355,279,043	$ 87,893,927	$ 23,337,668	$ 466,510,637	$ 87,017,164	$ -	$ 1,752,102,731	$ 45,248,427
2011	323,130,913	136,876,826	13,209,800	10,684,753	483,902,293	372,783,310	83,488,435	27,630,547	483,902,293	90,930,456	-	1,661,172,275	51,797,550
2012	320,663,278	140,115,439	13,255,675	10,684,753	484,719,144	375,047,557	78,836,240	30,835,347	484,719,144	94,814,238	-	1,566,358,037	60,382,129
2013	328,371,336	107,866,714	13,201,400	10,684,753	460,124,203	355,714,134	74,260,297	30,149,771	460,124,203	80,639,913	3,986,748	1,485,718,125	57,743,513
2014	312,277,381	107,176,523	13,197,200	10,684,753	443,335,857	343,921,162	70,301,135	29,113,560	443,335,857	77,334,261	4,697,110	1,408,383,864	54,513,333
2015	305,014,518	106,400,573	13,153,413	10,684,753	435,253,256	340,675,567	66,523,917	28,053,772	435,253,256	72,510,501	7,196,667	1,335,873,363	47,316,667
2016	301,682,177	105,795,939	13,189,450	10,684,753	431,352,319	341,585,582	62,792,126	26,974,610	431,352,319	74,112,241	7,593,333	1,261,761,122	39,723,333
2017	298,331,389	105,046,620	8,592,125	15,584,628	427,554,762	342,682,788	58,976,038	25,895,936	427,554,762	75,492,079	8,004,167	1,186,269,043	31,719,167
2018	295,141,896	103,834,064	8,596,575	15,571,689	423,144,224	343,275,497	55,060,170	24,808,557	423,144,224	77,724,879	8,380,000	1,108,544,164	23,339,167
2019	289,468,235	97,717,858	8,601,575	16,124,805	411,912,473	337,165,282	51,041,821	23,705,369	411,912,473	79,123,333	8,771,667	1,029,420,831	14,567,500
2020	286,010,689	88,572,173	8,612,638	16,465,381	399,660,880	329,881,080	46,980,314	22,799,485	399,660,880	81,615,000	6,344,167	947,805,831	8,223,333
2021	274,413,348	80,209,908	8,590,200	15,208,974	378,422,430	313,538,051	42,963,061	21,921,318	378,422,430	81,407,500	4,040,833	866,398,331	4,182,500
2022	268,070,626	77,285,261	8,600,063	15,202,767	369,158,716	309,130,355	39,009,027	21,019,334	369,158,716	82,945,000	1,339,167	783,453,331	2,843,333
2023	259,296,916	76,775,132	8,548,300	15,191,174	359,811,522	304,887,395	35,055,237	19,868,889	359,811,522	83,681,667	1,394,167	699,771,664	1,449,167
2024	217,796,401	76,303,531	8,540,925	15,176,096	317,816,953	267,795,525	31,340,714	18,680,714	317,816,953	72,208,333	1,449,167	627,563,331	-
2025	212,044,869	72,070,225	8,542,738	15,167,086	307,824,918	262,489,206	27,884,568	17,451,144	307,824,918	73,435,833	-	554,127,498	-
2026	200,577,774	71,237,875	8,522,675	15,153,768	295,492,093	254,849,770	24,453,413	16,188,910	295,492,093	72,257,500	-	481,869,998	-
2027	195,709,764	71,239,456	8,514,050	15,144,138	290,607,409	254,705,621	21,013,218	14,888,569	290,607,409	73,665,833	-	408,204,165	-
2028	181,242,841	69,394,866	5,230,150	18,413,586	274,281,443	243,128,254	17,609,016	13,544,172	274,281,443	70,427,500	-	337,776,665	-
2029	168,818,547	67,260,013	5,386,375	18,207,858	259,672,792	233,164,802	14,326,407	12,181,583	259,672,792	67,942,500	-	269,834,165	-
2030	150,811,191	65,533,803	-	17,903,303	234,248,297	212,204,831	11,232,981	10,810,484	234,248,297	62,280,833	-	207,553,332	-
2031	140,907,047	61,772,447	-	13,016,953	215,696,447	197,878,002	8,311,749	9,506,696	215,696,447	60,747,500	-	146,805,832	-
2032	111,914,566	55,750,294	-	13,069,409	180,734,268	166,822,217	5,717,839	8,194,212	180,734,268	48,943,333	-	97,862,499	-
2033	90,517,019	55,233,469	-	13,120,506	158,870,994	148,331,392	3,605,148	6,934,454	158,870,994	40,395,000	-	57,467,499	-
2034	63,794,969	54,669,306	-	13,158,794	131,623,069	124,022,144	1,957,707	5,643,218	131,623,069	28,709,166	-	28,758,333	-
2035	34,752,231	54,090,834	-	13,212,240	102,055,306	96,808,090	931,070	4,316,147	102,055,306	15,250,833	-	13,507,500	-
2036	25,696,138	54,648,463	-	13,258,522	93,603,122	90,303,771	340,976	2,958,375	93,603,122	11,357,500	-	2,150,000	-
2037	6,611,250	31,214,125	-	13,310,460	51,135,835	49,282,435	45,903	1,807,497	51,135,835	2,150,000	-	-	-
2038	-	22,563,750	-	13,350,879	35,914,629	34,938,500	-	976,129	35,914,629	-	-	-	-
2039	-	-	-	13,387,745	13,387,745	13,153,593	-	234,153	13,387,745	-	-	-	-
Total	$ 5,987,277,907	$ 2,344,273,699	$ 189,744,469	$ 416,531,959	$ 8,937,828,034	$ 7,415,444,957	$ 1,021,952,458	$ 500,430,619	$ 8,937,828,034	$ 1,839,119,895	$ 63,197,191		

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

(2) Recipient Reserves associated with senior NYCMWFA bonds do not secure the subordinated NYCMWFA bonds and are only available to pay debt service on the subordinated NYCMWFA bonds to the extent released to the de-allocated reserve account, but only after payment of senior MFI, senior NYCMWFA and subordinated MFI debt service. Recipient Reserves associated with subordinated NYCMWFA bonds do not secure the senior NYCMWFA bonds and are only available to pay debt service on the senior bonds to the extent released to the de-allocated reserve account.

EXHIBIT B
FINANCINGS TO BE FUNDED

Series 2010 A Bonds

		Principal Amount
Clean Water		$115,725,920
Drinking Water		27,078,687
	Financing Total	$142,804,607

Series 2010 B Bonds

Clean Water		$111,440,000
Drinking Water		85,020,000
	Financing Total	$196,460,000

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EXHIBIT C

FORM OF BOND COUNSEL OPINION

Upon delivery of the Series 2010 A and B Bonds in definitive form, Hawkins Delafield & Wood LLP proposes to deliver its approving opinion in substantially the following form:

February 11, 2010

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

Ladies and Gentlemen:

In our capacity as Bond Counsel to New York State Environmental Facilities Corporation (the "Corporation"), we have examined a record of proceedings relating to the sale and issuance of $132,660,000 aggregate principal amount of State Clean Water and Drinking Water Revolving Funds Revenue Bonds (New York City Municipal Water Finance Authority Projects - Second Resolution Bonds) Series 2010 A Subordinated SRF Bonds (the "Series 2010 A Bonds") and $196,460,000 aggregate principal amount of State Clean Water and Drinking Water Revolving Funds Revenue Bonds (New York City Municipal Water Finance Authority Projects - Second Resolution Bonds) Series 2010 B Subordinated SRF Bonds (Federally Taxable Build America Bonds) (the "Series 2010 B Bonds" and, collectively with the Series 2010 A Bonds, the "Series 2010 A and B Bonds") of the Corporation.

The Series 2010 A and B 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 as supplemented by the Fifth Supplemental Series Indenture of Trust, dated as of February 1, 2010 (collectively referred to herein as the "Financing Indenture"), between the Corporation and Manufacturers and Traders Trust Company, as trustee (the "Trustee"). The Series 2010 A and B 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 Series 2010 A and B Bonds are dated the date hereof (except as otherwise provided in the Financing Indenture with respect to the Series 2010 A and B Bonds issued in exchange for other Series 2010 A and B Bonds). The Series 2010 A and B Bonds bear interest

payable on June 15 and December 15 in each year, commencing June 15, 2010. The Series 2010 A and B Bonds will mature on the dates and in the principal amounts, and will bear interest at the respective rates per annum, set forth in the Financing Indenture.

The Series 2010 A and B Bonds are issuable in fully registered form without coupons in denominations of $5,000 or any integral multiple thereof and are subject to optional and mandatory redemption prior to maturity in the manner, to the extent and upon the terms and conditions set forth in the Series 2010 A and B Bonds and the Financing Indenture. The Financing Indenture provides that the principal of and premium, if any, on each Series 2010 A and B Bond shall be payable to the Registered Owner (as defined in the Financing Indenture) of such Series 2010 A and B Bond upon presentation and surrender thereof when due at the corporate trust office of the Trustee. The interest on each Series 2010 A and B Bond is payable to the Registered Owner thereof as of the close of business on the Record Date (as defined in the Financing Indenture) for each interest payment date as the same becomes due by check, mailed to such Registered Owner thereof at the address appearing on the Bond Register (as defined in the Financing Indenture) as of the close of business on such Record Date or, under certain circumstances, by wire transfer as described in the Financing Indenture.

The Financing Indenture provides that the Corporation may issue additional bonds from time to time on the terms and conditions and for the purposes stated in the Financing Indenture, and said additional bonds, if issued, will be equally and ratably secured under the Financing Indenture with the Series 2010 A and B Bonds and all bonds heretofore issued under the Financing Indenture, except as otherwise provided in the Financing Indenture.

The Series 2010 A and B Bonds constitute "Subordinated Bonds" as defined in the Master Trust Agreement. The Master Trust Agreement provides that senior Bonds (as defined in the Master Trust Agreement) are entitled to a prior lien of 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.

We have also examined one of the Series 2010 A Bonds and one of the Series 2010 B Bonds, each as executed and authenticated.

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 supplemented by the Fifth Supplemental Project Finance Agreement, dated as of February 1, 2010 (collectively referred to herein as the "Project Finance Agreement") among the Corporation, and New York City Municipal Water Finance Authority (the "Recipient") and The City of New York, whereby the Corporation has agreed to use a portion of the proceeds of the 2010 A and B Bonds to purchase certain obligations of the Recipient (the "2010 A and 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") in order to finance or refinance the costs of the 2010 A and B Project (as defined in the Project Finance Agreement). Under the Project Finance Agreement, the Recipient has agreed to execute and

deliver to the Trustee the 2010 A and B Recipient Bonds. Such bonds of the Recipient together with all other bonds of the Recipient hereafter issued to the Corporation by the Recipient under the Project Finance Agreement are collectively hereinafter referred to as "Recipient Bonds." The City of New York is not liable with respect to the Recipient Bonds.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2010 A Bonds in order that interest on the Series 2010 A Bonds be and remain excluded from gross income pursuant to Section 103 of the Code. We have 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 and the Corporation have made representations, warranties and covenants relating to the federal tax status of interest on the Series 2010 A Bonds, including, but not limited to, certain representations with respect to the use of the proceeds of the Series 2010 A Bonds and to the investment of certain funds. The Tax Regulatory Agreement obligates the Recipient and the Corporation to take certain actions within their respective control to cause interest on the Series 2010 A Bonds to be excluded from gross income pursuant to Section 103 of the Code. Noncompliance with the requirements of the Code could cause interest on the Series 2010 A Bonds to become subject to federal income taxes retroactive to the issue date of the Series 2010 A Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

We are of the opinion that:

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 Series 2010 A and B Bonds and purchase the 2010 A and B Recipient Bonds from the Recipient with proceeds of the Series 2010 A and B 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 in accordance with the terms of the Project Finance Agreement and as provided in the Financing Indenture and to secure the Series 2010 A and B 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 Project Finance 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.

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 interest of the Corporation under the Tax Regulatory Agreement assigned by the Corporation to the Trustee for the benefit of the Series 2010 A and B Bondowners have been duly and legally assigned.

6. The Series 2010 A and B 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. The Series 2010 A and B Bonds are valid and legally binding special obligations of the Corporation, secured by the Financing Indenture and the Master Trust Agreement (to the extent provided therein), and are payable as to principal, premium, if any, and interest from, and are secured by a valid lien on and pledge of, the Recipient Bonds and the payments by the Recipient of principal, premium, if any, and interest on the Recipient Bonds and other moneys held by the Trustee under the Financing Indenture and available therefore 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 Series 2010 A and B 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. All conditions precedent to the delivery of the Series 2010 A and B Bonds have been fulfilled.

7. Under existing statutes and court decisions, (i) interest on the Series 2010 A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2010 A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation and the Recipient in connection with the Series 2010 A Bonds, and we have assumed compliance by the Corporation, the Recipient and the New York City Water Board with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2010 A Bonds from gross income under Section 103 of the Code.

8. The original issue discount on the Series 2010 A Bonds, if any, that has accrued and is properly allocable to any owner thereof is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2010 A Bonds.

9. Under the Code, interest on the Series 2010 B Bonds is included in gross income for Federal income tax purposes.

10. Under existing statutes, interest on the Series 2010 A and B Bonds is exempt from personal income taxes imposed by the State of New York and its political subdivisions, including the City of New York.

Except as stated in paragraphs 7, 8, 9 and 10 above, we express no opinion regarding any Federal, state or local tax consequences arising with respect to the Series 2010 A and B Bonds or the ownership or disposition thereof. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2010 A Bonds, or under state and local tax law.

The opinions set forth in paragraphs 2 through 6 above are qualified only to the extent that the enforceability of the Series 2010 A and B Bonds, the Financing Indenture, the Master Trust Agreement, the Tax Regulatory Agreement, the Recipient Bonds and the Project Finance Agreement may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or other laws or judicial decisions or principles of equity relating to or affecting the enforcement of creditors' rights or contractual obligations generally.

In rendering the opinions set forth in paragraphs 4 through 6 above, we have relied with your approval upon the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the Recipient, dated as of the date hereof, with respect to the due authorization, execution and delivery of the Project Finance Agreement, the Tax Regulatory Agreement, the Recipient Second Resolution and the Series 2010 A and B Recipient Bonds by the Recipient.

In rendering the foregoing opinions we have made a review of such legal proceedings as we have deemed necessary to approve the legality and validity of the Series 2010 A and B Bonds. In rendering the foregoing opinions we have not been requested to examine any document or financial or other information concerning the Corporation, the Recipient or the Series 2010 A and B Project other than the record of proceedings referred to above, and we express no opinion as to the accuracy, adequacy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2010 A and B Bonds.

This opinion is rendered as of the date hereof and we assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or interpretations thereof, that may hereafter arise or occur, or for any other reason.

Very truly yours,

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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
75 Park Place, 6th Floor
New York, New York 10007
212-788-5889

Mark Page, *ex officio*	*Member*
Alexander B. Grannis, *ex officio*	*Member*
David M. Frankel, *ex officio*	*Member*
Caswell F. Holloway IV, *ex officio*	*Member*
Arthur B. Hill	*Member*
Peter J. Kenny	*Member*
Marc V. Shaw	*Member*
Alan L. Anders	*Chief Executive Officer*
Thomas G. Paolicelli	*Executive Director*
Marjorie E. Henning	*Secretary*
Michele Mark Levine	*Comptroller*
Eileen T. Moran	*Deputy Comptroller*
Robert L. Balducci	*Assistant Comptroller*
Prescott D. Ulrey	*Assistant Secretary*
Jeffrey M. Werner	*Assistant Secretary*
Raymond Orlando	*Director of Media and Investor Relations*

New York City Water Board
59-17 Junction Boulevard, 8th Floor
Flushing, New York 11373-5108
718-595-3586

Alan Moss	*Chair*
Marcia Bystryn	*Member*
Donald Capoccia	*Member*
Dawn S. Davis	*Member*
Amaziah Howell	*Member*
Mehul Patel	*Member*
Benjamin A. Tisdell	*Member*
Steven Lawitts	*Executive Director*
Lindsey Ganson	*Acting Treasurer*
Carmelo Emilio	*Deputy Treasurer*
Albert F. Moncure, Jr.	*Secretary*

Authority Consultants

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

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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 Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2010 Series 2 and Fiscal 2010 Series 4 (collectively, the "Fiscal 2010 Series 2 and 4 Bonds") will be applied to pay principal and interest on the Authority's outstanding Commercial Paper Notes.
Description of the Bonds:	The Fiscal 2010 Series 2 and 4 Bonds are being issued by the Authority in the respective principal amounts of $142,804,607 and $196,460,000 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 Resolution No. 66 and Supplemental Resolution No. 68 each adopted on January 14, 2010.
The System:	The Water System provides approximately 1,200 million gallons per day (mgd) of water to approximately 834,000 accounts. It supplies water to approximately 9 million people, of which approximately 8 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 1,305 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.

Summary Financial Information:

	Historical			Projected (1)	
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
	(Millions of Dollars)				
Revenues Available for Debt Service (2)	$1,994.9	$2,166.2	$2,331.2	$2,735.2	$3,090.0
Net Operating Expenses (2)	963.0	1,121.8	1,142.1	1,263.7	1,297.5
Other Expenses (including Rental Payments to New York City) (2)	173.8	134.1	185.1	293.9	306.1
Total Expenses (2)	1,136.8	1,255.9	1,327.2	1,557.6	1,603.6
Total First Resolution Bond Debt Service	521.4	529.1	513.9	619.4	728.1
Net Debt Service on Subordinated Indebtedness (3)	163.0	229.3	266.1	398.7	619.8
Net Surplus	173.6	222.3	299.8	159.5	138.5
First Resolution Debt Service Coverage	3.83x	4.23x	4.66x	4.42x	4.24x
First and Second Resolution Debt Service Coverage (3)	2.91x	2.95x	3.07x	2.69x	2.29x
Rate Increase	9.4%	11.5%	14.5%	12.9%(4)	14.3%

Totals may not add due to rounding.

(1) Projections are as of May 26, 2009.

(2) 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.

(3) Includes interest on Commercial Paper Notes and reflects offset of carryforward revenues.

(4) Actual rate increase.

Total Authority Debt Outstanding: As of the date of this Attachment 1, the Authority has approximately $10.8 billion of Authority First Resolution Bonds (defined below) and $12 billion of Authority Second Resolution Bonds (defined below) Outstanding. See "Capital Improvement and Financing Program—Debt Service Requirements." In addition, the Authority currently has a $1 billion commercial paper program.

Capital Program: The City's Ten Year Capital Strategy, which is updated every two years, was released on May 1, 2009 (the "Ten Year Capital Strategy"). The Ten Year Capital Strategy includes the projected capital improvements to the System for Fiscal Years 2010 through 2019. The City's Current Capital Plan (the "Current Capital Plan"), which covers Fiscal Years 2010 through 2014, published on January 28, 2010, is updated three times each Fiscal Year and supersedes the Ten Year Capital Strategy for Fiscal Years 2010 through 2014. The Ten Year Capital Strategy, together with the Current Capital Plan, comprises the Capital Improvement Program (the "CIP"). The CIP is designed to maintain a satisfactory level of service, to improve operation of the System and to address future System requirements.

Bond Financing Program: The following table shows, as of May 26, 2009, total Authority indebtedness expected to be issued, excluding refunding bonds, from Fiscal Year 2010 to Fiscal Year 2014. As of the date of this Attachment 1, during Fiscal Year 2010 the Authority has issued approximately $1,323.1 million of

Authority Second Resolution Bonds, including $218.8 million of Authority Second Resolution Bonds issued to refund outstanding debt.

FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Period Total
		(Millions of Dollars)			
$2,373.2	$2,055.3	$1,861.4	$1,602.3	$1,490.3	$9,382.6

Security for the Authority Second Resolution Bonds:

Revenue Pledge: The Second Resolution Bonds are special obligations of the Authority, payable solely from and secured by a pledge of amounts on deposit in the Subordinated Indebtedness Fund established under the 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 Debt Service Reserve Fund.

Debt Service Reserve Fund: The Fiscal 2010 Series 2 and 4 Bonds will not be secured by 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 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 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 Subordinated Indebtedness (excluding any Debt Service paid from sources other than the Revenues) and (ii) 100% of the sum of Operating Expenses and Required Deposits for such Fiscal Year (excluding Required Deposits for the payment of Outstanding Authority Second Resolution Bonds and certain other Subordinated Indebtedness). Authority Second Resolution Refunding Bonds may be issued under the Authority Second Resolution either upon satisfaction of such conditions or other conditions.

Rates:	Rates, fees and charges are imposed by the Board and are not subject to regulatory approval except for those rates charged to a limited class of upstate users representing approximately 1.6% 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 $142,804,607 and $196,460,000 respectively, Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2010 Series 2 and Fiscal 2010 Series 4 (collectively, the "Fiscal 2010 Series 2 and 4 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, when 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 2010 Series 2 and 4 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, respectively, its Supplemental Resolution No. 66 and Supplemental Resolution No. 68, each adopted on January 14, 2010 (the "Supplemental Resolutions"). All bonds issued under the Authority Second Resolutions, are referred to herein as "Authority Second Resolution Bonds." The Authority Second Resolution and the Supplemental Resolutions are collectively referred to herein as the "Authority Second Resolutions". The Bank of New York Mellon serves as trustee under the Authority Second 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 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 the 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 1.6% of Revenues. See "RATES AND BILLINGS."

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

Financial Projection Assumptions

The estimates and projections contained in this 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 May 26, 2009, and are expected to be updated annually. Actual financial results will differ from these projections.

PLAN OF FINANCE

On February 3, 2010, the Authority issued $400,000,000 of its Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2010 Series DD (Taxable Build America Bonds) (the "Fiscal 2010 Series DD Bonds"). Concurrently with the issuance of the Fiscal 2010 Series 2 and 4 Bonds, the Authority expects to issue $67,420,000 of its Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2010 Series 3 (the "Fiscal 2010 Series 3 Bonds"). The proceeds of the Fiscal 2010 Series DD Bonds are expected to be applied to (i) to make a deposit to the Construction Fund and (ii) to pay certain costs of issuance. The Fiscal 2010 Series 3 Bonds will be delivered to the Corporation as security for a direct loan from the Corporation to the Authority.

THE FISCAL 2010 SERIES 2 AND 4 BONDS

The Fiscal 2010 Series 2 and 4 Bonds initially delivered to the Corporation will be dated their date of delivery. The Fiscal 2010 Series 2 and 4 Bonds will mature in amounts and bear interest at rates sufficient in the aggregate, together with subsidy payments from the Corporation, to pay the principal of, premium, if any, and interest on the Corporation's Series 2010 A Bonds when due. Principal of, and redemption premium, if any, and interest on the Fiscal 2010 Series 2 and 4 Bonds will be payable in lawful money of the United States of America.

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 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 8")), the Debt Service Reserve Fund and the 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 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 Subordinated Indebtedness Fund will be available to pay debt service on Authority Second Resolution Bonds to the extent not otherwise required under the terms of the Authority First Resolution. On the first day of each calendar month a portion of the amounts on deposit in the Subordinated Indebtedness Fund will be transferred free and clear of the lien of the 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 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

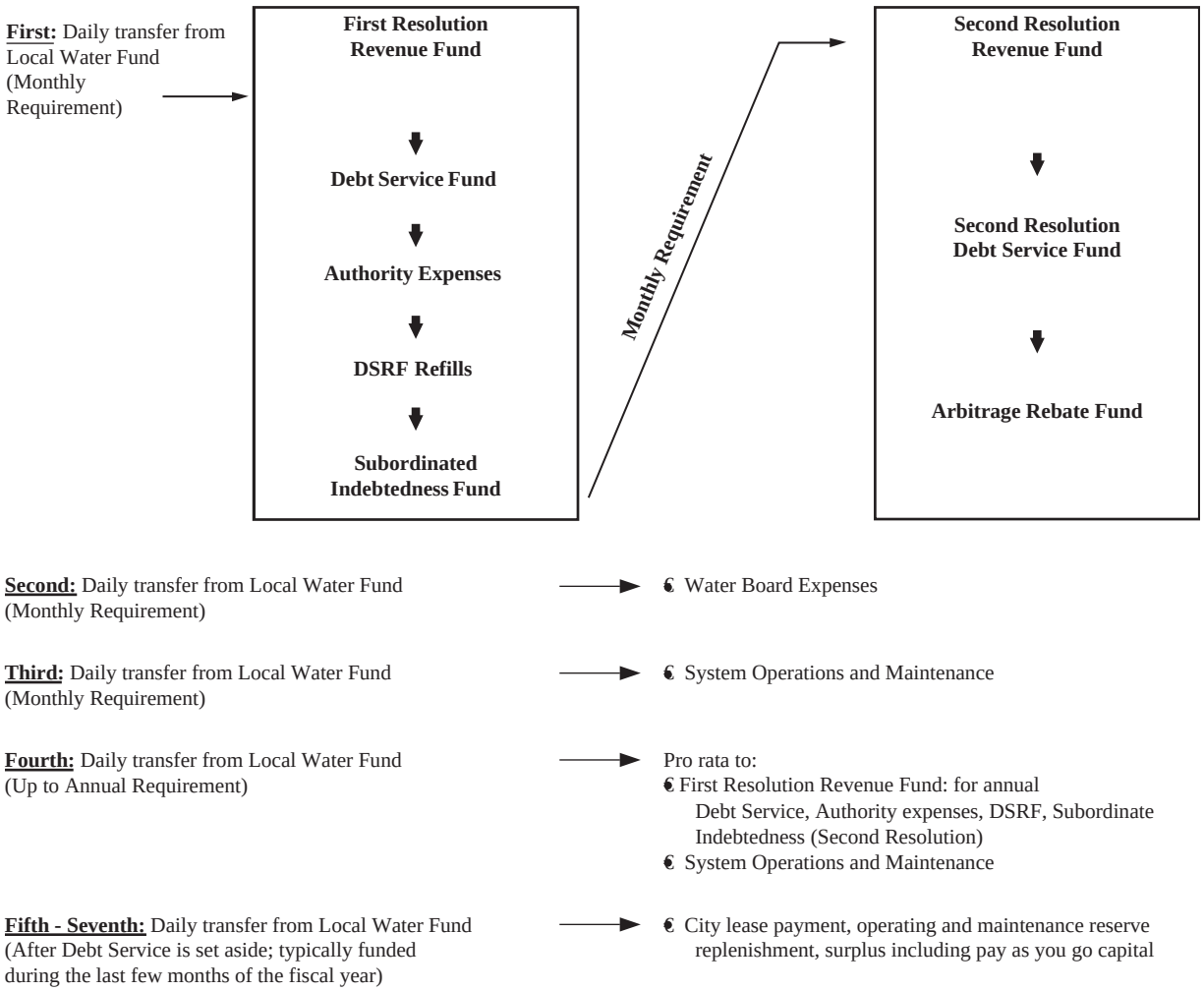
Authority Expense Fund, the Arbitrage Rebate Fund and the Subordinated Indebtedness Fund established under the Authority Second Resolution.

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 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 Authority Second Resolution Fiscal 2010 Series 2 and 4 Bonds will be on a parity with all other outstanding Authority Second Resolution Bonds heretofore and hereafter issued. The Authority Second Resolution Fiscal 2010 Series 2 and 4 Bonds are payable from and secured by a pledge of (a) amounts on deposit in the Subordinated Indebtedness Fund, subject, however, to the first lien on such amounts in favor of 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 2010 Series 2 and 4 Bonds, and the Fiscal 2010 Series 2 and 4 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 that are payable from funds held in trust therefor) 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").

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 Authority Second Resolution Bonds Outstanding 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 $10.8 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

$12 billion aggregate principal amount of Outstanding Authority Second Resolution Bonds. Of such Authority First Resolution Bonds and Authority Second Resolution Bonds, approximately $2.44 billion are variable rate demand bonds, none of which is insured, and none of which is an auction rate bond. The Authority is authorized to have outstanding up to $1 billion of commercial paper notes (the "Commercial Paper Notes").

Authority Second Resolution Bonds are payable from, among other sources, and secured by, a pledge of amounts on deposit in the Subordinated Indebtedness Fund, subject to the first lien on such amounts in favor of the Authority First Resolution Bonds. Amounts on deposit in the 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 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, Series Five and Series Six are each secured by standby line of credit agreements which 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. Interest on the Commercial Paper Notes is secured by the Revenues of the System and the moneys and investments from time to time on deposit in the Subordinated Indebtedness Fund and the funds and accounts established under the respective commercial paper resolutions authorizing their issuance. However, the pledge of the Revenues and the moneys and investments from time to time on deposit in the Subordinated Indebtedness Fund is subject and subordinate to the pledge thereof made by the Authority First Resolution for the benefit of the holders of Authority First Resolution Bonds. The Authority's obligations to the banks providing standby lines of credit in connection with outstanding Commercial Paper Notes, including the Authority's obligation to pay interest on moneys advanced, are secured by a pledge of the moneys and investments on deposit in the Subordinated Indebtedness Fund on a parity with the pledge to secure the Authority Second Resolution Bonds. Interest on such advances is also secured by a pledge of Revenues which is subordinate to the pledge securing the Authority First Resolution Bonds.

Other Authority Indebtedness

The Authority has outstanding $132,685,000 of its Crossover Refunding Bonds that it had previously issued (the "Crossover Bonds"). The Crossover Bonds were issued pursuant to a separate Crossover Refunding Bond Resolution of the Authority. The Crossover Bonds are secured by the proceeds of the Crossover Bonds and any investment income thereon, until the Crossover Bonds' tender date. Guaranteed investment contracts are expected to provide sufficient amounts to pay debt service on the Crossover Bonds until their tender date. The Crossover Bonds have a subordinate lien on the Subordinated Indebtedness Fund under the Authority Second Resolution but have no lien on Revenues. If certain conditions are met on the tender date, the Crossover Bonds will be exchanged for Authority First Resolution Bonds to be issued pursuant to the Authority First Resolution and the proceeds of the Crossover Bonds will be applied to redeem other Outstanding Bonds of specified series. The final exchange of its Crossover Bonds for Authority First Resolution Bonds is to occur on June 15, 2010.

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 8."

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. See "Certain Legal Opinions" for a description of the opinion rendered by Bond Counsel that in the event of a City bankruptcy, a court, exercising reasonable judgment after full consideration of all relevant factors, would not hold that the Revenues are property of the City.

Membership

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

The current members of the Board of Directors are:

Member	Occupation
Mark Page(1)	Director of Management and Budget of the City
Alexander B. Grannis(1)	Commissioner of Environmental Conservation of the State
David M. Frankel(1)	Commissioner of Finance of the City
Caswell F. Holloway IV(1)	Commissioner of Environmental Protection of the City
Arthur B. Hill(3)	Retired, United Parcel Service
Peter J. Kenny(2)	Retired Partner, Willkie Farr & Gallagher
Marc V. Shaw(2)	Interim Senior Vice Chancellor, City University of New York

(1) *Ex officio.*

(2) Appointed by the Mayor.

(3) Appointed by the Governor.

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

Alan L. Anders, Chief Executive Officer

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

Thomas G. Paolicelli, Executive Director

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

Marjorie E. Henning, Secretary

Ms. Henning was appointed Secretary in November 1993. Ms. Henning also serves as General Counsel to the Office of Management and Budget of the City. Ms. Henning is a graduate of the State University of New York at Buffalo and the Harvard Law School.

Michele Mark Levine, Comptroller

Ms. Levine was appointed Comptroller in February 2008 after serving as Assistant Comptroller since February 2005. She is a graduate of the State University of New York at Binghamton and the Maxwell School of Citizenship and Public Administration at Syracuse University.

Eileen T. Moran, Deputy Comptroller

Ms. Moran was appointed Deputy Comptroller commencing in November 2007. She is a graduate of Hunter College and Pace University.

Robert L. Balducci, Assistant Comptroller

Mr. Balducci was appointed Assistant Comptroller in December 2008. He is a graduate of Baruch College of the City University of New York.

Prescott D. Ulrey, Assistant Secretary

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

Jeffrey M. Werner, Assistant Secretary

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

Raymond Orlando, Director of Media and Investor Relations

Mr. Orlando was appointed Director of Media and Investor Relations in June 2000. He is a graduate of the University of Pennsylvania and the John F. Kennedy School of Government at Harvard 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:

Member	Occupation
Alan Moss, Chair	Retired
Marcia Bystryn	President, New York League of Conservation Voters
Donald Capoccia	Principal, BFC Partners, L.P.
Dawn S. Davis	Bronx Pro Real Estate Management
Amaziah Howell	President, Howell Petroleum Products, Inc.
Mehul J. Patel	Vice President, Moynihan Station Development Corporation
Benjamin A. Tisdell	Associate, Lazard Freres & Co.

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

Steven Lawitts, Executive Director

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

Lindsey Ganson, Acting Treasurer

Ms. Ganson was appointed Acting Treasurer in September 2009. Ms. Ganson has worked for DEP since 2008 as Chief of Staff and Special Advisor to the Commissioner. Prior to joining DEP, Ms. Ganson

worked with NYC & Company as a manager in the Policy and Research Department and as a research assistant with the American Institutes for Research. Ms. Ganson is a graduate of Georgetown University.

Carmelo Emilio, Deputy Treasurer

Mr. Emilio was appointed Deputy Treasurer in June 2000. He has worked for the City since 1976, and has served as the Chief of Financial Operations at the Water Board from 1996. Prior to joining the Water Board, Mr. Emilio worked with the New York City Office of Management and Budget as a Revenue Analyst. Mr. Emilio is a graduate of Baruch College of the City University of New York.

Albert F. Moncure, Jr., Secretary

Mr. Moncure was named Acting Secretary in February 1997 and Secretary in April 1997. Mr. Moncure also serves as Chief of the Municipal Finance Division of the New York City Law Department. Mr. Moncure has worked for the Law Department since 1986. Mr. Moncure is a graduate of Dartmouth College and the Yale Law School.

THE DEPARTMENT OF ENVIRONMENTAL PROTECTION

Organization

Over 5,900 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 nine bureaus: Customer Services; Water and Sewer Operations; Water Supply; Engineering Design and Construction; Wastewater Treatment; Environmental Planning; Human Resources, Administration; Legal Affairs; and Executive.

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

Caswell F. Holloway IV, Commissioner

Mr. Holloway was appointed Commissioner effective January 1, 2010. Prior to his appointment, Mr. Holloway served as Chief of Staff to the Deputy Mayor for Operations Edward Skyler and as Special Advisor to Mayor Bloomberg. During his time in the mayor's office, Mr. Holloway played a leading role in the passage and implementation of the City's solid waste management plan and the development of an alternative plan for the environmental remediation of the Gowanus Canal. Mr. Holloway started key initiatives like the new City-wide public recycling program, and worked with the City's fire department to implement new inspection protocols and safety measures for the first responders on construction sites. Prior to joining the mayor's office, Mr. Holloway was an associate at Debevoise & Plimpton LLP and Cravath, Swaine & Moore LLP and served as law clerk to Judge Dennis G. Jacobs, now Chief Judge of the United States Court of Appeals for the Second Circuit. Prior to law school, Mr. Holloway also served as Chief of Staff at the New York City Department of Parks and Recreation. Mr. Holloway graduated from Harvard College and the University of Chicago Law School.

Steven Lawitts, Chief Financial Officer

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

Kathryn Garcia, Deputy Commissioner

Mrs. Garcia was appointed Deputy Commissioner for Operations in January 2010. Since joining DEP in early 2006, Mrs. Garcia has served as the agency's Chief of Staff and the Assistant Commissioner for the Office of Strategic Projects. Prior to joining DEP, she worked for a consulting firm, Appleseed, specializing in economic development strategies and urban planning. Mrs. Garcia began her career at the NYC Department of Finance in the Audit and Enforcement Division, before pursuing opportunities in affordable housing development with the Local Initiatives Support Corporation. Mrs. Garcia is a graduate of the University of Wisconsin-Madison.

Jim Mueller, Deputy Commissioner

Jim Mueller, was appointed Deputy Commissioner of the Bureau of Engineering Design and Construction in April 2008. Mr. Mueller has been with DEP since 1993 serving in a variety of roles, most recently as Director of Facilities Planning and Design for the Bureau of Engineering Design and Construction. Mr. Mueller holds a B.A. in Civil Engineering from Manhattan College and a Master of Science degree in Environmental Engineering and an MBA in Finance and Statistics from the Stern School of Business at New York University.

James Roberts, Deputy Commissioner

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

Paul Rush, P.E., Deputy Commissioner

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

Vincent Sapienza, P.E., Deputy Commissioner

Mr. Sapienza was appointed Deputy Commissioner of the Bureau of Wastewater Treatment in September 2009. He has been with DEP since 1983 and has held numerous positions in the bureau, most recently as Assistant Commissioner of Wastewater Treatment. His other positions have included 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 an MBA from Hofstra University. He is a Professional Engineer.

Joseph Singleton, Deputy Commissioner

Mr. Singleton was appointed Deputy Commissioner for the Bureau of Customer Services in August 2006. He has been with DEP since 1995, serving in a variety of roles, including as Director of the Capital Budget. Mr. Singleton graduated with a B.A. in Economics from The State University of New York at Albany and received an MBA from St. John's University.

Carter H. Strickland, Jr., Deputy Commissioner

Mr. Strickland was appointed Deputy Commissioner for Sustainability in January 2010. Prior to joining DEP, Mr. Strickland served as the Senior Policy Advisor for Air and Water with the Mayor's Office of Long Term Planning and Sustainability. His other positions have included Acting Director and Associate Clinical Professor, Rutgers Environmental Law Clinic, and Assistant Attorney General, New York State Attorney General's Office. Mr. Strickland received his J.D. from Columbia University School of Law and his B.A. from Dartmouth College.

Labor Relations

During the last decade, there have been no strikes or major work stoppages of DEP employees affecting the System. Approximately 95% of DEP's employees are members of labor unions which represent such employees in collective bargaining with the City. The majority of DEP employees who

are members of unions are members of District Council 37 of the American Federation of State, County and Municipal Employees ("DC 37"). An agreement with DC 37, covering the period from March 3, 2008 through March 2, 2010, was ratified on December 8, 2008. Projected operation and maintenance expenses of the System provide for the cost of existing labor contracts.

Certain DEP employees are members of unions whose contracts have expired. The collective bargaining agreements for approximately 1,300 of such employees represented by several different unions expired at various times from 1995 to 2006. Any settlement with the unions representing those employees would include salary adjustments retroactive to the respective dates on which their agreements expired and such retroactive payments would likely be payable in a lump sum at the time of their settlement. Financial projections included in this Attachment 1 assume retroactive payments for such employees of $166 million through fiscal year 2011 and annual costs of approximately $52 million above current levels beginning in 2011. The salaries included in the settlements with respect to most of such employees would have to reflect prevailing wages for the applicable titles which are set by the City Comptroller but may be challenged through legal procedures set forth in State law. On November 23, 2009, the City Comptroller set the prevailing wages for approximately 880 of such employees who are sewage treatment workers whose contract expired in 2002. If the wage levels set by the City Comptroller were implemented, the retroactive adjustment for such employees is estimated to be approximately $223 million through fiscal year 2010 and annual costs thereafter are estimated to be approximately $39 million above current levels. The City filed an appeal of the City Comptroller's determination to the State Appellate Division on December 23, 2009.

Projected operation and maintenance expenses also include the cost of collective bargaining increases for labor contracts not yet settled, including those described in the preceding paragraph, consistent with the settled contract patterns through final contract end dates in the period from 2010 through 2012. After such end dates, projected operation and maintenance expenses provide for 1.25% in annual collective bargaining increases. Labor settlements in excess of these assumptions could result in increased operating and maintenance expenses beyond those assumed herein and, especially in the case of the employees referred to in the preceding paragraph, such increases could be substantial. For information on other assumptions related to personal services costs, see "Financial Operations — Projected Operation and Maintenance Expenses."

CAPITAL IMPROVEMENT AND FINANCING PROGRAM

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

The City's Ten Year Capital Strategy, which is updated every two years, was released on May 1, 2009 (the "Ten Year Capital Strategy"). The Ten Year Capital Strategy includes the projected capital improvements to the System for Fiscal Years 2010 through 2019. The City's Current Capital Plan (the "Current Capital Plan"), which covers Fiscal Years 2010 through 2014, published on January 28, 2010, is updated three times each Fiscal Year and supersedes the Ten Year Capital Strategy for Fiscal Years 2010 through 2014.

The Ten Year Capital Strategy, together with the Current Capital Plan, comprises the Capital Improvement Program (the "CIP"). 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 present 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. Expected capital commitments for the years beyond the Current Capital Plan will differ from those shown in the CIP due to the addition of new projects, as well as due to changes in project schedules and costs.

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

Although Amawalk Consulting, the Authority's rate consultant, has not performed a detailed independent review of the capital program elements and has not made an engineering evaluation of the System, Amawalk Consulting has concluded that the gross level of anticipated commitments through Fiscal Year 2019 as reflected in the CIP appears to be reasonable compared to other large water and wastewater utilities.

The CIP is presented in the following table.

CAPITAL IMPROVEMENT PROGRAM
(Thousands of Dollars)

CITY FUNDS	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
WATER SUPPLY AND TRANSMISSION											
Conveyance	$ 38,997	$ 101,300	$ —	$ 38,733	$ 123,841	$ 309,261	$ 26,000	$ 556,177	$ 84,949	$ 599,802	$ 1,879,060
Kensico-City Tunnel	—	—	—	—	—	28,217	—	24,744	—	21,676	74,637
City Tunnel No. 3, Stage 1	16,341	—	156,281	—	73,453	—	—	—	250,000	—	496,075
City Tunnel No. 3, Stage 2	51,085	9,700	50,347	125,332	24,469	9,446	85,007	467	475	482	356,810
City Tunnel No. 1 Reconstruction	—	—	64,000	—	60,000	—	25,000	247,000	—	—	396,000
Miscellaneous Programs	—	—	—	—	—	—	—	—	—	—	—
Subtotal	106,423	111,000	270,628	164,065	281,763	346,924	136,007	828,388	335,424	621,960	3,202,582
WATER DISTRIBUTION											
Brooklyn-Queens Aquifer	5,204	—	—	—	4,000	4,000	4,000	4,000	4,000	4,000	29,204
Croton Filtration Project	149,994	24,942	—	—	68,386	—	—	—	—	—	243,322
Dam Safety Program	94,865	256,100	148,817	168,771	10,000	—	—	—	—	—	678,553
Trunk Distribution and Main Extension	36,954	45,391	29,910	256	2,034	16,090	4,000	6,963	—	24,814	166,412
Trunk Distribution and Main Replacement	208,575	77,857	111,264	191,155	47,808	109,458	57,030	97,244	106,897	97,247	1,104,535
Water Quality Preservation	308,009	126,996	143,686	164,832	247,097	10,011	154,709	962	9,138	482	1,165,922
Extensions	2,641	4,157	—	1,837	341	—	—	—	—	4,500	13,476
Other System Improvements	27,078	18,389	36,640	6,355	28,810	1,310	—	11,600	—	—	130,182
Subtotal	833,320	553,832	470,317	533,206	408,476	140,869	219,739	120,769	120,035	131,043	3,531,606
WATER POLLUTION CONTROL											
Consent Decree Upgrading & Construction	483,381	104,066	—	22,000	16,000	—	8,000	—	—	8,000	641,447
Plant Upgrading & Reconstruction	287,399	227,831	119,174	109,876	217,593	249,447	252,536	175,244	197,330	141,511	1,977,941
Sludge Disposal	(981)	—	—	—	—	—	—	—	—	—	(981)
Plant Component Stabilization (1)	428,071	255,797	80,000	15,300	15,095	—	—	—	—	—	794,263
Water Quality Mandates	217,406	81,364	85,339	184,420	66,770	79,257	222,329	—	88,160	97,946	1,122,991
Subtotal	1,415,276	669,058	284,513	331,596	315,458	328,704	482,865	175,244	285,490	247,457	4,535,661
SEWERS											
Replacement or Augmentation	56,098	38,806	83,820	4,860	73,318	70,722	90,377	49,266	21,000	54,922	543,189
Extensions to Accommodate New Development	93,919	114,248	119,867	61,124	49,329	62,643	50,593	58,561	60,921	37,891	709,096
Programmatic Response to Regulatory Mandates	17	—	—	—	—	—	—	—	—	—	17
Programmatic Replacement and Reconstruction	3,456	23,871	—	33,714	4,400	—	—	9,856	18,712	—	94,009
Replacement of Chronically Failing Components	116,781	65,621	52,230	81,643	79,163	77,916	75,368	57,750	70,876	57,750	735,098
Trunks	5,344	1,934	12,382	100	1,284	—	—	9,443	—	2,224	32,711
Subtotal	275,615	244,480	268,299	181,441	207,494	211,281	216,338	184,876	171,509	152,787	2,114,120
EQUIPMENT											
Conservation	35,217	—	3,573	5,600	35,000	—	5,967	3,810	113	838	90,118
Management Information Systems	15,220	38,830	14,090	10,527	12,885	—	5,000	—	—	—	96,552
Facility Purchases & Reconstruction	(3,662)	34,178	6,457	250	250	—	5,000	77,000	—	—	119,473
Utility Relocation	28,375	13,500	10,046	10,024	40,000	18,662	15,000	15,000	—	10,000	160,607
Vehicles and Equipment	7,552	6,034	18,496	10,527	12,885	11,471	5,000	—	—	—	71,965
Subtotal	82,702	92,542	52,662	36,928	101,020	30,133	35,967	95,810	113	10,838	538,715
TOTAL CITY FUNDS	2,713,336	1,670,912	1,346,419	1,247,236	1,314,211	1,057,911	1,090,916	1,405,087	912,571	1,164,085	13,922,684
STATE, FEDERAL, AND PRIVATE FUNDS											
Management Information Systems	3,730	—	—	10,000	—	—	—	—	—	—	13,730
Plant Upgrading & Reconstruction	35,121	—	—	—	—	—	—	—	—	—	35,121
Plant Component Stabilization (1)	91,487	—	—	—	—	—	—	—	—	—	91,487
Water Quality Mandates	98,865	—	—	—	—	—	—	—	—	—	98,865
Other System Improvements	3,900	—	—	—	—	—	—	—	—	—	3,900
TOTAL NON-CITY FUNDS	233,103	—	—	10,000	—	—	—	—	—	—	243,103
TOTAL FUNDS	$2,946,439	$1,670,912	$1,346,419	$1,257,236	$1,314,211	$1,057,911	$1,090,916	$1,405,087	$912,571	$1,164,085	$14,165,787

(1) Plant Component Stabilization includes amounts for the biological nutrient removal program.

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

Water Supply and Transmission

Conveyance and Water Supply. This program will research and develop alternate conveyance conduits and/or water supplies for the City in order to provide more dependability within the Water System. The alternate water supplies or conveyances could be used during drought situations, to augment the City's daily water supply, or during repairs and inspections of existing aqueducts and tunnels.

Tunnel 3. Stages I and II of Tunnel 3 include completion of the Brooklyn/Queens and Manhattan segments. Stage I became operational in July 1998 and has improved the reliability of the transmission system. Stage I amounts also relate to facility improvements at Hillview Reservoir. Completion of the Brooklyn/Queens segment of Stage II will improve services to Staten Island, Brooklyn and Queens. Activation of the Brooklyn and Queens segment of Stage II will follow activation of the Manhattan segment of Stage II which is expected to be completed in 2013. The entire Stage II is scheduled to be completed in 2018. See "THE SYSTEM — The Water System — Water Collection and Distribution."

Kensico-City Tunnel. The Kensico-City Tunnel will be a 16 mile long tunnel from the Kensico Reservoir to the Van Cortlandt Park Valve Chamber, bypassing the Hillview Reservoir. This tunnel will provide redundancy for the sections of the Catskill and Delaware Aqueducts that run from the Kensico Reservoir to the City.

Water Distribution

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

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

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

Water Quality Preservation. The City provides for improvements to the upstate watersheds including projects undertaken pursuant to the FADs (as hereinafter defined) in the Catskill and Delaware watersheds such as the acquisition of environmentally sensitive property, the upgrade of non-City owned water pollution control facilities and the construction of an ultraviolet water treatment facility. Other projects in the upstate watersheds include enhanced security systems and planing for the repair of the leak in the Rondout-West Branch Tunnel. See "THE SYSTEM — Overview," "THE SYSTEM — The Water System — Water Collection and Distribution," and "THE SYSTEM — The Water System — Governmental Regulation."

Water Pollution Control

Consent Decree Upgrading and Construction. The Clean Water Act (as hereinafter defined) and the State Consent Decrees (as hereinafter defined) require the upgrading of six plants. The plant upgrades include the retrofitting of five plants to achieve additional nitrogen treatment and upgrades at the Newtown Creek plant to achieve secondary treatment and improve plant operations. In addition, during periods of heavy rainfall, a combination of stormwater and sewage bypasses treatment and is released into the City's waterways through the City's combined sewer overflow ("CSO") outfalls. Pursuant to a consent order between DEP and the New York State Department of Environmental Conservation ("NYSDEC"), DEP is

implementing projects necessary to control the polluting effects of such releases. 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 five water pollution control plants to decrease the amount of nitrogen discharged into the surrounding water.

Sewers

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 overcome through maintenance or experience chronic malfunction due to inadequate capacity.

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

Equipment

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 2005 through 2009. 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)

Commitments	FY 2005 System Funds(1)	FY 2005 All Funds(2)	FY 2006 System Funds(1)	FY 2006 All Funds(2)	FY 2007 System Funds(1)	FY 2007 All Funds(2)	FY 2008 System Funds(1)	FY 2008 All Funds(2)	FY 2009 System Funds(1)	FY 2009 All Funds(2)
Water Supply and Transmission (3)	$ 746	$ 746	$ 26	$ 26	$ 64	$ 64	$ 20	$ 20	$ 237	$ 237
Water Distribution	499	498(4)	568	568	2,253	2,253	1,839	1,838(4)	662	662
Water Pollution Control	838	839	843	848	1,071	1,071	843	842(4)	944	936(4)
Sewers	186	187	192	192	177	177	200	200	164	164
Equipment	63	64	73	107	92	92	149	150	156	156
Total	$2,332	$2,334	$1,702	$1,741	$3,657	$3,690	$3,051	$3,051	$2,163	$2,155

Expenditures (5)	FY 2005 System Funds(1)	FY 2005 All Funds(2)	FY 2006 System Funds(1)	FY 2006 All Funds(2)	FY 2007 System Funds(1)	FY 2007 All Funds(2)	FY 2008 System Funds(1)	FY 2008 All Funds(2)	FY 2009 System Funds(1)	FY 2009 All Funds(2)
Water Supply and Transmission (3)	$ 147	$ 167	$ 245	$ 261	$ 272	$ 272	$ 868	$ 868	$ 98	$ 98
Water Distribution	390	401	445	451	493	493	211	211	1,164	1,164
Water Pollution Control	846	804	778	812	793	805	917	929	1,021	1,032
Sewers	213	223	215	216	213	213	190	190	185	185
Equipment	40	85	68	101	76	94	65	71	74	79
Total	$1,636	$1,680	$1,751	$1,841	$1,847	$1,878	$2,251	$2,269	$2,542	$2,558

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 (as defined below) under the revolving fund program and System revenues.

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

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

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

(5) System Funds are shown on a cash basis. All Funds are shown on an accrual basis.

Financing Program

Prior Financing. Since the first issuance of bonds by the Authority in 1985, capital improvements to the System have been financed primarily with (1) proceeds of bonds sold directly to the public and privately placed with New York State Environmental Facilities Corporation (the "Corporation") in connection with the revolving loan fund program described below, (2) federal and State capital grants, and (3) cash-financed capital construction paid from System revenues. See "Debt Service Requirements" below.

Future Financing. The Authority estimates that nearly 100% of the System's capital costs will be paid from: (1) proceeds of bonds and other forms of indebtedness sold to the public and privately placed with the Corporation and (2) System revenues. Implementation of the CIP is dependent upon the Authority's ability to market its securities successfully in the public credit markets. For purposes of forecasting revenue requirements for the System, the principal amount of bonds estimated to be issued for capital purposes as of May 26, 2009, excluding refunding bonds, in each of the Fiscal Years 2010 through 2014 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 further borrowing 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 with an agreement to provide to the Authority approximately $220 million in funds made available for certain projects through the American Reinvestment and Recovery Act of 2009 (the "Recovery Act"). The Authority expects to receive these funds over the next several years. The projected issuance of Authority debt in Fiscal Years 2010 through 2014 does not assume the receipt of such funds.

Sources and Uses of Capital Funds

The following table presents the projected sources and uses of the funds for the System as of May 26, 2009. See "INTRODUCTORY STATEMENT — Financial Projection Assumptions."

Sources and Uses of Capital Funds
(Millions of Dollars)

Line No.	Description	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Period Total
	Sources of Funds						
1	Proceeds from sale of Bonds & Commercial Paper Notes (1)(2)(3)	$ 4,707.9	$ 3,989.3	$ 3,614.4	$ 3,113.3	$ 2,895.3	$ 18,320.2
	Uses of Funds						
2	Refunding of Prior Bonds (2)	132.7	—	—	—	—	132.7
3	Deposit to Construction Fund/Retirement of Commercial Paper Notes (3)	4,404.0	3,868.0	3,506.0	3,022.0	2,810.0	17,610.0
4	Other (4)	171.2	121.3	108.4	91.3	85.3	577.5
5	Total Uses of Funds	4,707.9	3,989.3	3,614.4	3,113.3	2,895.3	18,321.2
	Construction Fund						
6	Beginning Balance	480.0	480.0	480.0	480.0	480.0	—
7	Transfer from Proceeds (3)	2,202.0	1,934.0	1,753.0	1,511.0	1,405.0	8,805.0
8	Cash Financed Capital Construction (5)(6)	100.0	80.0	125.0	150.0	175.0	630.0
9	Total Available Construction Funds (3)	2,782.0	2,494.0	2,358.0	2,141.0	2,060.0	9,435.0
10	Less: Total Capital Spending (7)	(2,302.0)	(2,014.0)	(1,878.0)	(1,661.0)	(1,580.0)	(9,435.00)
11	Ending Balance	$ 480.0	$ 480.0	$ 480.0	$ 480.0	$ 480.0	

(1) Includes proceeds from sale of Authority First and Authority Second Resolution Bonds.

(2) For Fiscal Year 2010, includes Authority First Resolution Bonds to be issued to refund Crossover Bonds.

(3) The Authority expects to receive $220 million (approximately) through the Recovery Act, which is not included in this table.

(4) Includes issuance costs and Debt Service Reserve Fund requirements.

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

(6) Based on the results of previous defeasances of bonds, the Authority expects to receive $19.5 million in 2011. This amount is not included in this table and is expected to be added above to Line No. 8, Cash Financed Capital Construction, as the funds become available in each year.

(7) Capital spending reflects commitments from current and prior years.

The following table shows projected debt service requirements, including payments on outstanding bonds and on future bonds projected to be issued as of May 26, 2009. For additional information, see "— Debt Service Requirements."

Projected Future Debt Service Requirements
(Millions of Dollars)

Line No.	Description	Bond Issues(1)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	First Resolution Debt Service						
1	Outstanding Bonds		$ 573.1	$ 636.6	$ 614.5	$ 606.4	$ 662.6
	Anticipated Future Bonds						
2	Fiscal Year 2010 Bonds	$1,070.0	46.3	69.6	69.6	69.6	69.6
3	Fiscal Year 2011 Bonds	486.7	0.0	21.9	32.9	32.9	32.9
4	Fiscal Year 2012 Bonds	425.9	0.0	0.0	19.2	28.7	28.7
5	Fiscal Year 2013 Bonds	361.4	0.0	0.0	0.0	15.5	24.4
6	Fiscal Year 2014 Bonds	334.2	0.0	0.0	0.0	0.0	15.0
7	Total First Resolution Debt Service		619.4	728.1	736.1	753.0	833.2
	Subordinated Obligations						
	Second Resolution Authority Debt Service						
8	Outstanding Authority Bonds Issued to the Public		248.9	248.6	248.2	251.6	289.6
	Anticipated Future Authority Second Resolution Bonds						
9	Fiscal Year 2010 Bonds	1,003.1	11.8	70.6	70.6	70.6	70.6
10	Fiscal Year 2011 Bonds	1,268.6	—	22.0	79.9	79.9	79.9
11	Fiscal Year 2012 Bonds	1,135.5	—	—	19.8	71.4	71.4
12	Fiscal Year 2013 Bonds	941.9	—	—	—	16.8	62.3
13	Fiscal Year 2014 Bonds	856.1	—	—	—	—	16.4
14	Interest Payments on Commercial Paper Notes		42.5	42.5	42.5	42.5	42.5
15	Outstanding Authority Second Resolution Bonds Issued to Corporation		472.1	480.3	483.7	459.8	442.7
	Anticipated Future Authority Second Resolution Corporation Bonds						
16	Fiscal Year 2010 Bonds	300.0	7.6	25.0	25.0	25.0	25.0
17	Fiscal Year 2011 Bonds	300.0	0.0	7.6	25.0	25.0	25.0
18	Fiscal Year 2012 Bonds	300.0	0.0	0.0	6.1	25.0	25.0
19	Fiscal Year 2013 Bonds	300.0	0.0	0.0	0.0	4.5	25.0
20	Fiscal Year 2014 Bonds	300.0	0.0	0.0	0.0	0.0	3.0
21	Less: Current Corporation Subsidy (2)		(107.6)	(108.0)	(105.2)	(100.8)	(95.9)
22	Less: Future Corporation Subsidy (3)		(2.1)	(9.2)	(15.8)	(22.3)	(28.7)
23	Actual Debt Service on Subordinated Indebtedness		673.3	779.3	879.8	948.9	1,053.8
24	Less: Carryforward Revenues		(274.6)	(159.5)	(138.5)	(170.1)	(206.9)
25	Net Debt Service on Subordinated Indebtedness		398.7	619.8	741.3	778.9	846.9
26	Total Debt Service Payable from Current Revenues (Line 7+Line 25) (4)		$1,018.1	$1,347.9	$1,477.4	$1,531.9	$1,680.1

(1) Includes debt service on Authority First Resolution Bonds expected to be issued in exchange for Crossover Bonds. See "SECURITY FOR THE AUTHORITY SECOND RESOLUTION BONDS — Other Authority Indebtedness."

(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.

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

For purposes of these projections, the Authority has assumed that interest rates on future Authority First Resolution Bonds and Authority Second Resolution Bonds issued to the public will be 6.50% in Fiscal Year 2010 and 6.75% each year thereafter and that interest rates on future Authority Second Resolution Bonds issued to the Corporation will be 0.05% lower than the rate assumed on its other bonds. The Authority has further assumed that existing variable rate bonds and commercial paper notes bear interest at an average rate of 4.25% per annum. These projections do not include interest subsidy payments from the federal government to the Authority on Build America Bonds pursuant to the American Recovery and Reinvestment Act of 2009.

Debt Service Requirements

The following schedule sets forth 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 variable rate bonds bear interest at an average rate of 4.25% per annum through maturity and showing interest computed on the basis of a 30-day month and a 360-day year. The schedule does not include debt service on any outstanding Commercial Paper Notes.

Debt Service Requirements

Fiscal Year Ending June 30	Debt Service on Outstanding Authority First Resolution Bonds(1)	Debt Service on Outstanding Authority Second Resolution Bonds(2)(3)	Fiscal 2010 Series 2 and 4 Bonds(2)(3)		Debt Service on Authority Second Resolution Bonds, including Fiscal 2010 Series 2 and 4 Bonds (2)(3)	Total Debt Service on Authority First and Authority Second Resolution Bonds (1)(2)(3)
			Principal	Interest		
2010	$ 563,590,869	$ 652,670,096	$ 2,121,333	$ 3,175,384	$ 657,966,813	$ 1,221,557,682
2011	627,125,004	685,679,695	9,365,092	11,166,897	706,211,685	1,333,336.689
2012	599,845,206	694,348,375	9,383,922	10,730,472	714,462,769	1,314,307,976
2013	563,973,621	707,072,083	9,491,333	10,783.151	727,346,567	1,291,320,188
2014	626,730,255	725,173,661	9,752,467	10,554,422	745,480,550	1,372,210,805
2015	695,944,529	671,195,041	9,975,092	10,332,597	691,502,731	1,387,447,260
2016	614,212,956	740,026,405	10,285,092	10,024,222	760,335,719	1,374,548,676
2017	651,194,013	740,107,700	10,900,092	9,754,672	760,762,464	1,411,956,477
2018	610,721,025	763,302,975	11,335,092	9,389,410	784,027,477	1,394,748,502
2019	693,276,810	698,223,651	12,365,092	9,016,752	719,605,494	1,412.882,304
2020	676,583,937	707,941,683	12,450,000	9,383,553	729,775,235	1,406,359,172
2021	674,182,609	711,850,147	11,675,000	8,984,217	732,509,364	1,406,691,973
2022	728,441,053	633,372,337	12,180,000	8,572,850	654,125,187	1,382,566,239
2023	776,408,984	585,442,883	12,680,000	8,171,372	606,294,255	1,382,703,238
2024	783,378,640	568,335,355	13,305,000	7,650,254	589,290,609	1,372,669,249
2025	776,768,903	562,466,142	13,975,000	7,097,020	583,538,162	1,360,307,064
2026	784,635,025	573,490,173	14,660,000	6,533,166	594,683,340	1,379,318,365
2027	669,683,788	679,854,803	15,415,000	5,914,582	701,184,386	1,370,868,173
2028	775,268,775	572,294,921	16,220,000	5,259,397	593,774,319	1,369,043,094
2029	752,992,369	591,836,121	17,060,000	4,643,564	613,539,685	1,366,532,053
2030	731,772,613	599,465,696	12,185,000	3,942,901	615,593,597	1,347,366,210
2031	775,196,050	547,666,004	7,875,000	3,490,893	559,031,896	1,334,227,946
2032	786,245,356	599,763,136	8,400,000	3,193,647	611,356,782	1,397,602,139
2033	765,654,225	592,656,093	8,955,000	2,876,585	604,487,677	1,370,141,902
2034	742,718,825	616,489,282	9,530,000	2,538,574	628,557,856	1,371,276,681
2035	742,717,625	599,554,699	10,155,000	2,178.859	611,888,558	1,354,606,183
2036	795,377,038	577,542,514	10,810,000	1,795,553	590,148,067	1,385,525,105
2037	789,283,338	574,766,767	11,510,000	1,387,525	587,664,292	1,376,947,629
2038	783,172,338	574,450,450	12,240,000	953,074	587,643,524	1,370,815,861
2039	709,841,338	650,906,520	13,010,000	491,069	664,407,589	1,374,248,926
2040	413,292,150	935,108,770	—	—	935,108,770	1,348,400,920
2041	—	947,713,933	—	—	947,713,933	947,713,933
2042	—	207,737,600	—	—	207,737,600	207,737,600
Total	$21,680,229,262	$21,288,505,711	$339,264,607	$189,986,634	$21,817,756,952	$43,497,986,213

Totals may not add due to rounding.

(1) Assumes that on June 15, 2010, the Crossover Bonds will be exchanged for Authority First Resolution Bonds and the proceeds of the Crossover Bonds will be applied to redeem certain Outstanding Authority Bonds.

(2) Net of projected subsidy, surplus and capitalized interest payments from the Corporation.

(3) Net of subsidy on Build America Bonds provided by the federal government pursuant to the Recovery Act.

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 2005 through 2009, 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 2005 through 2009.

System Revenues
(Millions of Dollars)

Line No.	Description	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
	Operating Revenues					
1	User Payments (1)	$1,732.8	$1,811.5	$1,862.4	$2,109.6	$2,273.5
2	Upstate Revenues	27.3	42.7	42.2	46.0	42.2
3	Subtotal Service Revenue	1,760.1	1,854.1	1,904.6	2,155.6	2,315.7
4	Miscellaneous Revenues (2)	10.4	12.1	12.6	10.6	15.4
5	Subtotal Operating Revenue	1,770.4	1,866.2	1,917.2	2,166.2	2,331.1
	Nonoperating Revenues					
6	Interest Income on System Funds (3)	97.1	110.9	101.1	84.6	68.6
7	Total Revenues	$1,867.5	$1,977.2	$2,018.9	$2,250.8	$2,399.7

Totals may not add due to rounding.

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

(2) Miscellaneous Revenues does not include subsidy payments from the Corporation on Authority First Resolution Bonds or Authority Second Resolution Bonds.

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

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

Expenses

The following table presents System expenses for Fiscal Years 2005 through 2009 on an accrual basis which have been derived from the accounting records utilized in preparation of the annual financial statements for Fiscal Years 2005 through 2009. These expenses represent operation, maintenance and general expenses excluding the lease rental payment to the City, bad debt expense and capital costs for improvements to upstate water pollution control plants that are reported as operating expenses in the System's financial statements because such plants are owned by municipalities outside the City.

System Expenses
(Millions of Dollars)

Expense Category	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Water Operations(1)					
Personal Service(2)	$137.2	$152.3	$170.2	$ 202.2	$ 212.3
Other Than Personal Service(3)	188.8	211.8	201.8	238.1	274.1
Total Water Operations	326.0	364.1	372.0	440.2	486.3
Wastewater Operations(1)					
Personal Service(2)	199.2	222.9	256.7	301.5	303.2
Other Than Personal Service(3)	205.3	220.5	235.7	244.8	237.7
Total Wastewater Operations	404.5	443.4	492.4	546.4	540.9
Administrative and General(4)	23.4	26.7	35.5	44.0	47.7
Indirect Expenses(5)	59.6	62.6	88.5	126.8	70.8
Total System	$813.5	$896.8	$988.4	$1,157.4	$1,145.8

Totals may not add due to rounding.

(1) Certain historical, administrative and overhead costs of DEP were allocated to the water and sewer functions based upon the proportion of applicable personnel within DEP.

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

(3) Other Than Personal Service costs include real estate taxes paid to upstate communities for watershed properties, sludge disposal costs and for electricity, chemicals and supply costs.

(4) Administrative and General costs include Authority and Board expenses, excluding Authority expenses for the defeasance of debt.

(5) Indirect Expenses include City agency support, and judgments and claims costs.

Projected Revenues

As indicated in the table below, "Subtotal Service Revenue" is projected as of May 26, 2009 to increase from approximately $2.7 billion in Fiscal Year 2010 to approximately $3.8 billion in Fiscal Year 2014. Projected rate increases in future Fiscal Years provide the majority of the increase in user payments. Upstate revenues are projected to increase from approximately $43.6 million in Fiscal Year 2010 to approximately $62.1 million in Fiscal Year 2014. This revenue growth is due to expected increases in the cost of water supply services.

City-wide water consumption in the first seven months of Fiscal Year 2010 is about 5.1% lower than consumption during the same period in Fiscal Year 2009. The projected revenues assume that water consumption by metered customers will decline by 1.0% annually for Fiscal Year 2010 through Fiscal Year 2013 and 0.5% in Fiscal Year 2014.

For the first seven months of Fiscal Year 2010, water and sewer payments were approximately $95 million, or 5.5%, less than projected in May 2009 for this seven month period. Current economic conditions could have a negative effect on future Revenue collections.

Projected Revenues
(Millions of Dollars)

Line No.	Description	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Operating Revenues					
1	User Payments (1)(2)	$2,629.1	$2,976.6	$3,285.6	$3,525.9	$3,770.7
2	Upstate Revenues	43.6	51.2	55.0	58.5	62.1
3	Subtotal Service Revenue	2,672.7	3,027.8	3,340.6	3,584.5	3,832.8
4	Miscellaneous Revenues (3)	11.3	10.5	9.7	8.8	9.1
5	Subtotal Operating Revenue	2,684.0	3,038.4	3,350.3	3,593.3	3,841.9
	Nonoperating Revenues					
6	Interest Income on System Funds (4)	51.2	51.6	56.8	56.6	67.7
7	Total Revenues	$2,735.2	$3,090.0	$3,407.1	$3,649.9	$3,909.6

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

(1) Includes late payment charges.
(2) User Payments assume renewal of the authorization for the lien sale program, which is scheduled to expire on December 31, 2010.
(3) Miscellaneous Revenue includes subsidy payments from the Corporation on First Resolution Bonds, but does not include subsidy payments from the Corporation on Authority Second Resolution Bonds.
(4) Includes interest income on the Construction Fund, Debt Service Fund, the Debt Service Reserve Fund and the Subordinated Debt Service Fund.

Projected Operating and Maintenance Expenses

The table set forth below shows, for Fiscal Years 2010 through 2014, the System's projected operation and maintenance expenses as of May 26, 2009. See "INTRODUCTORY STATEMENT — Financial Projection Assumptions."

Projected Operation and Maintenance Expense
(Millions of Dollars)

Line No.	Description	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
1	Authority/Board Operations	$ 49.8	$ 44.6	$ 46.5	$ 48.4	$ 50.9
	Water Operations					
2	Personal Services	258.9	228.5	244.5	260.8	268.7
3	Other Than Personal Services	287.0	295.5	342.1	398.0	414.6
4	Total Water Operations	546.0	524.0	586.6	658.8	683.2
	Wastewater Operations					
5	Personal Services	425.9	377.2	392.2	414.0	426.5
6	Other Than Personal Services	317.1	325.4	340.7	358.5	369.2
7	Total Wastewater Operations	743.0	702.7	732.9	772.5	795.7
8	Indirect Expenses	18.3	18.3	18.3	18.3	18.3
9	Judgments and Claims	8.0	8.0	8.0	8.0	8.0
10	Total Operating Expenses	1,365.1	1,297.5	1,392.3	1,506.0	1,556.1
11	Less: Trust Account Withdrawals	(101.4)	—	—	—	—
12	Net Operating Expenses	1,263.7	1,297.5	1,392.3	1,506.0	1,556.1
13	Less: Credit for Prior Year Excess O&M Payment	—	—	—	—	—
14	Net Operating Expense Payments	$1,263.7	$1,297.5	$1,392.3	$1,506.0	$1,556.1

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

Personal services costs for both water operations and wastewater operations include direct salary costs plus fringe benefit and pension costs. In anticipation of the completion of both the Croton Filtration Plant and the UV Facility, preliminary estimated operating costs for both facilities have been incorporated in Projected Operation and Maintenance Expenses. The projected personal services costs for Fiscal Years 2010 through 2014 include an annual 3% increase to reflect allowances for changes in staffing, salary and wage adjustments, including collective bargaining increases, the increased cost of fringe benefit and pension contributions, and other factors. For information on labor relations including retroactive contract settlements, see "THE DEPARTMENT OF ENVIRONMENTAL PROTECTION — Labor Relations."

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.

The Authority/Board Operations. Administrative expenses of the Authority and the Board, 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 $14.1 million in Fiscal Year 2010 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 and commercial paper notes, the management of investments and arbitrage rebate payments. The expenses of the Board include payments for lock box services as well as consulting services for the following: the environmental health and safety program, capital program management, customer service and rates and charges.

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. In drought conditions, additional pumping is necessary for optimal distribution of water available from the System, thereby causing increased electricity costs.

Other than personal services costs, excluding property taxes, are generally assumed to increase at an estimated rate of 3% per year for the forecast period. Property tax payments for City-owned watershed lands are expected to be approximately $120 million in Fiscal Year 2010. It is assumed that such payments will generally increase at the rate of 6% annually reflecting both the addition of new watershed properties and increasing tax rates.

DEP adds chemicals, including fluoride and chlorine, to drinking water and uses other chemicals in the treatment of wastewater. In Fiscal Year 2010, the anticipated cost of chemicals for the System is approximately $85 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. Such programs will 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.

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 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 2010 are approximately $110 million. The vast majority of such expenses are for electricity for the Sewer System. Another major component of other than personal services costs for the Sewer System is biosolids management, which is anticipated to require $70 million in expenses in Fiscal Year 2010. Certain other cost adjustments are reflected in the forecasted cash flow as adjustments are made to specific operating programs based upon System needs.

In Fiscal Year 2009, other than personal services expenses included $29.0 million in escrow payments for the resolution of claims filed by NYSDEC relative to improvements at the Newtown Creek wastewater treatment plant. Some or all of the payments may be recovered by the System if DEP meets certain future milestone dates. No allowance has been made for the return of the payments in the forecasted cash flows of the System. In addition, a $10 million environmental benefits project was funded in Fiscal Year 2009 in the amount of $5 million and another $5 million will be paid in Fiscal Year 2010. See, "THE SYSTEM — THE SEWER SYSTEM — Full Secondary Treatment Requirements/Newtown Creek." 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 8 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.

Credits Against Operation and Maintenance Expense. Pursuant to a consent decree (the "1989 Consent Decree") entered into in 1989 under the Marine Protection Research and Sanctuaries Act of 1972 ("MPRSA"), as amended by the Ocean Dumping Ban Act of 1988 (the "Ban Act"), DEP ceased the ocean disposal of sludge in June 1992. The Ban Act and the 1989 Consent Decree provide that 85% of the fees and penalties paid shall be deposited into a trust account and shall be available to reimburse the City for costs incurred for developing alternative biosolids management facilities. As of December 31, 2009, the value of the trust account was $98.8 million. It is assumed that this value will increase with interest earnings at the rate of 2% per annum, until withdrawals are made. It is anticipated that $101.4 million in Fiscal Year 2010 will be available as an offset to operation and maintenance expenses. The Funds in the trust account are administered by DEP.

Projected Financial Operations

The following table shows a summary of the forecasted cash flows for the Authority as of May 26, 2009 for Fiscal Year 2010 through Fiscal Year 2014. 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 31 of the table, positive net surpluses are projected to be maintained throughout the reporting period. Actual carryforward revenues applied to Fiscal Year 2010 were $299.8 million, which was higher than forecasted and as shown in Line 16. Line 32 illustrates the projected coverage of Authority First Resolution debt service by current revenues available for debt service. Line 33 illustrates the projected coverage of Authority First Resolution and Authority Second Resolution debt service by current revenues available for debt service.

Forecasted Cash Flows
(Millions of Dollars)

Line No.	Description	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Operating Revenues					
1	Water and Sewer User Payments	$2,629.1	$ 2,976.6	$3,285.6	$3,525.9	$3,770.7
2	Upstate Revenue	43.6	51.2	55.0	58.5	62.1
3	Miscellaneous Revenue	11.3	10.5	9.7	8.8	9.1
	Other Revenues					
4	Interest on Funds	51.2	51.6	56.8	56.6	67.7
5	Current Revenues Available for Debt Service	2,735.2	3,090.0	3,407.1	3,649.9	3,909.6
	First Resolution Debt Service					
6	Outstanding Bonds	573.1	636.6	614.5	606.4	662.6
7	Anticipated Future Bonds	46.3	91.4	121.6	146.6	170.6
8	Total First Resolution Debt Service	619.4	728.1	736.1	753.0	833.2
	Subordinated Obligations					
9	Outstanding Authority Second Resolution Bonds issued to the public	235.4	235.1	234.7	238.1	289.6
10	Anticipated Future Authority Second Resolution Bonds issued to the public	25.3	106.1	183.8	252.1	300.6
11	Interest Payments on Commercial Paper Notes	42.5	42.5	42.5	42.5	42.5
12	Outstanding Authority Second Resolution Bonds issued to the Corporation	472.1	480.3	483.7	459.8	442.7
13	Anticipated Future Authority Second Resolution Bonds issued to the Corporation	7.6	32.6	56.1	79.5	103.0
14	Less: Corporation Subsidy on Outstanding Subordinated Bonds	(109.7)	(117.2)	(121.0)	(123.1)	(124.6)
15	Actual Debt Service on Subordinated Indebtedness	673.3	779.3	879.8	948.9	1,053.8
16	Less: Carryforward Revenues	(274.6)	(159.5)	(138.5)	(170.1)	(206.9)
17	Net Debt Service on Subordinated Indebtedness	398.7	619.8	741.3	778.8	846.9
18	Total Debt Service Payable from Current Revenues (line 8 + line 17)	1,018.1	1,347.9	1,477.4	1,531.9	1,680.1
	Operating Expenses					
19	Authority/Board Operations	49.8	44.6	46.5	48.4	50.9
20	Water System	546.0	524.0	586.6	658.8	683.2
21	Wastewater System	743.0	702.7	732.9	772.5	795.7
22	Indirect Expense	18.3	18.3	18.3	18.3	18.3
23	Judgments and Claims	8.0	8.0	8.0	8.0	8.0
24	Total Operating Expenses	1,365.1	1,297.5	1,392.3	1,506.0	1,556.1
25	Less: Trust Account Withdrawals	(101.4)	—	—	—	—
26	Net Operating Expenses	1,263.7	1,297.5	1,392.3	1,506.0	1,556.1
27	Less: Credit for Prior Year Excess O&M Payment	—	—	—	—	—
28	Rental Payment to the City of New York	193.9	226.1	242.4	255.3	283.0
29	Cash Financed Capital Construction(1)	100.0	80.0	125.0	150.0	175.0
30	Total Expenses	1,557.6	1,603.6	1,759.6	1,911.3	2,014.1
31	Net Surplus (line 5-line 18-line 30)	$ 159.5	$ 138.5	$ 170.1	$ 206.6	$ 215.4
32	Authority First Resolution Debt Service Coverage (line 5/line 8)	4.42	4.24	4.63	4.85	4.69
33	Authority First and Authority Second Resolution Debt Service Coverage (line 5/line 18)	2.69	2.29	2.31	2.38	2.33

Source: Amawalk Consulting.

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

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

RATES AND BILLINGS

Rates

The Board is responsible for setting rates in compliance with the Rate Covenant. See "SECURITY FOR THE 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. Currently approximately 1.6% of System Revenues are collected from such upstate users. Sewer charges are established by the Board as a percentage of water charges. Participation in the Construction Grants Program, however, requires the maintenance of sewer charges sufficient to defray costs of operation, maintenance and replacement. The Board, as a matter of policy, conforms with these requirements when setting sewer 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 1999:

History of Water and Sewer Rate Increases

Effective Date	Increase in Flat-Rate Water	Increase in Metered Water	Metered Water Rate (per ccf)(1)	Change in Sewer(2)
July 1, 1999	4 %	4 %	$1.30	No change
July 1, 2000	1	1	1.31	No change
July 1, 2001	3	3	1.35	No change
July 1, 2002	6.5	6.5	1.44	No change
July 1, 2003	5.5	5.5	1.52	No change
July 1, 2004	5.5	5.5	1.60	No change
July 1, 2005	3	3	1.65	No change
July 1, 2006	9.4	9.4	1.81	No change
July 1, 2007	11.5	11.5	2.02	No change
July 1, 2008	14.5	14.5	2.31	No change
July 1, 2009	12.9	12.9	2.61	No change

(1) ccf: 100 cubic feet.

(2) For the period shown, the sewer charge has been a constant 159% of the water charge.

Projected Rates. Although the Board sets rates for an annual period, it may increase rates during such period, as required. As of May 26, 2009, forecasted debt service, operating and other costs for the System indicated that the anticipated future rate increases to be set by the Board for water and sewer services combined were 14.3% in Fiscal Year 2011, 11.5% in Fiscal Year 2012, 7.8% in Fiscal Year 2013 and 7.8% in fiscal year 2014.

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

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

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

Upstate Water Rates. Rates for water supply service provided to municipalities and water districts located north of the City are established in accordance with the provisions of the Water Supply Act of 1905 (the "1905 Act"). The 1905 Act provides that such rates shall be based on the System's actual cost of service. The sale of water and the rates and charges for these accounts are regulated by State law as well as by individual agreements between these communities and the City. Each contract provides for the metering of water sales to individual communities and the application of a specific charge per unit of metered volume. In most cases, per capita consumption in the upstate communities is less than that of customers within the City. In those instances where the community per capita consumption exceeds that of the City, the specified rate of charge for the excess is increased to match the rates and charges applied to retail service in the City. As of July 1, 2009, water taken from either the Croton or Catskill/Delaware systems is charged at a rate of $922.23 per million gallons for daily per capita amounts not in excess of daily per capita consumption within the City.

Comparative Charges. The following table presents comparative annual water and sewer charges in 30 large cities based upon a survey conducted in February 2009. Using a ranking system where 1 represents the lowest rates, the City's ranking relative to these cities is: for Single-Family Residential — 16, for Commercial — 18, and for Industrial — 21.

Comparative Annual Water and Sewer User Charges[(1)(2)]

Single Family Residential		Commercial		Industrial	
City	**Annual Charge**	**City**	**Annual Charge**	**City**	**Annual Charge**
Memphis	$ 318	Memphis	$ 3,392	Memphis	$ 231,929
Chicago	325	Chicago	4,162	Chicago	416,164
Denver	513	Denver	4,960	Indianapolis	423,385
Phoenix	568	Dallas	5,255	St. Louis	441,200
Milwaukee	638	Indianapolis	5,426	Dallas	451,685
San Antonio	653	St. Louis	5,523	Milwaukee	461,541
Indianapolis	682	Milwaukee	5,632	San Antonio	488,940
Detroit	706	San Antonio	5,884	Denver	490,803
Miami-Dade	709	Detroit	6,336	Detroit	496,422
Houston	717	Baltimore	6,436	Philadelphia	548,373
St. Louis	717	San Jose	7,154	Baltimore	568,950
Dallas	733	Jacksonville	7,223	San Jose	622,338
Baltimore	740	Louisville	7,414	Jacksonville	634,512
San Jose	762	Phoenix	7,599	Louisville	652,086
Louisville	776	Houston	7,795	Fort Worth	711,108
New York	800	Fort Worth	7,795	Phoenix	748,342
Fort Worth	813	Los Angeles	7,940	Columbus	763,049
Jacksonville	827	**New York**	7,999	Houston	763,721
Los Angeles	830	Columbus	8,238	Charlotte	766,194
Charlotte	860	Philadelphia	8,702	Los Angeles	789,635
Washington, D.C.	889	Washington, D.C.	8,934	**New York**	799,853
Columbus	913	Charlotte	9,135	San Diego	868,187
Cleveland	965	San Diego	9,338	Washington, D.C.	891,418
Austin	1,042	Miami-Dade	9,680	Cleveland	989,414
San Diego	1,098	Cleveland	9,870	Austin	1,070,255
Boston	1,177	Austin	11,801	Miami-Dade	1,151,351
Philadelphia	1,229	Boston	12,871	San Francisco	1,297,589
San Francisco	1,475	San Francisco	13,125	Boston	1,418,428
Atlanta	1,878	Seattle	18,230	Seattle	1,804,850
Seattle	1,912	Atlanta	20,612	Atlanta	2,081,347
Average	**$ 876**	**Average**	**$ 8,482**	**Average**	**$ 794,769**

(1) User Charges are based upon information provided by the identified cities and standardized assumptions regarding water consumption, wastewater discharge, stormwater drainage area and other factors. Actual charges in each city will vary in accordance with local usage patterns. There may be significant differences in typical single family residential usage among cities which results in charges that are different than shown above. Some cities bill for sewer use on the basis of winter water

consumption which could affect sewer billings if a customer's use was not uniform throughout the year. Sewer charges include stormwater charges in those cities where separate stormwater fees are assessed. Some cities use property tax revenue or other revenues to pay for part of the cost of water, wastewater or stormwater services. In such situations, the user charges will not reflect the full cost of water, wastewater or stormwater services.

(2) Charges for all cities reflect rate schedules in effect on February 15, 2009.

Accounts, Billing and Collection

The Bureau of Customer Services of DEP renders bills to customers of the System and collects payments of such bills. This 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 primarily commercial and industrial users, with industrial users accounting for only a small portion of water and sewer usage.

Approximately 50,600 accounts, representing 6% of total accounts, are billed annually through the flat-rate system. These accounts are charged for water either on a per unit charge or through a computation which incorporates, among other factors, the width of the front of the building ("frontage"), the number of stories, the number of dwelling units, and the number of water-using fixtures (such as bathtubs, showers and toilets) in the building. The frontage rate is computed when the building is first constructed, and amended upon notice from the City Department of Buildings ("DOB") of building alterations or when a DEP inspector determines that the basis for charges is incorrect. Flat-rate annual bills are normally sent to customers prior to the start of each Fiscal Year and are due at the end of the first month of the Fiscal Year.

Since 1988, the basis for service charges for residential properties has been in a continuous process of transition from a frontage or flat-rate basis of annual billing to a meter-based billing system which relies on the actual measurement of usage. The Universal Metering Program is designed to improve water conservation, water supply system management, and rate equity. Approximately 780,000 accounts, representing 94% of total accounts, are billed on a metered basis. Approximately 98% of all water and sewer accounts have meters installed, although some accounts that have meters installed are not yet billed on that basis. The City has issued contracts for the installation of meters for the remaining unmetered accounts and is testing and replacing meters where necessary. Since July 2000, unmetered properties which have not taken steps to install a meter have been required to pay a surcharge doubling their annual water and sewer charge. A surcharge was levied on approximately 8,000 accounts in their most recent bills. Commercial accounts are required by the Board and the City to have meters installed for all water services. Substantially all of these accounts are in compliance with this requirement. Meters are read and billed on a quarterly basis except meters for some larger accounts which are read and billed more frequently. Unlike flat-rate charges which were commonly paid through mortgage escrow accounts, metered charges are billed directly to customers which, among other factors, has required DEP to handle a substantially higher volume of customer account inquiries.

Most meter readings are captured electronically through the use of hand-held computers and a universal probe. Data from meter readings are relayed to computers in field offices and transmitted to a centralized computer billing system on a daily basis. Some older meters, however, must be read manually. Still other meters transmit consumption data to the billing system via telephone lines. DEP has contracted with a vendor to provide technology for an automatic meter reading system in which meters transmit usage information by radio signal to DEP. DEP began installing transmitters in the second half of 2008, with substantial completion of installation at all locations expected by the end of 2012. As part of these contracts, DEP plans to replace over 400,000 meters. The cost of implementing this program is fully funded in the CIP. To date, DEP has installed over 170,000 transmitters and the automatic meter reading system has been activated for those accounts which have had transmitters installed.

Revenues from newly metered accounts may increase or decrease somewhat depending on how closely the flat-rate billing factors previously used compare to actual metered consumption for these accounts. Based upon recent experience, a one-time decrease in collections will occur for each account as it is metered

due to the transition from billing in advance under flat rates to billing after consumption occurs. The one-time effect is taken into account in the forecasted revenues of the System.

Billing based on actual usage has affected the level of charges to certain large multiple-family residential buildings, in particular, those buildings with above-average population density and those with improperly maintained plumbing fixtures. The result is often a significant increase in charges to such buildings. In response to the needs of this segment of the customer base, the Board has adopted a transitional program whereby owners of multiple-family buildings that have had meters installed under the Universal Metering Program will continue to be billed on a flat-rate basis during the transition period. The transitional program allows owners time to review their water usage, educate tenants regarding conservation, repair leaky plumbing, and install low-flow fixtures in order to reduce consumption and charges. There are approximately 30,000 accounts in the transitional program.

On May 11, 1993, the Board adopted a program that provides for a cap on the per-unit charge on multiple-family dwellings. The cap is set at approximately 150% of the average per-family unit charge. In order to be eligible for this program, building owners must submit to a water audit by DEP and take measures to eliminate leakage and waste.

On May 3, 2001, the Board adopted its Conservation Program for Multiple Family Residential Buildings which replaces the existing transitional program and meter billing cap program referred to above for residential buildings consisting of six or more dwelling units. It provides that owners of such buildings who replace or have replaced at least 70% of the toilet, sink and showerhead fixtures in such buildings with low-flow fixtures may elect to be billed on the basis of metered consumption or a fixed charge per dwelling unit per year. The program became effective July 1, 2001. To date, approximately 700 applications for the program have been approved. The program is designed to be revenue neutral.

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

DEP manages its account and billing information through its Customer Information System ("CIS"), which incorporates both frontage and metered accounts. DEP has identified weaknesses in the ability of the CIS to identify and report account errors and corrections on a comparable basis over time. In addition, DEP continues to issue a high percentage of estimated bills. DEP is in the midst of a request for proposal process to select a vendor to replace the existing CIS. DEP expects to select the new vendor in Fiscal Year 2010.

The Board and DEP have undertaken initiatives to enhance the collection of water and sewer billings. In September 2007, the Board authorized a payment incentive program for delinquent single-family accounts that provides for service termination if payment is not made in accordance with the program. 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 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. 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. A lien sale is currently scheduled for May 2010, and the lien sale program authorization is scheduled to expire on December 31, 2010. The Board has also adopted updated policies regarding the denial of access and new policies regarding theft of service, effective July 1, 2009.

THE SYSTEM

Overview

DEP supplies water and sewer service to the Boroughs of the Bronx, Brooklyn, Manhattan, Queens, Staten Island, an area of over 300 square miles, and serves over eight million people. 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 an additional approximately one million people. The Water System provides an average of approximately 1,200 mgd of water. Water consumption has decreased since 1990 when an average of approximately 1,500 mgd was provided by the Water System. The amount of water that can be safely drawn from a watershed during the worst period in the drought of record is the "Dependable Yield." DEP has determined that the System could have furnished an average of 1,290 mgd during the drought of record in the mid-1960s. During periods of normal rainfall, watersheds supply more than the Dependable Yield. The Sewer System collects and treats an average of approximately 1,305 mgd of wastewater. Sewer service is provided to virtually the entire City, except for significant parts of the Borough of Staten Island, the Borough of Queens communities of Breezy Point and Douglaston, and the Borough of Brooklyn community of Seagate. Sewer service is also provided to certain upstate communities in System watershed areas. According to AECOM, the System is in adequate condition (the highest rating category). See "Appendix A — Letter of Aecom USA, Inc., Consulting Engineers."

In recent years, DEP has taken a number of steps to enhance and augment its security arrangements to protect the System, including water supply structures and facilities. These steps include, among others, increasing the size of the DEP police force to approximately 200 officers; obtaining legislation authorizing the DEP police to function as police officers within the City, as well as in the upstate watersheds; purchasing additional police vehicles and surveillance equipment; the installation of a watershed-wide radio communication system; and further securing facilities through additional locks, fences and other physical barriers to prevent access by unauthorized persons. In addition, DEP has been consulting with other governmental agencies, including the Federal Bureau of Investigation and the U.S. Army Corps of Engineers, on longer-term plans to modernize and improve security systems. Increased security requirements have resulted in additional labor costs and related expenses in the System.

The Water System

Water Collection and Distribution

Water for the System can be drawn from three upstate reservoir systems (the Croton, Catskill and Delaware Systems) and a system of wells in Queens that were acquired as part of the City's acquisition of the Jamaica Water Supply Company ("Jamaica Water"). The three upstate water collection systems include 18 reservoirs and three controlled lakes with a total storage capacity of approximately 550 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.

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

Approximately 95% of the total water supply is delivered to buildings by gravity. Only about 5% of the water is regularly pumped by DEP to maintain the desired pressure. As a result, operating costs are relatively insensitive to fluctuations in the cost of power. When drought conditions exist, additional pumping is required.

The three main reservoir systems are the Croton, Catskill and Delaware Systems. See "New York City Water Supply System" map in Appendix E.

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

Collecting Reservoirs

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

(1) Capacity above minimum operating level.

Balancing Reservoirs and Distribution Facilities

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

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

Water System Dependable Yield and Capacity

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

(1) Capacity above minimum operating level.

The total volume of water used each year by the City and upstate customers includes water consumed by metered and unmetered customer accounts, water used in firefighting, leakage and other uses. The following table summarizes the total quantities of water delivered each year to the City and upstate customers for Fiscal Year 2005 through Fiscal Year 2009.

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

Year	City Use	Upstate	Total
2005	400,373	43,072	443,445
2006	396,974	44,504	441,477
2007	400,658	43,895	444,553
2008	408,490	43,559	452,048
2009	378,961	41,477	420,438

When operating at full capacity, the Croton System provides approximately 10% of the City's daily water supply and can provide substantially more of the daily water supply during drought conditions. Due to abundance of higher quality water from the Catskill and Delaware Systems, the Croton System has not been operating at full capacity for several years. It was shut down entirely from the summer of 2007 to the fall of 2008 when it was briefly placed in service during planned maintenance of the Delaware System. It may be used intermittantly and for short periods over the next few years. The completion of the Croton filtration plant is expected to eliminate the water quality problems of the Croton System water. With completion of the Croton filtration plant, the Croton System will be able to operate at full capacity. 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 almost entirely within the State, approximately 45 miles north of lower Manhattan, with a small portion in the State of Connecticut.

The Catskill System watersheds occupy sparsely populated areas in the central and eastern portions of the Catskill Mountains and normally provide approximately 40% of the City's daily water supply. Water in the Catskill System comes from the Esopus and Schoharie Creek watersheds, located approximately 100 miles north of lower Manhattan and 35 miles west of the Hudson River. The Catskill System is comprised of the Schoharie Reservoir (formed by the Gilboa Dam across Schoharie Creek) and Ashokan Reservoir (formed by the Olivebridge Dam across Esopus Creek) and the Catskill Aqueduct. Schoharie Reservoir water is delivered to the Esopus Creek via the Shandaken Tunnel, from which it then travels to the Ashokan Reservoir.

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

Although there is no evidence that the dam is facing imminent risk of failure, DEP has determined that the rehabilitation of the dam should be advanced. Work on the crest gates, which will increase DEP's ability to manage the Schoharie Reservoir and maintain it at proper levels is scheduled to be completed by June 2010. Site preparation work began in September 2009, with full reconstruction, which is anticipated to bring the dam up to compliance with NYSDEC safety guidelines for new dams, scheduled to begin in Fiscal Year 2011. The estimated cost to complete the rehabilitation is $543 million, 434 million of which is currently included in the CIP.

The Delaware System, located approximately 125 miles north of lower Manhattan, normally provides approximately 50% of the City's daily water supply. Three Delaware System reservoirs collect water from a sparsely populated region on the branches of the Delaware River: Cannonsville Reservoir (formed by the Cannonsville dam on the West Branch of the Delaware River); Pepacton Reservoir (formed by the Downsville Dam across the East Branch of the Delaware River); and Neversink Reservoir (formed by the Neversink Dam across the Neversink River, a tributary to the Delaware River).

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 during drought conditions. 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 acquisition of wells in Queens from Jamaica Water in 1996 represented the first new water supply source for the City since the 1960s when the Delaware surface water system initially came on line. DEP is currently planning improvements to the ground water system which will augment the supply of water from underground aquifers.

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.

The System's water supply is transported through an extensive system of tunnels and aqueducts. See "New York City Water Tunnels" map in Appendix E. 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 and from direct connections to the New Croton Aqueduct, trunk mains carry water to the service area. The Catskill and Delaware Aqueducts convey water from Ashokan Reservoir and Rondout Reservoir to Kensico Reservoir and then to Hillview Reservoir in Yonkers. Both Kensico and Hillview Reservoirs serve as balancing reservoirs. Water from the Catskill and Delaware Systems is mixed in the Kensico Reservoir, and is conveyed to Hillview Reservoir where water enters Tunnels 1, 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.

Rondout-West Branch Tunnel. The Rondout-West Branch Tunnel carries water 45 miles from the Delaware System under the Hudson River and into West Branch Reservoir. It has a capacity of 890 mgd and normally conveys 50% of the City's water supply. It has the highest pressures and the highest velocities in the Water System. In addition, 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. In particular, since the early 1990s, DEP has monitored the condition of the Rondout-West Branch Tunnel, which comprises a portion of the Delaware Aqueduct. 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. DEP has initiated the engineering work to determine the nature and extent of repairs which may be necessary to remedy the water loss. DEP has also determined that 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. DEP intends to make the necessary repairs. The costs to perform such repairs could be substantial depending on the nature of the required repair. To perform the repair work, the tunnel will have to be shut down and de-watered for a period of up to four years. During any such period, it will be necessary for the City to increase reliance on its other water supplies, and to implement more stringent measures to encourage conservation and decrease demand. Under an extended shutdown of this tunnel, water quality in the remaining reservoirs could potentially suffer as storage volumes are drawn down. In general, the Delaware System continues to demonstrate a high degree of reliability after 55 years of continuous service. Nevertheless, DEP considers it prudent to conduct regular tunnel and aqueduct inspections and surveys to detect any problems that might arise so that corrective actions can be taken if needed.

DEP has begun to evaluate additional strategies and projects for improving dependability of water supplies, which could entail the development of additional or interim supplies to meet demands during periods of extended facility outages due to planned or unplanned inspection, repair or rehabilitation. DEP has retained a consultant to develop a long term dependability plan. DEP intends to evaluate various alternative projects which, when combined, could allow for any portion of the Water System to be taken out of service for a period of up to four years. Elements of that plan may include: interconnections with other neighboring jurisdictions; increased use of groundwater supplies; increased storage at existing reservoirs; withdrawals and treatment from other surface waters; hydraulic improvements to existing aqueducts; and additional tunnels.

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 necessary to withstand the bursting pressure of the water inside and to ensure watertightness. Tunnel 1 has a capacity of approximately 1,000 mgd. Shafts placed along the tunnel connect with surface mains which deliver water to the distribution system.

Tunnel 2. The second tunnel also delivers Catskill and Delaware System water from Hillview Reservoir. It is a circular, cement-lined, pressurized, bedrock tunnel, 200 to 800 feet below the street surface and 15 to 17 feet in diameter. Tunnel 2 extends south from Hillview Reservoir, east of Tunnel 1, through the Bronx, under the East River at Rikers Island, through Queens and Brooklyn, and connects with Tunnel 1 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. A new water tunnel, Tunnel 3, connecting the reservoir system to the City is presently under construction to increase capacity to meet a growing demand in the eastern and southern areas of the City, permit inspection and rehabilitation of Tunnels 1 and 2, 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 is currently under construction and is expected to be completed by 2018. It 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. Upon completion, and with the installation of additional surface mains or the construction of additional shafts, Stage II will enable the system to maintain full service even if Tunnel 1 or 2 were shut down. The Stage III project is now referred to as the Kensico-City Tunnel (the "Kensico-City Tunnel"). Stage IV is intended to deliver additional water to the eastern parts of the Bronx and Queens. It would extend southeast from the northern terminus of Stage I in the Bronx to Queens and then southwest to interconnect with the Queens portion of Stage II.

Kensico-City Tunnel. The Kensico-City Tunnel will extend from the Kensico Reservoir to the interconnecting chamber of Tunnel 3, Stage I, south of Hillview Reservoir. The design work for the tunnel is estimated to cost $119 million. The estimated cost to design and construct the tunnel is expected to be between $4 billion and $6 billion, most of which would be incurred in the years beyond the CIP. The amount currently included in the CIP for this project is $75 million.

The water distribution system consists of a grid network of over 6,700 miles of pipe, as well as valves, fire hydrants, distribution facilities, gatehouses, pump stations, and maintenance and repair yards. Approximately 35% of the pipe in the System was laid before 1930, 35% between 1930 and 1969, and the remainder thereafter. The CIP provides for the programmatic replacement of water mains in accordance with certain established criteria. These criteria were reviewed and confirmed by the U.S. Army Corps of Engineers in its independent study of the City's distribution system completed in November 1988.

Various facilities provide storage to meet the hourly fluctuations in demand for water throughout the City, as well as any sudden increase in draft that might arise from fire or other emergencies. With the exception of some communities in the outlying areas of the City which may experience low pressure service during peak hours in summer months, the water distribution system provides generally excellent service.

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 February 3, 2010, the System's reservoirs were filled to 94.4% of capacity. Normal levels at this time of year are approximately 81.9% of capacity.

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

A Drought Watch is declared when there is less than a 50% probability, based on the existing record since 1927, that either the Catskill or Delaware reservoir system will be filled by the following June 1. This phase initiates the pumping of water from the Croton System. In addition, during this phase a public

awareness program begins and users, including upstate communities taking water from the System, are requested to initiate conservation measures. New York State Department of Health ("NYSDOH"), NYSDEC, and the Delaware River Basin Commission (the "DRBC") are advised of the Water System's status, and discussions are held with City agencies concerning their prospective participation in the event of a declaration of a Drought Warning.

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

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

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 standards are enforced within the watershed areas north of the City through a network of overlapping governmental jurisdictions. Participating in that network, among others, are NYSDEC and NYSDOH, county, municipal and district police, engineers and inspectors; and City personnel from DEP. 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 the operation of water supply lands and facilities. Portions of the overall legislative and regulatory framework governing the watersheds may be found in the City's Administrative Code, Health Code and Water Supply Regulations. Regulatory enforcement within City limits is almost exclusively accomplished through City personnel. Provisions incorporating and augmenting the substance of the federal Safe Drinking Water Act ("SDWA"), related regulations and the Sanitary Code, are contained in the Health Code, Water Supply Regulations and the City's Building and Building Construction Codes. These provisions are enforced by personnel from DEP, NYCDOH and DOB.

Watershed Protection/Catskill, Delaware Filtration. Pursuant to the SDWA, USEPA has promulgated nationwide drinking water regulations which specify the maximum level of harmful contaminants allowed in drinking water and which govern the construction, operation, and maintenance of the System. USEPA has also promulgated filtration treatment regulations, known as the federal Surface Water Treatment Rule ("SWTR"), that prescribe guidelines concerning studies to be performed, programs to be implemented, timetables to be met and any other actions necessary to insure compliance with the regulations' terms. Enforcement of SDWA and many of its related regulations was delegated by USEPA to the State. 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.

On January 21, 1997, the City and the State executed a Memorandum of Agreement with the communities in the Catskill, Delaware and Croton watersheds, USEPA and several environmental groups (the "Watershed Memorandum of Agreement"). The Watershed Memorandum of Agreement supplemented the City's existing watershed protection program with approximately $400 million in additional funding for economic-environmental partnership programs with upstate communities. As provided under the Watershed Memorandum of Agreement, the State issued a land acquisition permit to the City to acquire water quality sensitive land in the watershed until January 2012 and approved the City's revised rules and regulations governing certain aspects of land use in the watershed.

Since 1993, USEPA has been issuing filtration avoidance determinations ("FADs") pursuant to which the City is not required to filter water from the Catskill and Delaware Systems. If the City were to have to filter water from the Catskill and Delaware Systems, construction costs to provide for such filtration are estimated to be between $6 billion and $8 billion. In July 2007 USEPA issued a new FAD (the "2007 FAD") which supersedes previous determinations and has a term of 10 years, divided into two five-year periods. The 2007 FAD requires the City to take certain actions to protect the Catskill and Delaware water supplies. These actions included the continuation and enhancement of certain environmental and economic partnership programs established under the Watershed Memorandum of Agreement, and the creation of new programs.

Since 1997, the FAD has required that the City solicit property from owners of land in the watershed and actually acquire (with certain limited exceptions) title to or conservation easements on any solicited land if the owner accepts the City's purchase price. The 2007 FAD requires the City to allocate a total of $300 million for land acquisition during its ten year term, including approximately $59 million of unspent funds remaining from moneys set aside for land acquisition under the Watershed Memorandum of Agreement and the previous FAD and $241 million in new funding. In addition, the City is obligated to develop and implement a strategy to augment its land acquisition efforts through increased participation of land trusts and other non-governmental organizations in identifying and helping the City acquire eligible lands. As of December 1, 2009, title to or conservation easements on approximately 103,100 acres of land in the Catskill and Delaware watersheds at a cost of approximately $345 million have either been acquired or are under contract for acquisition. The current NYSDEC land acquisition permit allowing the City to continue its watershed land acquisition program expires in early 2012. DEP has applied for a new permit in order to continue acquiring watershed land during the second five years of the 2007 FAD. Other stakeholders will have the opportunity, as part of the permitting process, to oppose the issuance of the permit or to request the inclusion of conditions or limitations on such permit. A failure to obtain such a permit will impact DEP's ability to comply with the 2007 FAD.

The 2007 FAD also calls for the continuation, during its first five years, of many of the City's other successful watershed protection programs that were part of the previous FAD, with additional enhancements to several programs including the Community Wastewater Management Program and the Stream Management Program. Prior to commencement of the second five years of the 2007 FAD, the City will need to reach agreement with USEPA and NYSDOH on which of such programs should be further continued into the second five-year period, whether and how any such programs to be further continued should be modified, and/or whether additional programs are needed to justify continuation of the 2007 FAD into the second five years of its term. To assist in making these decisions and reaching an agreement, DEP will prepare a Revised Long Term Watershed Protection Program, to be submitted to USEPA/NYSDOH by December 15, 2011. Additional funding will be required in the CIP for Fiscal Year 2013 through 2017 to support the FAD Program for the second five years once the program is negotiated.

There has been increased interest in natural gas drilling in southeastern New York State, including the watershed. DEP hired a geological consultant and has been monitoring the situation to understand what impact such exploration may have on the System, including any potential impact on water quality. NYSDEC issued a Draft Supplemental Generic Environmental Impact Statement ("dSGEIS") relating to natural gas drilling on September 30, 2009. On December 23, 2009, DEP released its final impact assessment of natural gas drilling within the watershed and submitted detailed comments on the dSGEIS. The City believes the dSGEIS is seriously flawed in many respects and requested that NYSDEC withdraw the document to correct its many deficiencies and errors. The City also called for a prohibition on drilling in the watershed due to the potential for natural gas drilling as currently practiced to harm water quality and jeopardize the City's FAD. USEPA also submitted comments on the dSGEIS in which it expressed concerns about the failure of the analysis to fully consider the impacts of natural gas drilling and that such concerns be addressed prior to the completion of the environmental review process. To date, no permits have been filed to drill for natural gas in the watershed.

Croton Filtration. Because of the quality of the System's water and the long periods of retention in the reservoirs, it has not been necessary to filter water from the System. However, more stringent federal

standards for surface water treatment in the 1980s and 1990s led to a 1992 stipulation with NYSDOH, which has been superseded by a 1998 federal court consent decree, as supplemented in 2002 and 2005 (the "Croton Filter Consent Decree") to filter water from the Croton System. The Croton Filter Consent Decree mandates the construction of a full scale water treatment facility to filter Croton System water.

After an extensive study, DEP identified the Mosholu Golf Course in the Bronx as its preferred site for the treatment facility and began work at the site in late 2004. The Croton Filter Consent Decree sets forth milestones, including commencement of operations of the facility on October 31, 2011 which, if not met by the City, require the payment of penalties to the State and federal governments. Because of the withdrawal of the low bidder on one of the general construction contracts for the facility, DEP missed several milestones relating to commencement of construction. Those milestones have now been met. As a result of the delay in commencing construction of the water treatment facility, DEP missed both the October 31, 2008 milestone for placement of 40% of structural concrete for the facility and the April 30, 2009 milestone for placement of 65% of structural concrete. DEP has paid a $92,500 penalty for missing the October 31, 2008 milestone. DEP achieved the 65% concrete placement milestone on September 2, 2009 and paid $187,500 in penalties. The delay in commencing construction may result in DEP missing future milestones as the project progresses, which could result in the imposition of additional penalties. DEP has asked USEPA and NYSDOH to consider forbearing with the imposition of a penalty for missing the concrete placement milestone, as well as any future milestones stemming from the delay in commencing the construction, in light of the reason for the delay. USEPA and NYSDOH are considering this request. It is anticipated that the total remaining cost to complete the Croton filtration plant will be $200 million, all of which is included in the CIP. Construction of a permanent golf club house, the costs of which are not yet known, but which DEP is mandated to fund, is not fully funded in the CIP.

From time to time, the Croton System has failed to meet the water quality standard for haloacetic acids, a disinfection by-product regulated by USEPA. Pursuant to a USEPA Administrative Order issued in June 2003, DEP has evaluated feasible and cost-effective interim measures that could be taken to reduce haloacetic acid levels in Croton water until the Croton filtration plant is completed. It is anticipated that the Croton System will be used only intermittantly and for short periods over the next few years. As such, DEP has determined that implementation of such interim measures is not needed at present due to the very limited use of the Croton system.

Drinking Water Regulations. In January 2006, USEPA issued final versions of two drinking water supply regulations, developed pursuant to the SDWA: the Long Term 2 Surface Water Treatment Rule ("LT2") and the Stage 2 Disinfection/Disinfectant By-Products Rule ("DBP2"). Compliance with these new regulations may require additional capital expenses, not all of which are currently included in the CIP.

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 anticipates achieving compliance with such levels through the construction and operation of its planned ultraviolet treatment facility (the "UV Facility"). See "— *Watershed Protection/Catskill, Delaware Filtration.*" LT2 also mandates that uncovered finished water storage facilities, which include the Hillview Reservoir, be covered or that water from such facilities be treated. DEP is already a party to an Administrative Order with NYSDOH ("Hillview Administrative Order") which requires, among other things, that the City install or construct a cover for the Hillview Reservoir. DEP is seeking a deferral from the LT2 requirement that Hillview Reservoir be covered as a finished water storage facility, which, if granted, would provide DEP additional time to cover the reservoir under the Hillview Administrative Order. There can be no assurance that such deferral will be obtained. The cost of covering the Hillview Reservoir is expected to be approximately $1.6 billion, $250 million of which is included in the CIP.

The purpose of DBP2 is to reduce the potential health risks associated with disinfection byproducts, which are chemical compounds formed when disinfectants such as chlorine are added to drinking water. Based on preliminary assessments, DEP believes that the mandated levels of disinfection byproducts set forth by DBP2 may be exceeded in certain parts of the System under certain conditions. DEP hired a

consultant to study the matter and issue a report recommending steps to be taken by DEP. The final report was issued in October 2008. The report does not suggest switching to chloramination (an alternative form of disinfectant) at this time, but does recommend that DEP leave space available at its facilities to accommodate the use of chloramination in the event that a change in disinfection is necessary in the future. The report also makes certain recommendations regarding DEP's operation of the water supply system, which will improve DEP's ability to achieve compliance with DBP2. There are no significant capital issues related to the recommendations set forth in the report.

UV Facility. The UV Facility will provide treatment for Catskill and Delaware water by achieving certain levels of inactivation of cryptosporidium. The 2002 FAD, as initially issued, called for the UV Facility to be operable by September 2009. There have since been a number of delays attributable to design changes and permitting issues. In January 2007, DEP entered into an Administrative Order on Consent ("UV Order"), with USEPA, pursuant to USEPA's authority under LT2. The UV Order establishes a revised schedule of milestones for the construction of the UV Facility including a final completion date of October 29, 2012. The milestones in the UV Order have been incorporated into the 2007 FAD. The cost to complete the UV Facility is fully funded in the CIP.

Hillview Reservoir. In March 1996, DEP entered into the Hillview Administrative Order with NYSDOH 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.

The City has not commenced construction of a cover for the Hillview Resevoir and therefore did not meet the December 31, 2005 milestone date set out in the Hillview Administrative Order. On February 22, 2008, DEP entered into a revised Hillview Administrative Order which requires the City to cover the Hillview Reservoir by October 31, 2016 while also allowing the City to pursue an evaluation of other strategies to protect the resevoir. Currently, the cost of constructing a concrete cover over the Hillview Reservoir, as DEP originally proposed, is expected to be approximately $1.6 billion, $250 million of which is included in the CIP. DEP is continuing to investigate less costly alternatives to a concrete cover, including a floating cover, which would require the consent of NYSDOH. Installation of a floating cover would require additional design work and may cause DEP to miss the October 31, 2016 construction completion date mandated under the Hillview Administrative Order. See "— *Drinking Water Regulations.*"

Consumer Confidence Report. The SDWA requires that utilities prepare and distribute to their consumers a brief annual water quality report, referred to as the Consumer Confidence Report (the "CCR"). The CCR covering calendar year 2008, the most recent such report, demonstrates that the quality of New York City's drinking water remains high. The CCR notes several exceedences of color, as well as several turbidity Tier 3 violations for failure to collect a repeat sample in the Croton System. None of these exceedences are considered harmful to public health.

Delaware System. The conditions under which the System's Pepacton, Neversink and Cannonsville Reservoirs may be operated are set forth under the terms of a 1954 decree of the Supreme Court of the United States (the "1954 Decree"). It allows the System to divert 800 mgd of water from the Delaware River Basin for use by the Water System. At the same time, an October 2007 agreement with the Delaware River Basin Commission requires the System, under certain circumstances, to release water from the three reservoirs into the tributaries of the Delaware River, when the reservoirs are full. Enforcement of the 1954 Decree is under the jurisdiction of a River Master appointed by the Supreme Court of the United States. The City and State, and the governments of New Jersey, Pennsylvania and Delaware are named parties to the 1954 Decree.

USEPA/U.S. Attorney Investigations. In August 2001, pursuant to a plea agreement entered into with the United States Attorney's Office for the Southern District of New York, DEP pleaded guilty to a criminal violation of both the Clean Water Act and the Toxic Substances Control Act. As a result, DEP was placed on probation and a court-appointed federal monitor was assigned to oversee DEP's compliance with the terms of the plea agreement. Among other things, the plea agreement required DEP to establish an agency compliance office, and to develop and implement a compliance program for its water supply

operations and its upstate water pollution control plants, intended to detect and prevent violations of environmental, health and safety laws, rules and regulations.

The Clean Water Act violation was based on the discharge of water containing low levels of mercury from a DEP facility in Sullivan County. The Toxic Substances Control Act violation was based on DEP's use of flow control equipment which contains PCBs in other than a totally enclosed manner at a facility in Westchester County. The conditions which gave rise to the violations have been remedied and did not have any detectable impact on water quality and the City's water supply has been, and continues to be, safe. The federal government, NYSDOH and DEP have all indicated that the water supply remains safe with respect to mercury, PCBs and lead. DEP has been and continues to be engaged in programs to remediate mercury, PCBs, lead, and other constituents of concern from the affected facilities. DEP's operation and management of the System have not materially changed as a result of the plea.

On August 14, 2003, the City (along with major portions of the northeastern United States) experienced a massive power blackout. With the loss of electrical power during the blackout, DEP's North River and Red Hook water pollution control plants were unable to treat wastewater being conveyed to those facilities, resulting in the outflow of untreated wastewater into the waters of New York Harbor. The United States Attorney's Office for the Southern District of New York conducted an investigation into operations at the two plants in connection with the blackout. On January 13, 2006, DEP entered into an agreement with the United States Attorney's Office, whereby DEP admitted that it had violated the terms of probation by failing to properly maintain emergency back-up generators at the Red Hook plant, in violation of its SPDES permit for the plant. It further agreed to an extension of probation for three years, ending February 6, 2009, which was later extended until December 31, 2009.

In recognition of progress made by DEP in developing and implementing its compliance program, the Federal District Court terminated DEP's probation effective January 1, 2010. As a result, the oversight of the federal monitor has ended.

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 water pollution control facilities. See "New York City Drainage Areas and Water Pollution Control Plants" map in Appendix E.

Sewage Collection and Treatment

The Sewer System's plants treat approximately 1,305 mgd of wastewater. The Sewer System is divided into 14 drainage areas corresponding to the 14 water pollution control plants and includes over 6,600 miles of sewer pipes of varying size which are classified as one of three types: sanitary, storm or combined. Sanitary sewers accommodate household and industrial waste. Storm sewers carry rainwater and surface water runoff. Combined sewers carry both types of waste. Approximately 70% of the City's sewers are of the combined type. In addition to the sewage pipes, the Sewer System includes catch basins and seepage basins to prevent flooding and sewer backups.

The Sewer System is comprised of a number of sewer facilities built to varying standards. Different materials and methods of construction were used resulting in different life cycles. Approximately 4,000 miles or two-thirds of the City's sewer pipe is made of vitreous clay. Significant mileage of sewer pipe is composed of other building materials including cement, reinforced concrete, iron and brick. Some pipe in the collection system was installed before 1870, and approximately 15% of all sewer pipe in the collection system is over 100 years old.

The facilities related to the treatment of sewage include water pollution control 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, lime stabilization or thermal pelletization.

Issues of both water supply volume and consequent sewage treatment volume are raised from time to time in connection with the System. Measures to increase the supply of water available to the System and to increase the sewage treatment capacity of the various water pollution control plants in the System are either being constructed under the CIP or are under continuing review for feasibility and cost effectiveness. DEP has been addressing both the issues of supply and treatment capacity by promoting conservation, through voluntary changes in user behavior, through education and the imposition of use charges based on metered water usage, leak detection and repair, and increased use of newly designed low-flow water use fixtures such as toilets.

The Sewer System's water pollution control pump stations convey wastewater to the water pollution control 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.

Sewer regulators and tide gates control flow in the System. Recent inspections of the regulator system have found it to be structurally adequate, but many portions are in need of mechanical reconstruction. A detailed evaluation of the regulator and tide gate system has been completed and funds have been provided in the CIP for mechanical refurbishment of these facilities.

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, design and construction of facilities to address this issue.

DEP awarded contracts for the beneficial use of its biosolids, which commenced in July 1998. These current contracts include: thermally drying the biosolids into fertilizer pellets at a facility located in the Bronx; composting in Pennsylvania; direct land application in Colorado and Virginia; and lime stabilization in Colorado. DEP has recently awarded a contract to landfill a portion of its biosolids, which will diversify disposal options and reduce costs.

Governmental Regulation

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

Full Secondary Treatment Requirements/Newton Creek. Thirteen of the System's 14 in-City water pollution control plants have been upgraded to meet the full secondary treatment requirements of the Clean Water Act. The remaining plant, Newtown Creek, is in the process of being upgraded to meet secondary treatment requirements and to improve plant operations. All of this work is being undertaken pursuant to the terms of a State court consent judgment (the "Newtown Creek Consent Judgment"), agreed to by NYSDEC and DEP, as recently modified. The modified Newtown Creek Consent Judgment requires the plant to meet secondary treatment levels by May 1, 2013. It requires the City to, among other things, (i) pay approximately $29 million into an escrow account, some or all of which may be recovered by the City if DEP meets certain future milestone dates, (ii) fund a $10 million Environmental Benefits Project, and (iii) conduct environmental audits of DEP's in-City wastewater treatment plants and four combined sewer overflow ("CSO") facilities. The modified Newtown Creek Consent Judgment requires DEP to remedy any legal deficiencies uncovered during the environmental audits but shields DEP from penalties for any such deficiencies. The current estimated cost to complete the work at Newtown Creek is $815 million, $647 million of which is included in the CIP.

Combined Sewer Overflows. The System is also required to develop programs to reduce pollution from combined sewer overflows and to eliminate excess infiltration and inflow into the Sewer System from ground and storm water. In June 1992, DEP entered into a consent order with the State (the "CSO Consent Order") establishing various deadlines through 2006 for the construction of nine combined sewer overflow projects, which may include storage tanks. The CSO Consent Order was modified in January 2005, April 2008 and August 2009. Certain of these milestones extend beyond the end of the CIP. The estimated remaining cost of complying with the CSO Consent Order through the end of the CIP, as revised, is $1.8 billion, $1.1 billion of which is currently included in the CIP. Consistent with USEPA guidelines, the City is exploring alternative approaches to combined sewer overflow problems that focus on cost-effective means of protecting water quality. DEP and NYSDEC executed a consent order modification effective April 14, 2008 settling two NOVs, along with other issues under the CSO Consent Order and other outstanding obligations for a $1 million penalty and $4 million in environmental benefit projects to be proposed by DEP. In July 2008, NYSDEC issued an NOV disputing DEP's certification of construction completion for the Flushing CSO facility as required under the CSO Consent Order. The August 2009 modification to the CSO Consent Order resolved the Flushing NOV with the institution of revised milestones and DEP's payment of a civil penalty of $175,000. NYSDEC issued an NOV in March 2009 for milestone delays relating to the completion of the Paerdegat Basin CSO Facility. DEP has requested a modification to the milestone due to force majeur delays and disputes the NOV. DEP and NYSDEC have resolved the NOV.

DEP's SPDES permits for the City's 14 in-City water pollution control plants require those plants to be capable of accepting and treating two times dry weather flow. DEP has met this requirement at 12 plants. Design work has begun for the necessary upgrades at the Tallman Island plant and construction is expected to be completed in fiscal year 2015, the full cost of which is included in the CIP. DEP believes that the Rockaway plant currently meets the two times dry weather flow requirement and is monitoring the performance of the plant in order to gather data for submission to NYSDEC. In 2002, NYSDEC proposed modifications of the existing SPDES permits for the 14 in-City water pollution control plants operated and maintained by DEP. The proposed modifications included certain provisions relating to the control of CSOs. NYSDEC has issued draft SPDES permits which are acceptable to DEP. However, these permits have been challenged by several environmental groups. Such challenge could result in additional permit provisions relating to the control of CSOs and/or a request to modify the terms of the revised CSO Consent Order. For information relating to these permits, see "LITIGATION".

In December 2007, NYSDEC issued an NOV alleging that DEP was not in compliance with certain requirements related to CSOs as set forth in DEP's SPDES permits. DEP has disputed these claims. In August 2008, NYSDEC served DEP with a draft of a new Consent Order (the "CSO SPDES Consent Order") seeking to resolve the NOVs. Negotiations concerning the NOV and the CSO SPDES Consent Order are ongoing. DEP's potential liability is difficult to estimate; to date NYSDEC has not made a specific penalty demand.

Water Pollution Control Plants The System includes eight City-owned upstate water pollution control plants to prevent untreated sewage from being released into the watersheds. To enhance watershed protection, DEP completed upgrades to seven of these facilities. The CIP includes funds to upgrade the eighth facility. NYSDEC issued an NOV on July 31, 2009 resulting from the collapse of the roof of a regulator chamber at the 26th Ward water pollution control plant and the resulting bypass of sewage through the treatment plant on October 12, 2008. The bypass of sewage through the plant ended on the morning of October 13, 2008 and DEP has secured the site of the collapse and is proceeding with a contract to repair the regulator. NYSDEC has not identified a specific penalty demand. SPDES permit violations are subject to penalties of up to $37,500 per day. DEP has disputed the violation. On October 23, 2009, USEPA issued a unilateral Administrative Compliance Order to DEP for the repair of the regulator roof and requiring certain interim steps including final repair of regulator within 2 years of receipt of Order. DEP has requested that USEPA discuss the dates imposed by the order. Although the order does not contain any penalties, violations of USEPA orders generally are subject to penalties of up to $37,500 per day.

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 37 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 DOs are periodically below acceptable concentrations. Many local waterways, which were unfishable just 20 years ago, now meet the coliform bathing standards. These water quality improvements are primarily a response to: continued water pollution control plant construction and upgrades; abatement and surveillance of illegal discharges; and increased capture of wet-weather flows.

In April 2004, the City health code for bathing beaches began utilizing a standard based on enterococcus, rather than coliform, which is regarded as a more precise indicator of water quality. DEP's Harbor Survey has begun a monitoring program for enterococcus and has been assisting the NYCDOH in its beach assessments.

In 2006, the City entered into a State Court Consent Judgment with NYSDEC (the "Nitrogen Consent Judgment") which requires DEP to upgrade five water pollution control plants, four of which discharge into the Upper East River and one of which discharges into Jamaica Bay, in order to reduce nitrogen discharges and comply with draft SPDES nitrogen limits by January 1, 2017. The Nitrogen Consent Judgment also required DEP to pay a $2.7 million penalty to the State Marine Resources Account and $5.3 million for projects to benefit waters in and around the City. The Nitrogen Consent Judgment also establishes less stringent nitrogen limits during construction of the modified facility plan than those set out in the draft SPDES permits. Contracts related to Phase 1 of the facilities plan pursuant to the Nitrogen Consent Judgment have been let, all of which are fully funded. DEP submitted a draft of Phase 2 of the facilities plan in December 2009. The costs related to Phase 2 of the plan have not yet been determined. Pursuant to a Stipulation and Order Modifying the Nitrogen Consent Judgment entered in October 2009, DEP has agreed to upgrade a sixth plant, the Jamaica Water Pollution Control Plant, to reduce nitrogen discharges. DEP and NYSDEC are currently negotiating a further commitment by DEP to construct additional nitrogen upgrades at the plants that discharge into Jamaica Bay. DEP has missed certain consent judgment milestones, and is projected to miss additional future milestones. These milestones are subject to maximum stipulated penalties of up to $15,000 per day under the Nitrogen Consent Judgment. The draft SPDES permit nitrogen levels have been challenged by several environmental groups. Such challenge could result in additional permit provisions relating to the control of nitrogen at certain plants and/or a request to modify the terms of the Nitrogen Consent Judgment.

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

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 but, in many cases, do not reflect the economic downturn that has impacted the City commencing in 2007. 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 has a diversified economic base, with a substantial volume of business activity in the service, wholesale and retail trade and manufacturing industries, and is the location of many securities, banking, law, accounting, new media and advertising firms.

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. The Mayor's most recent financial plan for the City's fiscal years 2010 through 2014 (the "Financial Plan") assumes that the decrease in economic activity which began in the second half of 2007 will persist through the beginning of 2010. The Financial Plan also assumes total private sector job losses of 177,000 in 2009 and 2010 and a gain of 20,000 in 2011. The Financial Plan further assumes an expansion of wage earnings from both the private and public sectors of 2.8% for 2010 and 4.5% for 2011.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1997 to 2007 (the most recent year for which City personal income data are available). From 1997 to 2007, personal income in the City and the nation averaged 5.4% growth. After increasing by 8.9% in 2006, total personal income increased by 7.9% in 2007. The following table sets forth information regarding personal income in the City from 1997 to 2007.

Personal Income(1)

Year	Total City ($ billions)	Per Capita City	Per Capita U.S.	Per Capita City as a Percent of U.S.
1997	$245.5	$31,579	$25,654	123.1%
1998	262.0	33,341	27,258	122.3
1999	275.4	34,658	28,333	122.3
2000	296.0	36,916	30,318	121.8
2001	302.7	37,544	31,149	120.5
2002	299.8	37,052	31,470	117.7
2003	306.1	37,677	32,284	116.7
2004	327.8	40,124	33,899	118.4
2005	353.7	43,063	35,447	121.5
2006	385.2	46,682	37,728	123.7
2007	415.6	50,011	39,430	126.8

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

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

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, fashion design and retail fields. From 1989 to 1992, the City lost approximately 9% of its employment base. From 1992 through 2000, the City experienced significant private sector job growth with the addition of approximately 452,700 new private sector jobs (an average growth rate of approximately 2%). Between

2000 and 2003 the City lost 174,300 private sector jobs. From 2003 to 2008, the City fully recovered those jobs adding a total of 252,100 private sector jobs. As of December 2009, total employment in the City was 3,717,800 compared to 3,792,800 in December 2008, a decrease of approximately 2.0%.

The table below shows the distribution of employment from 1999 to 2009.

Employment Distribution

	Average Annual Employment (In thousands)										
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Goods Producing Sectors											
Construction	112	121	122	116	113	112	113	118	127	131	121
Manufacturing	187	177	156	139	127	121	114	106	101	95	83
Service Producing Sectors											
Trade Transportation and Utilities	556	570	557	536	534	539	547	558	570	573	549
Information	173	187	200	177	164	160	163	165	165	168	162
Financial Activities	481	489	474	445	434	435	445	458	468	465	436
Professional and Business Services	553	587	582	550	537	542	556	572	593	605	581
Education and Health Services	604	615	627	646	658	665	679	695	705	719	732
Leisure and Hospitality	244	257	260	255	260	270	277	285	298	308	307
Other Services	142	147	149	150	149	151	153	154	158	161	163
Total Private	3,052	3,149	3,127	3,015	2,975	2,995	3,047	3,111	3,185	3,227	3,139
Government	567	569	562	566	557	554	556	555	559	564	568
Total	3,619	3,718	3,689	3,581	3,531	3,549	3,603	3,667	3,744	3,790	3,727

Note: Totals may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics. Data are presented using the North American Industry Classification System ("NAICS").

Sectoral Distribution of Employment and Earnings

In 2007, the City's service producing sectors provided approximately 3.0 million jobs and accounted for approximately 79% 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 2007, the employment share for the financial activities and professional and business services sectors was approximately 28% while the earnings share for that same sector was approximately 52%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 26% of earnings in 2007. 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 2007 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2007(1)

	Employment		Earnings(2)	
	NYC	U.S.	NYC	U.S.
Goods Producing Sectors				
Mining	0.0%	0.5%	0.3%	1.1%
Construction	3.4	5.5	2.8	6.8
Manufacturing	2.7	10.1	2.2	11.2
Total Goods Producing	6.1	16.2	5.3	19.1
Service Producing Sectors				
Trade, Transportation and Utilities	15.2	19.4	8.3	16.0
Information	4.4	2.2	7.5	3.4
Financial Activities	12.5	6.0	32.2	9.6
Professional and Business Services	15.8	13.0	19.8	15.9
Education and Health Services	18.8	13.3	9.6	11.2
Leisure & Hospitality	8.0	9.8	3.7	4.1
Other Services	4.2	4.0	2.3	3.7
Total Service Producing	79.0	67.7	83.3	64.0
Total Private Sector	85.1	83.9	90.1	83.4
Government(3)	14.9	16.1	9.9	16.6

Note: Data may not add due to rounding or restrictions on reporting earnings data. Data are presented using NAICS.

Sources: The two primary sources are the U.S. Department of Labor, Bureau of Labor Statistics and the 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 2007 data.

(3) Excludes military establishments.

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

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

Sectoral Distribution of Employment and Earnings(1)

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

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

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

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

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

(3) Excludes military establishments.

Population

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

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

Population

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

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

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

LITIGATION

There is no action, suit, proceeding or investigation, at law or in equity, before or by any court, public board or body pending or, to the best knowledge of the Authority, threatened against or affecting the Authority to restrain or enjoin the issuance, sale or delivery of the Fiscal 2010 Series 2 and 4 Bonds, or in any way contesting or affecting the validity of the Fiscal 2010 Series 2 and 4 Bonds, or any proceedings of the Authority, the Board or the City taken with respect to the issuance or sale of the Fiscal 2010 Series 2 and 4 Bonds, or with respect to the Authority First Resolution, the Authority Second Resolution or the pledge or application of any money or security provided for the payment of the Fiscal 2010 Series 2 and 4 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. In Fiscal Years 2003 through 2008, respectively, the City recognized $15.1 million, $27.9 million, $6.1 million, $8.2 million, $31.2 million and $68.1 million for tort claims relating to the operation of the System. Contract claims on water supply, sewer and water pollution control projects arise in varying amounts based on alleged change orders and related matters. While most seek under $10 million in damages, one action seeks damages of over $26 million, a second seeks damages of approximately $47 million, a third seeks damages and indemnification in excess of $160 million and a fourth seeks damages in excess of $13 million. While the probable outcome of these actions cannot be determined at this time, contract claims are expected to be funded through the CIP, which may be revised from time to time to accommodate such claims as well as other changes therein. The ultimate outcome of the proceedings described below is not currently predictable, and unfavorable determinations therein could result in substantial expenditures.

As a result of federal litigation resulting in a determination that a SPDES permit is required for water transfers such as the City's transfer of water through the Shandaken Tunnel, DEP applied for and obtained a SPDES permit for the Shandaken Tunnel. The SPDES permit issued by NYSDEC requires, among other things, that DEP submit a report for approval indicating what short-term and long-term structural measures it intends to undertake to achieve compliance with the permit's temperature and turbidity limits. DEP submitted its report in December 2006, which analyzed several alternatives including construction of a multiple level intake (with an estimated cost of between $74 million and $360 million depending on location), and modification of existing operations at the Schoharie Reservoir (from which water is diverted into the Shandaken Tunnel), using a highly sophisticated water quality simulation tool (with an estimated cost of $6.2 million). The report recommended that DEP implement the latter alternative.

In September 2006, the plaintiffs in the federal litigation commenced a proceeding against NYSDEC and DEP under Article 78 of the Civil Practice Law and Rules, in State Supreme Court in Ulster County, seeking to overturn the SPDES permit issued by NYSDEC on September 1, 2006. In August 2008, the court issued a decision essentially granting the underlying Article 78 petition, finding that the "exemptions" in the permit are not authorized under the Clean Water Act and directing the City to apply for variances. The court allowed the current permit to remain in effect during that regulatory process. The Appellate Division, Third Department, affirmed the Supreme Court's decision in January 2010. The City has filed a motion in the Third Department for leave to appeal to the New York Court of Appeals.

A complaint representing approximately 178 plaintiffs has been filed against the City due to flooding allegedly caused by the City's operation of the Neversink Dam in April 2005. The complaint seeks compensation of approximately $9 million associated with alleged property damage. In April 2007, the

plaintiffs filed an amended complaint in the United States District Court for the Southern District of New York. The amended complaint adds claims under the Endangered Species Act and the Clean Water Act. The City is vigorously defending all these claims.

In September, 2007, the Coalition of Watershed Towns and three individual towns in the watershed filed a petition for review in the Federal Circuit Court of Appeals for the Second Circuit, challenging the USEPA's issuance of the 2007 FAD on both procedural and substantive grounds. The petition was denied, as was a petition for rehearing en banc, and in June 2009, a petition for a Writ of Certiorari was denied by the United States Supreme Court, thereby concluding the litigation in federal court. The Coalition of Watershed Towns and two individual towns in the watershed have filed a proceeding in State Court against the City and NYSDOH challenging the environmental review of the 2007 FAD. That litigation has been suspended pending settlement discussion, which is focused primarily on terms for the continuation of the City's land acquisition program beyond January 2012, when the City's current land acquisition permit expires. On January 21, 2010, the City applied for a new land acquisition permit, to take effect in January 2012. The application reflects a number of terms that have been discussed in the ongoing settlement negotiations. See "THE SYSTEM — The Water System — Governmental Regulation — Watershed Protection/Catskill, Delaware Filtration."

On July 18, 2007 a Con Edison steam main located at Lexington Avenue and 41st Street in Manhattan ruptured resulting in one death, dozens of personal injuries, and substantial property damage. The City was served with 350 notices of claim. About 96 lawsuits with 209 plaintiffs have been commenced and the City is a defendant, or a third-party defendant, in each. The other defendants are Con Edison, owner and operator of the steam system, and Team Industrial Services, a company hired by Con Edison to seal leaks in the main. Con Edison's investigation concluded that a sudden pressure surge known as a "waterhammer" caused the rupture, and two "steam traps" designed to drain water were clogged with an epoxy sealant injected by Team Industrial Services. Con Edison also claims the excessive water, or condensate, formed inside the main because it was submerged in cool water. The allegation against the City is that defective DEP infrastructure leaked water on the main. If plaintiffs and/or Con Edison prevail the City could incur substantial damages. The City denies the allegations and will vigorously contest liability.

On July 9, 2008 Mothers on the Move and other named plaintiffs filed a lawsuit in the Bronx County Supreme Court alleging that the Hunts Point Water Pollution Control Plant and the New York Organic Fertilizer Company ("NYOFCo.") sludge facility, which are less than one half mile from each other, are generating odors which impair air quality and quality of life and constitute a health hazard and both a private and public nuisance. Plaintiffs seek a determination from the court that the facilities are a private and public nuisance, and an order directing the City and NYOFCo. to investigate and abate or eliminate the odors. If plaintiffs were ultimately to prevail, the City could incur substantial costs in connection with such abatement or elimination.

Several environmental groups served a Notice of Intent to Sue DEP and the City, dated August 27, 2009, under the Clean Water Act citizen suit provision. The letter alleges that DEP and the City are violating the SPDES permits for the four water pollution control plants that discharge to Jamaica Bay. Clean Water Act violations are subject to penalties in an amount up to $37,500 per violation per day. The letter states that prospective plaintiffs would seek penalties from August 27, 2004 forward. The Clean Water Act allows citizens to file the suit 60 days after service of the notice letter, if regulators do not commence an action prior to the expiration of that period. DEP, NYSDEC and the environmental groups are in discussions concerning potential resolution of this matter.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the Fiscal 2010 Series 2 and 4 Bonds is subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the City and the Board by the City's Corporation Counsel.

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 original purchasers or any holders of the Authority Second Resolution Fiscal 2010 Series 2 and 4 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 respective Underwriters to determine, as a condition to purchasing the Corporation's Series 2010 A and B 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 Corporation's Series 2010 A and B Bonds ("Bondholders") that it will:

(1) within 270 days after the end of the 2010 Fiscal Year and each Fiscal Year, to the Electronic Municipal Market Access System ("EMMA") (http://emma.msrb.org) established by the Municipal Securities Rulemaking Board (the "MSRB"), core financial information and operating data for the prior fiscal year, including (i) the System's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical financial and operating data concerning the System and the Revenues of the System generally of the type included in this Attachment 1 under the captions "Capital Improvement and Financing Program," "Financial Operations," "Rates and Billing" and "The System;"

(2) provide in a timely manner to EMMA, notice of any of the following events with respect to the Fiscal 2010 Series 2 and 4 Bonds, if material:

(a) principal and interest payment delinquencies;

(b) non-payment related defaults;

(c) in the case of credit enhancement that is provided in connection with the issuance of the Fiscal 2010 Series 2 and 4 Bonds, unscheduled draws on such credit enhancement reflecting financial difficulties and substitution of credit providers, or their failure to perform;

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

(e) adverse opinions or events affecting the exclusion from gross income for federal income tax purposes of interest on the Fiscal 2010 Series 2 Bonds;

(f) modifications to rights of security holders;

(g) bond calls;

(h) defeasances;

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

(j) rating changes; and

(3) provide in a timely manner, to each nationally recognized municipal securities information repository or to the MSRB, and to any New York State information depository, notice of any failure by the Authority to comply with clause (1), above.

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

Event (d) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (d) may not be applicable, since no "debt service reserves" will be established for the Fiscal 2010 Series 2 and 4 Bonds.

Event (e) is relevant only to the extent interest on the Fiscal 2010 Series 2 and 4 Bonds is tax-exempt.

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

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

No Bondholder may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the Undertaking or for any remedy for breach thereof, unless such Bondholder has filed with the Authority evidence of ownership and a written notice of and request to cure such breach, and the Authority has not complied within a reasonable time; provided, however, that any Proceeding challenging the adequacy of any information provided pursuant to paragraphs (1) and (2) above may be brought only by the Trustee for the holders of a majority in aggregate principal amount of the Corporation's 2010 Series A 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 Corporation's 2010 Series A 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 Debt Service Reserve Fund, the Construction Fund and the Revenue Fund. Investments are made pursuant to restrictions contained in the Authority First Resolution and the Authority Second Resolution 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. The 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, 2009 and June 30, 2008 (the "Audited System Financial Statements") included in Appendix D to this Attachment 1 have been audited by Deloitte & Touche LLP, independent certified public accountants, as stated in their report appearing therein. Deloitte & Touche LLP, the Authority's independent auditor has not reviewed, commented on or approved, and is not associated with, this Attachment 1. The report of Deloitte & Touche LLP relating to the Authority's financial statements for the fiscal years ended June 30, 2009 and 2008, which is a matter of public record, is included in this Attachment 1. However, Deloitte & Touche LLP has not performed any procedures on any financial statements or other financial information of the Authority, including without limitation any of the information contained in this 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. The President of Amawalk Consulting has provided consulting services including feasibility studies, rate studies and organizational analysis to numerous clients in the water and wastewater industry including the City of New York Water and Sewer System, the Boston Water and Sewer Commission and the Shanghai, PRC Water and Sewer.

APPENDIX A

LETTER OF AECOM USA, INC., CONSULTING ENGINEERS

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APPENDIX A

LETTER OF
AECOM USA, INC.
CONSULTING ENGINEERS

February 3, 2010

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

Subject: New York City Municipal Water Finance Authority Water and Sewer System Second Resolution Revenue Bonds, Fiscal 2010 Series 2 and Fiscal 2010 Series 4

Dear Mr. Paolicelli,

We hereby submit the opinion of AECOM USA, Inc. ("AECOM") on the condition of the Water and Sewer System serving The City of New York (the "City"). Capitalized terms used herein and not otherwise defined have the meanings ascribed to such terms in the 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 in a professional and prudent manner. Further, AECOM is of the opinion that:

- The condition of the System continues to receive the highest rating of our three rating categories (adequate).
- The expense allocations for Fiscal Year 2010 are adequate for the continued reliable operation of the System.
- The Capital Improvement Program (the "CIP") is responsive to the long-term operating requirements of the service area.
- Current staffing levels of the System are sufficient for proper operation and maintenance. Additional staffing needs have been identified for future facilities, ongoing and future compliance programs and organizational strengthening.

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 2010 Series 2 and Fiscal 2010 Series 4. 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 for the period 2010-2019 and the funding needed to carry out the CIP and ongoing capital contracts commenced prior to the CIP
- An analysis of the management of the System and its current and anticipated operating programs

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

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

Methodology

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

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

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

The Consulting Engineer

AECOM has served the City as consulting engineers for over 90 years in capacities 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.
Vice President
AECOM USA, Inc.

APPENDIX B

LETTER OF AMAWALK CONSULTING GROUP LLC, RATE CONSULTANTS

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Amawalk
Consulting Group LLC

26 Broadway, Suite 950, New York, NY 10004 • Tel: 212.361.0050 • Fax: 212.361.0055

February 3, 2010

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

Subject: New York City Municipal Water Finance Authority
Water and Sewer System Second General Resolution Revenue Bonds,
Fiscal 2010 Series 2 and Fiscal 2010 Series 4

Dear Mr. Paolicelli:

The purpose of this letter is to summarize the conclusions of the independent analysis of the financial forecast of the Authority (the "Forecasted Cash Flows") for Fiscal Years 2010 through 2015 (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 $339,264,607 Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2010 Series 2 and Fiscal 2010 Series 4 (collectively, the "Fiscal 2010 Series 2 and 4 Bonds"). Proceeds from the Fiscal 2010 Series 2 and 4 Bonds are expected to be used to pay principal and interest on the Authority's outstanding Commercial Paper Notes. 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 System Expense
- Forecasted Cash Flows

The forecast includes provisions for the financing of improvements to the City of New York (the "City") Water and Sewer System (the "System") as reflected in the Capital Improvement Program (the "CIP") for the Reporting Period. The Forecasted Cash Flows set forth the ability of the System to meet the operating costs, working capital needs and other financial requirements of the System, including the debt service requirements associated with the Outstanding Bonds issued under the Authority's General Bond Resolution (the "First Resolution") and obligations issued under the Authority's Second General Resolution (the "Second Resolution") and additional Bonds and Authority Second Resolution Bonds whose issuance by the Authority during the five years ending June 30, 2015 is anticipated.

Revenues pledged to secure the Authority's Bonds are to be derived from the following sources: (i) all Revenues, (ii) all moneys or securities in any of the Funds and Accounts, and (iii) all other monies and securities to be received, held or set aside by the Authority or by any Fiduciary pursuant to the First Resolution. The term "Revenues," as defined by the 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 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;

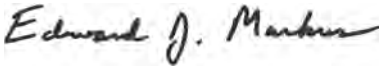
d. One hundred percent (100%) of other Required Deposits as required by the Authority First Resolution. In addition, revenues are adequate to make all payments to the City.

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

APPENDIX C

GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS

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APPENDIX C

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 Authority Second Resolution, and not otherwise defined in this Attachment 1. As used in this Attachment 1, terms defined in both the Authority First Resolution and the Authority Second Resolution shall have the meanings specified in the Authority First Resolution or the Authority Second Resolution as the context requires.

Definition of Certain Terms Used in 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.

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 USA, Inc. or such other independent engineer or engineering firm of recognized standing selected by the Authority and satisfactory to the Board.

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

Cost or Costs of a Water Project: The cost of construction, as such term is defined in the Act, including, without limiting the generality of the foregoing, the erection, alteration, improvement, increase, enlargement or rehabilitation of the System or a Water Project, the inspection and supervision thereof, the engineering, architectural, legal, fiscal, economic and environmental investigations and studies, designs, surveys, plans, specifications, procedures and other actions incidental thereto; the cost of the acquisition of all Property; the cost of demolishing, removing or relocating any buildings or structures on lands so acquired (including the cost of acquiring any lands to which such buildings or structures may be moved or relocated); the cost of all systems, facilities, machinery, appurtenances, equipment, financing charges and interest prior to, during and after construction (if not paid or provided for from revenues or other sources); the cost of engineering and architectural surveys, plans and specifications; the cost of consultants' and legal services; the cost of lease guarantee or bond insurance; other expenses necessary, reasonably related or incidental to the construction of such Water Project and the financing of the construction thereof, including the cost of Credit Facilities, the amounts authorized in the 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 CC or better by Standard & Poor's Ratings Services.

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

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

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

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

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

Defeasance Obligations: (A) any non-callable bonds or other obligations which as to principal and interest constitute direct obligations of, or are guaranteed by the United States of America, including obligations of any agency thereof or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America or (B) any other non-callable receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in subclause (A); provided, however, that, when used in connection with any Bond authorized to be issued by a Supplemental Resolution adopted on or after June 1, 2001, such term also means: (C) a non-callable obligation of the United States of America which has been stripped by the United States Department of Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS" unless the Authority obtains Rating Confirmation with respect to the Bonds to be defeased); (D) the interest component of REFCORP bonds for which separate payment of principal and interest is made by request of the Federal Reserve Bank of New York in book-entry form; (E) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision (i) the interest on which is excludable from gross income under Section 103 of the Code, (ii) that, at the time an investment therein is made or such obligation is deposited in any fund or account established pursuant to the 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.

Financial Guaranties: One or more of the following: (i) irrevocable, unconditional and unexpired letters of credit issued by banking institutions the senior long-term debt obligations of which (or the holding company of any such banking institution) have (at the time of issue of such letter of credit) a rating of Aa2 or better by Moody's Investors Service and AA or better by Standard & Poor's Ratings Services; or (ii) an irrevocable and unconditional policy or policies of insurance in full force and effect issued by municipal bond insurers the obligations insured by which are eligible for a rating of Aa or better by Moody's Investors Service and AA or better by Standard & Poor's Ratings Services; in each case providing for the payment of sums for the payment of Principal Installments of an interest on Bonds in the manner provided in the 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 equal to the rating on Outstanding Bonds that are not insured or otherwise secured by a Credit Facility or a Special Credit Facility, (B) that has its principal place of business within the State and (C) that has capital and surplus of more than $100,000,000;

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

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

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

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

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

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

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

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

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

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

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

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

(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 any case, a recognized standing in the field of water and sewer system consulting selected by the Authority and satisfactory to the Board. The Rate Consultant may be the same firm as the Consulting Engineer.

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

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

Redemption Price: When used with respect to a Bond or portion thereof, the principal amount thereof plus the applicable premium, if any, payable upon either optional or mandatory redemption thereof pursuant to the 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 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 of the foregoing sources described in clause (a) which (i) is expressly excluded by the Agreement or the Lease, or (ii) is derived from a use of the System not directly related to the supply, treatment and distribution of water to the consumers thereof or the collection, disposal or treatment of sewage, (y) any amount from any governmental entity, federal, State or local, in aid of or for or with respect to the Costs of Water Projects, other than Subsidy Payments, or (z)(i) fines (excluding interest on late payments which shall constitute Revenues), (ii) amounts from the use of water to generate electricity, (iii) amounts from the State as a result of mandatory water discharges from reservoirs or (iv) amounts from the granting of easements, licenses, rights-of-way or other interests in the real property constituting a part of the System.

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

State: The State of New York.

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

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

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

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

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

Definition of Certain Terms Used in the Authority Second Resolution

"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 First General 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 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 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 Orrick, Herrington & Sutcliffe LLP or by any other attorney or firm of attorneys of nationally recognized standing in the field of law relating to revenue bonds of municipalities and public agencies, selected by the Authority and satisfactory to the Trustee.

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

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

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

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

"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 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 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.

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

"Financial Guaranty" shall mean a surety bond, insurance policy or letter of credit which constitutes any part of the Debt Service Reserve Requirement and which is authorized to be delivered to the Trustee pursuant to the 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 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 First General Resolution Bonds bear interest exceeds a rate stated in such agreement.

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

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

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

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

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

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

(vi) repurchase agreements collateralized by securities described in clause (ii) or (iii) above with any registered broker/dealer or with any domestic commercial bank whose long-term debt obligations

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

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

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

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

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

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

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

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

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

produce (A) a fraction greater than one, then the fraction shall be equal to one, or (B) a denominator less than one, then the fraction shall equal one; plus

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

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

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

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

"Other Moneys" shall mean moneys which do not constitute Revenues and which are derived from payments to be made to or upon the order of the Authority (i) by a Counterparty pursuant to an Interest Rate Exchange Agreement relating to 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 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 mount is secured by a Credit Facility which is not in default and (z) the principal amount of any Parity Reimbursement Obligation) of such Series due (or so tendered for purchase or payment) on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date.

"Projected Debt Service" for any Fiscal Year or part thereof shall mean, unless used in relation to 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.

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

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

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

"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.

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

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

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

"Supplemental Resolution" shall mean a resolution of the Authority authorizing the issuance of a Series Bonds or otherwise amending or supplementing the 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(l4) and (21) of the Act.

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

"Trustee" shall mean United States Trust Company of New York, 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.

"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 Depositary: the Board Expense Fund and the Operation and Maintenance Reserve Fund, with the General Account therein. The Board shall hold such funds as trust funds and the amounts on deposit shall only be applied for the purposes provided in the Agreement.

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

amount therein on deposit is equal to the O&M Reserve Requirement for such Fiscal Year. Any amounts remaining in the Local Water Fund on the last day of each Fiscal Year shall be paid to the General Account in the Operation and Maintenance Reserve Fund. *(Section 4.2)*

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

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

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

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

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

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

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

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

If on July 1 of any Fiscal Year the amount on deposit in the Operation and Maintenance Reserve Fund is less than the O&M Reserve Fund Requirement, such deficit shall (subject to paragraph (i) above) be

made up from the proceeds of the sale of Bonds issued during such Fiscal Year; provided, however, if, prior to May 1 of such Fiscal Year such deficit has not been made up from Bond proceeds, the Board shall include the amount of such deficit in its Annual Budget for the ensuing Fiscal Year and the amounts necessary to restore such deficit shall be deposited in the Operation and Maintenance Reserve Fund.

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

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

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 to the Leased Property. The System shall be used and operated and maintained in accordance with all applicable laws, rules and regulations. *(Sections 4.1, 4.2 and 4.3)*

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

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

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

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

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

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

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

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

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

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

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

Summary of the 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 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".

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 (⅙th) of such Authority Expenses by (B) a fraction, the numerator of which is 12 minus the number of full months, excluding the month of calculation, remaining in the Fiscal Year, and the denominator of which is 12;

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

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

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

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

The Trustee may, and if so directed by an Authorized Representative of the Authority shall, prior to the forty-fifth day preceding the due date of each Sinking Fund Installment, apply the amounts accumulated in the Debt Service Fund for such Sinking Fund Installment, together with any interest on the Bonds for which such Sinking Fund Installment was established: (i) to the purchase of Bonds of like Series and maturity at prices (including any brokerage and other charges) not exceeding the Redemption Price payable for such Bonds when such Bonds are redeemable with such Sinking Fund Installment plus unpaid interest accrued or (ii) to the redemption of such Bonds, if redeemable by their terms, at or below said Redemption Price. Upon such purchase or redemption of any Bond, the Trustee shall then credit an amount equal to the principal of the Bond so purchased or redeemed toward the next Sinking Fund Installments thereafter to become due and the amount of any excess over the amount of such Sinking Fund Installment shall be credited against future Sinking Fund Installments in direct chronological order.

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

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

Debt Service Reserve Fund. The 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 or interest on any Bond for which such payments may be made from the Common Account. Amounts on deposit in each of the Accounts in the Debt Service Reserve Fund shall be applied, to the extent other funds are not available in the Surplus Fund, the Subordinated Indebtedness Fund and the Authority Expense Fund, to pay the Principal Installments of, and interest on the Bonds to which such Account relates when due. Amounts so applied shall be derived first from cash or Investment Securities on deposit, and second from draws and demands on Financial Guaranties.

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

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

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

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

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

Surplus Fund. The Trustee shall, on each Bond Payment Date, apply moneys credited to the Surplus Fund in the following amounts: (i) to the Debt Service Fund the amount, if any, necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in such Fund and (ii) to the Debt Service Reserve Fund the amount, if any, necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in any Account in such Fund. Such transfer shall be made notwithstanding any other provisions of the 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)*

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

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

Subordinated Indebtedness. The Authority may issue Subordinated Indebtedness payable out of and secured by a pledge of and lien on amounts in the Subordinated Indebtedness Fund available for such payment. Such Subordinated Indebtedness, however, shall be issued only for the purposes set forth in the 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 Depositary 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 Depositary holding moneys or securities in trust for the Trustee shall be a bank or trust company organized under the laws of the State or a national banking association (having its principal office within the State), having capital stock, surplus and undivided earnings aggregating at least $100,000,000 and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Authority First Resolution. *(Section 512)*

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

Account may be combined with moneys in any other Fund or Account for the purpose of making such investments in Investment Securities.

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

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

Additional Bonds. The Authority may issue Bonds from time to time without limitation as to amount except as provided in the 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, 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 (e) above and the Certificate of the Authority delivered pursuant to paragraph (f) above, respectively. *(Sections 204 and 206)*

Refunding Bonds. One or more Series of Refunding Bonds may be issued pursuant to Section 207 of the 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 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, 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)*

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 supersede any prior Budget until the Authority shall have filed with the Trustee, the Board and the City a copy of such amended Authority Budget. Each month the Authority shall recalculate the Cash Flow Requirement. *(Sections 712 and 713)*

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 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 accountants, 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 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 Authority First 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 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 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 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 he 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 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 Subordinated Indebtedness Fund, as soon as practicable in each month the amount in the Subordinated Indebtedness Fund (other than in the Construction Account) shall be transferred to the Revenue Fund until the amount on deposit therein is equal to the sum of:

(i) together with the amount in the Debt Service Fund, the Monthly Balance for such month and the amount necessary to pay the purchase price or Redemption Price of Bonds purchased or called for redemption; plus

(ii) the amount, if any, necessary to make the total on deposit in the Debt Service Reserve Fund and credited to the Common Account equal to the Debt Service Reserve Requirement for the Bonds to which such Common Account relates, and to make the total on deposit in each Special Account equal to the Debt Service Reserve Requirement for the Bonds to which each such Special Account relates; plus

(iii) the amount, if any, then required to be in the Subordinated Indebtedness Fund. *(Section 505)*

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

(i) to the Debt Service Fund, all such amounts until the total on deposit therein equals the sum of (A) the Monthly Balance for such month for all Series of Bonds Outstanding and (B) the amount necessary to pay the purchase price or Redemption Price of Bonds purchased or called for redemption;

(ii) if no 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 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.

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 Fund Requirement. If, as of February 1 of each year the amount in any Account in the Debt Service Reserve Fund is less than the applicable Debt Service Reserve Requirement and, to the extent that such deficiency has not been made up by May 1 of such year by either (i) deposits pursuant to Sections 506, 511 or 512 of the 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.

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

In lieu of or in substitution for moneys or Investment Securities otherwise required to be deposited in the Common Account of the Debt Service Reserve Fund, the Authority may deposit or cause to be deposited with the Trustee a Financial Guaranty for the benefit of the Holders of the Bonds for all or any part of the Debt Service Reserve Requirement; *provided, however*, (i) that any such surety bond or insurance policy shall be issued by an insurance company or association duly authorized to do business in the State and either (A) the claims paying ability of which is rated the highest rating accorded by a nationally recognized rating agency, or (B) obligations insured by a surety bond or an insurance policy issued by such company or association and rated at the time such surety bond or insurance policy is delivered, without regard to qualification of such rating by symbols such as "+" or "−" or numerical notation, in the highest rating category by each Rating Agency or, if Outstanding Bonds are not rated by both Rating Agencies, by whichever Rating Agency that then rates Outstanding Bonds and (ii) that any such letter of credit shall be issued by a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any success or provision of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provision of law or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, the unsecured or uncollateralized long term debt obligations of which, or long term obligations secured or supported by a letter of credit issued by such person, are rated at the time such letter of credit is delivered, without regard to qualification of such rating by symbols such as "+", or "−" or numerical notation, in at least the second highest rating category by each Rating Agency or, if Outstanding Bonds are not rated by both Rating Agencies, by whichever Rating Agency that then rates Outstanding Bonds.

In addition to the conditions and requirements set forth above, no Financial Guaranty shall be deposited in full or partial satisfaction of the Debt Service Reserve Requirement unless the Trustee shall have received prior to such deposit (i) an opinion of counsel to the effect that such Financial Guaranty has been duly authorized, executed and delivered by the Financial Guaranty Provider thereof and is valid, binding and enforceable in accordance with its terms, (ii) in the event such Financial Guaranty Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Trustee and (iii) in the event such Financial Guaranty is a letter of credit, an opinion of counsel acceptable to the Trustee and to each Financial Guaranty Provider substantially to the effect that payments under such letter of credit will not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in a case commenced by or against the Authority thereunder or under any applicable provisions of the Debtor and Creditor Law of the State.

Notwithstanding the foregoing, if at any time after a Financial Guaranty has been deposited with the Trustee the ratings on any Outstanding Bonds are less than in the second highest rating category by each Rating Agency, without regard to qualification of such rating by symbols such as "+" or "−" or numerical notation, and the unsecured or uncollateralized long term debt of the Financial Guaranty Provider or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of a

Financial Guaranty Provider is reduced below the third highest rating category by each Rating Agency, without regard to qualification of such rating by symbols such as "+" or "−" or numerical notation, the Authority shall either (i) replace or cause to be replaced said Financial Guaranty with another Financial Guaranty which satisfies the requirements of the two preceding paragraphs or (ii) deposit or cause to be deposited in the Debt Service Reserve Fund an amount of moneys equal to the value of the Financial Guaranty of such Financial Guaranty Provider, such deposits to be, as nearly as practicable, in ten equal semi-annual installments commencing on the earlier of the December 15 or June 15 next succeeding the reduction in said ratings.

Each Financial Guaranty shall be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Debt Service Reserve Fund and such withdrawal cannot be made without drawing upon such letter of credit or obtaining payment under such surety bond or insurance policy.

For the purposes of the above provisions under the heading "Debt Service Reserve Fund", and the provisions under the heading "Investment of Certain Funds" below, in computing the amount on deposit in the Debt Service Reserve Fund, a letter of credit, a surety bond or an insurance policy shall be valued at the amount available to be drawn or payable thereunder on the date of computation: *provided, however*, that, if the unsecured or uncollateralized long term debt of the Financial Guaranty Provider thereof, or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of said Financial Guaranty Provider has been reduced below the ratings required by the third paragraph under the heading "Debt Service Reserve Fund", said Financial Guaranty shall be valued at the lesser of (i) the amount available to be paid thereunder on the date of calculation and (ii) the difference between the amount available to be paid thereunder on the date of issue thereof and an amount equal to a fraction of such available amount the numerator of which is the aggregate number of December 15th's and June 15th's which has elapsed since such ratings were reduced and the denominator of which is ten.

With respect to any demand for payment under any Financial Guaranty, the Trustee shall make such demand for payment in accordance with the terms of such Financial Guaranty in a timely manner to assure the availability of moneys on the Bond Payment Date for which such moneys are required.

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

Subordinated Indebtedness Fund. The Trustee shall apply amounts on deposit in the Subordinated Indebtedness Fund solely to the maintenance of reserves for, or the payment of, Subordinated Indebtedness (or as otherwise provided by the resolution of the Authority authorizing each issue of Subordinated Indebtedness). The Trustee shall withdraw from the Subordinated Indebtedness Fund any amount necessary to render the balances in the Debt Service Fund or Debt Service Reserve Fund sufficient to meet the requirements of such Funds. *(Section 510)*

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

Amounts on deposit in the Arbitrage Rebate Fund in excess of the amount required to be maintained therein or the purposes of such Fund may be transferred and paid by the Trustee to the Revenue Fund. *(Section 511)*

Surplus Fund. The Trustee shall, on each Bond Payment Date, apply moneys credited to the Surplus Fund in the following amounts: (i) to the Debt Service Fund the amount, if any, necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in such Fund and (ii) to the Debt Service Reserve Fund the amount, if any, necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in any Account in such Fund. Such transfer shall be made notwithstanding any other provisions of the 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 Depositary 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 Depositary that any moneys or securities credited to a Fund or an Account under the Authority Second Resolution which are deposited with such Depositary shall be identified to be part of such Fund or Account and subject to the pledge in favor of the Trustee created under the Authority Second Resolution. Prior to the first deposit of any moneys or securities with each Depositary, the Authority and the Trustee shall obtain from such Depositary its agreement to serve as agent of the Trustee in holding such moneys or securities in pledge in favor of the Trustee and the contract or other written instrument between the Authority and such Depositary governing the establishment and operation of such account shall provide the moneys or securities from time to time deposited with such Depositary shall be held by such Depositary as such agent in pledge in favor of the Trustee; *provided, however*, that, except as otherwise expressly provided in the 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 Depositary 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 Depositary holding moneys or securities in trust for the Trustee shall be a bank or trust company organized under the laws of the State or a national banking association (having its principal office within the State), having capital stock, surplus and undivided earnings aggregating at least $100,000,000 (or such greater amount as set forth in a Supplemental Resolution) and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Authority Second Resolution. *(Section 513)*

Investment of Certain Funds. Moneys held in the Debt Service Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund (subject to the terms of any resolutions or other instrument securing any issue of Subordinated Indebtedness) shall be invested and reinvested to the fullest practical extent in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed to make payments required from such Funds; provided that in the case of the Debt Service Fund, investments shall be of the type described in clauses (ii), (iii) or (iv) of the definition of "Investment Securities." Moneys in the Authority Expense Fund, the Revenue Fund, the Construction Fund, the Arbitrage Rebate Fund and the Surplus Fund may be invested and reinvested in Investment Securities which mature later than such times as shall be necessary to provide moneys when needed to make payments from such Funds. The Trustee shall make all investments in accordance with the direction of an Authorized Representative of the Authority, given either in writing, which may be sent by electronic

transmission of a facsimile, or by telephonic communication subsequently confirmed in writing. Moneys in any Fund or Account may be combined with moneys in any other Fund or Account for the purpose of making such investments in Investment Securities.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Funds and Accounts, other than the Construction Fund, the Debt Service Reserve Fund and the Arbitrage Rebate Fund, shall be paid into the Revenue Fund as and when received. Interest (net of that which represents a return of accrued interest paid connection with the purchase of any investment) and other investment earnings on any moneys or investments in (i) the Debt Service Reserve Fund shall be paid into the Arbitrage Rebate Fund, the Surplus Fund or the Revenue Fund; (ii) the Arbitrage Rebate Fund shall remain in such Fund; and (iii) the Construction Fund shall be paid quarterly, on the fifteenth day of each July, October, January and April of each Fiscal Year, to the Board deposit in the Local Water Fund; *provided, however*, that no such payment shall be made unless the Trustee shall receive (A) the written direction of an Authorized Representative of the Authority to make such payment and (B) a Certificate of an Authorized Representative of the Authority stating that, as of the date thereof, there has been deposited in the Revenue Fund during such Fiscal Year an amount equal to the Cash Flow Requirement.

All Investment Securities acquired with moneys in any Fund or Account shall be held by the Trustee in pledge or by a Depositary as agent in pledge in favor of the Trustee. *(Section 515)*

Additional Bonds. In order to provide sufficient funds for the Costs of Water Projects or for the purpose refunding any Bonds, 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.

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 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 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 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 supersede any prior Budget until the Authority shall have filed with the Trustee, the Board and the City a copy of such amended Authority Budget. *(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 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, Agreement and Lease."

Notwithstanding the provisions of the preceding paragraph, the amendments to the Authority First Resolution made by 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 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, chance, modification or alteration, and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds.

For the purposes of the provisions under this heading "Amendments to 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 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) Supplemental Resolutions No. 66, 67 and 68 provide that the verification report may be prepared by a firm of nationally recognized verification agents rather than a firm of nationally independent certified public accountants.

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)*

APPENDIX D

FINANCIAL STATEMENTS

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NEW YORK CITY WATER AND SEWER SYSTEM

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INDEPENDENT AUDITORS' REPORT

To the Audit Committees of
New York City Municipal Water Finance Authority
And the New York City Water Board

We have audited the accompanying combining balance sheets of the business-type activities 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, New York, as of June 30, 2009 and 2008, and the related combining statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the New York City Municipal Water Finance Authority and the New York City Water Board of the System as of June 30, 2009 and 2008, and the respective changes in their net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 2 to the financial statements, in 2009 the System changed its method of accounting for pollution remediation obligations to conform to Governmental Accounting Standards Board (“GASB”) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

The accompanying management’s discussion and analysis (MD&A) on pages 2-8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.

Deloitte & Touche LLP

October 9, 2009

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, 2009 and 2008. The System is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board"). The System is a component unit of The City of New York (the "City").

The basic financial statements of the System, which include the balance sheets, the statements of revenues, expenses and changes in net assets and the statements of cash flows, are presented for the purposes of displaying entity-wide information, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* as amended. These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Financial Analysis and Results of Operations

The following summarizes the activities of the System for the fiscal years 2009, 2008 and 2007 (in thousands):

				Variance	
	2009	2008	2007	2009 v 2008	2008 v 2007
REVENUES:					
Water supply and distribution	$ 920,033	$ 784,856	$ 796,404	$ 135,177	$ (11,548)
Sewer collection and treatment	1,430,588	1,220,653	1,238,612	209,935	(17,959)
Other operating revenues	97,946	97,778	98,061	168	(283)
Total operating revenues	2,448,567	2,103,287	2,133,077	345,280	(29,790)
Subsidy income	108,708	104,234	90,601	4,474	13,633
Investment income	99,122	108,892	98,132	(9,770)	10,760
Total revenues	2,656,397	2,316,413	2,321,810	339,984	(5,397)
EXPENSES:					
Operations and maintenance	1,448,268	1,320,439	1,147,157	127,829	173,282
Bad debt expense	36,060	-	226,028	36,060	(226,028)
Administration and general	50,581	44,027	35,493	6,554	8,534
Depreciation and amortization	696,345	646,377	579,860	49,968	66,517
Capital distribution	51,921	24,619	33,133	27,302	(8,514)
Loss on retirement of capital assets	299,450	14,598	23,257	284,852	(8,659)
Interest expense	929,333	834,085	771,656	95,248	62,429
Total expenses	3,511,958	2,884,145	2,816,584	627,813	67,561
Net loss before capital contributions	(855,561)	(567,732)	(494,774)	(287,829)	(72,958)
CAPITAL CONTRIBUTIONS	11,529	7,340	12,357	4,189	(5,017)
CHANGE IN NET ASSETS	(844,032)	(560,392)	(482,417)	(283,640)	(77,975)
NET ASSETS — Beginning	1,165,891	1,726,283	2,899,381	(560,392)	(1,173,098)
Restatement of beginning net assets (note 2)	(61,608)	-	(690,681)	(61,608)	690,681
NET ASSETS — Ending	$ 260,251	$ 1,165,891	$ 1,726,283	$ (905,640)	$ (560,392)

Operating Revenue

2009–2008

Operating revenues increased by 16.4% primarily due to a rate increase of 14.5%

2008–2007

Operating revenues decreased by 1.4% on a rate increase of 11.5%. The System changed the method for the recognition of bad debt expense and the allowance for doubtful accounts in Fiscal 2008. This change resulted in a decrease in revenue although there was an increase in cash receipts in Fiscal 2008 compared to Fiscal 2007.

The following summarizes other operating revenues for Fiscal 2009, 2008, and 2007 (in thousands):

				Variance	
	2009	2008	2007	2009 v 2008	2008 v 2007
Upstate water fees	$ 42,197	$ 45,978	$ 42,197	$ (3,781)	$ 3,781
Late payment fees	18,708	24,261	43,286	(5,553)	(19,025)
Change in residual interest in sold liens	21,681	16,896	-	4,785	16,896
Connection fees and permits	15,360	10,643	12,578	4,717	(1,935)
Total other operating revenues	$ 97,946	$ 97,778	$ 98,061	$ 168	$ (283)

2009–2008

Overall, other operating revenues remained level for Fiscal 2009. Late payments fees decreased by $5.5 million or 23%. The residual interest in sold liens increased because as of June 30, 2009 the tax lien trust which received water and sewer liens from the Board in Fiscal 2009 had not yet issued bonds or made payment to the Board for those liens.

2008–2007

Other operating revenues remained relatively level for Fiscal 2008. Late payments fees decreased by $19 million or 44% due to forgiveness of these charges related to leaks and due to a payment incentive program which allowed reduced fees for payment of outstanding receivables.

The System implemented Government Accounting Standards Board ("GASB") Statement No. 48 ("GASB 48") *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* in Fiscal 2008, which resulted in the recording of a miscellaneous revenue and an asset, residual interest in sold liens, of $16.9 million. This represents the estimated amount, as of June 30, 2008, to be received by the Board for tax liens secured by water and sewer rents and surcharges which have been sold by the City to one or more trusts, if and when liens held by the trusts generate cash flows to the trusts above the amounts needed by the trusts to pay their bondholders and satisfy reserve requirements.

Investment Income

2009–2008

Investment income decreased by $9.8 million or 9%. The decrease was due to lower interest rates on invested assets.

2008–2007

Investment income increased by $10.7 million or 11%. The increase was due to the recognition of $18 million of unrealized gains in the fair value of forward purchase agreements offset by decreases in income earned on escrow balances of $6 million.

Operating Expenses

2009–2008

The System has implemented GASB Statement 49, (GASB 49) *Accounting and Financial Reporting for Pollution Remediation Obligations* requiring the reporting of pollution remediation obligations ("PROs"). As of June 30, 2009, the System reported $119 million of liabilities for known PROs and has restated its fiscal year 2009 beginning net assets (as disclosed in note 2) to reflect a June 30, 2008 liability of $61.6 million for known PROs.

Total operations and maintenance expenses increased by $127.8 million or 10%. An expense of $132.7 million for pollution remediation, recognized for the first time in Fiscal 2009 due to the implementation of GASB 49, was partially offset by a decrease in judgments and claims. Fringe benefits increased by $27 million, reflecting the increased cost of employee benefits for City workers which is a component of the operations and maintenance cost paid by the System.

Bad debt expense increased by $36 million due to increased estimated customer delinquencies.

2008–2007

Total operation and maintenance expenses increased by $173.3 million or 15%. Fringe benefits increased by $37 million reflecting the increased cost of employee benefits for City workers which is a component of the operations and maintenance cost paid by the System.

Bad debt expense decreased by $226 million. As discussed above, the System changed the method by which it recognized bad debts expense in Fiscal 2008.

Non-operating Expenses

2009-2008

The System recognized $299 million of losses on retirement of fixed assets that were disposed of or taken out of service as of June 30, 2009.

Interest expense increased by $95 million or 11% due primarily to an increase in bonds outstanding of $2.6 billion or 14%.

2008-2007

Interest expense increased by $62.4 million or 8% due primarily to an increase in bonds outstanding of $1.9 billion or 11%.

Following is a summary of the System's assets, liabilities and net assets as of June 30, (in thousands):

	2009	2008	2007	Variance 2009 v 2008	Variance 2008 v 2007
Current Assets	$ 2,388,478	$ 2,091,480	$ 2,075,754	$ 296,998	$ 15,726
Residual Interest in Sold Liens	38,578	16,896	-	21,682	16,896
Deferred Bond and Financing Expenses	152,516	137,508	134,673	15,008	2,835
Capital Assets	21,139,238	19,347,150	17,745,015	1,792,088	1,602,135
Total Assets	$23,718,810	$21,593,034	$19,955,442	$ 2,125,776	$1,637,592
Long-Term Liabilities	$21,421,197	$18,668,449	$16,691,440	$ 2,752,748	$1,977,009
Current Liabilities	2,037,362	1,758,694	1,537,719	278,668	220,975
Total liabilities	23,458,559	20,427,143	18,229,159	3,031,416	2,197,984
Net Assets:					
Invested in capital assets — net of related debt	1,253,882	1,737,181	2,056,879	(483,299)	(319,698)
Restricted for debt service	285,348	209,130	161,661	76,218	47,469
Restricted for operations and maintenance	195,844	200,438	175,161	(4,594)	25,277
Unrestricted (deficit)	(1,474,823)	(980,858)	(667,418)	(493,965)	(313,440)
Total net assets	260,251	1,165,891	1,726,283	(905,640)	(560,392)
Total Liabilities and Net Assets	$23,718,810	$21,593,034	$19,955,442	$ 2,125,776	$1,637,592

2009–2008

Current assets increased by $297 million or 14%. Investments including cash equivalents increased by $253 million primarily in the construction and revenue funds, due to the timing of bond issuances and payments to the City for capital costs. Net receivables increased by $51.5 million.

The residual interest in sold liens increased by $22 million, as discussed above.

Long term liabilities increased by $2.7 billion due to the increase in bonds payable of $2.6 billion and the pollution remediation obligation of $119 million, as discussed above.

Current liabilities increased by $279 million or 16% primarily due to an increase in the amount payable to the City for capital costs.

2008–2007

Current assets have remained relatively level.

As discussed above, the implementation of GASB 48 in Fiscal 2008 resulted in the recording of a residual interest in sold liens of $16.9 million.

Long term liabilities increased by $2 billion primarily due to the increase in bonds payable of $1.9 billion.

Current liabilities increased by $221 million or 14% primarily due to an increase in the amount payable to the City for capital costs.

Capital Assets

The System's capital assets include buildings, equipment, water treatment systems and water collection systems. Capital assets as of June 30, are detailed as follows (in thousands):

	2009	2008	2007	Variance 2009 v 2008	Variance 2008 v 2007
Utility plant under construction	$ 5,072,496	$ 4,011,216	$ 4,338,126	$ 1,061,280	$ (326,910)
Buildings	24,193	23,493	23,493	700	-
Equipment	1,362,215	953,311	629,384	408,904	323,927
Water supply and wastewater treatment systems	14,382,431	13,629,051	11,865,211	753,380	1,763,840
Water distribution and sewage collection systems	8,334,620	8,408,040	8,014,647	(73,420)	393,393
Total utility plant in service	24,103,459	23,013,895	20,532,735	1,089,564	2,481,160
Less accumulated depreciation	8,036,717	7,677,961	7,125,846	358,756	552,115
Total — net utility plant in service	16,066,742	15,335,934	13,406,889	730,808	1,929,045
Total capital assets	$21,139,238	$19,347,150	$17,745,015	$ 1,792,088	$1,602,135

	Buildings	Equipment	Water Supply	Water Distribution	Total
Accumluated depreciation	16,138	592,785	4,701,459	2,726,335	8,036,717

The net increase in the System's capital assets during Fiscal 2009 was $1.8 billion or 9%. Net capital asset additions for Fiscal 2009 were $2.1 billion.

The net increase in the System's capital assets during Fiscal 2008 was $ 1.6 billion or 9%. Net capital asset additions for Fiscal 2008 were $2.2 billion.

Debt Administration

The Authority issues debt to pay for the capital improvements to the System and certain related costs. The debt program of the Authority includes commercial paper and long-term debt of the Authority and subsidized bonds issued through the New York State Environmental Facilities Corporation ("EFC"). The commercial paper program is the main source of financing to reimburse the City for payments made for water and sewer projects. The Authority then issues long-term debt of its own or through EFC to retire outstanding commercial paper. The Authority also periodically issues refunding bonds to refinance higher-coupon debt.

At June 30, 2009, the total outstanding debt of the System was $22.5 billion, of which $700 million was commercial paper. The remaining $21.8 billion consisted of variable and fixed-rate bonds and notes maturing in varying installments through 2040. The total outstanding long-term debt at June 30, 2009 was as follows (in thousands):

Issue Date	
2009	$ 3,503,375
2008	2,900,689
2007	2,167,547
2006	2,532,130
2005	2,749,742
2004 and prior	7,981,314
Total long-term debt	$21,834,797

In the summary above, bonds retired through refundings in Fiscal 2009 are removed from the year in which the refunded bonds were issued and the refunding bonds are included in the Fiscal 2009 amount.

In Fiscal 2009, the Authority issued $3.1 billion of water and sewer revenue bonds directly to the public, including $612.3 million of refunding bonds and $2.4 billion of new money bonds. The Authority also issued

$448.4 million of Clean Water and Drinking Water State Revolving Fund ("SRF") bonds to EFC which were issued for new money purposes. The new money bond proceeds were used to finance capital improvements to the water and sewer system as well as to provide long-term financing of commercial paper notes which had previously financed capital improvements to the system.

On July 23, 2008, the Authority issued $334.1 million of tax-exempt fixed-rate Water and Sewer System Second General Resolution Bonds, Fiscal 2009 Series AA bonds to refund its Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2008 Series CC-1, Fiscal 2008 Series CC-2, Fiscal 2008 Series CC-3 and Fiscal 2008 Series CC-4. The 2008 Series CC bonds were issued as adjustable rate bonds in the auction rate mode and were insured by MBIA Insurance Corporation at the time of their initial offering. The Authority executed this transaction in response to constrained liquidity in the auction rate market, precipitated by credit downgrades of several financial guarantors, including MBIA, which led to a substantial rise in interest rates for these bonds. The Fiscal 2009 Series AA bonds included serial bonds maturing 2013 through 2022.

On August 7, 2008, the Authority closed its first new money offerings of Fiscal 2009. The Authority issued $200.9 million of tax-exempt, adjustable rate Water and Sewer System Second General Resolution Bonds, Fiscal 2009 Series BB-1 and BB-2 bonds. Bond proceeds were used to defease the Authority's commercial paper notes Series 1 notes and to pay the costs of issuance of the bonds. Liquidity support for the Fiscal 2009 Series BB-1 and BB-2 bonds is provided through a standby bond purchase agreement with Landesbank Hessen-Thuringen Girozentrale. The Series BB-1 and BB-2 adjustable rate bonds are remarketed by Citi and Morgan Stanley, respectively.

The Authority also issued $150 million of tax-exempt, fixed rate Fiscal 2009 Series CC bonds under the Authority's second general resolution on August 7, 2008. The Fiscal 2009 Series CC bonds included term bonds maturing 2029, 2030 and 2034. Bond proceeds were used to defease a portion of the Authority's commercial paper notes Series 7 and to pay the costs of issuance of the bonds.

On October 29, 2008, the Authority issued $536 million of tax-exempt, fixed rate Water and Sewer System Revenue Bonds Fiscal 2009 Series A bonds under the Authority's general (first) resolution. This bond issue included serial bonds maturing 2017 through 2024 and term bonds maturing 2040. Bond proceeds were used to pay costs for improvements to the water and sewer system, pay for cost of issuance of the bonds and fund certain reserves.

On December 11, 2008, the Authority issued $325.6 million of tax-exempt, fixed rate Water and Sewer System Second General Resolution Bonds Fiscal 2009 Series DD bonds. This bond issue included serial bonds maturing 2023 through 2028 and term bonds maturing in 2035 and 2040. Bond proceeds were used to defease a portion of the Authority's commercial paper notes Series 7, pay costs for improvements to the water and sewer system and to pay the costs of issuance of the bonds.

On January 29, 2009, the Authority issued $645.5 million of tax-exempt, fixed rate Water and Sewer Second General Resolution Bonds Fiscal 2009 Series EE bonds. The purpose of the issue was to fund costs of improvements to the water and sewer system and pay costs of issuance of the bonds. A portion of the issue was also used to refund the Authority's outstanding Adjustable Rate Fiscal 2003 Series C-1 and C-2 adjustable rate bonds. The refunding was undertaken in response to the deteriorating credit quality of the bank providing liquidity support on the 2003 C bonds, which caused a substantial rise in interest rates on the bonds. The structure of the issue included serial bonds maturing 2014 through 2018 and term bonds maturing 2039 and 2040.

On February 26, 2009, the Authority issued $362.8 million of tax-exempt, fixed rate Water and Sewer System Second General Resolution Bonds Fiscal 2009 Series FF-1 and FF-2 bonds. The Series FF-1 bonds were issued to refund the Authority's Adjustable Rate Fiscal 2003 Series C-3 bonds in response to the deteriorating credit quality of the bank providing liquidity support on the bonds. The purpose of the Series FF-2 issue was to fund costs of improvements to the water and sewer system, defease the Authority's outstanding commercial paper notes Series 6 and pay costs of issuance of the bonds. The Series FF-1 issue included serial bonds maturing 2014 through 2018. The Series FF-2 issue included term bonds maturing 2040.

On June 17, 2009, the Authority issued $500 million of tax-exempt, fixed rate Water and Sewer System Second General Resolution Bonds Fiscal 2009 Series GG-1 and GG-2. The Series GG-1 bonds were issued to defease the Authority's outstanding commercial paper notes Series 1 and a portion of its Series 7 notes and to pay for certain costs of issuance. This issue included serial bonds maturing 2024 through 2032 and term bonds maturing 2039. The Series GG-2 bonds included term bonds maturing 2035 and 2040 and were issued to pay costs of improvements to the water and sewer system and to pay certain costs of issuance.

Economic Factors and Next Year's Rates

Rates are adopted each year by the Board in May for the following fiscal year. A rate increase of 14.5% for Fiscal 2009 based on projected revenues and costs, became effective July 1, 2008.

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 Raymond Orlando, Director of Media and Investor Relations, New York City Municipal Water Finance Authority, 75 Park Place, New York, New York 10007. His phone number is (212) 788-5875 and his fax number is (212) 788-9721.

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NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET
June 30, 2009
(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 109,990	$ 1,060,452	$ -	$ 1,170,442
Investments	91,746	675,875	-	767,621
Accrued interest receivable	360	3,296	-	3,656
Accounts receivable:				
Billed — less allowance for uncollectible water and sewer receivables of $219,445	218,246	-	-	218,246
Unbilled	215,185	-	-	215,185
Receivable from the City of New York	13,328	-	-	13,328
Total current assets	648,855	1,739,623	-	2,388,478
UTILITY PLANT IN SERVICE — Less accumulated depreciation of $8,036,717	16,066,742	-	-	16,066,742
UTILITY PLANT CONSTRUCTION	5,072,496	-	-	5,072,496
Total capital assets	21,139,238	-	-	21,139,238
REVENUE REQUIREMENT TO BE BILLED BY AND RECEIVED FROM THE BOARD	-	12,763,380	(12,763,380)	-
RESIDUAL INTEREST IN SOLD LIENS	38,578	-	-	38,578
LONG-TERM DEFERRED BOND AND FINANCING EXPENSES	-	152,516	-	152,516
Total non current assets	21,177,816	12,915,896	(12,763,380)	21,330,332
TOTAL	$ 21,826,671	$ 14,655,519	$ (12,763,380)	$ 23,718,810

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET
JUNE 30, 2009
(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
LIABILITIES AND NET ASSETS				
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	$ -	$ 21,568,771	$ -	$ 21,568,771
Net discount on bonds and notes payable	-	50,699	-	50,699
Unamortized deferred bond refunding costs	-	(317,628)	-	(317,628)
Pollution remediation obligation	118,960	-	-	118,960
OPEB Liability	-	395	-	395
Revenue requirements payable to the Authority	12,763,380	-	(12,763,380)	-
Total long-term liabilities	12,882,340	21,302,237	(12,763,380)	21,421,197
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	46,946	50,109	-	97,055
Revenues received in advance	77,672	-	-	77,672
Commercial paper payable	-	700,000	-	700,000
Current portion of bonds and notes payable	-	266,026	-	266,026
Payable to The City of New York	-	880,664	-	880,664
Refunds payable to customers	15,945	-	-	15,945
Total current liabilities	140,563	1,896,799	-	2,037,362
Total liabilities	13,022,903	23,199,036	(12,763,380)	23,458,559
NET ASSETS:				
Invested in capital assets — net of related debt	21,139,238	(19,885,356)	-	1,253,882
Restricted for debt service	-	285,348	-	285,348
Restricted for operations and maintenance	195,844	-	-	195,844
Unrestricted (deficit)	(12,531,314)	11,056,491	-	(1,474,823)
Total net assets	8,803,768	(8,543,517)	-	260,251
TOTAL	$ 21,826,671	$ 14,655,519	$ (12,763,380)	$ 23,718,810

See notes to combining financial statements. (Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET
JUNE 30, 2008
(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 125,984	$ 1,123,417	$ -	$ 1,249,401
Investments	90,225	354,475	-	444,700
Accrued interest receivable	126	2,028	-	2,154
Accounts receivable:				
Billed — less allowance for uncollectible water and sewer receivables of $183,884	184,366	-	-	184,366
Unbilled	187,934	-	-	187,934
Receivable from The City of New York	22,925	-	-	22,925
Total current assets	611,560	1,479,920	-	2,091,480
UTILITY PLANT IN SERVICE — Less accumulated depreciation of $7,677,961	15,335,934	-	-	15,335,934
UTILITY PLANT CONSTRUCTION	4,011,216	-	-	4,011,216
Total capital assets	19,347,150	-	-	19,347,150
REVENUE REQUIREMENT TO BE BILLED BY AND RECEIVED FROM THE BOARD	-	10,880,165	(10,880,165)	-
RESIDUAL INTEREST IN SOLD LIENS	16,896	-	-	16,896
LONG-TERM DEFERRED BOND AND FINANCING EXPENSES	-	137,508	-	137,508
Total non current assets	19,364,046	11,017,673	(10,880,165)	19,501,554
TOTAL	$ 19,975,606	$ 12,497,593	$ (10,880,165)	$ 21,593,034

Seenotes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING BALANCE SHEET
JUNE 30, 2008
(In thousands)

	New York City			
	Water Board	Municipal Water Finance Authority	Eliminations	Total
LIABILITIES AND NET ASSETS				
LONG-TERM LIABILITIES:				
Bonds and notes payable — net of current portion	$ -	$ 18,983,922	$ -	$ 18,983,922
Net discount on bonds and notes payable	-	26,377	-	26,377
Unamortized deferred bond refunding costs	-	(342,166)	-	(342,166)
OPEB liability		316		316
Revenue requirements payable to the Authority	10,880,165	-	(10,880,165)	-
Total long-term liabilities	10,880,165	18,668,449	(10,880,165)	18,668,449
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	79,032	34,141	-	113,173
Revenues received in advance	74,676	-	-	74,676
Commercial paper payable	-	800,000	-	800,000
Current portion of bonds and notes payable	-	235,015	-	235,015
Payable to The City of New York	-	518,467	-	518,467
Refunds payable to customers	17,363	-	-	17,363
Total current liabilities	171,071	1,587,623	-	1,758,694
Total liabilities	11,051,236	20,256,072	(10,880,165)	20,427,143
NET ASSETS:				
Invested in capital assets — net of related debt	19,347,150	(17,609,969)	-	1,737,181
Restricted for debt service	-	209,130	-	209,130
Restricted for operations and maintenance	200,438	-	-	200,438
Unrestricted (deficit)	(10,623,218)	9,642,360	-	(980,858)
Total net assets	8,924,370	(7,758,479)	-	1,165,891
TOTAL	$ 19,975,606	$ 12,497,593	$ (10,880,165)	$ 21,593,034

See notes to combining financial statements. (Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
OPERATING REVENUES:			
Water supply and distribution	$ 920,033	$ -	$ 920,033
Sewer collection and treatment	1,430,588	-	1,430,588
Other operating revenues	97,946	-	97,946
Total operating revenues	2,448,567	-	2,448,567
OPERATING EXPENSES:			
Operation and maintenance	1,448,268	-	1,448,268
Bad debt expense	36,060	-	36,060
Administration and general	26,858	23,723	50,581
Total operating expenses	1,511,186	23,723	1,534,909
DEPRECIATION AND AMORTIZATION	659,733	36,612	696,345
OPERATING INCOME	277,648	(60,335)	217,313
NONOPERATING REVENUE (EXPENSES):			
Interest expense	-	(929,333)	(929,333)
Loss on retirement of capital assets	(299,450)	-	(299,450)
Subsidy income	-	108,708	108,708
Capital distribution	(51,921)	-	(51,921)
Investment income	3,200	95,922	99,122
NET (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(70,523)	(785,038)	(855,561)
CAPITAL CONTRIBUTION	11,529	-	11,529
CHANGE IN NET ASSETS	(58,994)	(785,038)	(844,032)
NET ASSETS (DEFICIT) — Beginning of year	8,924,370	(7,758,479)	1,165,891
Restatement of beginning net assets (note 2)	(61,608)	-	(61,608)
NET ASSETS (DEFICIT) — End of year	$ 8,803,768	$ (8,543,517)	$ 260,251

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2008
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
OPERATING REVENUES:			
Water supply and distribution	$ 784,856	$ -	$ 784,856
Sewer collection and treatment	1,220,653	-	1,220,653
Other operating revenues	97,778	-	97,778
Total operating revenues	2,103,287	-	2,103,287
OPERATING EXPENSES:			
Operation and maintenance	1,320,439	-	1,320,439
Administration and general	22,351	21,676	44,027
Total operating expenses	1,342,790	21,676	1,364,466
DEPRECIATION AND AMORTIZATION	604,437	41,940	646,377
OPERATING INCOME	156,060	(63,616)	92,444
NONOPERATING REVENUE (EXPENSES):			
Interest expense	-	(834,085)	(834,085)
Loss on retirement of fixed assets	(14,598)	-	(14,598)
Subsidy income	-	104,234	104,234
Capital distribution	(24,619)	-	(24,619)
Investment income	4,169	104,723	108,892
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	121,012	(688,744)	(567,732)
CAPITAL CONTRIBUTION	7,340	-	7,340
CHANGE IN NET ASSETS	128,352	(688,744)	(560,392)
NET ASSETS (DEFICIT) — Beginning of year	8,796,018	(7,069,735)	1,726,283
NET ASSETS (DEFICIT) — End of year	$ 8,924,370	$ (7,758,479)	$ 1,165,891

See notes to combining financial statements.

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 2,331,041	$ -	$ 2,331,041
Payments for operations and maintenance	(1,273,908)	-	(1,273,908)
Payments for administration	(24,952)	(22,737)	(47,689)
Net cash provided by (used in) operating activities	1,032,181	(22,737)	1,009,444
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings — net of issuance costs	-	4,448,758	4,448,758
Acquisition and construction of capital assets	-	(2,570,868)	(2,570,868)
Payments by the Board to the Authority	(1,049,850)	1,049,850	-
Repayments of bonds, notes and other borrowings	-	(1,943,379)	(1,943,379)
Interest paid on bonds, notes and other borrowings	-	(805,667)	(805,667)
Net cash (used in) provided by capital and related financing activities	(1,049,850)	178,694	(871,156)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	-	398,074	398,074
Purchases of investments	-	(683,935)	(683,935)
Interest on investments	1,675	66,939	68,614
Net cash provided by (used in) investing activities	1,675	(218,922)	(217,247)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,994)	(62,965)	(78,959)
CASH AND CASH EQUIVALENTS — Beginning of year	125,984	1,123,417	1,249,401
CASH AND CASH EQUIVALENTS — End of year	$ 109,990	$ 1,060,452	$ 1,170,442

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	$ 277,648	$ (60,335)	$ 217,313
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	659,733	36,612	696,345
Operations and maintenance expense paid for with bond proceeds	141,405	-	141,405
Changes in assets and liabilities (net):			
Pollution remediation liability	57,352	-	57,352
Receivables — net	(60,473)	-	(60,473)
Receivable from the City	9,597	-	9,597
Residual interest in sold liens	(21,681)	-	(21,681)
Accounts payable	(32,086)	986	(31,100)
Revenues received in advance	2,428	-	2,428
Accrued interest receivable	(234)	-	(234)
Refunds payable	(1,508)	-	(1,508)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,032,181	$ (22,737)	$ 1,009,444

The following are the noncash capital and related financing activities:
Interest expense includes the amortization of net (premium) and discount in the amount of ($3,423) in 2009.
Capital expenditures in the amount of $739,435 had been incurred but not paid at June 30, 2009.
The Board received capital assets of $11,279 in 2009 which represented capital contributed by the City.

See notes to combining financial statements. (Concluded)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 2,166,236	$ -	$ 2,166,236
Payments for operations and maintenance	(1,209,396)	-	(1,209,396)
Payments for administration and general	(28,429)	(21,798)	(50,227)
Net cash provided by (used in) operating activities	928,411	(21,798)	906,613
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings — net of issuance costs	-	5,328,294	5,328,294
Acquisition and construction of capital assets	-	(2,149,092)	(2,149,092)
Payments by the Board to the Authority	(904,726)	904,726	-
Repayments of bonds, notes and other borrowings	-	(3,381,124)	(3,381,124)
Interest paid on bonds, notes and other borrowings	-	(726,864)	(726,864)
Net cash used in capital and related financing activities	(904,726)	(24,060)	(928,786)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	83,405	17,746	101,151
Purchases of investments	(89,421)	-	(89,421)
Interest on investments	3,203	81,375	84,578
Net cash (used in) provided by investing activities	(2,633)	99,121	96,488
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,052	53,263	74,315
CASH AND CASH EQUIVALENTS — Beginning of year	104,932	1,070,154	1,175,086
CASH AND CASH EQUIVALENTS — End of year	$ 125,984	$ 1,123,417	$ 1,249,401

See notes to combining financial statements

(Continued)

NEW YORK CITY WATER AND SEWER SYSTEM

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008
(In thousands)

	New York City		
	Water Board	Municipal Water Finance Authority	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	$156,060	$ (63,616)	$ 92,444
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	604,437	41,940	646,377
Operations and maintenance expense paid for with bond proceeds	67,249	-	67,249
Changes in assets and liabilities (net):			
Receivables — net	75,189	-	75,189
Receivable from the City	(7,207)	-	(7,207)
Residual interest in sold liens	(16,896)		(16,896)
Accounts payable	44,922	(122)	44,800
Revenues received in advance	948	-	948
Refunds payable	3,709	-	3,709
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$928,411	$ (21,798)	$906,613

The following are the noncash capital and related financing activities:
Interest expense includes the amortization of net (premium) and discount in the amount of ($1,029) in 2008.
Capital expenditures in the amount of $518,467 had been incurred but not paid at June 30, 2008.
The Board received capital assets of $7,340 in 2008 which represented capital contributed by the City.

See notes to combining financial statements. (Concluded)

1. ORGANIZATION

The New York City Water and Sewer System (the "System") provides water supply and distribution, sewage collection, treatment, and disposal for The City of New York (the "City"). The System, as presented in the accompanying financial statements, began operations on July 1, 1985 and is a joint operation consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Board"). The Authority is a public benefit corporation created in accordance with the New York City Municipal Water Finance Act (the "Act"), duly enacted into law as Chapter 513 of the laws of 1984 of the State of New York, as amended by Chapter 514 of the laws of 1984 of the State of New York. The Board was created by Chapter 515 of the laws of 1984 of the State of New York. The Act empowers the Authority to issue bonds or notes to finance the cost of capital improvements to the System, and to refund any and all outstanding bonds and general obligation bonds of the City issued for water and sewer purposes. The Act empowers the Board to lease the System from the City and to fix and collect rates, fees, rents and other charges for the use of, or for services furnished, rendered, or made available by, the System, to produce cash sufficient to pay debt service on the Authority's bonds and to place the System on a self-sustaining basis.

The Financing Agreement (the "Agreement") provides that the Authority will issue bonds to finance the cost of capital investment and related costs in the water and sewer system serving the City. It also sets forth the funding priority for the debt service costs of the Authority, operating costs of the System, and the rental payment to the City.

The physical operation and capital improvements of the System are performed by the City's Department of Environmental Protection subject to contractual agreements with the Authority and the Board.

In accordance with Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), the Board and the Authority are considered to be part of the same reporting entity (the "System") since they are fiscally interdependent. Accordingly, the accompanying financial statements for the System present the individual financial statements of the Board and the Authority as major funds. In addition, the accompanying financial statements present a total column which represents the entity-wide financial statements of the System. Transactions and balances between the Board and the Authority are eliminated in the entity-wide 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. Private sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board ("FASB") prior to December 1, 1989 are followed by the System to the extent that those standards do not conflict with or contradict guidance of GASB. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, provides the option to follow subsequent FASB standards, subject to the same limitation. The System has elected to follow GASB pronouncements exclusively after that date. Other significant accounting policies are:

Investments and Cash Equivalents — Investments and cash equivalents consist principally of securities of the United States and its agencies, certificates of deposit, guaranteed investment contracts, and repurchase agreements. Investments with maturity periods of greater than one year are carried at fair

value. Investments with maturities less than one year are carried at cost plus accrued interest, which approximates fair value. For purposes of the statements of cash flows, the System generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Restricted Assets — Proceeds from the issuance of debt and monies set aside for the operation and maintenance of the System are classified as restricted based on the requirements of the applicable bond indentures.

Bond Discount and Bond Issuance Costs — Bond discount and bond issuance costs are amortized over the life of the related bond issue, using the effective yield method of amortization for bond discount and bond issuance costs.

Utility Plant — Utility plant acquired through purchase or internal construction is recorded at cost, net of retirements. It is the Board's policy to capitalize assets with a cost of $35,000 or more and a useful life of five years or longer. Contributed utility plant is recorded at its estimated historical cost based on appraisals or other methods when historical cost information is not available, net of depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

	Years
Buildings	40–50
Water supply and wastewater treatment systems	15–50
Water distribution and sewage collection systems	15–75
Equipment	5–35

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are recorded as additions to utility plant. The System pays for some improvements for assets that are not owned by the City or the System, as well as certain pollution remediation activities, through bond proceeds. These costs are shown as operations and maintenance expenses in the statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Operating Expenses — Operating revenues consist of customer payments for services of the System. Revenues are based on billing rates imposed by the Board and upon customers' water and sewer usage or, in some cases, characteristics of customer properties. The System records estimated unbilled revenue at year-end. Operating expenses consist of administration, maintenance, repair and operations of the System; administration costs of the Board and the Authority; rental payments to the City and bad debt expense.

Deferred Revenues — Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned.

Deferred Bond Refunding Costs — Deferred bond refunding costs represent the accounting gains or losses incurred in advance refundings of outstanding bonds. Gains or losses arising from debt refundings are deferred and amortized over the lesser of the remaining life of the old debt or the life of the new debt.

Use of Estimates — The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Newly Adopted Standards and Standards Issued But Not Yet Effective

In September 2006 GASB issued Statement No. 48, (GASB 48), *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* The Statement established criteria to ascertain whether certain transactions should be regarded as sales or collateralized borrowings, and provides guidance for the reporting and disclosures required when governmental entities have such transactions. The System implemented GASB 48 in Fiscal 2008, which resulted in the recording of a residual interest in sold liens of $16.9 million as of June 30, 2008 and $38.6 million as of June 30, 2009. These amounts represent the estimated amount to be received by the Board for tax liens secured by water and sewer rents and surcharges which have been sold by the City to one or more trusts, if and when liens held by the trusts generate cash flows to the trusts above the amounts needed by the trusts to pay their bondholders and satisfy reserve requirements.

In November 2006 GASB issued Statement No. 49, (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations.* The Statement established accounting and financial reporting standards for obligations to address current or potential detrimental effects of existing pollution. GASB 49 is effective for financial statements for periods beginning after December 15, 2007, and was implemented by the System for its Fiscal 2009. The implementation of GASB 49 resulted in a restatement (discussed further below) of the Fiscal 2009 beginning net asset balance of $61.6 million, reflecting the pollution remediation obligation as of June 30, 2008. For further information pertaining to pollution remediation obligations also see note 13.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2007 GASB issued Statement No. 50, (GASB 50), *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27*). The Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The City and the City's pension plans in which System employees may participate implemented GASB 50 for Fiscal 2008. As discussed in Note 11, the System has very few direct employees who participate in a pension plan and the thus the pension disclosures are not material to the System's financial statements.

In June 2007 GASB issued Statement No. 51, (GASB 51) *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that intangible assets generally be classified as capital assets.

Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. GASB 51 is effective for financial statements for periods beginning after June 15, 2009. The System had not completed the process of evaluating GASB 51, but does not expect GASB 51 to have a material impact on its financial statements.

In November 2007 GASB issued Statement No. 52, (GASB 52), *Land and Other Real Estate Held as Investments by Endowments*. This Standard requires endowments to report their land and other real estate investments at fair value. GASB 52 is effective for financial statements for periods beginning after June 15, 2008. The System has no endowments and therefore GASB 52 will not impact the System's financial statements.

In June 2008 GASB issued Statement No. 53, (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*. This Standard established guidance on the recognition, measurement, and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred whereas for others the changes in fair value are recognized in the current period. GASB 53 is effective for financial statements for periods beginning after June 15, 2009. The System has not completed the process of evaluating the impact of GASB 53 on its financial statements.

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement affects the display of fund balances and refines the definitions of each of the governmental fund types. The requirements for GASB 54 are effective for periods beginning after June 15, 2010. The System does not use fund accounting and therefore GASB 54 will not impact the System's financial statements.

Restatement of Beginning Net Assets — The implementation of GASB 49 (discussed above) has resulted in a restatement to reduce the Fiscal 2009 beginning net asset balance by $61.6 million, reflecting the pollution remediation obligation as of June 30, 2008. The System has not restated its Fiscal 2008 financial statements to reflect GASB 49, as sufficient information to apply the provisions of the standard in the prior period was not readily available. For further information pertaining to the pollution remediation obligations see note 13.

3. UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2009 and 2008, as adjusted as per note 13 (in thousands):

	Balance at June 30, 2007	Additions	Deletions	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009
Nondepreciable assets — utility construction	$ 4,338,126	$2,313,039	$2,639,949	$ 4,011,216	$ 2,758,716	$1,697,436	$ 5,072,496
Depreciable assets:							
Buildings	$ 23,493	$ -	$ -	$ 23,493	$ 700	$ -	$ 24,193
Equipment	629,384	326,405	2,478	953,311	412,069	3,165	1,362,215
Water supply and wastewater treatment systems	11,865,211	1,787,249	23,409	13,629,051	754,824	1,444	14,382,431
Water distribution and sewage collection systems	8,014,647	434,426	41,033	8,408,040	337,964	411,384	8,334,620
Total depreciable assets	20,532,735	2,548,080	66,920	23,013,895	1,505,557	415,993	24,103,459
Less accumulated depreciation (1)	7,125,846	604,437	52,322	7,677,961	659,732	300,976	8,036,717
Total utility plant	$13,406,889	$1,943,643	$ 14,598	$15,335,934	$ 845,825	$ 115,017	$16,066,742

(1) At June 30, 2009 accumulated depreciation was comprised of the following:

Buildings	Equipment	Water Supply	Water Distributio	Total
$ 16,138	$ 592,785	$4,701,459	$2,726,335	$ 8,036,717

4. INVESTMENTS AND CASH DEPOSITS

Investments — Pursuant to the Water and Sewer General Revenue Bond Resolution and the Authority's and the Board's investment guidelines, the Authority and the Board may generally invest in obligations of, or guaranteed by, the U.S. government, certain highly rated obligations of the State of New York or any subdivision or instrumentality thereof, certain certificates of deposit and similar instruments issued by highly rated commercial banks; certain highly rated corporate securities or commercial paper securities, certain repurchase agreements with highly rated institutions; certain investment agreements with highly rated institutions; certain highly rated money market funds; and certain highly rated municipal obligations.

Cash Deposits — The System follows the New York City Banking Commission designations for the System's bank depositories. The Commission consists of the Comptroller, the Mayor, and the Finance Commissioner of the City and uses independent bank rating agencies in part to assess the financial soundness of each bank, and the banking relationships are under constant operational and credit reviews. Each bank in which the System's cash is deposited is required to have its principal office in New York State and have capital stock, surplus, and undivided earnings aggregating at least $100 million. The System had $7.2 million and $574 thousand, respectively, on deposit at June 30, 2009 and 2008, which was covered by Federal depository insurance. The remaining balance at June 30 , 2008 was uncollateralized and uninsured.

4. INVESTMENTS AND CASH DEPOSITS (Continued)

Cash and cash equivalents were comprised of the following at June 30, 2009 and 2008 (in thousands):

	2009	2008
Cash	$ 7,167	$ 16,002
Cash equivalents	1,163,275	1,233,399
Cash and cash equivalents	$ 1,170,442	$ 1,249,401

The System had the following investments at June 30, 2009 and 2008 (in thousands):

	Fair Value	
Investments	**2009**	**2008**
U.S. Government Sponsored Entities	$ 1,356,684	$ 1,366,063
New York State instrumentality	339,380	78,466
New York City authority securities	64,635	-
Repurchase agreements	-	3,000
Dreyfus Government Money Market	8,942	-
Guaranteed investment contracts	132,171	215,480
Forward Purchase Agreements Market Value Adjustment	29,084	15,090
Total investments including cash equivalents	1,930,896	1,678,099
Less amounts reported as cash equivalents	1,163,275	1,233,399
Investments	$ 767,621	$ 444,700

The System's management invests funds which are not immediately required for operations, debt service or capital project expenses and funds that are held for debt service and operations and maintenance reserves. Each account of the Authority is held pursuant to the Resolution and may be invested in securities or categories in investments that are specifically enumerated as permitted investments for such account pursuant to the Resolution. The Board invests the reserves for operations and maintenance as permitted by the Board's investment guidelines.

Credit Risk — All investments held by the System at June 30, 2009 and 2008 are obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Federal Farm Credit System, or are shares of money market funds, and are rated "AAA" or "A-1+" by S&P and "Aaa" or "P-1" by Moody's.

4. INVESTMENTS AND CASH DEPOSITS (Continued)

Interest Rate Risk — Approximately 35% of the System's investments at June 30, 2009 are Forward Purchase Agreements or Guaranteed Investment Contracts with guaranteed fixed rates of return. The fair value of the Forward Purchase Agreements is highly susceptible to changes in market interest rates; however the System does not expect these Agreements to terminate. Approximately 15% of the System's investments are in investments that are expected to be held to maturity. The remainder of the System's investments will mature within a year after June 30, 2009; for these investments the System's risk that changes in interest rates will adversely affect the fair value of investments is very limited.

Custodial Credit Risk — For an investment, custodial credit risk is the risk that, in the event of the failure of the custodian, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The System's investments, other than repurchase agreements, are not collateralized. All investments and collateral are held in the Authority's name by the trustee or in the Board's name by its custodian bank.

5. LEASE AGREEMENT

The Board is party to a long-term lease (the "Lease") with the City, which transfers the water and sewer related property to the Board for the term of the lease. The Lease term commenced on July 1, 1985, and continues until the later of the fortieth anniversary of the commencement of the lease or the date on which all bonds, notes or other obligations of the Authority are paid in full or provision for such payment have been made pursuant to the applicable debt instrument. The Lease provides for payments to the City to cover the following:

a. an amount sufficient to pay the cost of administration, maintenance, repair and operation of the leased property, which includes overhead costs incurred by the City attributable to the leased property, net of the amount of any Federal, State, or other operating grants received by the City;

b. an amount sufficient to reimburse the City for capital costs incurred by the City for the construction of capital improvements to the leased property which are not paid or reimbursed from any other source.

5. LEASE AGREEMENT (Continued)

In addition to the payments described above, the Board pays rent to the City in each fiscal year in an amount not to exceed the greater of (a) the principal and interest payable on general obligation bonds issued by the City for water and sewer purposes certified by the City to be paid within such fiscal year or (b) 15% of principal and interest payable on the bonds of the Authority to be paid within such fiscal year. A summary of operation and maintenance and rental expenses for the years ended June 30 is as follows (in thousands):

	2009	2008
Water transmission and distribution	$ 414,646	$ 381,011
Sewer collection systems	438,512	458,021
City agency support cost	61,832	58,692
Fringe benefits	174,113	147,593
Pollution remediation	132,682	
Payments for watershed improvements	66,072	67,249
Judgments and claims	8,975	68,088
Operations and maintenance	1,296,832	1,180,654
Rental payments to the City	151,436	139,785
Total operations maintenance and rental payments	$1,448,268	$1,320,439

6. PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2009 and 2008, all utility construction recorded by the System which has not been reimbursed to the City has been recorded as a payable to the City, net of the amount of any State or Federal capital grants received by the City.

As of June 30, 2009 and 2008, the System had a net payable of $867.3 million and $495.5 million, respectively, from the City for payments of utility construction and for overpayment of operations and maintenance expense.

7. SHORT TERM DEBT

In Fiscal 2009 and 2008, the changes in short-term debt were as follows (in thousands):

	Balance at June 30, 2007	Additions	Deletions	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009
Commercial paper (1)	$800,000	$2,040,000	$2,040,000	$800,000	$950,000	$1,050,000	$700,000

(1) Commercial paper is used to pay construction costs in advance of long-term bond financing. It is reported as part of the current portion of bonds and notes payable on the System's balance sheets.

7. SHORT TERM DEBT (Continued)

Commercial paper activity comprises the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired	Balance at June 30, 2009
Commercial Paper Series 1 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	$200,000	$200,000	$ 400,000	$ -
Commercial Paper Series 5 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	200,000	-	-	200,000
Commercial Paper Series 6 — Variable Rate, Short-term Rolling Maturity Backed by Letter of Credit	200,000	200,000	200,000	200,000
Commercial Paper Series 7 — Variable Rate, Short-term Rolling Maturity	200,000	250,000	350,000	100,000
Commercial Paper Series 8 — Variable Rate, Short-term Rolling Maturity	-	300,000	100,000	200,000
Total commercial paper payable	$800,000	$950,000	$ 1,050,000	$700,000

8. LONG-TERM DEBT

In Fiscal 2009 and 2008, the changes in long-term liabilities were as follows (in thousands):

Bonds Payable	June 30, 2007	Additions	Deletions	June 30, 2008	Additions	Deletions	June 30, 2009
First resolution	$10,933,460	$1,126,190	$1,067,753	$10,991,897	$ 536,030	$353,437	$11,174,490
Second resolution	6,337,724	2,153,715	264,399	8,227,040	2,967,345	534,078	10,660,307
Total bonds payable	17,271,184	3,279,905	1,332,152	19,218,937	3,503,375	887,515	21,834,797
Due within one year	(210,971)			(235,015)			(266,026)
Less discounts (net)	13,838	(31,934)	8,281	(26,377)	(20,920)	3,402	(50,699)
Less deferred refunding costs	354,935	17,791	30,559	342,167	1,748	26,286	317,629
Total long-term debt	$16,902,411	$3,294,048	$1,293,312	$19,299,712	$3,522,547	$857,827	$21,964,432

With respect to all series, the Board has agreed to maintain rates and charges to provide revenues at levels sufficient to pay principal and interest requirements as well as to meet certain debt service coverage and operating cost funding requirements. All series are specific obligations of the Authority payable solely from and secured by a pledge of and lien on the gross revenue of the System, as defined.

8. LONG-TERM DEBT (Continued)

During Fiscal 2008, the Authority issued $448.1 million of bonds to refund $436.7 million of outstanding bonds. These refundings resulted in an accounting loss of $17.8 million. The Authority in effect reduced its aggregate debt service by $18.0 million, and obtained an economic benefit of $14.5 million.

In addition, in Fiscal 2009 and Fiscal 2008, the Authority issued $612.3 million and $679.9 million, respectively of bonds to refund $652.5 million and $683.7 million, respectively, of adjustable rate bonds.

The Authority has defeased cumulatively $11.0 billion and $10.4 billion of outstanding bonds as of June 30, 2009 and 2008, respectively, by placing proceeds of refunding bonds issued or Authority cash in an irrevocable escrow account to provide for all future debt service payments on defeased bonds. Proceeds were used to purchase U.S. Government securities that were placed in the irrevocable escrow account. Accordingly, the escrow account assets and liabilities for the defeased bonds are not included in the Authority's financial statements. Additionally, the Authority has economically defeased an additional $19.5 million of bonds from its cash. The escrow account assets and the liabilities for these economically defeased bonds are included in the assets and liabilities of the Authority's financial statements until their respective maturity dates.

As of June 30, 2009 and 2008, $10.1 billion and $8.9 billion of the defeased bonds, respectively, had been retired from the assets of the escrow accounts.

Debt service requirements to maturity, including amounts relating to commercial paper, at June 30, 2009 are as follows (in thousands):

June 30	Principal (1)	Interest (2)	Total
2010	$ 966,026	$ 874,641	$ 1,840,667
2011	354,407	857,282	1,211,689
2012	350,422	844,966	1,195,388
2013	341,460	829,693	1,171,153
2014	432,323	820,850	1,253,173
2015–2019	2,500,309	3,879,241	6,379,550
2020–2024	2,962,730	3,393,218	6,355,948
2025–2029	3,493,585	2,813,571	6,307,156
2030–2034	4,456,020	2,049,629	6,505,649
2035–2039	5,440,975	1,088,216	6,529,191
2040–2040	1,236,540	68,387	1,304,927
	$ 22,534,797	$ 17,519,694	$ 40,054,491

(1) Includes $700 million of commercial paper due in 2010.

(2) Includes interest for variable rate bonds estimated at 1.69%, which is the rate at the end of the fiscal year. Variable rate bonds are sold daily or weekly and interest rates are determined by the market on the day of sale.

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
1991 Fiscal Series B — 6.00% to 7.25% Serial and Term Bonds maturing in varying installments through 2012	$ 5,350	$-	$ 1,990	$ 3,360
1992 Fiscal Series B — 6.66% to 6.86% Serial and Term Bonds maturing in varying installments through 2014	6,192	-	2,107	4,085
1993 Fiscal Series A — 5.875% to 6.0% Serial, Term, and Capital Appreciation Bonds maturing in varying installments through 2013	49,985	-	30,485	19,500
1994 Fiscal Series 1 — 3.00% to 6.00% Serial Bonds maturing in varying installments through 2013	30,840	-	360	30,480
1995 Fiscal Series 1 — 5.25% to 6.875% Serial Bonds maturing in varying installments through 2016	21,160	-	2,930	18,230
1997 Fiscal Series A — 4.85% to 6.0% Serial Bonds maturing in varying installments through 2026	25,000	-	-	25,000
1998 Fiscal Series D — 4.25% to 5.00% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	350,965	-	-	350,965
1998 Fiscal Series 1 — 4.00% to 5.35% Serial Bonds maturing in varying installments through 2017	26,155	-	2,315	23,840
1998 Fiscal Series 3 — 4.30% to 6.00% Serial Bonds maturing in varying installments through 2016	120,135	-	-	120,135
1998 Fiscal Series 4 — 3.60% to 5.20% Serial Bonds maturing in varying installments through 2018	8,850	-	790	8,060
1999 Fiscal Series A — 4.75% to 5.00% Serial Bonds maturing in varying installments through 2031	301,470	-	-	301,470
1999 Fiscal Series B — 4.0% to 5.25% Serial, Term and Capital Appreciation Bonds maturing in varying installments through 2020	171,910	-	-	171,910
2000 Fiscal Series B — 6.00% to 6.10% Serial Bonds maturing in varying installments through 2033	131,865	-	-	131,865
2000 Fiscal Series C — Adjustable Rate Term Bonds maturing in 2033	107,500	-	-	107,500
2000 Fiscal Series 2 — 3.80% to 5.96% Serial Bonds maturing in varying installments through 2019	8,495	-	585	7,910
2001 Fiscal Series B — 4.5% to 5.125% Serial and Term Bonds maturing in varying installments through 2031	67,225	-	-	67,225
2001 Fiscal Series C — 5.125% Term Bonds maturing in varying installments through 2033	112,040	-	-	112,040

(Continued)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
2001 Fiscal Series D — 4.5% to 5.5% Serial and Capital Appreciation Bonds maturing in varying installments through 2025	$232,940	$-	$ 880	$232,060
2001 Fiscal Series E — 4.5% to 5.25% Serial and Term Bonds maturing in varying installments through 2031	86,105	-	-	86,105
2001 Fiscal Series F — Adjustable Rate Bonds maturing in varying installments through 2033	184,130	-	-	184,130
2002 Fiscal Series A — 5.00% to 5.75% Serial and Term Bonds maturing in varying installments through 2033	116,305	-	-	116,305
2002 Fiscal Series B — 3.625% to 5.00% Serial and Term Bonds maturing in varying installments through 2026	170,975	-	255	170,720
2002 Fiscal Series C — 4.1% to 5.125% Serial and Term Bonds maturing in varying installments through 2032	46,580	-	-	46,580
2002 Fiscal Series D — 3.0% to 4.90% Serial and Term Bonds maturing in varying installments through 2020	41,405	-	95	41,310
2002 Fiscal Series E — 3.4% to 5.0% Serial and Term Bonds maturing in varying installments through 2026	213,635	-	115	213,520
2002 Fiscal Series F — 3.6% to 5.0% Serial and Term Bonds maturing in varying installments through 2029	105,480	-	165	105,315
2002 Fiscal Series G — 5.00% to 5.125% Term Bonds maturing in varying installments through 2034	216,375	-	-	216,375
2002 Fiscal Series 1 — 4.82% to 5.25% Serial Bonds maturing in varying installments through 2031	169,167	-	5,896	163,271
2002 Fiscal Series 2 — 4.22% to 5.00% Serial Bonds maturing in varying installments through 2031	56,768	-	2,626	54,142
2002 Fiscal Series 3 — 4.65% to 5.00% Serial Bonds maturing in varying installments through 2031	433,688	-	15,028	418,660
2002 Fiscal Series 4 — 5.13% to 6.74% Serial Bonds maturing in varying installments through 2023	183,794	-	12,678	171,116
2002 Fiscal Series 5 — 3.82% to 5.21% Serial Bonds maturing in varying installments through 2031	152,935	-	1,476	151,459
2002 Fiscal Series 6 — 3.82% to 5.21% Serial Bonds maturing in varying installments through 2019	71,351	-	6,481	64,870

(Continued)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
2002 Fiscal Series 7 — 7.4% to 7.5% Serial Bonds maturing in varying installments through 2012	$ 3,100	$-	$ -	$ 3,100
2003 Fiscal Series A — 4.0% to 6.0% Serial, Term and Muni-CP1 Bonds maturing in varying installments through 2034	681,645	-	4,415	677,230
2003 Fiscal Series C — Adjustable Rate Bonds maturing in 2018	300,300	-	300,300	-
2003 Fiscal Series D — 2.0% to 5.25% Serial and Term Bonds maturing in varying installments through 2017	214,525	-	-	214,525
2003 Fiscal Series E — 5% Term Bonds maturing in 2034 and 2038	367,265	-	-	367,265
2003 Fiscal Series F — Adjustable Rate Bonds maturing in 2035	201,655	-	-	201,655
2003 Fiscal Series 1 — 4.23% to 4.375% Serial Bonds maturing in varying installments through 2032	127,840	-	4,986	122,854
2003 Fiscal Series 2 — 5.27% Serial Bonds maturing in varying installments through 2028	538,140	-	13,027	525,113
2003 Fiscal Series 3 — 5.15% Serial Bonds maturing in varying installments through 2025	18,410	-	745	17,665
2003 Fiscal Series 4 — 5.18% Serial Bonds maturing in varying installments through 2025	29,285	-	1,190	28,095
2003 Fiscal Series 5 — 4.23% to 4.45% Serial Bonds maturing in varying installments through 2032	259,706	-	9,221	250,485
2004 Fiscal Series A — 5.0% Term Bonds maturing in 2027 and 2035	217,000	-	-	217,000
2004 Fiscal Series B — 2.00%–5.00% Serial and Term Bonds maturing in varying installments through 2023	336,720	-	-	336,720
2004 Fiscal Series C — 2.00%–5.00% Serial and Term Bonds maturing in varying installments through 2035	594,585	-	600	593,985
2004 Fiscal Series 1 — 4.12%–4.45% Serial Bonds maturing in varying installments through 2033	269,719	-	9,147	260,572
2004 Fiscal Series 2 — 4.46% Serial Bonds maturing in varying installments through 2026	233,496	-	7,959	225,537
2005 Fiscal Series A — 5.00% Serial Bonds maturing in varying installments through 2039	150,000	-	-	150,000

(Continued)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
2005 Fiscal Series B — 2.125%–5.00% Serial Bonds maturing in varying installments through 2036	$918,890	$-	$ 1,095	$917,795
2005 Fiscal Series C — 3.00%–5.00% Serial Bonds maturing in varying installments through 2036	574,255	-	775	573,480
2005 Series D — 5.00% Serial Bonds maturing in varying installments through 2039	559,205	-	-	559,205
2005 Fiscal Series 1 — 3.95%–5.00% Bonds maturing in varying installments through 2034	210,374	-	6,818	203,556
2005 Fiscal Series 2 — 2.567%–5.00% Bonds maturing in varying installments through 2026	357,712	-	12,006	345,706
2006 Series A — 3.50%–5.00% Serial Bonds maturing in varying installments through 2039	518,525	-	380	518,145
2006 Series B — 5.00% Term Bonds maturing in 2036	150,000	-	-	150,000
2006 Series C — 4.50%–4.75% Term Bonds maturing in 2033	350,345	-	-	350,345
2006 Fiscal Series D — 4.5%–5.00% Serial Bonds maturing in varying installments through 2038	406,205	-	-	406,205
2006 Fiscal Series AA — Adjustable rate bonds maturing in varying installments through 2032	400,000	-	-	400,000
2006 Fiscal Series BB — 3.25%–5.00% Serial Bonds maturing in varying installments through 2016	80,000	-	10,000	70,000
2006 Fiscal Series 1 — Adjustable rate bonds maturing in varying installments through 2036	213,458	-	6,938	206,520
2006 Fiscal Series 2 — Adjustable rate bonds maturing in varying installments through 2036	194,790	-	5,438	189,352
2006 Fiscal Series 3 — Adjustable rate bonds maturing in varying installments through 2036	248,288	-	6,725	241,563
2007 Fiscal Series A — 4.25%–4.75% Serial Bonds maturing in varying installments through 2039	587,975	-	-	587,975
2007 Fiscal Series AA — 4.50%–5.00% Serial Bonds maturing in varying installments through 2037	199,910	-	-	199,910
2007 Fiscal Series BB — 3.75%–5.00% Serial Bonds maturing in varying installments through 2021	131,745	-	-	131,745

(Continued)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
2007 Fiscal Series CC — Adjustable rate bonds maturing in varying installments through 2038	$210,500	$ -	$ -	$210,500
2007 Fiscal Series DD — 4.75%–5.00% Serial Bonds maturing in varying installments through 2039	395,000	-	-	395,000
2007 Fiscal Series 1 — 4.35%–4.40% Serial Bonds maturing in varying installments through 2036	222,652	-	5,788	216,864
2007 Fiscal Series 2 — 4.45%–4.50% Serial Bonds maturing in varying installments through 2036	283,457	-	7,235	276,222
2007 Fiscal Series 3 — 4.90% Serial Bonds maturing in varying installments through 2024	162,405	-	13,075	149,330
2008 Fiscal Series A — 5.00% Serial Bonds maturing in varying installments through 2038	446,245	-	-	446,245
2008 Fiscal Series B — Adjustable Rate Bonds maturing in varying installments through 2025	535,000	-	-	535,000
2008 Fiscal Series C — 3.00%–5.25% Serial Bonds maturing in varying installments through 2021	138,125	-	9,780	128,345
2008 Fiscal Series AA — 4.50%–5.00% Serial Bonds maturing in varying installments through 2039	400,000	-	-	400,000
2008 Fiscal Series BB — Adjustable Rate Bonds maturing in varying installments through 2036	401,000	-	-	401,000
2008 Fiscal Series CC — Auction Rate Bonds maturing in varying installments through 2022	352,200	-	352,200	-
2008 Fiscal Series DD — 4.50%–5.00% Serial Bonds maturing in varying installments through 2039	504,905	-	-	504,905
2008 Fiscal Series 1 — 3.69%–4.64% Serial Bonds maturing in varying installments through 2037	270,907	-	8,282	262,625
2008 Fiscal Series 2 — 4.67%–4.73% Serial Bonds maturing in varying installments through 2037	224,703	-	2,133	222,570
2009 Fiscal Series A — 4.50%–5.00% Serial Bonds maturing in varying installments through 2039	-	536,030	-	536,030
2009 Fiscal Series AA — 4.50%–5.00% Serial Bonds maturing in varying installments through 2037	-	334,075	-	334,075

(Continued)

8. LONG-TERM DEBT (Continued)

Bonds, notes payable, and commercial paper comprise the following for the year ended June 30, 2009 (in thousands):

	Balance at June 30, 2008	Issued	Retired/ defeased	Balance at June 30, 2009
2009 Fiscal Series BB — 3.75%–5.00% Serial Bonds maturing in varying installments through 2021	$ -	$ 200,870	$ -	$ 200,870
2009 Fiscal Series CC — Adjustable rate bonds maturing in varying installments through 2038	-	150,100	-	150,100
2009 Fiscal Series DD — 4.75%–5.00% Serial Bonds maturing in varying installments through 2039	-	325,580	-	325,580
2009 Fiscal Series EE — 4.75%–5.00% Serial Bonds maturing in varying installments through 2039	-	645,455	-	645,455
2009 Fiscal Series FF — 4.75%–5.00% Serial Bonds maturing in varying installments through 2039	-	362,830	-	362,830
2009 Fiscal Series 1 — 3.69%–4.64% Serial Bonds maturing in varying installments through 2037	-	368,451	-	368,451
2009 Fiscal Series 2 — 4.67%–4.73% Serial Bonds maturing in varying installments through 2037	-	79,984	-	79,984
2009 Fiscal Series GG — 4.13%–5.25% Serial Bonds maturing in varying installments through 2040	-	500,000	-	500,000
Total bonds payable	19,218,937	3,503,375	887,515	21,834,797
Current portion of bonds and notes payable	235,015			266,026
Bonds and notes payable — less current portion	$18,983,922			$21,568,771

(Concluded)

8. LONG-TERM DEBT (Continued)

Derivatives — In October 2007, the Authority entered into two interest rate exchange agreements for a combined notional amount of $401 million in conjunction with its sale of Adjustable Rate Fiscal 2008 Series BB Second General Resolution Bonds. Under the terms of these agreements, the Authority pays a fixed rate of 3.439% in exchange for a floating rate based on 67% of one-month LIBOR. These agreements effectively converted the Adjustable Rate Fiscal 2008 Series BB Second General Resolution Bonds to a fixed rate; however a mismatch between the rate paid on the bonds and the rate received under the interest rate exchange agreements can occur.

In 2004, the Authority entered into a $200 million interest rate exchange agreement under which the Authority receives a fixed rate in exchange for a floating rate based on the SIFMA Index (formerly the BMA Municipal Swap Index). This effectively converted a portion of the Authority's second resolution bonds issued through the New York State Environmental Facilities Corporation to variable rate bonds. The terms of this agreement require the Authority to pay the SIFMA index and the counterparty to pay 3.567%.

In 2003, the Authority sold $20 million of muni-CP bonds in the 2013 maturity of its Fiscal 2003 Series A issue. In connection with the muni-CP bonds, the Authority entered into an interest rate exchange agreement under which the Authority receives a floating rate tied to the consumer price index, which matches the rate on the bonds, and pays a fixed interest rate. This allowed the Authority to achieve a yield 10 basis points lower than traditional fixed rate debt with a 2013 maturity. The terms of this transaction require the counterparty to pay the Authority the muni-CP rate, which is set at 1.53% plus a floating rate CPI, with the CPI being equal to the change in the consumer price index.

In keeping with market standards, the Authority or the counterparty may terminate the swap if the other party fails to perform under its terms as defined in the agreements. The counterparties may terminate the agreement only upon certain events, which are unlikely given the Authority's high credit ratings. Depending on the fair value at the time of termination, the Authority may have a liability to the counterparties. Through the swap agreements the Authority is also exposed to counterparty credit risk; the risk that the counterparty's credit deteriorates or that the counterparty defaults under the agreement. To mitigate counterparty credit risk, the agreement requires the counterparty to post collateral for the Authority's benefit if it is downgraded below a designated threshold, and if the fair value is in the authority's favor, as defined in the agreement.

The appropriate measurement of these risks at the reporting date is the fair value of the swap. The fair value of the swaps at June 30, 2009 and 2008 was approximately $36.8 million and $7.7 million in favor of the counterparty, respectively.

9. RESTRICTED ASSETS

As of June 30, 2009 and 2008, certain cash, investments, and accrued interest of the System are restricted as follows (in thousands):

	2009	2008
The Board:		
Operation and maintenance reserve account	$ 195,834	$ 200,428
Operation and maintenance reserve general account	10	10
Total Board	195,844	200,438
The Authority:		
Revenue fund	285,348	209,130
Debt service reserve fund	878,121	836,028
Debt service fund	11,061	7,766
Construction fund	397,946	247,730
Escrow fund	158,171	179,243
Operating fund	8,967	-
Total Authority	1,739,614	1,479,897
Total restricted assets	$ 1,935,458	$ 1,680,335

The operation and maintenance reserve account is established as a depository to hold the operations and maintenance reserve fund as required by the Resolution. It is required to hold one-sixth of the operating expenses as set forth in the annual budget. It is funded through the cash receipts of the Board. The operation and maintenance reserve general account is established as a depository to hold all excess funds of the Board after all legally mandated transfers have been made. It is available to meet any deficiencies in the flow of funds including debt service and alternatively can be used as a financing source for capital expenditures.

The revenue fund is established as a depository to fund the debt service, Authority expenses, debt service reserve and escrow funds. It is funded through cash transfers from the Board. The debt service reserve fund is established as a depository to hold the maximum annual debt service requirement for the next current or any future fiscal year. It is funded through revenue bond proceeds and the revenue fund.

The debt service fund is established as a depository to pay all principal and interest payments on the Authority's debt for the current fiscal year. It is funded through the revenue fund. The construction fund is established as a depository to pay all capital construction costs incurred by the City and reimbursed by the Authority. It is funded through the proceeds of commercial paper, bond and note sales. The escrow fund is established as a depository to refund debt in future years. It is funded through bond proceeds.

10. COMMITMENTS AND CONTINGENCIES

a. **Construction** — The System has contractual commitments of approximately $7.2 billion and $7.8 billion at June 30, 2009 and 2008, respectively, for water and sewer projects.

b. **Risk financing activities** — The System is self insured and carries no commercial or insurance policies other than Directors and Officers insurance for the Water Authority. Any claims made against the System are resolved through the City's legal support and the amounts of the maximum liability for such judgments are described in (c) below. The System is subject to claims for construction delays, property damage, personal injury and judgments related to delays in construction deadlines under consent agreements.

c. **Claims and Litigation** — In accordance with the Lease, the Board is required to reimburse the City for any judgment or settlement paid by the City arising out of a tort claim to the extent that the City's liability is related to capital improvements and the operation or maintenance of the System. However, in no event shall the payment made to the City, in any fiscal year, exceed an amount equal to 5% of the aggregate revenues shown on the prior year's audited financial statements of the System. In addition, the System is required to reimburse the City, to the extent requested by the City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements. In addition, the City has agreed, subject to certain conditions, to indemnify the Authority, the Board and their staffs against any and all liability in connection with any act done or omitted in the exercise of their powers which is taken or omitted in good faith in pursuance of their purposes under the Act. Currently, the City is a defendant in a significant number of lawsuits pertaining to the System. The litigation includes, but is not limited to, actions commenced and claims asserted against the City arising out of alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of law. As of June 30, 2009, the potential future liability attributable to the System for claims outstanding against the City was estimated to be $200 million. This amount is included in the estimated liability for unsettled claims, which is reported in the City's balance sheet. The potential future liability is the City's best estimate based on available information. The estimate may be revised as further information is obtained and as pending cases are litigated.

d. **Arbitrage Rebate** — To maintain the exemption from Federal income tax of interest on bonds issued subsequent to January 1, 1986, the System will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all nonpurpose 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 2009 and 2008, the System paid $2.46 million and $7.16 million, respectively, in rebates. At June 30, 2009 and 2008, the Authority had a liability of $6.3 million and $2.80 million, respectively.

11. PENSION PLANS

During Fiscal 2009, the System was billed and contributed $52 thousand for 8 employees who participate in the defined benefit pension plan. All other personnel are employees of the City and are covered under the City's pension plan. The System pays the costs of the City employees' pension through an allocation of fringe benefit costs, which is included principally within operations and maintenance expenses in the accompanying financial statements.

12. OTHER POST-EMPLOYMENT BENEFITS

Plan Description — The Authority's policy is to provide certain health and related benefits to eligible retirees of the Authority, which constitutes another postemployment benefit ("OPEB") plan (the "Plan") in accordance with GASB Statement No. 45, (GASB 45) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Authority's policy is to follow the eligibility criteria applicable to retirees of the City and to provide benefits substantially the same as those provided to City retirees and eligible beneficiaries/dependents. OPEB benefits include health insurance, Medicare Part B premium reimbursements, and employee welfare fund contributions.

Funding Policy — The Authority is not required to provide funding for OPEB, other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the years ended June 30, 2009 and 2008, the Authority had two retirees and made a contribution of $7.4 thousand. Members are not required to contribute, although retirees may elect basic health insurance programs and/or optional coverage that require contributions.

Annual OPEB Cost and Net OPEB Obligation — The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount that was actuarially determined in accordance with the parameters of GASB 45. The frozen entry age cost method was used in the actuarial valuation prepared as of June 30, 2009, which was the basis for the Fiscal 2009 ARC calculation.

The following table shows the elements of the Authority's annual OPEB cost, the amounts actually contributed, and changes in the Authority's net OPEB obligation for the fiscal year ended June 30, 2009:

Annual required contribution	$ 402
Interest on net OPEB obligations	13
Adjustment to annual required contribution	(329)
Annual OPEB cost	86
Payments	(7)
Net OPEB obligation — beginning of year	316
Net OPEB obligation — end of year	$ 395

12. OTHER POST-EMPLOYMENT BENEFITS (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007 were as follows:

Fiscal Years	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$ 86	8.6 %	$ 395
June 30, 2008	88	-	316
June 30, 2007	(168)	-	229
June 30, 2006	398	-	398

The OPEB cost for Fiscal 2007 was negative, reflecting the reduction of the Authority's OPEB liability that resulted from the transfer of a large portion of the Authority's administrative staff members to the City, which assumed the OPEB obligations for the transferred staff members.

Funded Status and Funding Progress — As of June 30, 2009, the most recent actuarial valuation date, the cost was 0% funded. The actuarial accrued liability for benefits was $317 thousand, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability ("UAAL") of $317 thousand. The covered payroll (annual payroll of active employees covered by the Plan) was $729 thousand, and the ratio of the UAAL to the covered payroll was 43.5%.

Actuarial Methods and Assumptions — Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The schedule of funding progress, shown as required supplementary information below, presents the results of OPEB valuations as of June 30, 2008, 2007, 2006 and 2005 to provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

12. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Required Supplementary Information (unaudited)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) — Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2008	$ -	$ 317	$ 317	- %	$ 729	43.5 %
June 30, 2007	-	242	242	-	486	50.0
June 30, 2006	-	173	173	-	306	56.0
June 30, 2005	-	308	308	-	1,041	29.6

13. POLLUTION REMEDIATION OBLIGATIONS

As previously discussed, the System has implemented GASB 49, requiring the reporting of pollution remediation obligations (“PROs”). The System’s PROs arise as a result of: (1) federal, state and local laws and regulations, (2) violations of pollution-related permits or licenses, (3) because the System has determined that there is an imminent endangerment to public health and safety as a result of an existing pollution condition, (4) because the System has been named in a lawsuit to compel remediation or has been identified by a regulator as a party responsible or potentially responsible for remediation and/or (5) because the System has voluntarily commenced remediation. As of June 30, 2009, the System reported $119.0 million of liabilities for known PROs and has restated its fiscal year 2009 beginning net assets (as disclosed in note 2) to reflect a June 30, 2008 liability of $61.6 million for known PROs, in accordance with GASB 49.

The System has estimated these amounts based on the current value of outlays expected to be incurred for pollution remediation which it is currently obligated to perform. Actual future outlays will differ from the estimated amounts if the prices or techniques for remediation measures change or differ from estimates, if and when additional information about existing pollution conditions becomes known to the System in the future and/or if applicable laws or regulations change.

Remediation outlays for certain pollution conditions currently known to the System are not included in the reported liabilities because they are not yet reasonably estimable. These include certain locations that the System has been informed may be designated, under federal law, as Superfund sites, to address hazardous substances, pollutants, or contaminants at these sites and for which the System may be named as a potentially responsible party for the remediation because there are System facilities operated at these locations.

14. RELATED PARTY TRANSACTIONS

During Fiscal 2009 the Authority bought $ 189.9 million of New York City Transitional Finance Authority (“TFA”) bonds. At June 30, 2009, the Authority held $64.6 million in TFA bonds.

15. SUBSEQUENT EVENTS

On August 11 2009 the Authority issued $200 million of commercial paper notes, Series 1 to pay for construction costs of the System.

On September 3, 2009 the Authority issued $100 million of commercial paper notes, Series 7 to pay for construction costs of the System.

* * * * * *

APPENDIX E

SYSTEM MAPS

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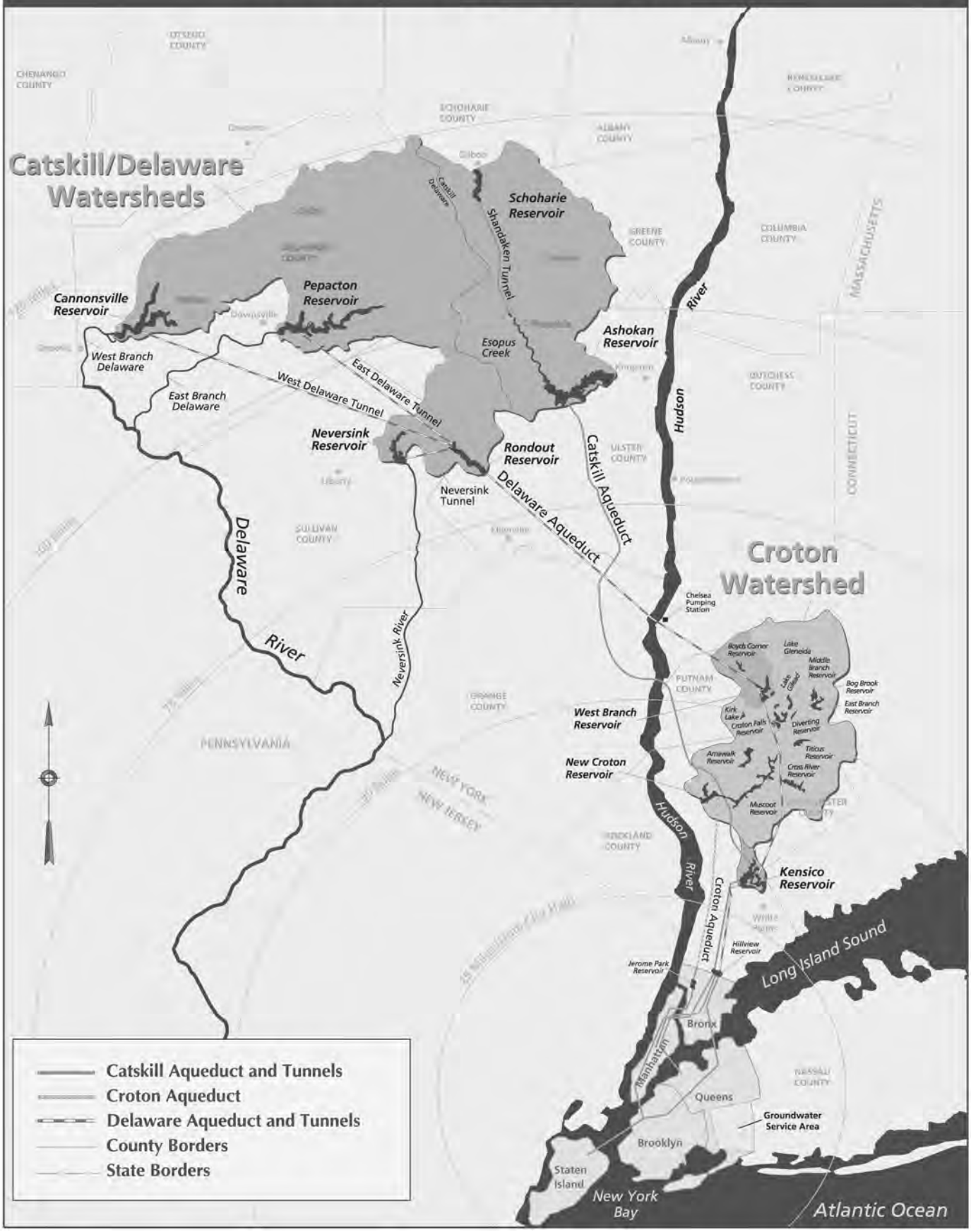
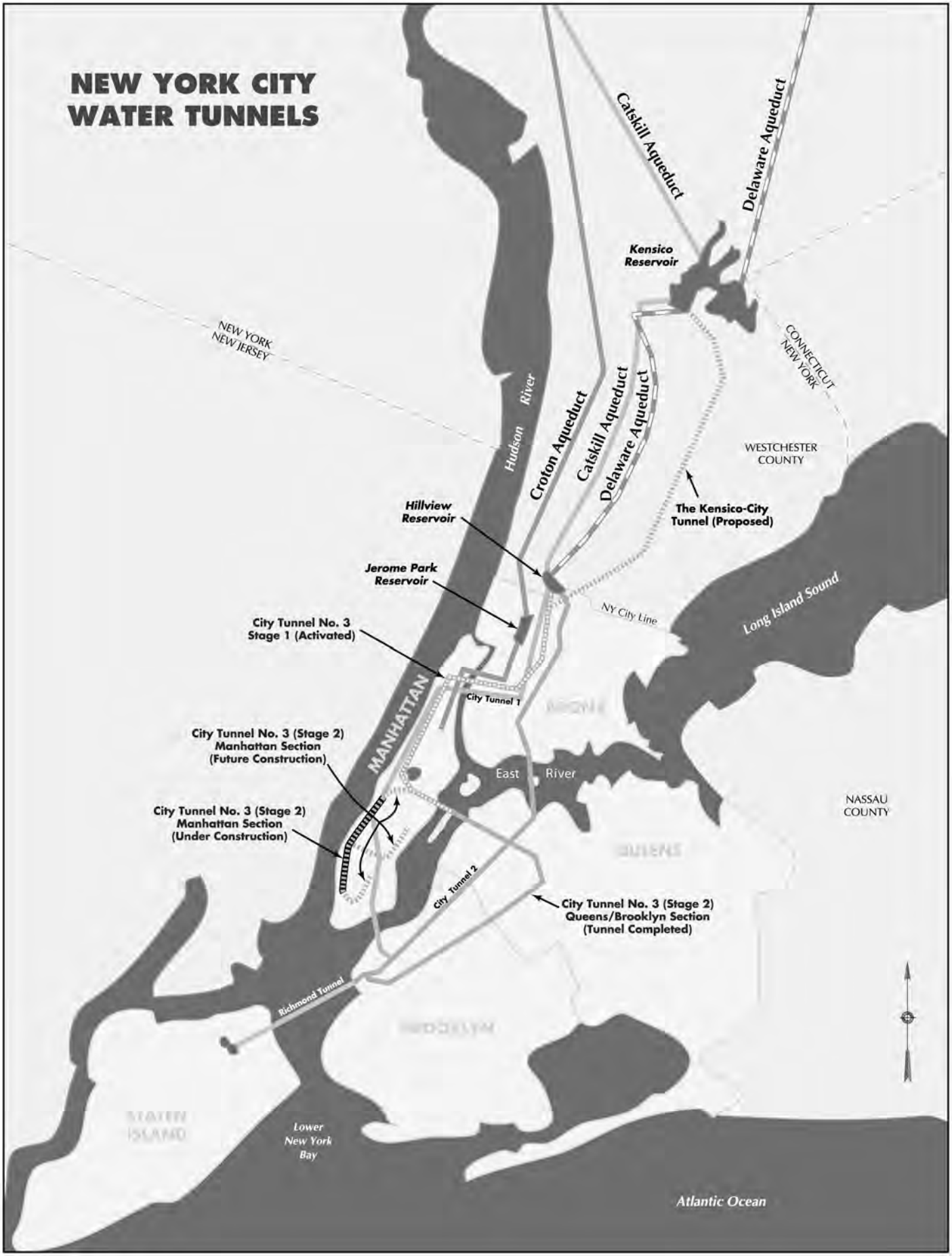
New York City Water Supply System




NEW YORK CITY
WATER TUNNELS
Catskill Aqueduct
Delaware Aqueduct
Kensico Reservoir
NEW YORK
NEW JERSEY
CONNECTICUT
NEW YORK
Hudson River
Croton Aqueduct
Catskill Aqueduct
Delaware Aqueduct
WESTCHESTER COUNTY
The Kensico-City Tunnel (Proposed)
Hillview Reservoir
Jerome Park Reservoir
NY City Line
Long Island Sound
City Tunnel No. 3 Stage 1 (Activated)
City Tunnel 1
MANHATTAN
City Tunnel No. 3 (Stage 2) Manhattan Section (Future Construction)
East River
City Tunnel No. 3 (Stage 2) Manhattan Section (Under Construction)
NASSAU COUNTY
City Tunnel 2
City Tunnel No. 3 (Stage 2) Queens/Brooklyn Section (Tunnel Completed)
Richmond Tunnel
STATEN ISLAND
Lower New York Bay
Atlantic Ocean

New York City
Drainage Areas and Water Pollution Control Plants

Plant Location	Capacity (MGD)
North River	170
Wards Island	250
Hunts Point	200
Newtown Creek	310
Red Hook	60
26th Ward	85
Owls Head	120
Coney Island	100
Bowery Bay	150
Tallmans Island	80
Jamaica	100
Rockaway	45
Port Richmond	60
Oakwood Beach	40

○ Indicates Plant Location in Drainage Area

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ATTACHMENT 2

DESCRIPTION OF SUBORDINATED NYCMWFA BONDS; CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN BASIC AGREEMENTS RELATING TO SERIES 2010 A BONDS AND SERIES 2010 B BONDS

The following information is excerpted from the discussion under the heading SUBORDINATED NYCMWFA BONDS in our Annual Information Statement, dated October 1, 2009, as amended and supplemented, and filed through the Municipal Securities Rulemaking Board's Electronic Municipal Markets Access ("EMMA") system. You should read the information in the Annual Information Statement, especially the information in Part 4.

Security for Subordinated 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 Authority bonds issued in connection with the issuance of subordinated NYCMWFA bonds.

- Each series of Authority 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 Authority Second Resolution Bonds issued from time to time.

- 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 all senior SRF bonds, including senior NYCMWFA bonds and for this purpose subordinated MFI bonds.

- Each series of our subordinated NYCMWFA bonds is secured by moneys available therefor from time to time in the De-allocated Reserve Account and the Deficiency Reserve Account on a parity basis with other subordinated SRF bonds that have been or may be issued.

With some exceptions, no reserve allocation for subordinated NYCMWFA bonds is funded at the time of issuance. However, we may establish a reserve allocation for a series of subordinated NYCMWFA bonds, which if established will be funded over time. Amounts in any debt service reserve fund established for a particular series of subordinated NYCMWFA bonds do not directly secure other series of subordinated NYCMWFA bonds. Amounts on deposit in the Debt Service Reserve Fund established for senior NYCMWFA bonds do not directly secure subordinated NYCMWFA bonds.

DEFINITIONS OF CERTAIN TERMS

The following definitions apply to the summaries of the Project Finance Agreement and the 2010 A and B Indenture relating to the Series 2010 A Bonds and Series 2010 B Bonds.

Act shall mean the New York State Environmental Facilities Corporation Act, 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, as from time to time amended and supplemented.

Additional Bonds shall mean Bonds of any additional series of Bonds hereafter issued, duly authenticated and delivered in accordance with the provisions of the 2010 A and B Indenture.

Additional Project shall mean water pollution control facilities or water supply facilities described in the Project Finance Agreement financed through the issuance of a series of Additional Bonds under the 2010 A and B Indenture.

Authorized Officer shall mean the Chairman, President, Executive Vice President, Chief Financial Officer, Director of Corporate Operations or Secretary of the Corporation and any other officer of the Corporation designated to act as an Authorized Officer for purposes of the 2010 A and B Indenture by resolution of the Board of Directors of the Corporation.

Bond or *Bonds*, shall mean any bond or bonds or all of the bonds, as the case may be, of the Corporation executed, authenticated and delivered in one or more series under the 2010 A and B Indenture.

Bond Counsel shall mean Hawkins Delafield & Wood LLP or other counsel selected by the Corporation and satisfactory to the Trustee and nationally recognized as experienced in matters relating to bonds issued by states and their political subdivisions.

Business Day shall mean a day on which banks located in (i) The City of New York, New York, (ii) the city in which the principal office of the Trustee is located and (iii) the city in which the principal office of the Master Trust Agreement Trustee is located are not required or authorized to remain closed and on which the New York Stock Exchange, Inc. is not closed.

City means The City of New York, New York.

Clean Water SRF shall mean the water pollution control revolving fund established by the State pursuant to the State Clean Water Act.

Code shall mean the Internal Revenue Code of 1986, as amended, as in effect upon the issuance of any series of Bonds and the regulations of the U.S. Department of the Treasury promulgated thereunder as in effect upon the issuance of any series of Bonds.

Committed Subsidy Amount means the portion of interest payable on any Recipient Bonds which the Corporation is contractually obligated to fund from moneys within a Revolving Fund pursuant to the Project Finance Agreement.

Corporation shall mean New York State Environmental Facilities Corporation, a public benefit corporation created by the Act, and any successor entity which may succeed to its rights and duties respecting the Bonds and the Revolving Fund.

Cost of Issuance Fund shall mean the Cost of Issuance Fund established by the 2010 A and B Indenture.

Credit Facility shall mean 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 or redemption price of, and interest on any series of Bonds or provides funds for the purchase of such Bonds or portions thereof.

De-allocated Reserve Account shall mean the De-allocated Reserve Account established by the Master Trust Agreement.

De-allocated Reserve Account Release Payments shall mean all monies received by the Trustee from the Master Trust Agreement Trustee pursuant to clause "THIRD" of Section 402(f) of the Master Trust Agreement. See Exhibit 4B of our Annual Information Statement, "**SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT** - Subordinate Pledge and Assignment of De-Allocated Reserve Subaccount."

Debt Service Fund shall mean the Debt Service Fund established by the 2010 A and B Indenture.

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

DOH shall mean the New York State Department of Health and any entity which may succeed to its rights and duties respecting the Drinking Water SRF.

Drinking Water SRF shall mean the drinking water revolving fund established pursuant to the State Drinking Water Act.

Event of Default shall mean any Event of Default specified in the 2010 A and B Indenture or any Financing Indenture, as the context may require.

Federal Interest Rate Subsidy shall mean any cash subsidy received by the Corporation from the United States Treasury pursuant to Sections 54AA(g) and 6431 of the Code in connection with the Series 2010 B Bonds.

Financing Indenture, with respect to the Series 2010 A and B Bonds, shall mean the 2010 A and B Indenture.

Financing Indenture Trustee means Manufacturers and Traders Trust company as trustee under the Financing Indenture, and any successor or successors as trustee under a Financing Indenture.

Investment Fund shall mean the Investment Fund established by the 2010 A and B Indenture.

Master Trust Agreement shall mean the Amended and Restated Master Trust Agreement dated as of July 1, 2005 between the Corporation and Manufacturers and Traders Trust Company, as trustee and as custodian, as amended and supplemented in accordance with its terms.

Master Trust Agreement Trustee or *Master Trustee* shall mean Manufacturers and Traders Trust Company in its capacity as trustee under the Master Trust Agreement, and its successor or successors as trustee under the Master Trust Agreement.

Officer's Certificate shall mean a certificate signed by an Authorized Officer of the Corporation.

Outstanding, when used with reference to the Bonds shall mean, as of any particular date, the aggregate of all the Bonds, authenticated and delivered under the 2010 A and B Indenture, except:

(a) the Bonds canceled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

(b) the Bonds for the payment or redemption of which money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent in trust for the Owners of such Bonds, provided that if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the 2010 A and B Indenture, or provision therefor satisfactory to the Trustee has been made;

(c) the Bonds paid or the Bonds deemed to be paid as provided in the 2010 A and B Indenture; and

(d) the Bonds paid or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the 2010 A and B Indenture, unless proof satisfactory to the Trustee shall be presented that any such Bond shall be held by a bona fide purchaser (as such term is defined in the Uniform Commercial Code of the State of New York);

provided, however, that in determining whether the owners of the requisite principal amount of the Bonds outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the 2010 A and B Indenture, Bonds owned by or for the account of the Recipient shall be disregarded and deemed not to be outstanding, except that in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only the Bonds which the Trustee knows to be so owned shall be so disregarded. The Bonds so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Recipient and that the pledgee is not holding such Bonds for the account of the Recipient.

Owner or *Bondholder* or *Bondowner* (when used in reference to the owner of any Bond) shall mean the person or persons in whose name or names the particular Bond shall be registered on the bond register kept pursuant to the 2010 A and B Indenture.

Parity Corporation Reimbursement Obligation shall mean an obligation of the Corporation to reimburse directly the issuer of a Credit Facility for amounts paid by such issuer thereunder, the payment of such obligation being secured by a pledge and lien on a parity with the lien created by the granting clauses of the 2010 A and B Indenture with respect to the related series of Bonds.

Paying Agent or *Paying Agents* shall mean any paying agent(s) for the Bonds and any successor or successors as paying agent(s) appointed pursuant to the 2010 A and B Indenture.

Permitted Investments shall mean (i) obligations of the State or the United States of America, (ii) obligations the principal and interest of which are guaranteed by the State or the United States of America, (iiii) deposits with such banks or trust companies as may be designated by the Corporation, each such bank or trust company deposit being continuously and fully secured by obligations described in clauses (i) or (ii), (iv) investment agreements and to the extent permitted by the Act, (v) obligations the interest on which is not included in gross income under Section 103 of the Code, or (vi) any other obligations from time to time permitted by the applicable State Act.

Person shall mean an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

Pledged Recipient Bonds shall mean, when used in with respect to the Series 2010 A and B Bonds, the Recipient's Water and Sewer System Second General Resolution Revenue Bonds, Fiscal 2010 Series 2 and 4, and any series of bonds or notes constituting "Bonds" as defined in the Recipient Second Resolution heretofore or hereafter delivered by the Recipient in connection with the issuance of Bonds.

Project shall mean the project of the Recipient financed with the Series 2010 A and B Bonds.

Project Costs shall mean the incurred costs of the Recipient which are eligible for financial assistance from the Revolving Fund under the State Act, which are allowable costs under the Regulations and which are reasonable, necessary and allocable by the Recipient to the Project under generally accepted accounting principles.

Project Finance Agreement, when used in connection with the Series 2010 A and B Bonds, shall mean the Project Finance Agreement between the Corporation and the Recipient relating to the Series 2010 A and B Bonds dated as of June 1, 2006, as amended and supplemented in accordance with its terms from time to time.

Rebate Amount shall have the meaning ascribed to such term in the related Tax Regulatory Agreement.

Rebate Fund, with respect to each series of Bonds or Senior SRF Bonds, shall mean the rebate fund established under the related Financing Indenture or Subordinated Financing Indenture, as applicable.

Recipient shall mean the New York City Municipal Water Finance Authority, a public benefit corporation, and its successors and assigns, and otherwise shall mean any other entity receiving financial assistance from the proceeds of Bonds or Senior SRF Bonds.

Recipient Bond Payments shall mean the amounts payable by the Recipient under the Pledged Recipient Bonds.

Recipient Bonds shall mean the bonds or notes issued by the Recipient evidencing the obligation to repay the advance of the proceeds of a series of SRF Bonds.

Recipient General Resolution shall mean the Recipient's Water and Sewer System Revenue Bond Resolution adopted November 14, 1985, as amended and supplemented.

Recipient Second Resolution shall mean the Recipient's Water and Sewer Second General Revenue Bond Resolution adopted March 30, 1994, as amended and supplemented.

Registered Owner or *Registered Owners* shall mean the person or persons in whose name or names the particular Bond shall be registered.

Regulations shall mean the regulations of DEC or DOH, adopted pursuant to and in furtherance of the State Act, as such may be amended from time to time.

Reimbursement Obligation shall mean an obligation of the Corporation as described in the Financing Indenture or the Subordinated Financing Indenture, as applicable, which directly reimburses

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.

Reserve Allocation shall mean, with respect to financial assistance made available from the proceeds of SRF Bonds, that amount or those amounts of funds, if any, derived or to be derived from the Capitalization Grant Agreements and/or State Matching Share and/or other sources established as Reserve Allocation for such financial assistance pursuant to the Master Trust Agreement.

Revolving Fund shall mean either the Clean Water SRF or the Drinking Water SRF.

Revolving Fund Program shall mean the program administered by the Corporation and DEC relating to the Revolving Fund and established pursuant to the State Act and the Water Quality Act.

Senior SRF Bond or *Senior SRF Bonds* shall mean any bond or bonds or all the bonds relating to the Revolving Fund Program other than the 2010 A and B Bonds or any other Subordinated SRF Bond issued and secured pursuant to one or more Financing Indentures and further secured under the Master Trust Agreement.

Series 2010 A and B Bonds shall mean the State Clean Water and Drinking Water Revolving Funds Revenue Bonds (New York City Municipal Water Finance Authority Project Second Resolution Bonds) Subordinated SRF Bonds Series 2010 A and the State Clean Water and Drinking Water Revolving Funds Revenue Bonds (New York City Municipal Water Finance Authority Project) (Second Resolution Bonds Subordinated SRF Bonds) Series 2010 B (Federally Taxable Build America Bonds) of the Corporation.

SRF Bonds shall mean any bond or bonds or all the bonds, as the case may be, of the Corporation issued and secured pursuant to any one or more Financing Indentures and further secured under the Master Trust Agreement.

State shall mean the State of New York.

State Act shall mean Chapter 565 of the Laws of New York of 1989, as amended, or mean Title 2 of Article 56 of the Environmental Conservation Law, as amended.

State Matching Funds or *State Matching Share* shall mean State funds in an amount equal to twenty percent (20%) of amounts appropriated and allotted to the State by the federal government for deposit in a Revolving Fund.

State Drinking Water Act shall mean Title 2 of Article 56 of the Environmental Conservation Law of the State of New York, as amended.

Subsidy Credit means funds applied as a credit to the Recipient's debt service payments due to the Corporation immediately prior to each debt service payment date set forth on the Recipient Bonds. Subsidy Credit with respect to each debt service payment date on the Recipient Bonds will be calculated in accordance with the following formula:

> *Subsidy Credit* = (Subsidy Percentage x principal amount of the Recipient Bonds outstanding immediately prior to such debt service payment date x Subsidy Rate) x one-half.
>
> *Subsidy Percentage* means the percentage used to calculate the Subsidy Credit as set forth in the Project Finance Agreement.

Subsidy Rate means the percentage used to calculate the Subsidy Credit on any debt service payment date, as set forth in the Project Finance Agreement.

Subordinated Financing Indenture shall mean an indenture or other similar document, pursuant to which a series of Subordinated SRF Bonds has been or is issued and delivered and shall include the 2010 A and B Indenture.

Subordinated Indenture Trustee, with respect to each series of Bonds, shall mean the trustee under the related Subordinated Financing Indenture in its capacity as such trustee.

Subordinated SRF Bond or *Subordinated SRF Bonds* shall mean any bond or bonds or all the bonds, as the case may be, of the Corporation in one or more series, relating to the Revolving Fund Program, issued and secured pursuant to one or more Subordinated Financing Indentures and further secured under the Master Trust Agreement as described herein under "**SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT** - *Subordinate Pledge and Assignment of De-allocated Reserve Subaccount*."

Supplemental Indenture shall mean any indenture supplementary to, or amendatory of, the 2010 A and B Indenture duly executed and delivered in accordance with the provisions of the 2010 A and B Indenture.

Tax Regulatory Agreement shall mean, with respect to the Series 2010 A and B Bonds, the Tax Regulatory Agreement, dated the date of initial delivery of the Series 2010 A and B Bonds, among the Corporation, the Trustee and the Recipient, as the same may be amended or supplemented, and with respect to any other Additional Bonds, the Tax Regulatory Agreement or any similar agreement between the Corporation and the Recipient setting forth requirements designed to assure the compliance with certain requirements for the exclusion from gross income of the interest on such Additional Bonds.

Trustee shall mean Manufacturers and Traders Trust Company, a corporation organized and existing under the laws of the State of New York, having its principal office in Buffalo, New York, in its capacity as trustee under the 2010 A and B Indenture, and its successor or successors as trustee under the 2010 A and B Indenture.

2010 A and B Indenture shall mean the Indenture of Trust dated as of June 1, 2006 between the Corporation and the Trustee, as the same may be amended and supplemented from time to time.

2010 A and B Recipient Bonds shall mean the Pledged Recipient Bonds delivered to the Corporation in connection with the issuance of the Series 2010 A and B Bonds.

Water Quality Act shall mean the federal Water Quality Act of 1987, as amended.

SUMMARIES OF CERTAIN BASIC DOCUMENTS

The following are summaries of certain provisions of the Project Finance Agreement and the Financing Indenture relating to the Series 2010 A and B Bonds. Such summaries do not purport to be complete and reference should be made to each of these documents individually for full and complete statements of such and all provisions therein.

SUMMARY OF CERTAIN PROVISIONS OF THE PROJECT FINANCE AGREEMENT

Certification of the City

On or before the date of issuance of any series of Additional Bonds pursuant to the Project Finance Agreement, the Corporation shall have received a certificate of the City, dated as of the date of issuance of such series, confirming as of such date the representations, warranties and covenants of the City contained in the Project Finance Agreement, as applicable, and making such further certifications, representations, warranties, covenants or agreements as may be reasonably requested by the Corporation in furtherance of the purposes of the Project Finance Agreement.

Recipient Bonds

Application of Subsidy Credit. The Corporation agrees that it will on or before each interest payment date for the Corporation Bonds, credit to amounts payable on the Recipient Bonds the Subsidy Credit relating to such interest payment date. Monies applied as the Subsidy Credit may be derived from (a) amounts representing earnings on Reserve Allocation, if applicable, (b) amounts representing earnings from the investment of proceeds of the leveraged financing to be used to finance the acquisition, construction and installation of the Project deposited, (c) amounts made available as SRF Subsidy Credit under the Subsidy Reserve Agreement and (d) any other funds within the Revolving Fund so designated from time to time by the Corporation. There is no Reserve Allocation applicable to the Series 2010 A and B Bonds. Subject to the next succeeding sentence, the amount payable by Recipient as interest on the Recipient Bonds will be reduced by the Subsidy Credit available to be deposited by the Corporation with the Trustee and credited to the Recipient Bonds. Notwithstanding the foregoing, in the event there are not monies available to deposit and credit such Subsidy Credit on or before any interest payment date, the Recipient shall be obligated to pay interest on the Recipient Bonds at the rates set forth thereon and the Recipient's sole remedy shall be to bring an action against the Corporation seeking to (i) compel the Corporation to credit such Subsidy Credit, or (ii) in the event that the Recipient shall have paid interest on the Recipient Bonds at the interest rates set forth thereon, obtain reimbursement from the Corporation for the additional interest so paid.

The Corporation agrees that it will pay to the Recipient an amount equal to the Federal Interest Rate Subsidy upon receipt of such Federal Interest Rate Subsidy. The Federal Interest Rate Subsidy is not pledged as security for the Bonds and will not be credited against the payments due under the Recipient Bonds. The Recipient is obligated to make the payments on the Recipient Bonds described in the immediately preceding paragraph whether or not Federal Interest Rate Subsidy amount are received.

In the event the Recipient fails to pay when due any sum owing to the Corporation pursuant to the Recipient Bonds, the Corporation may, in addition to all rights and remedies provided in or permitted by the Project Finance Agreement, deduct such sum from any Subsidy Credit or Federal Interest Rate Subsidy otherwise transferable for the account of the Recipient pursuant to the Project Finance Agreement, until such sum has been paid in full to the Corporation. In the event that the Recipient fails to make any payment on the Recipient Bonds when due but thereafter the Recipient pays in full all amounts then due or past due and the Corporation waives such payment default, then the portion of the Subsidy

Credit used to make payments on Corporation Bonds due to Recipient's default shall be credited to the Recipient on the Business Day next succeeding such payment-in-full or as soon thereafter as shall be practicable; provided, however, that such Subsidy Credit shall be reduced in the amount of any Corporation expenses (including but not limited to any investment losses and the reasonable fees and expenses of the Corporation, the Trustee, the owners of Corporation Bonds and attorneys representing any of the foregoing) incurred as a result of the Recipient's failure to make any payment on the Recipient Bonds when due.

Redemption of the Recipient Bonds. The Recipient shall not, without the prior written consent of the Corporation, redeem prior to maturity any of the Recipient Bonds prior to the date on which any corresponding outstanding series of Bonds are redeemable. No Recipient Bonds shall be redeemed by the Recipient unless payment of principal, premium, if any, and interest on the Recipient Bonds remaining outstanding shall, in the aggregate provide sufficient funds to pay all payments of principal, premium, if any, and interest on the Bonds remaining outstanding when due.

Reimbursement of Fund. If the Corporation determines that funds disbursed pursuant to the Project Finance Agreement have been expended by the Recipient for costs that are not permissible Project Costs, the Recipient shall promptly reimburse, or cause to be reimbursed, the account from which such amounts were disbursed in an amount equal to the amount of those funds improperly applied. The Corporation is authorized to withhold all further transfers of Subsidy Credit or Federal Interest Rate Subsidy to the Recipient pursuant to the Project Finance Agreement and apply such amounts to reimburse the Clean Water SRF or the Drinking Water SRF, as applicable, until the subject account is reimbursed for amounts misapplied.

Defaults; Remedies. If the Corporation determines that the Recipient, the New York City Water Board or the City is not complying with federal or State laws, regulations or requirements, or instructions of DEC or DOH, as applicable, relating to a Project or terms of the Project Finance Agreement and following due written notice such Project is not brought into compliance, the Corporation may deny certification of disbursement requests until such Project is brought into compliance.

In the event of any default of the Recipient under the terms of the Project Finance Agreement, the Corporation shall have, in addition to the remedies set forth in the Project Finance Agreement, all other remedies permitted by law and by the Project Finance Agreement, including the right to seek enforcement, at law or in equity, including but not limited to specific performance, of any right or obligation under the Project Finance Agreement; provided that such remedies, except with respect to payments due under the Recipient Bonds, shall be available only after failure on the part of the Recipient to correct such default for a period of thirty (30) days after the date on which written notice of such default, requiring the Recipient to remedy the same, shall have been given to the Recipient; provided further that, if such default can not be corrected within such thirty (30) day period, such remedies shall not be available if corrective action is instituted by the Recipient within such period and diligently pursued until such default is corrected.

Effective Date and Term. The Project Finance Agreement shall become effective upon its execution and delivery by the involved parties, shall remain in full force and effect from such date and shall expire on such date as all Bonds (including refunding bonds) issued for the purpose of purchasing any Recipient Bonds under the Project Finance Agreement shall be discharged and satisfied in accordance with the provisions thereof and all obligations of the Recipient to the Corporation as required by the Project Finance Agreement are satisfied.

Execution and Delivery of Recipient Bonds to Trustee. Concurrently with the authentication by the Trustee and delivery of Bonds of any series, the Corporation and the Recipient agree that the

Recipient will execute and deliver to the Trustee its Recipient Bond or Bonds relating to such series of the Corporation Bonds, in accordance with the Recipient Second Resolution. Such Recipient Bond or Bonds shall (a) provide for payments of principal of, premium, if any, and interest sufficient in the aggregate, together with any Subsidy Credit and other moneys available under the 2010 A and B Indenture transferred and applied as described above, to pay in full the payments of principal of, premium, if any, and interest on, the related Bonds as and when due and (b) require that all payments of principal of, or premium, if any, and interest on, the Recipient Bond or Bonds be made to the Trustee in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and that each payment be made on or before the due date thereof.

Payment of Additional Project Costs

In the event that proceeds are not sufficient to pay the costs of the Project in full, the Recipient shall not be entitled to any reimbursement for that portion of the Project Costs as may be in excess of available proceeds from the Corporation, the Trustee or the holders of any Bonds, except from the proceeds of any additional financing which the Corporation may, in its sole and absolute discretion, provide. In the event that the Corporation does not provide additional financing, the City nevertheless shall be obligated to complete the Project in accordance with the Project Finance Agreement.

Tax Covenants

The Recipient covenants and agrees that it shall not take any action or omit to take any action within its reasonable control (i) which would result in the loss of the exclusion of the interest on any Bonds issued from gross income for purposes of Federal income taxation as that status is governed by Section 103(a) of the Code as in effect upon the issuance of such Bonds, (ii) which would cause any Bonds to be "Private Activity Bonds" within the meaning of section 141(a) of the Code as in effect upon the issuance of the Bonds or (iiii) which would directly or indirectly permit the use of any proceeds of any Bonds (or amounts replaced with such proceeds) or any other funds, which use or action or omission would cause any Bonds to be "Arbitrage Bonds" within the meaning of Section 148(a) of the Code as in effect upon the issuance of such Bonds.

Payment of the Recipient Bonds

The Recipient covenants and agrees that it shall duly and punctually pay or cause to be paid (but solely from the sources therein provided) the principal or redemption price of its Recipient Bonds and the interest thereon, at the dates and places and in the manner stated in such Recipient Bonds and that such obligation shall not be subject to any defense (other than payment) or any rights of setoff, recoupment, abatement, counterclaim or deduction and shall be without any rights of suspension, deferment, diminution or reduction (including but not limited to any defenses or rights relating to the failure of the Corporation to make the Subsidy Credit available, or otherwise relating to the Subsidy Credit) it might otherwise have against the Corporation, DEC, DOH, the Trustee or the owner of any Bond.

Compliance with Recipient Second Resolution; Enforcement of Certain Agreements

The Recipient agrees to comply with the provisions of the Recipient Second Resolution, the Project Finance Agreement and the Lease and to duly perform its covenants and agreements under the Financing Agreement, dated as of July 1, 1985 entered into pursuant to Section 1045-i of the New York City Municipal Water Finance Authority Act constituting Title 2A of Article 5 of the Public Authorities Law of the State.

Amendments, Supplements and Modifications

The Project Finance Agreement shall not be amended, supplemented or modified except by a written instrument executed by the Corporation, the Recipient and the City and upon compliance with the Financing Indenture.

Assignment of the Project Finance Agreement or the Recipient Bonds

The Recipient consents to the pledge and assignment of (i) any portion of the Corporation's estate, right, title and interest and claim in, to and under certain enumerated sections of the Project Finance Agreement and the right to make all related waivers and agreements in the name and on behalf of the Corporation, as agent and attorney-in-fact, and to perform all other related acts which are necessary and appropriate under the Project Finance Agreement, if any, and (ii) the Corporation's estate, right, title and interest and claim in, to and under the Recipient Bonds and payments under the Recipient Bonds to the Trustee. The Financing Indenture provides that, except during the continuance of a default under the Project Finance Agreement or an Event of Default under the Financing Indenture, the Trustee shall not sell, assign, transfer, convey or otherwise dispose of its interest in the Project Finance Agreement, if any, or in the Recipient Bonds without the express written consent of the Corporation and the Recipient. Notwithstanding the foregoing except during the occurrence and continuance of an Event of Default under the Recipient Second Resolution or Recipient General Resolution the Corporation's rights under the Project Finance Agreement will not be assigned to the Trustee without the consent of the Recipient. Except as provided in the Project Finance Agreement, the Corporation shall not sell, assign, transfer, convey or otherwise dispose of its interest in the Project Finance Agreement during the term of the Project Finance Agreement.

SUMMARY OF CERTAIN PROVISIONS OF THE 2010 A AND B INDENTURE

Liability Under Bonds

The 2010 A and B Indenture provides that the Bonds shall not be general obligations of the Corporation, and shall not constitute an indebtedness of or a charge against the general credit of the Corporation. The liability of the Corporation under the Bonds shall be enforceable only to the extent provided in the 2010 A and B Indenture and they shall be payable solely from the Recipient Bond Payments and any other funds held by the Trustee under the 2010 A and B Indenture, and available for such payment. The Bonds shall not be a debt of the State of New York or The City of New York and neither the State of New York nor The City of New York shall be liable thereon. No owner of any Bond shall have the right to demand payment of the principal of, or premium, if any, or interest on the Bonds out of any funds raised by taxation.

Credit Facilities

In connection with the issuance of any series of Bonds under the 2010 A and B Indenture, the Corporation may obtain or cause to be obtained one or more Credit Facilities providing for payment of all or a portion of the principal of, 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 Corporation.

The Corporation may, 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, for purposes of the 2010 A and B Indenture, until the related principal or interest payments on the Bonds are made from such Credit Facility; provided further that it shall be a condition to obtaining any Credit Facility that any Reimbursement Obligation or other obligation of the Corporation, to make any payments to the issuer of such Credit Facility shall be secured by a corresponding obligation of the Recipient to make payments in the same amounts to the Corporation, to reimburse the Corporation therefor. Any such Reimbursement Obligation may be secured by a pledge of, and a lien on, collateral and revenues securing such series of Bonds on a parity with the lien created by the 2010 A and B Indenture and the applicable Supplemental Indenture. Any such Parity Corporation Reimbursement Obligation shall be deemed to be a part of the series of Bonds to which the Credit Facility which gave rise to such Parity Corporation 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 Indenture.

Security for Bonds; Issuance of Bonds

Pledge and assignment effected by 2010 A and B Indenture; Bonds equally and ratably secured; option of Corporation to assign certain further rights and remedies to Trustee. The 2010 A and B Indenture provides that all Bonds issued and to be issued under the 2010 A and B Indenture and all Parity Corporation Reimbursement Obligations are, and are to be, to the extent provided and subject to the 2010 A and B Indenture, equally and ratably secured by the 2010 A and B Indenture without preference, priority or distinction on account of the actual time or times of the authentication or delivery or maturity or redemption of the Bonds and Parity Corporation Reimbursement Obligations, or any of them, so that, subject to the provisions of the 2010 A and B Indenture, all Bonds and Parity Corporation Reimbursement Obligations at any time outstanding under the 2010 A and B Indenture shall have the same right, lien and preference under and by virtue of the 2010 A and B Indenture and shall all be equally and ratably secured with like effect as if they had all been simultaneously executed, authenticated and delivered. The

aggregate principal amount of Bonds which may be executed and delivered by the Corporation and authenticated by the Trustee and secured by the 2010 A and B Indenture is not limited except as is or may be provided in the 2010 A and B Indenture or as may be limited by law.

As security for the payment of the principal of, and premium, if any, and interest on the outstanding Bonds and for the performance of each other obligation of the Corporation under the 2010 A and B Indenture, the Corporation may pledge and assign to the Trustee certain portions of the Corporation's estate, right, title and interest and claim in, to and under certain sections of the Project Finance Agreement and the right to make all related waivers and agreements in the name and on behalf of the Corporation, as agent and attorney-in-fact, and to perform all other related acts which are necessary and appropriate under the Project Finance Agreement, subject to certain conditions set forth in the 2010 A and B Indenture.

Except during the continuance of a default under the Project Finance Agreement or an Event of Default under the 2010 A and B Indenture, the Trustee shall not sell, assign, transfer, convey or otherwise dispose of its interest in the Project Finance Agreement or in the Pledged Recipient Bonds without the express written consent of the Corporation and the Recipient.

Issuance of Additional Bonds to Finance Projects. Subsequent to the authentication, issuance and delivery of the Series 2010 A and B Bonds, one or more series of Additional Bonds may be authenticated by the Trustee and delivered upon original issuance, for the purpose of providing funds to finance all or a portion of the cost of construction of any Project, such purpose to be conclusively established by the documents referred to in the 2010 A and B Indenture. The Corporation may execute and deliver to the Trustee, and the Trustee shall thereupon authenticate, such Additional Bonds and deliver them to the purchaser or purchasers thereof, provided that, prior to, or simultaneously with, such delivery, there shall have been delivered to the Trustee the proceeds (including accrued interest, if any) of the sale of such Additional Bonds in the amount specified in the order referred to in the 2010 A and B Indenture.

Issuance of Additional Bonds for Refunding Purposes. From time to time the Corporation, in addition to the Bonds authorized to be executed, authenticated and delivered pursuant to the other provisions of the 2010 A and B Indenture, may issue Additional Bonds for the purpose of refunding all or any part of any obligations then outstanding issued or incurred by the Corporation pursuant to an agreement with the Recipient or certain other outstanding obligations of the Recipient, but only upon the receipt by the Trustee of the documents required under the 2010 A and B Indenture, including those required to be delivered in connection with the delivery of the Series 2010 A and B Bonds as set forth in the 2010 A and B Indenture.

Additional Financial Assistance to the Recipient. Nothing contained in the 2010 A and B Indenture shall be construed to limit the right of the Corporation to provide for any additional financial assistance to the Recipient pursuant to another indenture of trust or resolution and nothing contained in the 2010 A and B Indenture shall be construed to require the Corporation to issue Additional Bonds under the 2010 A and B Indenture to fund such financial assistance to the Recipient.

Amendment of Project Finance Agreement, Pledged Recipient Bonds, Recipient Second Resolution and Tax Regulatory Agreement

Amendments to Project Finance Agreement not requiring consent of Bondowners. The Corporation may, with prior written notice to the Trustee, but without consent of or notice to the Bondowners, amend or modify any provision of the Project Finance Agreement in any manner which (i) is required in connection with the issuance of Additional Bonds under the 2010 A and B Indenture; (ii) is required for the purpose of curing any ambiguity or formal defect or omission in the Project Finance

Agreement; or (iiii) will not affect the Bonds then outstanding, as determined in accordance with the 2010 A and B Indenture as described in the second succeeding paragraph.

Amendments to Project Finance Agreement requiring consent of Bondowners. Except for amendments or modifications described in the 2010 A and B Indenture, the Corporation shall not enter into any amendment or modification of the Project Finance Agreement without providing notice to the Trustee and obtaining the written consent of (a) in case all of the several series of Bonds then outstanding are affected by such modification or amendment, the owners of not less than sixty percent (60%) in aggregate principal amount of the Bonds then outstanding, or (b) in case less than all of the several series of Bonds then outstanding are so affected, the owners of not less than sixty percent (60%) in aggregate principal amount of the aggregate of all Bonds so affected then outstanding; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified series remain outstanding, the consent of the owners 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 2010 A and B Indenture.

A series of Bonds shall be deemed to be affected by a modification or amendment of the Project Finance Agreement if the same materially adversely affects or diminishes the rights of the owners of any Bonds of such series. The Corporation may in its discretion determine whether or not in accordance with the provisions of the 2010 A and B Indenture the Bonds of any particular series would be affected by any modification or amendment of the Project Finance Agreement and any such determination shall be binding and conclusive on the Trustee and all owners of Bonds. The Corporation shall be entitled to rely upon an opinion of Bond Counsel with respect to the extent, if any, as to which any modification or amendment of the Project Finance Agreement affects the rights of any owners of Bonds then outstanding.

Amendments to the Pledged Recipient Bonds or the Recipient Second Resolution. The Corporation shall not consent to any amendment or modification of any outstanding Pledged Recipient Bonds or of the Recipient Second Resolution without providing notice to the Trustee and obtaining the prior written consent of (a) in case all of the several series of Bonds then outstanding are affected by such modification or amendment, the owners of not less than sixty percent (60%) in aggregate principal amount of the Bonds then outstanding, or (b) in case less than all of the several series of Bonds then outstanding are so affected, the owners of not less than sixty percent (60%) in aggregate principal amount of the Bonds of each particular series so affected then outstanding; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified series remain outstanding, the consent of the owners 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 2010 A and B Indenture. No such modification or amendment shall be made which will affect the times, amounts and currency of payment of the principal, including sinking fund installments, if any, and of premium, if any, and interest on any Pledged Recipient Bonds.

A series shall be deemed to be affected by a modification or amendment of the Pledged Recipient Bonds or the Recipient Second Resolution if the same materially adversely affects or diminishes the rights of the owners of the Bonds of such series. The Corporation may in its discretion determine whether or not in accordance with the foregoing provisions Bonds of any particular series would be affected by any modification or amendment of the Pledged Recipient Bonds or the Recipient Second Resolution and any such determination shall be binding and conclusive on all owners of Bonds. The Corporation shall be entitled to rely upon an opinion of counsel with respect to the extent, if any, as to which any modification or amendment of the Pledged Recipient Bonds or the Recipient Second Resolution affects the rights of any owners of Bonds then outstanding, in accordance with the 2010 A and B Indenture. The Corporation may in its discretion assign to the Trustee the right to consent to any amendment or modification of any outstanding series of Pledged Recipient Bonds or of the Recipient Second Resolution.

Amendments to Tax Regulatory Agreement. The Corporation may, without the consent of the Trustee and without notice to or consent of the Bondowners, enter into any amendment or modification of a Tax Regulatory Agreement upon the delivery to the Trustee of an opinion of Bond Counsel to the effect that the proposed amendment or modification will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

Cost of Issuance Fund; Investment Fund; Debt Service Fund

Creation and custody of pledged funds and accounts. The following funds and accounts are established under the 2010 A and B Indenture:

(1) Cost of Issuance Fund;
(2) Investment Fund; and
(3) Debt Service Fund.

Each such fund and account shall be held by the Trustee. Within each such fund or account there is established an account or subaccount relating to each the Series 2010 A Bonds and the Series 2010 B Bonds, which are designated as the Series 2010 A Account or Series 2010 B Account or Series 2010 A Subaccount or Series 2010 B Subaccount thereof, respectively. The Corporation may, by Supplemental Indenture establish one or more additional funds, accounts or subaccounts.

All funds and accounts established pursuant to the 2010 A and B Indenture as described above and any amounts on deposit therein except interest earnings, which shall be applied in accordance with the 2010 A and B Indenture, shall be available for and pledged for the payment of the Bonds unless the Supplemental Indenture establishing a fund, account or subaccount otherwise provides.

Cost of Issuance Fund. From the proceeds of the Series 2010 A and B Bonds, the amount set forth in the 2010 A and B Indenture shall be deposited in the Series 2010 A and B Account of the Cost of Issuance Fund. Such amounts shall be paid by the Trustee to pay issuance costs incurred in connection with the issuance of the Series 2010 A and B Bonds. Upon certification by an Authorized Officer that no further costs of issuance are to be paid from such Account, the Trustee shall transfer any amounts remaining on deposit therein in accordance with the instructions of such Authorized Officer.

Investment Fund. The Trustee shall promptly deposit and hold in the Investment Fund the Pledged Recipient Bonds and the Recipient Bond Payments. On or before the date any payment of principal of, premium, if any, or interest on, the related series of Bonds is due, the Trustee shall withdraw from the Investment Fund and transfer to the funds and accounts set forth below the following amounts in the following order of priority:

FIRST: To the Debt Service Fund created with respect to such Bonds the amount, if any, required so that the balance in the Debt Service Fund shall equal the amount of principal, premium, if any, and interest, if any, due on such payment date; provided that for the purpose of computing the amount to be paid to the Debt Service Fund, there shall be excluded the amount, if any, set aside in the Debt Service Fund which was deposited therein as accrued interest or interest to be paid from the proceeds of the Bonds;

SECOND: To the Rebate Fund, the amount, if any, of any deficiency therein; and

THIRD: To the Master Trust Agreement Trustee for deposit in the Equity Fund to reimburse the appropriate Revolving Fund in the amount of any prior unreimbursed De-allocated Reserve Account Release Payments; and

FOURTH: To the extent that the Corporation certifies that amounts remaining in the Investment Fund are not required to make any future transfers pursuant to FIRST above, (assuming for purposes of such certification that unless an Event of Default shall exist under the 2010 A and B Indenture or the Recipient Second Resolution, all future Recipient Bond Payments will be made in full when due), then all or any portion of remaining amounts in the Investment Fund, at the written direction of the Corporation, shall be paid (i) to the Corporation to reimburse the Corporation for any amounts owed by the Recipient to the Corporation pursuant to the Project Finance Agreement or (ii) to the Recipient.

Debt Service Fund. The Trustee shall promptly deposit the following receipts in the Debt Service Fund:

(1) The amount, if any, of the proceeds of each series of Bonds, required by the 2010 A and B Indenture to be deposited therein.

(2) All amounts required to be transferred to the Debt Service Fund from the Investment Fund pursuant to paragraph "FIRST" above.

(3) Amounts received from the Corporation for deposit in the Debt Service Fund in accordance with the Officer's Certificate delivered pursuant to the 2010 A and B Indenture.

(4) Any De-allocated Reserve Account Release Payments.

(5) Any other amounts required to be paid to the Debt Service Fund or otherwise made available for deposit therein by the Recipient or the Corporation, including amounts made available pursuant to the 2010 A and B Indenture.

The Trustee shall pay out of the Debt Service Fund to the Paying Agents for any of such Bonds (i) on each interest payment date, the amount required for the payment of interest on such Bonds due on such interest payment date and (ii) on any redemption date, the amount required for the payment of accrued interest on such Bonds redeemed unless the payment of such accrued interest shall be otherwise provided for, and such amounts shall be applied by the Paying Agents to such payment.

The Trustee shall pay out of the Debt Service Fund to the Paying Agents for any of such Bonds on each principal payment date and redemption date for any of such Bonds, the amounts required for the payment of such principal or redemption price on such date, and such amounts shall be applied by the Paying Agent to such payments.

Amounts made available by the Recipient for such purpose may, and if so directed by the Corporation shall, be applied by the Trustee prior to the forty-fifth (45th) day preceding any sinking fund redemption date to the purchase of Bonds of the series and maturity that are subject to sinking fund redemption, at prices (including any brokerage and other charges) not exceeding the redemption price payable for such Bonds pursuant to such sinking fund redemption plus unpaid interest accrued to the date of purchase. Any amounts so applied shall be credited to the next succeeding sinking fund installment for such Bonds. In connection with any such purchase, the Trustee, at the direction of the Corporation shall permit the Recipient to purchase a like principal amount of the Pledged Recipient Bonds of the same series and maturity at a purchase price equal to the price (including brokerage and other charges) paid for the purchase of the related Bonds.

Requests for De-allocated Reserve Account Release Payments. To the extent that there are not sufficient funds available under the 2010 A and B Indenture on any date on which principal or interest is

due on the Bonds for the payment of such principal or interest, the Trustee shall request an immediate transfer from the Master Trust Agreement Trustee of an amount equal to any deficiency of funds under the 2010 A and B Indenture from any amounts available in the De-Allocated Reserve Account for the payment of Bonds. See "**SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT** - Subordinate Pledge and Assignment of De-allocated Reserve Subaccount" in Exhibit 4B of our Annual Information Statement.

Earnings Fund; Rebate Fund

Creation and Custody of Earnings Fund and Rebate Fund. The 2010 A and B Indenture establishes an Earnings Fund and a Rebate Fund. Each such fund shall be held by the Trustee. The Rebate Fund and amounts on deposit therein are not available for and are not pledged for the payment of Bonds. The Earnings Fund and amounts on deposit therein are available for and are pledged for the payment of Bonds.

Earnings Fund. The 2010 A and B Indenture provides for the periodic transfers of certain amounts from the Earnings Fund to the Rebate Fund. Computations of the amounts to be deposited in each fund under the 2010 A and B Indenture and of the Rebate Amount shall be furnished to the Trustee by the Corporation in accordance with the Tax Regulatory Agreement. The Trustee is entitled conclusively to rely upon the accuracy of any such computation so furnished. Upon receipt of written instructions from an Authorized Officer, any amounts remaining in an account of the Earnings Fund after the calculation of the related Rebate Amount and the transfer of the required amount, if any, to the Rebate Fund shall be withdrawn by the Trustee and paid at the direction of the Corporation.

Rebate Fund. The Trustee shall promptly deposit in the related account of the Rebate Fund any amounts received pursuant to the 2010 A and B Indenture or the Master Trust Agreement and any other amounts provided for such purpose by the Corporation or the Recipient. Amounts deposited in the Rebate Fund are to be applied in accordance with instructions of the Corporation to pay amounts, if any, determined owed to the United States of America under Section 148 of the Code, except to the extent otherwise permitted by the 2010 A and B Indenture. The Trustee, upon the receipt of written instructions from an Authorized Officer specifying the amount of such excess, is authorized to withdraw the amount in excess of any then applicable Rebate Amount and pay it to or at the direction of the Corporation.

Security for and Investment of Moneys

Uninvested moneys held by the Trustee. All moneys received by the Trustee under the 2010 A and B Indenture and not invested by the Trustee pursuant to the provisions of the 2010 A and B Indenture, to the extent not insured by the Federal Deposit Insurance Corporation or other Federal agency, shall be deposited with the Trustee, or with a national or state bank or a trust company which has a combined capital and surplus aggregating not less than $100,000,000.

Investment of, and payment of interest on, moneys. Moneys on deposit to the credit of the Cost of Issuance Fund, Debt Service Fund, Investment Fund, Earnings Fund or Rebate Fund may be retained uninvested as trust funds. Such moneys shall, at the direction of an Authorized Officer, be invested by the Trustee in the Permitted Investments described by the 2010 A and B Indenture.

Investments of moneys on deposit to the credit of the Cost of Issuance Fund, Earnings Fund, Rebate Fund, Debt Service Fund or Investment Fund pursuant to the 2010 A and B Indenture shall have maturity dates, or shall be subject to redemption or tender at the option of the Trustee, on the respective dates specified by an Authorized Officer, which dates shall be on or prior to the respective dates on which the moneys invested therein are payable for the purposes of such funds. The securities purchased with the

moneys in each such fund shall be held by or under the control of the Trustee and shall be deemed a part of such fund. The interest, including any realized increment on securities purchased at a discount, received on all such securities in any fund shall be deposited by the Trustee to the credit of such fund, subject to the provisions of the 2010 A and B Indenture. Losses, if any, realized on securities held in any fund shall be debited to such fund. The Trustee shall not be liable or responsible for any loss resulting from any such investment or resulting from the redemption, sale or maturity of any such investment as authorized by the 2010 A and B Indenture. If at any time it shall become necessary that some or all of the securities purchased with the moneys in any such fund or account be redeemed or sold in order to raise the moneys necessary to comply with the provisions of the 2010 A and B Indenture, the Trustee shall effect such redemption or sale, employing in the case of a sale any commercially reasonable method of effecting such sale.

Defaults and Remedies

Events of Default. The occurrence and continuation of one or more of the following events shall constitute an Event of Default:

(a) default in the payment of any installment of interest in respect of any Bond as the same shall become due and payable; or

(b) default in the payment of the principal of or premium, if any, in respect of any Bond as the same shall become due and payable either at maturity, upon redemption, by declaration or otherwise; or

(c) default in the payment of any sinking fund installment in respect of any Bond as the same shall become due and payable; or

(d) payment of the principal of and interest on the Pledged Recipient Bonds shall have been accelerated in accordance with the Recipient Second Resolution; or

(e) failure on the part of the Corporation duly to observe or perform any other of the covenants or agreements on the part of the Corporation contained in the 2010 A and B Indenture, in the Master Trust Agreement (but solely to the extent that any such covenants or agreements would preserve the security for any Bonds afforded by the Master Trust Agreement and the pledge and assignment effected pursuant to the Master Trust Agreement) or in any Bond for a period of thirty (30) days after the date on which written notice of such failure, requiring the Corporation to remedy the same, shall have been given to the Corporation and the Recipient by the Trustee; provided that, if such failure cannot be corrected within such thirty (30) day period, it shall not constitute an Event of Default if corrective action is instituted by the Corporation within such period and is diligently pursued until the failure is corrected;

Upon the happening and continuance of any Event of Default specified in clause (d) above, the Trustee may, or upon written request of the owners of at least twenty-five percent (25%) in aggregate principal amount of all Bonds then outstanding, shall, by written notice given to the Corporation and to the Recipient and provided that the default has not theretofore been cured, declare the principal of all Bonds then outstanding to be due and payable immediately, and upon such declaration the said principal, together with interest accrued thereon, shall become due and payable immediately at the place of payment provided therein, anything in the 2010 A and B Indenture or in the Bonds to the contrary notwithstanding. Except upon the occurrence and continuance of an Event of Default specified in clause (d) above, the Bonds will not be subject to acceleration. With respect to an Event of Default specified in clause (d) relating to the acceleration of the Pledged Recipient Bonds or clause (e) above relating to a Corporation

default under the Master Trust Agreement, the Trustee shall not be charged with knowledge of such default until the Trustee shall have received or been deemed to have received notice thereof in accordance with the 2010 A and B Indenture.

If, after the principal of said Bonds has been so declared to be due and payable but before all the Bonds shall have matured by their terms, all arrears of interest upon the Bonds are paid by the Corporation, and the Corporation also performs all other things in respect to which it may have been in default under the 2010 A and B Indenture and pays the reasonable compensation and expenses of the Trustee and the Bondowners, including reasonable attorneys' fees, or provision satisfactory to the Trustee shall be made for such payments, then, and in every such case, the owners of a majority in aggregate principal amount of the Bonds then outstanding, by written notice to the Corporation and to the Trustee, may annul such declaration and its consequences, and such annulment shall be binding upon the Trustee and upon all owners of Bonds issued under the 2010 A and B Indenture, or, if the Trustee shall have acted in the absence of a written request of the owners of at least twenty-five percent (25%) in aggregate principal amount of all outstanding Bonds, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the owners of a majority in aggregate principal amount of the Bonds then outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled; but no such annulment shall extend to or affect any subsequent default or impair or exhaust any right or remedy consequent thereon.

Judicial proceedings by Trustee. Upon the happening and continuance of any Event of Default, then and in every such case the Trustee in its discretion may, upon the written request of the owners of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then outstanding, and receipt of indemnity to its satisfaction shall (a) by suit, action or special proceeding, enforce all rights of the Bondowners and require the Corporation or the Recipient to perform its or their duties under the Act, the Project Finance Agreement, the Bonds, the Pledged Recipient Bonds and the 2010 A and B Indenture, (b) bring suit upon the Bonds, (c) by action or suit in equity require the Corporation to account as if it were the trustee of an express trust for the Bondowners, or (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondowners.

Limitation on actions by Bondowners. No owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the 2010 A and B Indenture, or any other remedy under the 2010 A and B Indenture or under the Bonds, unless such owner previously shall have given to the Trustee written notice of an Event of Default as provided in the 2010 A and B Indenture and unless also the owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then outstanding shall have made written request of the Trustee so to do, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the 2010 A and B Indenture, or to institute such action, suit or proceeding in its or their name; nor unless there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time.

Concerning the Trustee and Paying Agent

No responsibility for own acts save willful misconduct or negligence. The Trustee may act upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Corporation or the Recipient), approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith in reliance upon such opinion or advice. The Trustee shall not be liable for the exercise of any discretion or power under

the 2010 A and B Indenture or for anything whatever in connection with the trusts created in the 2010 A and B Indenture, except only for its own willful misconduct or negligence.

Right to rely. The 2010 A and B Indenture provides that the Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any paper or document which it shall in good faith believe to be genuine and to have been authorized or signed by the proper Person or to have been prepared and furnished pursuant to any of the provisions of the 2010 A and B Indenture, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. Any action taken by the Trustee upon the request or consent of any Person who at the time of making such request or giving such consent is the owner of any Bond shall be conclusive and binding upon all subsequent owners of such Bond or any Bond issued on registration of transfer thereof. The Trustee shall have no responsibilities for determining whether the Corporation and the Recipient have complied with the terms of the Tax Regulatory Agreement.

Removal of Trustee. The Trustee at any time and for any reason may be removed by an instrument in writing, appointing a successor, filed with the Trustee so removed and executed by the owners of a majority in aggregate principal amount of the Bonds then outstanding; provided, however, that no such removal shall become effective until the acceptance of appointment by a successor Trustee in accordance with the 2010 A and B Indenture.

The Trustee at any time other than during the continuance of an Event of Default and for any reason may be removed by an instrument in writing, executed by an Authorized Officer, appointing a successor, filed with the Trustee so removed; provided, however, that no such removal shall become effective until the acceptance of appointment by a successor Trustee in accordance with the 2010 A and B Indenture.

Supplemental Indentures

Supplemental Indentures not requiring consent of Bondowners. Subject to the conditions and restrictions contained in the 2010 A and B Indenture, the Corporation and the Trustee may, without the consent of or notice to the Bondowners, enter into an indenture or indentures supplemental to the 2010 A and B Indenture, for any one or more of the following purposes (a) to cure any ambiguity or formal defect or omission in the 2010 A and B Indenture, (b) to grant to or confer upon the Trustee for the benefit of the Bondowners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondowners or the Trustee or either of them, (c) to subject to the provisions of the 2010 A and B Indenture additional revenues, properties or collateral, (d) to modify, amend or supplement the 2010 A and B Indenture or any Supplemental Indenture in such manner as to permit its qualification under any Federal statute now or hereafter in effect or under any state Blue Sky Law, and, in connection therewith, if they so determine, to add to the 2010 A and B Indenture or any Supplemental Indenture, such other terms, conditions and provisions as may be permitted or required by said Federal statute or Blue Sky Law, provided that any such Supplemental Indenture shall not, in the judgment of the Trustee, be to the prejudice of the Owners of the Bonds, (e) to provide for the issuance of Additional Bonds, (f) to establish one or more funds, accounts or subaccounts pursuant to the 2010 A and B Indenture and, (g) to provide for any change in the 2010 A and B Indenture which, in the opinion of the Trustee, does not materially adversely affect or diminish the rights or interests of the Trustee or the Bondowners, provided that in making such determination the Trustee shall be entitled to rely on an opinion of counsel, in accordance with the 2010 A and B Indenture.

Supplemental Indentures requiring consent of Bondowners. Except as otherwise provided in the 2010 A and B Indenture, any modification or amendment of the 2010 A and B Indenture may be made

only with the consent of (a) in case all of the several series of Bonds then outstanding are affected by such modification or amendment, the owners of not less than sixty percent (60%) in aggregate principal amount of the Bonds then outstanding, or (b) in case less than all of the several series of Bonds then outstanding are so affected, the owners of not less than sixty percent (60%) in aggregate principal amount of the aggregate of all Bonds so affected then outstanding; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified series remain outstanding, the consent of the owners 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 2010 A and B Indenture. No such modification or amendment shall be made which will reduce the percentages of aggregate principal amount of Bonds, the consent of the owners of which is required for any such modification or amendment, or change the provisions of the 2010 A and B Indenture relative to approval by series of Bonds, or permit the creation by the Corporation of any lien prior to or, except to secure Additional Bonds, on a parity with, the lien of the 2010 A and B Indenture upon the Recipient Bond Payments and other funds pledged under the 2010 A and B Indenture, or which will affect the times, amounts and currency of payment of the principal (including sinking fund payments, if any) of and premium, if any, and interest on the Bonds without the consent of the owners of all Bonds then outstanding and affected thereby.

For the purposes of the 2010 A and B Indenture, a series of Bonds shall be deemed to be affected by a modification or amendment of the 2010 A and B Indenture if the same materially adversely affects or diminishes the rights of the owners of the Bonds of such series. The Trustee may in its discretion determine whether or not in accordance with the foregoing provisions Bonds of any particular series would be affected by any modification or amendment of the 2010 A and B Indenture and any such determination shall be binding and conclusive on the Corporation and all Owners of the Bonds. For purposes of the 2010 A and B Indenture, the Trustee shall be entitled to rely upon an opinion of counsel with respect to the extent, if any, as to which such action affects the rights under the 2010 A and B Indenture of any Owners of Bonds then outstanding, in accordance with the 2010 A and B Indenture.

If at any time the Corporation shall request the consent of Bondowners to the execution of any such Supplemental Indenture for any of the purposes of the 2010 A and B Indenture, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Indenture to be given to Bondowners in the manner provided in the 2010 A and B Indenture. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection by all Bondowners. If, within sixty (60) days or such longer period as shall be prescribed by the Corporation following the giving of such notice, the required consent and approval of Bondowners is obtained, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein.

The Trustee shall execute any Supplemental Indenture executed and delivered in accordance with the 2010 A and B Indenture; provided that, if, in the opinion of the Trustee, any such Supplemental Indenture adversely affects the rights, duties, immunities or obligations of the Trustee under the 2010 A and B Indenture or otherwise, the Trustee may in its discretion resign in accordance with the provisions of the 2010 A and B Indenture, and upon giving notice of such resignation the Trustee, in accordance with the 2010 A and B Indenture, shall have no obligation to execute such Supplemental Indenture.

Defeasance

If at any time (a) there shall have been delivered to the Trustee for cancellation any or all of the Bonds (other than any Bonds which have been mutilated, lost, stolen or destroyed and which shall have been replaced or paid as provided in the 2010 A and B Indenture except for any such Bonds as are shown by proof satisfactory to the Trustee to be held by bona fide purchasers), or (b) with respect to any or all of

the Bonds not theretofore delivered to the Trustee for cancellation, the whole amount of the principal and the interest and the premium, if any, due and payable or to become due and payable on such Bond or Bonds then outstanding shall be paid or deemed to be paid. Provision shall also be made for paying all other sums payable under the 2010 A and B Indenture, including the Corporation's, Trustee's and Paying Agents' fees and expenses with respect to such Bonds, then the Trustee, in such case, on demand of the Corporation made at the direction of the Recipient, shall release the lien of the 2010 A and B Indenture with respect to such Bond or Bonds and turn over to or at the direction of the Corporation the Pledged Recipient Bonds relating to such Bond or Bonds or, if such Bonds constitute less than all of the Bonds of a series, shall exchange the Pledged Recipient Bonds corresponding to such Bonds for Pledged Recipient Bonds having the same terms except that the principal amount thereof shall be equal to the principal amount of the Bonds relating to such Pledged Recipient Bonds outstanding after giving effect to such payment (or provision therefor) or cancellation and shall execute such documents as may be reasonably required by the Corporation and the Recipient and in the case of such release in respect of all Bonds issued under the 2010 A and B Indenture, shall turn over to or at the direction of the Corporation any balances remaining in any fund created under the 2010 A and B Indenture, other than moneys and Investment Obligations (as defined in the second succeeding paragraph) retained for the redemption or payment of Bonds; otherwise, the 2010 A and B Indenture shall be, continue and remain in full force and effect.

Notwithstanding the foregoing, the Trustee shall not release any funds held pursuant to the 2010 A and B Indenture to the Corporation until it shall have received an opinion of Bond Counsel to the effect that such funds may be transferred to the Corporation without adversely affecting the exclusion of interest on any series of Bonds from gross income for Federal income tax purposes.

Bonds shall be deemed to be paid whenever there shall have been deposited with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds) either moneys in an amount which shall be sufficient, or noncallable obligations issued or guaranteed by or backed by the full faith and credit of, the United States of America (including certificates or any other evidence of an ownership interest in any such obligation or in specified portions thereof, which may consist of specified portions of the principal thereof or the interest thereon) (herein referred to as "Investment Obligations") certified by an independent accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without the necessity of further investment or reinvestment of either the principal amount thereof or interest therefrom, provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal of, and premium, if any, and interest due and to become due on all such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and if redeemed prior to maturity an irrevocable instruction to mail the redemption notice as provided in the 2010 A and B Indenture has been given, and the Trustee shall have been directed to give notice to the Registered Owners of such Bonds in the manner provided in the 2010 A and B Indenture that a deposit meeting the requirements of this paragraph has been made and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of, and premium, if any, and interest on, such Bonds; provided, however, that neither Investment Obligations nor moneys deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any Investment Obligations shall be withdrawn, or used for any purpose other than, and shall be held in trust for, the payment of the principal of, and premium, if any, and interest on such Bonds.

No Individual Liability

No covenant or agreement contained in the Bonds or in the 2010 A and B Indenture shall be deemed to be the covenant or agreement of any director, officer, agent, or employee of the Corporation in his or her individual capacity, and neither the directors of the Corporation nor any official executing the

Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.