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Testimony before the City Council Regarding Water and Sewer Rates
by Jim Buckley, Executive Director
Monday, May 05, 2008

The link between affordable housing and the cost of water is not always clear. UNHP learned about the link in the late 1980's when we first started making loans from our community loan fund and saw water and sewer costs rising at a much faster rate than the projections for the buildings on which we had made loans. What was more amazing is that these projections had been made with the input of the HPD. The price of water was rising rapidly and the city's own housing agency didn't know about it. At that point, it was very clear that we needed to get involved in the water and sewer issue. We joined with other community organizations, lenders and real estate groups to raise the level of attention on the issue and to get the City to see the connection. The double digit increases of the late '80's and early '90's ended in 1994. Unfortunately, much of the energy around the issue dissipated. Now in 2008, we find ourselves once again facing multiple years of double digit increases and the impact on affordable housing is even greater.

Poor collections have been identified as a major of the reason for the rising rates. The recently enacted water service turn-off for delinquent single family homeowners and the sale of liens on other properties was supposed to help with cash flow. Instead, we see the water board considering a 14.5% increase on water and sewer charges. A year ago, without either of these programs, DEP had projected an increase of 11.5% for this year.

The issue of back-bills is a symptom, but not the problem.

The problem is the formula for setting rates that the Water Board is required to follow. The Board sets rates to cover operating costs of the system, the debt service on the water finance authority debt, and a rental payment to the City that is payable upon request of the City and is set at 15% of the debt service being paid to the Water Finance Authority.

As the capital needs of the system rise, the cost of debt service and the rental payment soar. All of that comes back directly to the rate payer.

This formula goes back to the 1980's and the creation of the water system. Of course in the '80's, there was still grant money available from the federal government, which held down debt service costs to the system. That changed in the late '80's and the rise in debt service coincided with a city financial crisis which resulted in the city requesting full payment of the rental charge and this resulted in several years of double digit water rate increases.

While the current projections for the City's budget are not good, the time to reform the way we pay for the Water System is now. Ignoring the problem will compound City budget issues. Double-digit rate increases for the foreseeable future will have a negative effect on affordable housing in New York City and low- and moderate-income neighborhoods. Soaring rates will contribute to deterioration and foreclosure in both the single- and multi-family housing markets. If unaddressed, the demands on the city budget in relation to issues caused by rising levels of foreclosure will increase, and the underwriting on multi-family renovation will change dramatically either slowing or stopping renovation plans by increasing the amounts of subsidized dollars necessary to proceed with renovation and construction. In short, we can recognize and address the problem proactively or we can wait for the situation to reach crisis proportions and fix the problem over the devastated remnants of the dreams of homeownership and neighborhood development. Either way, the City general operating budget will have to pay the price.

As part of our recent annual affordable housing forum, UNHP developed a series of proposals that would address the water and sewer crisis. I am going to highlight a few of our proposals that would address the proposed increase and begin to address the future of the water system:

1) The 14.5% increase that has been proposed should be rejected. Returning the rental payment that exceeds payment of old debt service should be returned to the water system; additionally, calculations of collections should be based on the 95% of billing that DEP used with the Council to justify passage of lien sale legislation that included stand alone water liens and with the Water Board to justify water shut-off on delinquent single family homes. When a 95% collection rate is combined with a return of the excess rental payment, the 14.5% increase is not necessary.
2) Make water and sewer billing information easily accessible to the public. Real estate tax, violations, building registrations and mortgage information are all available on-line either with the building address or block and lot information; to see water and sewer bills, you need the account number. The benefits of making water information equally accessible would provide tenants and lenders a chance to see if their landlord is staying current and would either result in payment of the bill or an early warning that an owner is running into difficulty.

3) Examine proposals to cover some of the capital costs of the system from the general operating budget. For instance, the Combined Sewer Overflow (CSO)project is needed to address sewage overflow caused by run-off from heavy rainstorms which currently results in untreated sewage going into rivers and harbors. Streets, parks, airports, etc all contribute to stormwater run-off. CSO's account for 1.5 billion of the current capital plan. Paying for the CSO's from the general operating budget makes more sense than charging it all to property owners.
4) Improved oversight of the capital expenses of the water system: For instance, the IBO's office reports that the filtration plant under construction in Van Cortlandt Park was expected to cost $900 million in 2000, 1.4 billion in 2004 and 2.4 billion by late 2007; the Catskill Delaware Ultraviolet Water Treatment facility is now estimated at $1.5 billion in the Mayor's Preliminary Capital budget for 2009, a 35% increase from the previous Mayoral Capital Commitment Plan. A third party method of evaluating the capital costs of the system
5) Open the doors on the rate setting process: The current system is not conducive to citizen input. The rate book proposal should include actual experience over the past three years and projections for the next three years.
6) Expansion and simplification of access to water re-use programs.
7) Timely examination of alternative rating structures. At the recent Water Board meeting, DEP indicated that it wanted to look at alternative methods of setting rates. That process should start immediately with participation from the housing community.

When the current water system and the rate setting system was established in 1984, there was still federal grant money available for water infrastructure. It is unlikely that anyone envisioned ***a)*** rate payers fully shouldering the annual debt service for the billions of dollars that the Water Board has borrowed to preserve and improve the water infrastructure; ***b)*** low-income buildings paying larger water bills because they house larger families and therefore use more water; ***c)*** water shut-off notices being issued to hundreds of single family homeowners in the midst of a foreclosure crisis; or ***d)*** the water system becoming a major funder of the general operating budget through the Water Board's rental payment to the City.

There has been evidence for many years that billing based solely on metering is a regressive charge that causes lower income communities to pay more for the water system than higher income communities. That evidence has produced many efforts on the part of DEP and the Water Board to devise alternatives like the Multifamily Conservation Program.

The painful truth about water and sewer rate reform is it will require an infusion of funds other than payment of water bills. While we recommend getting the federal government to resurrect grant programs for water infrastructure, we know this is not a short term answer. We must acknowledge that some portion of funds for the Water System will have to come from the general operating budget of the City.

Failure to put general operating money into the Water System will not insulate the City budget from the secondary effects of the rising costs. Deteriorating housing conditions caused by foreclosures, lien sales and deferred maintenance will encumber the City budget. The need for deeper subsidies in rehabilitation and new construction projects will also impact the City budget. The stress on the lives of New Yorkers affected by soaring rates, foreclosures, deferred maintenance, and lack of access to affordable housing may not be as easily quantifiable in dollar amounts, but it will still have a budgetary impact.

We have made a number of proposals that would hold rates down in the short term, but a fundamental change in rate setting policy is necessary. Amending the lease agreement between the Water Board and New York City to reduce the rental payment would be a good first step. Devising a new rate setting formula and allocating general operating funds from the City for water are essential elements of a long term solution.

RSA

RENT STABILIZATION ASSOCIATION • 123 William Street • New York, NY 10038

Testimony of Jack Freund,
***Executive Vice President*, Rent Stabilization Association,**
Delivered before the New York City Council
Monday, May 5, 2008

Chairman Weprin, Chairman Gennaro and Members of the NYC Council, thank you for this opportunity to testify on behalf of the Rent Stabilized Association's twenty-five thousand members, who collectively own or manage over one million units of housing in New York City.

Just a few months ago, the City Council authorized the sale of stand-alone water and sewer liens. This legislation was enacted in order to avoid the threat of an 18% mid-year rate increase, despite the common acknowledgement that the Department of Environmental Protection's (DEP) billing system was fatally flawed.

When that legislation was approved, I believe the Council fully expected that the additional revenues from lien sales and collection efforts would allow DEP to maintain its projected 11.5% increase for the period beginning July 1, 2008. However, DEP has now proposed a 14.5% increase for this year and projects another 14.5% next year. In fact, we can anticipate double-digit rate increases for many years to come.

The Council has no direct authority over water and sewer rates. But we believe that there are a number of things the Council can do to contain future rate increases.

Since the City has refused to negotiate on the issue of excess rental payments, the Council should adopt a resolution calling on the New York State Legislature to preclude, by law, any rental payment by the Water Board to the City which exceeds the amount required to pay off bonds issued by the City prior to 1985. This year alone, the rate increase could be reduced by approximately three percentage points by the elimination of this year's excess rental payment.

The Water Board has also funded parks and public facilities projects throughout the City using rate-payer dollars. Hundreds of millions of dollars of rate payer dollars could be saved if such projects were funded through the City's overall capital budget. Therefore, you should also ask that the State Legislature strike that provision of the law which essentially allows water and sewer bond proceeds to fund virtually any improvement that the City deems to be in the public interest.

While the City Council does not approve water and sewer rates, the Council does approve DEP's operating and capital budget. During this year's budget negotiations, the Council should demand that DEP's non-tax levy funded operating costs be subject to the same cost-cutting measures that have been required of all other City agencies.

At the same, the City Council may want to review DEP's capital items and demand that certain capital costs be funded through the City budget rather that by rate-payers. For example, combined water and sewer overflow (CSO) projects provide a benefit to the public-at-large, not just rate-payers, and they are necessitated by the nature of the City infra-structure not by the actions of rate-payers. The cost of such public benefit improvements should rightly be borne by all tax-payers, not such water and sewer rate payers.

Finally, we urge the Council to review with DEP the nature of the so-called installment agreements that property owners have entered into under the provisions of DEP's Payment Incentive Program (PIP). As you know, DEP has reported that the majority of owners who participated in the PIP program did not pay their balances in full but entered into installment payments plans with only a 10% down payment.

It is our understanding that these are not true installment agreements. Rather, the balance due remains on the owner's account and accrues interest at a rate of 9% per annum. The owner must make current payment as well as payments against an ever-growing balance due under the PIP.

This arrangement is reminiscent of the old *in rem* property tax installment agreements in the 1970's which grew ever larger as the owner tried to keep up with current tax bills and which contributed to the massive seizure of private properties by the City. We fear that the same phenomena will occur with the PIP program. Therefore, we suggest that DEP be strongly encouraged to recast these agreements as self-amortizing payment programs similar to a fixed term mortgage. That way, owners will at least have a fighting chance of making good on the obligation they have incurred.

As representatives of a large constituency of water and sewer rate-payers, we are as frustrated as the City Council must be by the lack of transparency and oversight that characterizes the current structure of the Water Board, the Water Authority and DEP. We would hope that the steps outlined above will help correct this situation.

CHPC
CITIZENS HOUSING &
PLANNING COUNCIL

Testimony of Harold M. Shultz
Senior Fellow, Citizens Housing and Planning Council
At a Joint Oversight Hearing of the Committees on Finance and Environmental Protection
In Regard to Proposed Rate Increases for the Water and Sewer System
May 5, 2008

Good morning. I would like to thank Chairpersons Gennaro and Weprin and the members of the Finance Committee and the Environmental Protection Committee for this opportunity to testify in regard to the proposed increase in water and sewer rates.

Founded in 1937, the Citizens Housing and Planning Council (CHPC) is a non-profit policy research organization dedicated to improving housing and neighborhood conditions through cooperative efforts of the public and private sectors.

CHPC's large and diverse Board of Directors comprises for-profit and not-for-profit real estate developers, bankers, attorneys, architects, planners, and academics.

In 1988 the City changed its methodology for collecting water and sewer charges from a system based on the amount of building frontage, to metered charges based on actual water usage. New Yorkers could have presumed that this change would distribute the cost of *using* water fairly and encourage conservation of a scarce natural resource. In reality the cost of water *usage* has less to do with the amount of water that is consumed and more to do with the enormous cost of the infrastructure required to deliver it. By next year approximately 46 percent of the average water and sewer bill will reflect actual water usage costs, while 45 percent will be the cost of infrastructure maintenance and construction. By 2009 infrastructure costs will exceed operating costs and will continue to grow through the rest of the decade. As a result if water usage declines, the cost to the users (or rate payers) of water and sewer actually must rise to keep pace with the capital infrastructure costs.

Further, since rate payers are restricted to property owners, 79% of the billings of water and sewer charges are born solely by residential property owners. Within this category 27% of housing units are in one and two family homes and 73% are in multiple dwellings. While the owners of multiple dwellings are directly responsible for payment, when water rates rise they have varying ability to pass the increased costs on to tenants. Most residential tenants are unaware of the costs of water and sewer or how much they consume, and few understand how increasing water charges are affecting the rent that they pay. Perhaps more troubling, there seems to be little understanding of the regressive nature of this tax and its potential impact on the financial viability of the City's existing, rent regulated multiple dwelling stock, already under considerable pressure. While the average cost per unit of water and sewer for pre-war Rent Stabilized buildings is $444, a closer look at building location and median household income reveals a more troubling picture. While southern Manhattan (below E.96th St. and below W.110th St.) pays 8% less than the Citywide average for similar buildings, northern Manhattan buildings pay 11% more than the Citywide average. The Bronx buildings, with median household incomes of $25,000, pay 8% more than the Citywide average.

Since only property owners pay for water and sewer, payers of income tax, sales tax, hotel taxes, etc are not paying for the system at all. As a result the "tax" base for paying for water/sewer is dramatically reduced and includes a disproportionate number of properties which are owned or rented to lower income households (51.8% of New York City households are below 80% of median income as of 2004).

Further, the costs of the infrastructure of the water and sewer system are increasing dramatically and there is little incentive for insuring that the costs are kept as low as possible.

The net result is that New York City homeowners and residential building owners have had an 11.5% increase in water and sewer charges last year, face a 14.5% increase in water and sewer charges this year, and can expect double digit annual rate increases for the rest of this decade and possibly longer.

To avoid a deleterious impact on the City's residential property owners and multiple dwelling owners in particular, it is time to reconsider who pays for the water system and how its infrastructure planning and costs are managed. A longer discussion of these issues is now available in our most recent edition of the Urban Prospect entitled "Liquid Assets".

For today I would like to focus on the simplest of the cost issues, the Rental Payment paid by the rate payers (through the Water Board) to the City of New York

The Rental Payment

The "Rental Payment" represents a charge paid by the Water Board to the City for leasing the water infrastructure that was built by the City prior to 1984. Prior to 2005 the Water Board paid the City annually whatever the City was paying on debt service for constructing the pre-1984 infrastructure. In 2004, that payment was $115 million.

However after 2005 the City invoked a provision of the lease agreement requiring the Water Board to pay an amount equal to 15 percent of the amount of the interest and principal paid by the Water Board *on the total outstanding bonds issued by the MWFA.* The lease payment to the City now bears no relation to the cost of the leased infrastructure, and is increasing as the amount of outstanding MWFA bonds increases. In 2006 the payment had increased to $124 million. By

2011, it's projected to reach $235 million, even though by that time the original water/sewer infrastructure will have been virtually paid off. The ever increasing capital needs and the corresponding increase in the amount of outstanding bonds issued by the MWFA insures that this payment will only continue to go up.

Were the Rental Payment to be reduced, it would help to contain future rate increases. While it would only make a small difference in the adopted rates, it is at least one part of the equation which is easily controllable.

Comptroller Thompson has proposed that the excess rental payment (the difference between the cost of amortizing the pre-1985 bonds and the payment based on the outstanding MWFA bonds) be returned to the water/sewer system to be used for capital and operating expenses. It's a recommendation that would help to reduce the burden on the ratepayers and should be adopted by the City.

One of the "Important Objectives of the Water Board" (see 2006 Blue Book) is that the rate structure should provide a reasonably stable and predictable flow of revenue. Similarly, building owners want to be able to predict with reasonable certainty how rates are going to escalate in the future and some assurance that increases will be both moderate and smoothly spread out. This enables them to adjust to changes without sharp and unexpected rent increases.

What to Do?

To the extent that these numbers show us that water/sewer costs are disproportionately borne by affordable housing, we must ask ourselves if this is a good public policy. There is broad agreement that NYC has a shortage of affordable housing. In fact the City goes to great extent to fund affordable housing and to provide a wide variety of tax benefits to keep housing affordable.

A policy of overtaxing housing for water/sewer use is contrary to the overall policy to support affordable housing.

There are clearly steps that can be taken to restructure the systems revenues to more evenly spread out the costs. One is to reduce the rental payment to the City. The ever increasing rental payment represents an "off the books" revenue source to the City.

It should be ended.

Thank you.

STATEMENT OF EMILY LLOYD
COMMISSIONER
NEW YORK CITY DEPARTMENT OF ENVIRONMENTAL PROTECTION
AT A HEARING OF THE NEW YORK CITY COUNCIL COMMITTEE ON ENVIRONMENTAL PROTECTION
Monday, May 5, 2008

Good morning Mr. Chairman and Members. I am joined this morning by Steven Lawitts, who in addition to being the First Deputy Commissioner of DEP serves also as the Executive Director of the New York City Water Board.

Our testimony this morning consists largely of a very detailed presentation prepared by Steve to explain the need for the proposed 14.5% increase in water/sewer rates for the upcoming fiscal year. This presentation is an updated version of the one that Steve used to brief the Water Board when they were considering this rate proposal. Although some Council Members or their representatives were at the Water Board meeting where this presentation was made, many were not. We appreciate the opportunity to appear before the Council, discuss it in further detail and answer questions.

Before Steve begins, I would like to highlight a few of the key facts and issues in a short introductory statement, after which I will turn the microphone over to Steve to go through his presentation.

First, please know that no one associated with the rate proposal takes it lightly -- neither the Department of Environmental Protection nor the Water Board members. We know it is a very difficult economic climate for many New Yorkers, and we have done everything we felt was possible without jeopardizing operations or violating our probation to maximize revenue, reduce our agency costs and keep costs down in the future.

When we met last year at this time, Water Board rate projections indicated the likely need for an increase of 11.5% in FY09. Since that time, several critical factors have contributed to the need for an FY09 increase of 14.5%, or three points higher than predicted.

Mindful that under current economic conditions any rate increase will be significant for our customers DEP, in partnership with the Council, has implemented a variety of measures to help keep the current and future increases as low as possible. These measures include:

- The Payment Incentive Program (PIP) for delinquent customers, which has already brought in slightly over $63 million in this fiscal year and will generate a large amount of additional revenue in the upcoming four years, as a result of payment agreements;

- The residential service shut off program for non-payment which has already achieved a 95% pre-termination payment rate;
- The introduction of "Automated Meter Reading" (or AMR) a technology which helps other cities achieve high collection rates. We will be installing those AMR devices in New York City beginning this summer;
- The May 19 lien sale which for the first time will include properties that are delinquent on their water/sewer bills but not on their property taxes; and,
- Reviewing our own operating expenditures to limit increases in unnecessary operating costs.

With the exception of this last measure, which applies to all of our operations, the rest of the strategies I have mentioned, as well as other significant customer service improvements, were undertaken as part of the overall transformation of DEP's Bureau of Customer Services (BCS). Also, in conjunction with its new enforcement efforts DEP has created a Safety Net program for the most vulnerable New Yorkers. Nearly 500 people have already opted into the Safety Net program, which connects customers with a range of assistance programs, including budgetary counseling and emergency grants and/or loans.

We are very encouraged by the results of our enforcement and revenue collections strategies and with the positive impact they will have on our future collections. Seventy-three percent of PIP-eligible single-family customers enrolled in the program; and sixty-seven percent of multi-family customers. However, the FY09 revenue projections we shared with the Council did not account for the effect of the PIP with a payment agreement option in spreading new revenue over several years. PIP has served well to influence delinquent customers to become payers and I believe allowing them to pay the reduced amount over five years is an important addition to our safety net program. But as a consequence of this slower payment schedule, our revenue for the upcoming fiscal year is below projection, even though the facts show that PIP was a success in engaging chronic non-payers, and obtaining payment on accounts that were years overdue. However, now that we have adopted the practice of allowing customers to enter into payment agreements prior to service termination or lien sale, these revenues are not likely to dramatically affect the rate from year to year in the immediate future.

What is affecting the rate for the coming year are the substantial increases in the costs of critical items. We have seen an increase of more than $118 million in non-discretionary operations and maintenance costs. That includes a significant growth in the cost of fuel, energy and chemicals; increases in collective bargaining and health care costs; larger debt service payments on the mandated projects that constitute two-thirds of DEP's capital budget as well as on other critical infrastructure projects, such as the Third Water Tunnel and the Delaware Aqueduct.

DEP's capital budgets have been rising steeply over the last several years and our debt service requirements reflect that. As recently as FY02 our capital expenditures were under one billion dollars. By FY06 capital expenditures were approximately $1.84 billion. By FY07 the capital program had risen to $3.76 billion. FY08 and FY09 are each projected at $3.4 billion. The cost of financing our capital program is driving our rates and, in large part, it is the cost of unfunded state and federal mandates that is driving our capital program. Our original rate projection of 11.5% reflected this.

Most recently, debt service for the coming year rose because of DEP's own ability to get work under construction on or close to schedule. After several years of gearing up to manage a larger capital program, we now able to bid and award contracts for most or all of the work scheduled for an individual year of the capital program. Because that has not been the case until recently, rate projections did not reflect that. While some of our individual project costs have spiked because of market conditions in the New York City area, I want to emphasize that even though we are paying a premium for making capital investments at a time when construction prices are high, there are benefits to sticking to our commitment plan number and making the investments now.

First, our projects have important, beneficial health and environmental impacts.

Second, proceeding with our commitment plan allows us to get some long-delayed, mandated projects behind us rather than seeking to delay the project, and in some cases accruing penalties for delay.

Finally, the current low interest rates may somewhat offset current high construction costs.

Although there are sound reasons to proceed with our capital commitment plan, we acknowledge the concern over the impact of this increase on the owners of affordable housing. To mitigate the uncertainty of higher rate increases faced by owners of affordable housing, DEP has created new guidelines for the Multi-Family Conservation Program (MCP).

The essence of the MCP is New York City's commitment to continue billing the owners of low-cost affordable housing at a fixed charge that is less than the charge they would pay if they were billed on consumption. Since its inception in 2003, the MCP provides a partial solution for the 10%-15% of multiple dwellings with six or more units, where population density would result in unacceptably high metered bills even if the building has water-efficient fixtures. It provides for a per-apartment flat-rate charge held at 15-20% greater than the average traditional "frontage" charges for the building on the condition that the owner implement and maintain a menu of water management requirements and remain current with their bills.

Since 2003, DEP has had an MCP rate available to properties that met very strict criteria. Now DEP is modifying the guidelines in response to concerns from industry that the qualification criteria were so ambitious that they discouraged participation. The proposed new guidelines were based on feedback from the affordable housing community and we think they will be more successful than the current guidelines at encouraging participation.

Pending the Water Board's approval of the new guidelines, DEP hopes to work closely with the affordable housing industry on the implementation of MCP, and, along with our colleagues in the Mayor's Office and at other city agencies, on programs that advance the Mayor's commitment to the creation and preservation of affordable housing.

That completes my part of the presentation. Thank for you allowing me the time to make some opening remarks.

NEW YORK CITY DEPARTMENT OF ENVIRONMENTAL PROTECTION

FY 2009 Water and Sewer Rates

May 5, 2008

FY 2009 Water/Sewer Rates

- Current Revenue and Enforcement Initiatives
- Rate Setting Environment
- Factors Impacting Current Rates
- Forecast Assumptions
- Projected Costs of Service
- FY 2009 Rate Recommendation
- Public Hearing Schedule

Current Revenue & Enforcement Initiatives

FY 2008 Actual Revenues vs. FY 2007 Actual Revenues

thru April 30

($ in Millions)

- Monthly collections have increased over the same month last year, except for September and October
- March shows a similar % increase to the earlier months, (i.e., 22%), however
- Plan assumed March 2008 would be 35% higher than March 2007
  - There was no lien sale at all in March 2007
  - Plan assumed FY 2008 lien sale would not discount for PIP or offer widespread payment agreements

Month	FY 2008 Actuals	FY 2007 Actuals	Change	%
July-August	$692	$625	$66	11%
September	$118	$134	-$16	-12%
October	$148	$155	-$7	-5%
November	$139	$116	$23	20%
December	$130	$113	$18	16%
January	$150	$130	$19	15%
February	$126	$109	$17	16%
March	$134	$110	$25	22%
Sub-Total	**$1,637**	**$1,491**	**$146**	**10%**
April	$152	$121	$31	26%
Total Year-to-Date	**$1,789**	**$1,613**	**$176**	**11%**

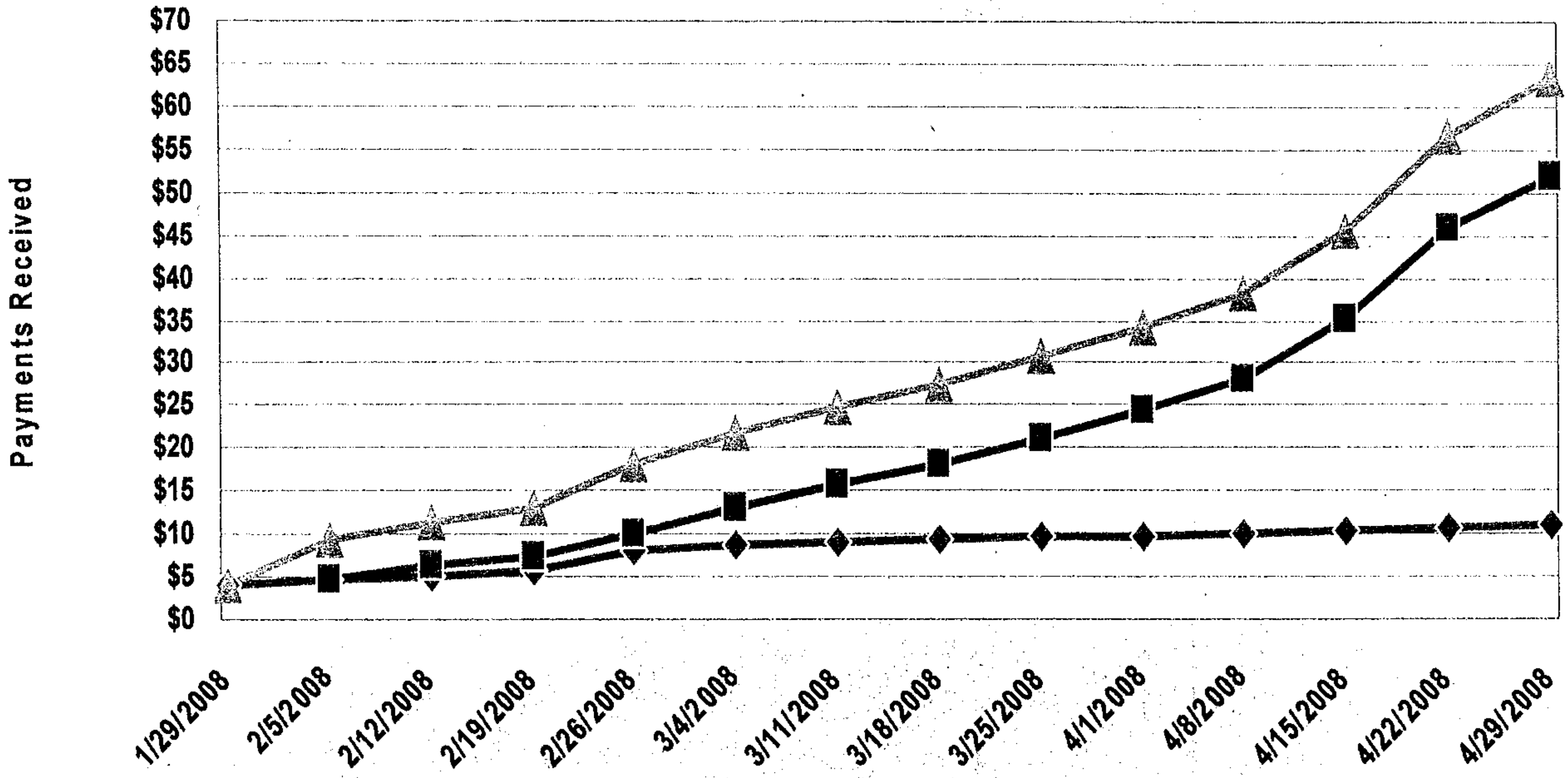
FY 2008 Revenue: Plan vs. Actual

- Revenue for the year to date is $72 million, or 4%, below plan
- March revenue plan assumed stand-alone lien sale, but with no PIP discount or widespread payment agreements

thru April 30, 2008

	Revenue ($ Millions)			
	Plan	Actual	Change	%
July - August	$731	$692	-$39	-5%
September	$149	$118	-$31	-21%
1st Quarter Total	**$880**	**$810**	**-$71**	**-8%**
October	$140	$148	$8	6%
November	$138	$139	$2	1%
December	$129	$130	$2	1%
2nd Quarter Total	**$406**	**$417**	**$11**	**3%**
January	$144	$150	$6	4%
February	$127	$126	-$1	-1%
March	$158	$134	-$24	-15%
3rd Quarter Total	**$429**	**$410**	**-$19**	**-4%**
April	$145	$152	$7	5%
Total Year-to-Date	**$1,860**	**$1,789**	**-$72**	**-4%**

PIP I and PIP II Performance
$'s in Millions



	1/29/08	2/5/08	2/12/08	2/19/08	2/26/08	3/4/08	3/11/08	3/18/08	3/25/08	4/1/08	4/8/08	4/15/08	4/22/08	4/29/08
PIP I	$3.9	$4.6	$5.0	$5.6	$8.1	$8.6	$9.0	$9.3	$9.6	$9.8	$10.1	$10.3	$10.8	$11.1
PIP II		$4.8	$6.2	$7.5	$10.2	$13.1	$15.7	$18.2	$21.2	$24.4	$28.3	$35.1	$45.9	$52.0
Total	$3.9	$9.4	$11.2	$13.1	$18.2	$21.7	$24.8	$27.6	$30.7	$34.2	$38.3	$45.5	$56.6	$63.2

PIP I — PIP II — Total

Status of Payment Incentive and Enforcement for Single-Family Homes

($ in Millions)

# of Customers	7,291
$ Amount Owed	$39
PIP Settlement Amount	$21
% Savings to Customers	47%
PIP Offers First Mailed	November 5
Participation	5,314
Participation Rate	73%
Revenue Collected	$11
% Revenue Collected	53%
% of Customers Making	
Full Payment	61%
Partial Payment	12%
Payment Agreement	27%
Shut-Offs Began	March 26
Last Day for PIP	April 22

Results of Service Termination Notices for the First Six Weeks

Service Termination Notices	234
Total Amount Owed before PIP Discount	$ 612,857
PIP Discounted Settlement Amount	$ 357,357
% Savings	42%
$ Collectible Value	$ 408,174
$ Collected	$ 273,499
% Value Collected	67%
Services Terminated	15
Services Restored	2
Total Participation	95%
Full Payment	63%
Payment Agreement	32%

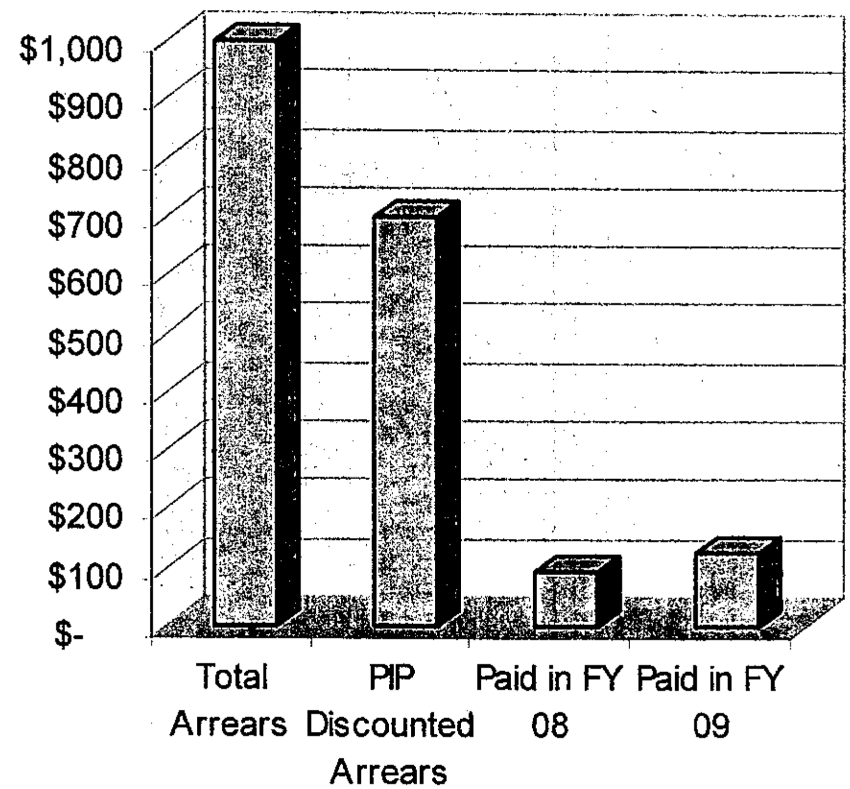
Status of Payment Incentive and Enforcement for Multi-Family Homes

($ in Millions)

# of Customers	18,431
$ Amount Owed	$181
PIP Settlement Amount	$130
% Savings to Customers	28%
PIP Offers First Mailed	January 22
Lien-Sale Notice Published	February 19
Participation	12,412
Participation Rate	67%
Revenue Collected	$52
% Revenue Collected	40%
% of Customers Making	
Full Payment	46%
Partial Payment	10%
Payment Agreement	44%
Last Day for PIP	April 22
Lien-Sale	May 19

Payment Agreements May Yield Only 9% of the Arrears in FY 08

- Customer owes $1,000
- PIP discounts the arrears by 30%, down to $700
- Payment Agreement requires 10% down and 1.5% per month
- Customer pays only $91, or 9%, of arrears this year
- Customer pays an additional $126 in FY 09 installment payments



The Growth in Serious Delinquencies Observed Last Fall has Turned into a Decline

Year-Over-Year Change in Seriously Delinquent Accounts

	October 31			March 31			April 30		
	This Year	Last Year	% Change	This Year	Last Year	% Change	This Year	Last Year	% Change
$ Millions	$412	$377	9%	$396	$396	0%	$357	$401	-11%
# of Customers	116,274	102,060	14%	114,115	109,494	4%	109,516	112,970	-3%

- Last October, the number of seriously delinquent customers (>180 days) and the dollars in arrears were growing by double-digit percentages
- As of March, there was little or no growth in the same delinquency categories
- As of April, there are *declines* in serious delinquencies
- We believe this emerging trend is a result of the public's growing awareness of new enforcement and collection tools

Cost of Service Components

Rate Setting Environment

- Rates pass through the costs of providing service
- Higher rates for water/wastewater services are a common trend across U.S cities
- NYC rates are still moderate compared with other jurisdictions
- Operations & Maintenance costs dominated by non-discretionary increases in fuel, power, chemicals, collective bargaining and health-care costs
- Driven by mandates (e.g., Cat/Del UV), aging system components (Water Tunnel #3), and critical repairs (Delaware Aqueduct) the DEP capital program has expanded since 2002

Cost of Service Components

- **Debt Service** on revenue bonds issued to finance City's water/wastewater capital program

- **Operations & Maintenance** expenses
  - DEP utility expenses (DEP non-utility costs are excluded)
  - Allocation of Citywide indirect expenses
  - Allowance for tort claims
  - Board/Authority expenses

- **Rental** payment to City pursuant to Lease

FY ‘09 Rate Increase was Originally Forecast at 11.5%

- Last year, 11.5% rate increase adopted for FY 08
- FY 09 was also forecast to increase 11.5%

Four Factors Drove the FY 09 Increase at 11.5%

- Debt Service was the biggest component
- Debt Service also determined the Rental Payment
- The rate model and past practice provide for only about 3% increase in Operations and Maintenance in the out years
- At the time of last year's forecast, water consumption appeared to be declining more than anticipated

FY 2009 Rate Increase

Original 11.5% Increase over FY 2008
($ in Millions)

- Debt Service accounts for the biggest portion of 11.5% increase
- Operations & Maintenance were forecast to increase about 3%, consistent with past practice for forecasting "out-years"
- Debt Service also determines Rental Payment
- Water consumption was decreasing just before last year's forecast

Description	FY 2008	Original FY 2009 Forecast 11.5% Increase	Better/ (Worse) than FY 2008	% Effect on Water Rate
Debt Service	$ 878	$ 1,012	$ (134)	7.5%
Operations & Maintenance	$ 1,041	$ 1,070	$ (29)	1.6%
Rental Payment	$ 155	$ 176	$ (21)	1.2%
Decrease in Consumption	$ -	$ 22	$ (22)	1.2%
Total				11.5%

FY 09 Rate Proposal

Significant Changes in Three Factors Result in a Net Increase to 14.5%

- Operations and Maintenance are expected to increase 10%, mostly due to non-discretionary costs, which account for 93% of all new needs
  - Collective Bargaining
  - Fringe Benefits
  - Fuel, Power, Chemicals
  - Sludge Removal
  - Upstate Taxes
  - Environmental, Health and Safety Requirements

- The negotiated Lien Sale provides for slower collection of receivables than previous lien sales
  - PIP discounts receivables by 30%
  - Payment agreements require only 10% down and 1.5% per month

- Recent drops in interest rates have led to decreased Debt Service projections and partially offset some of the above increases

FY 2009 Rate Increase

Summary of Changes between 11.5% and 14.5%
($ in Millions)

Description	Last Year's Forecast 11.5% Increase	Current Forecast 14.5% Increase	Better/(Worse) than Last Year	% Effect on Water Rate
Debt Service	$ 1,012	$ 960	$ 52	-3%
Operations & Maintenance	$ 1,110	$ 1,220	$ (109)	6%
Sludge Trust Fund Withdrawals	$ (40)	$ (66)	$ 26	-1%
Lien Sale Modification/Revenue Adjustment	$ --	$ 26	$ (26)	1%
Total			$ (57)	3%

- Lower interest rates reduce the forecast Debt Service costs
- O&M increased, mostly (93%) for non-discretionary costs
- Original Lien Sale forecast did not assume PIP discount or payment agreements

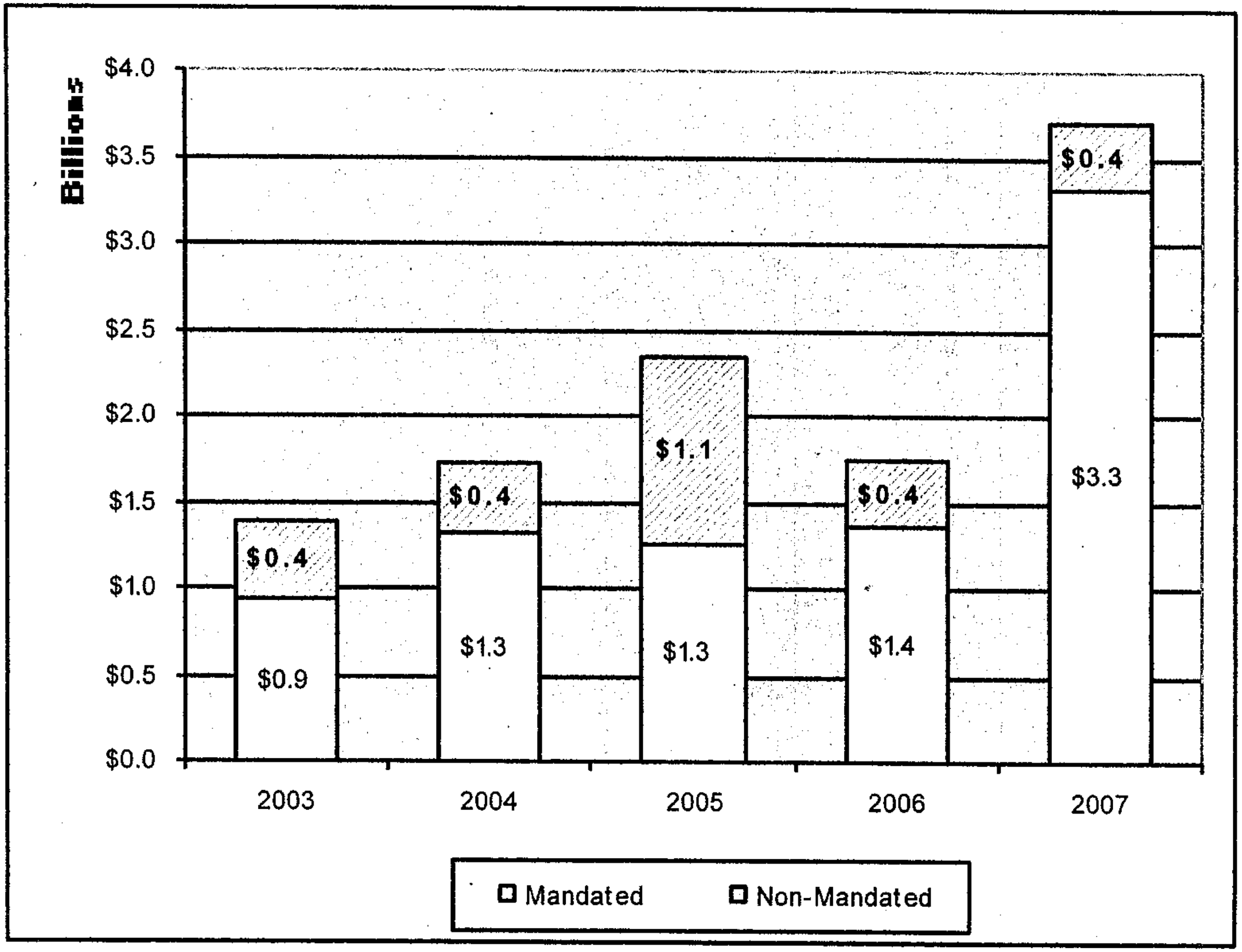
Breakdown of Non-Discretionary Costs

($ in Millions)

Labor Costs	$ 83
Chemicals	$ 14
Environmental, Health & Safety	$ 8
Heat Light & Power	$ 7
Sludge Removal	$ 7
Fuel	$ 4
Upstate Taxes	$ 2
DOI Integrity Monitor	$ 1
Total	$ 126

Mandated Projects Comprised 2/3 of the Capital Program

($ in Billions)



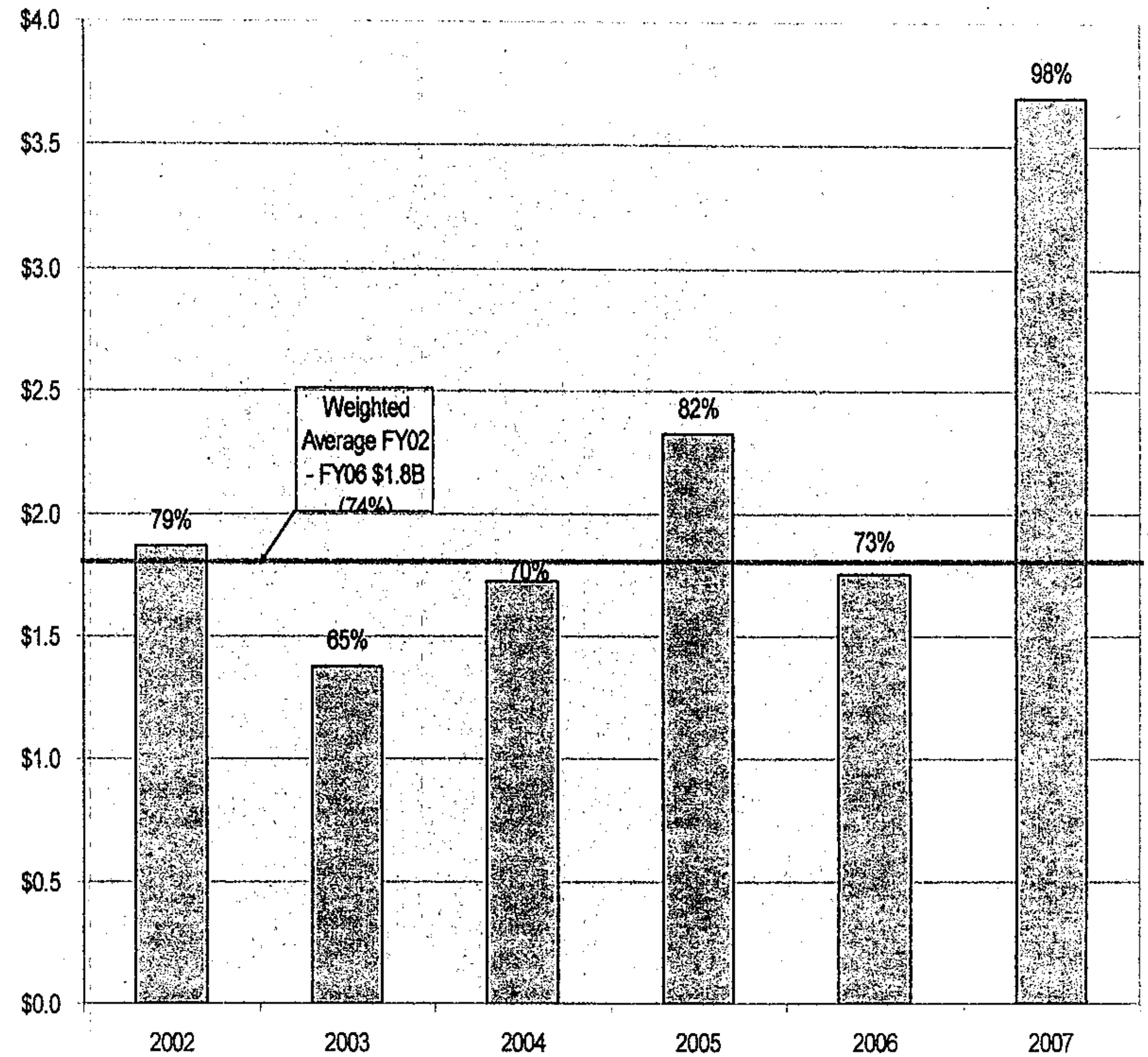
The Capital Program Has Grown and DEP Has Committed a Higher Percentage of the Plan

For FY 02 – FY 06:

- Committed 74% of annual Capital Plan
- $1.8 billion average annual commitment

In FY 07:

- Committed 97%
- Committed $3.7 billion



FY2009: Last Year vs. Current Forecast

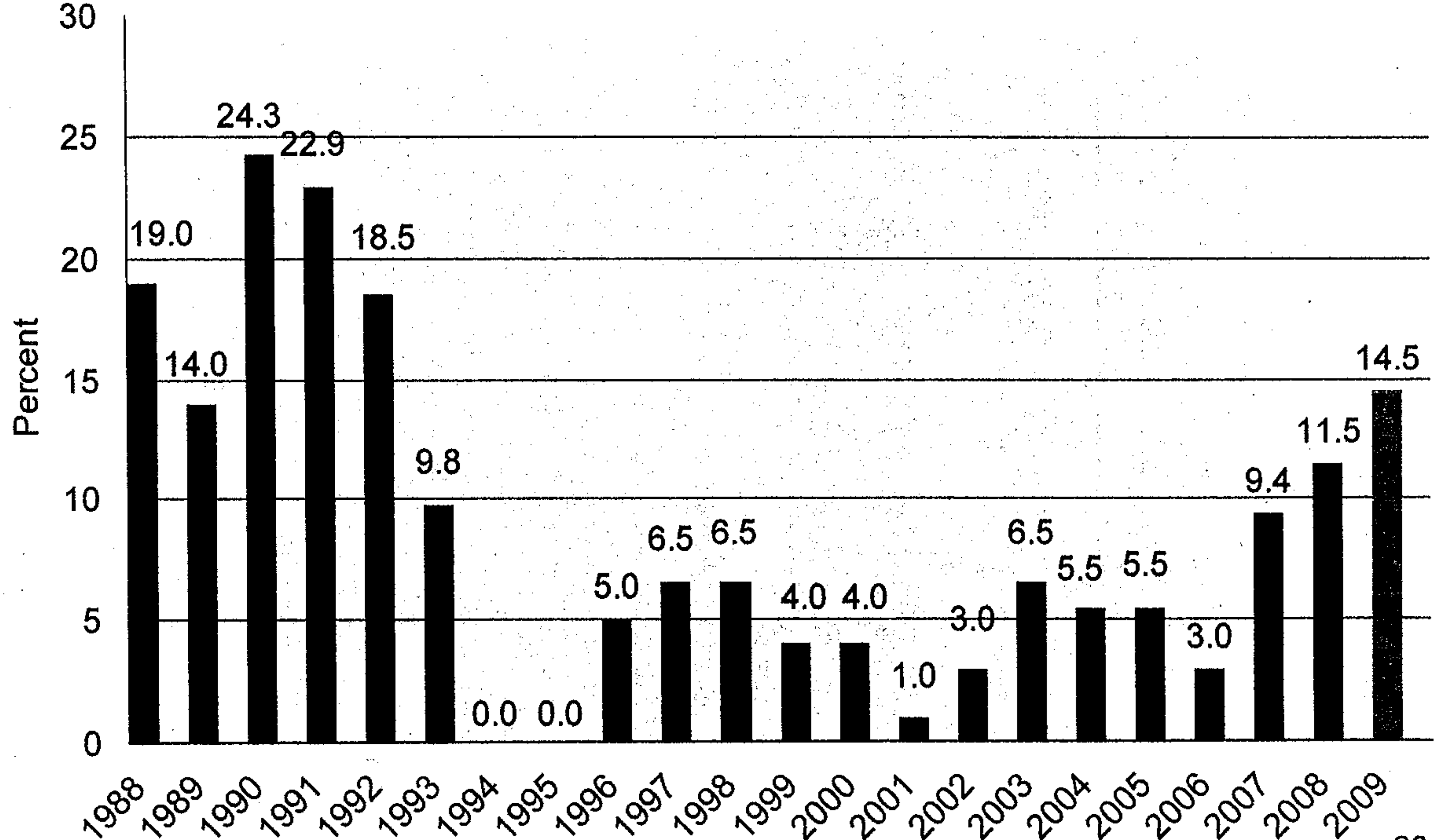
Note: Published Forecast From Spring 2007

		FY2009	
	Published	Current	Change
WFA Debt Service			
First Resolution Bonds:			
Outstanding Bonds	$556.7	$561.7	$5.0
Anticipated Future Bonds	84.5	28.7	(55.8)
Total First Resolution Bonds	$641.2	$590.4	($50.8)
Subordinate Obligations:			
Outstanding Second Resolution Authority Bonds	$487.3	$519.2	$31.9
Anticipated Future Second Resolution Authority Bonds	101.8	102.8	1.0
Interest on Commercial Paper	34.0	42.5	8.5
Anticipated Future Second Resolution Bonds	36.6	37.3	0.7
Less: EFC Subsidy and Cap Interest	(118.4)	(113.4)	5.0
Actual Debt Service on Subordinated Obligations	$541.3	$588.4	$47.1
Less: Carryforward Revenues	(84.5)	(153.3)	(68.8)
Net Debt Service on Subordinated Obligations	$456.8	$435.1	($21.7)
Total Net Debt Service	**$1,098.0**	**$1,025.5**	**($72.5)**
Operating Expenses			
Authority/Board Operations	$35.5	$48.3	$12.8
Water System	464.7	534.9	70.2
Wastewater System	586.0	601.0	15.0
Indirect Expenses	16.2	18.3	2.1
Judgments and Claims	8.0	8.0	-
Total Operating Expenses	$1,110.4	$1,210.5	$100.1
Less: Trust Account Withdrawals	(40.0)	(66.0)	(26.0)
Net Operating Expenses	$1,070.4	$1,144.5	$74.1
Rental Payment	$178.3	177.6	(0.70)
Current Capital Contribution	90.0	90.0	-
Total Operating Expenses	**$1,338.7**	**$1,412.1**	**$73.4**
Total Expenses	**$2,436.7**	**$2,437.6**	**$0.9**
Operating Revenues			
Water/Sewer User Payments	$2,391.6	$2,412.8	$21.2
Upstate Revenues	42.5	42.5	-
Miscellaneous Revenue	7.1	7.10	-
Water Finance Authority Investment Income	85.9	76.6	(9.30)
Total Revenues	**$2,527.1**	**$2,539.0**	**$11.9**
Carryforward	**$90.4**	**$101.4**	**$11.0**

Anticipated Water and Wastewater System Expenditures
($'s in millions)

	FY2008	FY2009	Change
WFA Debt Service			
First Resolution Bonds:			
Outstanding Bonds	$545.4	$561.7	$16.3
Anticipated Future Bonds	0.0	28.7	28.7
Total First Resolution Bonds	$545.4	$590.4	$45.0
Subordinate Obligations:			
Outstanding Second Resolution Authority Bonds	$498.5	$519.2	$20.7
Anticipated Future Second Resolution Authority Bonds	-	102.8	102.8
Interest on Commercial Paper	27.0	42.5	15.5
Anticipated Future Second Resolution Bonds	2.5	37.3	34.8
Less: EFC Subsidy and Cap Interest	(102.1)	(113.4)	(11.3)
Actual Debt Service on Subordinated Obligations	425.9	588.4	162.5
Less: Carryforward Revenues	(173.6)	(153.3)	20.3
Net Debt Service on Subordinated Obligations	$252.3	$435.1	$182.8
Debt Service Payable from Current Revenues	**$797.7**	**$1,025.5**	**$227.8**
Operating Expenses			
Authority/Board Operations	$48.6	$48.3	($0.3)
Water System	511.6	534.9	23.3
Wastewater System	571.9	601.0	29.1
Indirect Expenses	18.3	18.3	-
Judgments and Claims	11.3	8.0	(3.3)
Total Operating & Maintenance Expenses	$1,161.7	$1,210.5	$48.8
Less: Credit for Prior Year Excess O&M Payment	(15.7)	-	15.7
Less: Trust Account Withdrawals		(66.0)	(66.0)
Rental Payment	146.6	177.6	31.0
Current Capital Contribution	-	90.0	90.0
Total Operating Expenses	**$1,292.6**	**$1,412.1**	**$119.5**
Total Expenses	**$2,090.3**	**$2,437.6**	**$347.3**
Operating Revenues			
Water/Sewer User Payments	$2,126.5	$2,412.8	$286.3
Upstate Revenues	39.4	42.5	3.1
Miscellaneous Revenue	6.8	7.1	0.3
Water Finance Authority Investment Income	71.1	76.6	5.5
Total Revenues	**$2,243.8**	**$2,539.0**	**$295.2**
Carryforward	**$153.5**	**$101.4**	**($52.1)**

Water/Sewer Rate Changes
Historic Changes/FY2009 Projection



Comparison with Other Cities

Impact of 14.5% Increase on Typical Residential Customers

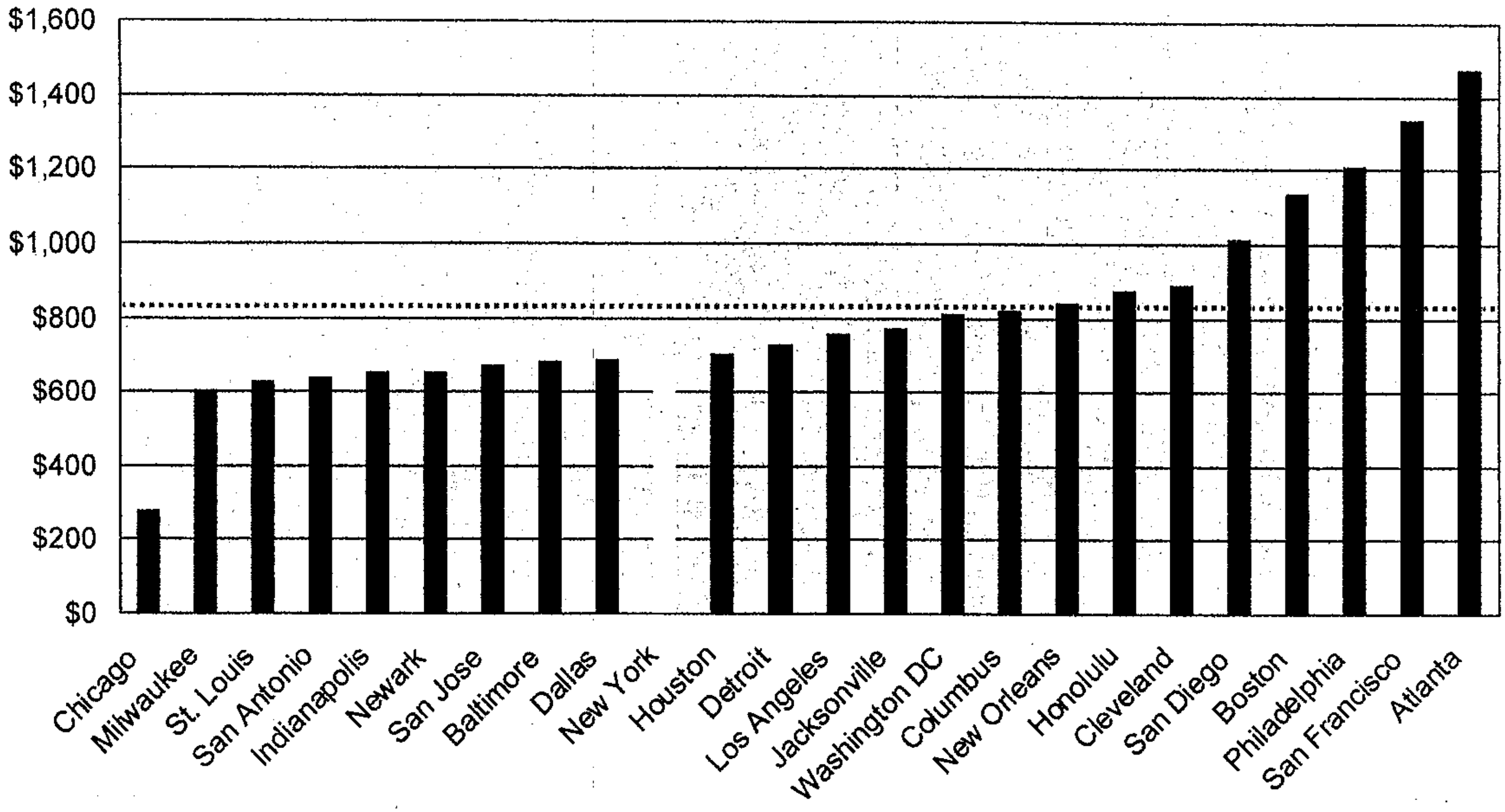
Average Annual Increase:

- Single Family : $699 to $801/year
- Multiple Family Unit : $594 to $680/year

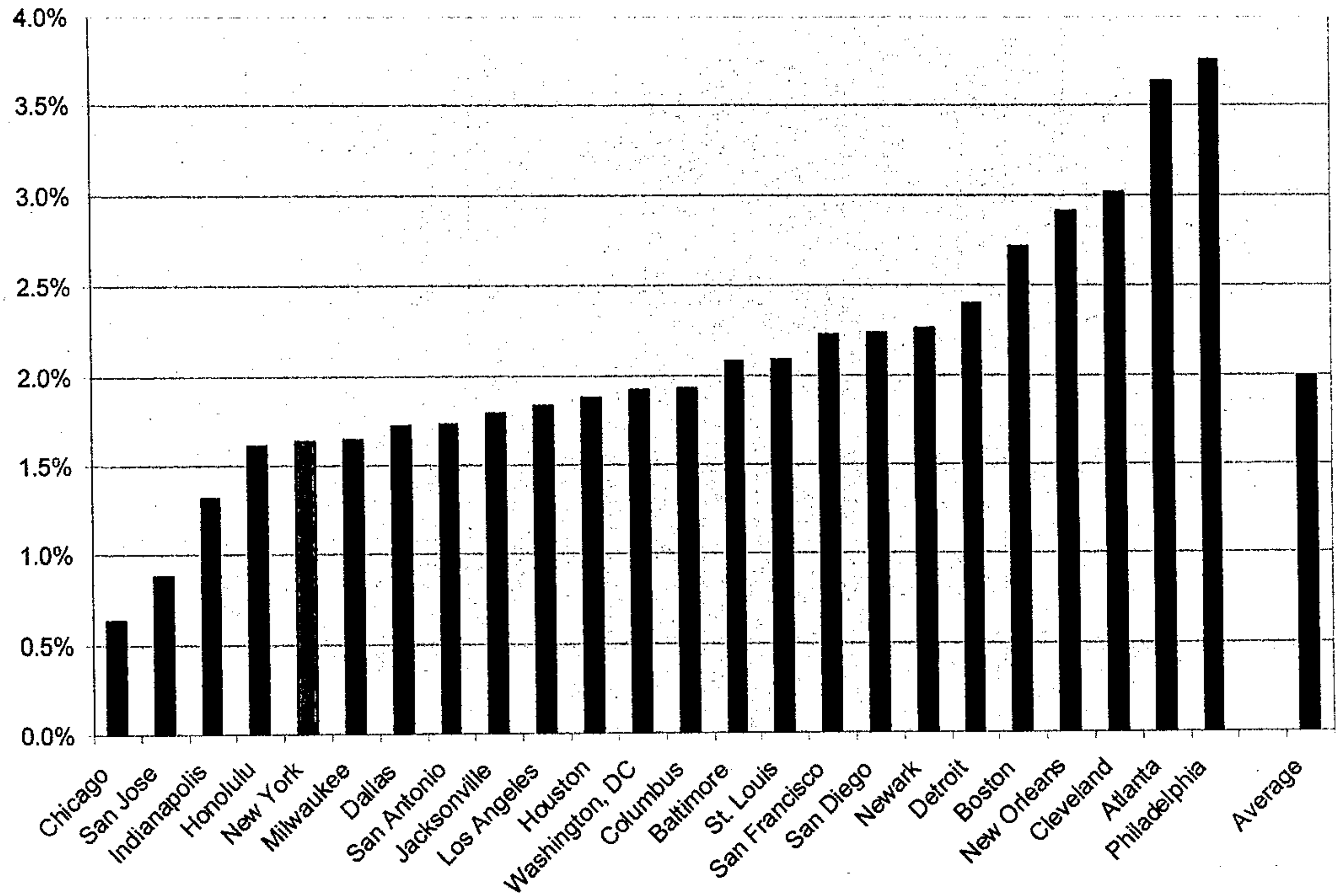
Single family per year	$	101.33
Single family per quarter	$	25.32
Single family per month	$	8.44
Typical multi-family/unit/year	$	86.13
Typical multi-family/unit/quarter	$	21.54
Typical multi-family/unit/month	$	7.18

Annual Single Family Water/Sewer Charges

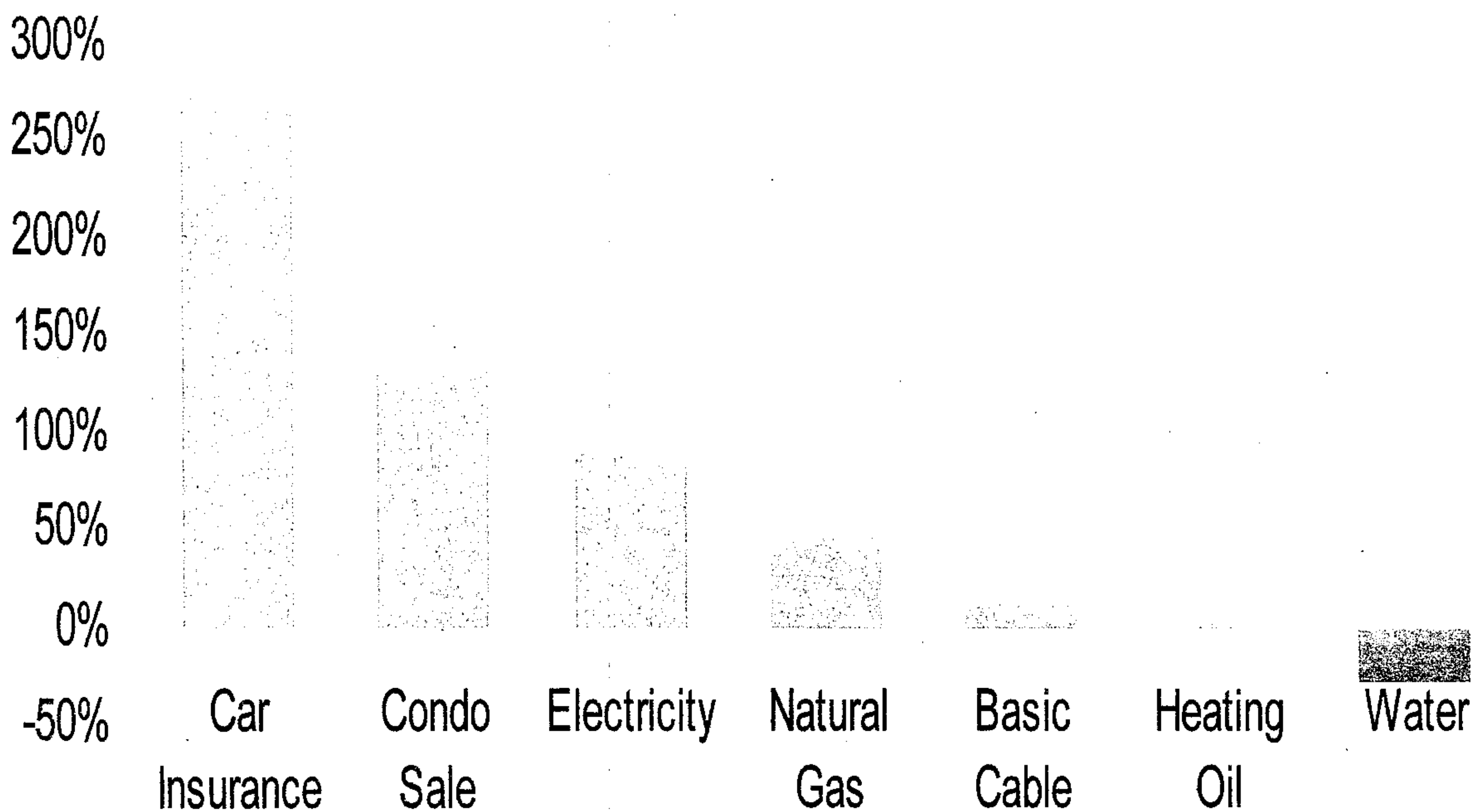
Currently in Effect



2007 Water & Sewer Costs as a Percent of Median Income



% Difference in Costs between New York City and National Averages



Public Hearing Schedule

Borough	Date	Time	Location
Bronx	Monday, May 5	6:00 PM	Manhattan College De La Salle Hall, Room 209 4513 Manhattan College Parkway Bronx, NY 10471
Queens	Tuesday, May 6	11:00 AM	Dept. of Environmental Protection Training Room, 6th Floor 59-17 Junction Boulevard Flushing, NY 11373
Staten Island	Tuesday, May 6	6:00 PM	College of Staten Island Center for the Arts, Recital Hall 2800 Victory Boulevard Staten Island, NY 10314
Manhattan	Wednesday, May 7	5:30 PM	St. John's University - Manhattan Room 123 101 Murray Street New York, NY 10314
Brooklyn	Thursday, May 8	6:00 PM	Brooklyn College Student Center, Alumni Lounge (opposite Whitehead Hall) East 27th Street and Campus Rd Brooklyn, NY 11210

FOR THE RECORD

Association for Neighborhood and Housing Development
50 Broad Street, Suite 1125
New York, NY 10004
Tel: (212) 747-1117
Fax: (212) 747-1114

TESTIMONY OF DAVID B. HANZEL, POLICY DIRECTOR, BEFORE NEW YORK CITY COUNCIL FINANCE COMMITTEE

May 5, 2008

Good Afternoon. Thank you Chairman Weprin and Committee Members for this opportunity to testify regarding the New York City Water Board's proposed 14.5% water and sewer rate increase for fiscal year 2009.

My name is Dave Hanzel and I am the Policy Director for the Association for Neighborhood and Housing Development (ANHD).

ANHD is a membership organization of NYC- neighborhood based, nonprofit housing groups- CDCs, affordable homeownership groups, supportive housing providers and community organizers. Our mission is to ensure flourishing neighborhoods and decent, affordable housing for all New Yorkers. We have over 90 members throughout the five boroughs who directly operate over 30,000 units, providing housing for 100,000 people.

Two years ago water rates increased 9.4% and last year they went up 11.5%. While DEP refuses to give an exact projection for next year, they do acknowledge that they will seek an increase similar to this year's. Combined, these increases amount to a jump of 60% in water and sewer costs in just four years! However, the truth is, rising water rates have already had a damaging effect on our members' ability to build, preserve, and provide affordable housing.

Some of our members have had to dip into a building's operating reserves or institute more substantial rent increases when a tenant moves out. Other owners may have to defer maintenance which causes both physical deterioration and unhealthy living conditions for residents. Additionally, these activities, while unavoidable, are unfortunate as they weaken the financial health of the buildings, lead to tenants spending a disproportionate amount of their income on housing and further the economic segregation of our neighborhoods.

Heather Gershen, Director of Housing Development at the Fifth Avenue Committee, said that a double digit rate hike was "very troubling and would seriously impact our ability to provide safe, affordable housing for low-income residents in Brooklyn." Indeed, many of our members said that given the increase in other utilities, a water rate hike would be the straw that breaks the camel's back.

This year, $77 million of the rental payment made by the Water Board to the City will be in excess of old General Obligation debt service for water-related purposes and can be considered a back-door tax. Since lower income parts of the City pay more for water than higher income neighborhoods, this excess rental payment can actually be considered a hyper-regressive tax. Ending the excess rental payment to the City will result in immediate short term relief for rate payers.

In the long run, more comprehensive reform of the way we pay for water and sewer costs in New York City will be necessary. The majority of the rate increases in recent years are attributable to soaring debt service on capital costs at DEP. More oversight on DEP's spending is fundamental to stabilizing water rates in the coming decade. It will also be critical to examine how certain parts of the system, such as the Combined Sewer Overflow, can be paid for more equitably than having rate payers foot the entire bill.

Extensive construction cost overruns, the issue of the rental payment to the City, the unique and unusual budget setting process of DEP and the nature of water rates as a hyper-regressive tax all must be considered as part of an effort to slow the ever increasing water rate hikes.

Rate payers cannot be expected to handle the full cost of operating and maintaining the water system. We urge DEP and the Water Board to revise the formula for setting rates to ensure a more sustainable and reasonable method is achieved. Thank you.

OFFICE OF THE BRONX BOROUGH PRESIDENT
THE BRONX COUNTY BUILDING
851 GRAND CONCOURSE
BRONX, NEW YORK 10451

ADOLFO CARRIÓN, JR.
BOROUGH PRESIDENT

TEL. 718-590-3500
FAX. 718-590-3537
E-MAIL: acarrion@bronxbp.nyc.gov

TESTIMONY BY BRONX BOROUGH PRESIDENT

ADOLFO CARRION, JR.

REGARDING FISCAL YEAR 2009

PROPOSED WATER AND SEWER RATE INCREASES

May 5, 2008

Good Morning Chairpersons Weprin and Gennaro, and members of the City Council Committee on Finance and the Committee on Environmental Protection. On behalf of the many concerned citizens of the Bronx, I am testifying to make clear our collective alarm and dismay with the 14.5% increase in water and sewer rates proposed by the Water Board for the 2009 Fiscal Year and the projected double-digit rate increases in future years. In a time of record home foreclosures and record increases in the costs of food, fuel and electricity, the proposed rate increase will drive another stake into the heart of affordable housing options in the City. Instead of approving a 14.5% rate increase, the Water Board and the City should be working together to take every step possible to minimize rate increases in the coming years to preserve affordable housing for our citizenry.

While the most fortunate of us may be able to pay the proposed rate increases, lower-income homeowners and renters and the elderly and disabled on fixed-incomes will be disproportionately punished, as a greater percentage of their income is eaten up by increased water rates, rent and other housing costs. This is particularly true in parts of the Bronx. According to a report released by the University Neighborhood Housing Program in April, 2008, West Bronxites pay an average of 3.03% of their household income in residential water/wastewater charges, as compared to the New York City average, which is around 1.5%. The disparity is even greater when compared to Manhattan, Queens and Staten Island.

Moreover, because lower-income households tend to have more people living in them, they use more water compounding the negative effect the proposed increase will have on their ability to pay for housing. For example, the Citizens Housing and Planning Council found that in 2005, an average upper-income Manhattan household paid water bills totaling $372 annually, while an average lower-income household in the Bronx paid $465. In the Bronx, more than 45% of our homeowners and renters already pay more than 35% of their income for housing costs. How much more can some of our poorer and working class residents pay before they cross the line into homelessness?

Rate increases of the magnitude proposed will also contribute to the deterioration of the City's precious stock of affordable multi-family housing by diverting scarce maintenance funds to pay the rate increases and accelerate the coming tidal wave of foreclosures of single-family homes. Increased water rates will mean less money available for the maintenance and repair of housing and make it harder to borrow money for needed renovations. Almost 10% of the homes in the Bronx financed with subprime loans are in foreclosure with another 15-20% in arrears. Undoubtedly, some of these homeowners with subprime loans, teetering on the edge of foreclosure, will be pushed over the edge by the proposed rate increases.

The magnitude and regressive nature of the proposed rate increases calls into question the City's strategy to preserve single and multi-family homeownership. On the one hand, the City has made an enormous commitment to create and maintain affordable housing options, with much of that housing being created in the Bronx. On the other hand, counterproductive water rate increases threaten to seriously undermine the City's accomplishments. We have no doubt that a course of double-digit water rate increases over the next three years will incrementally add to foreclosures, homelessness and a deteriorated housing stock that will only cost the City more in the long run.

Given the critical challenges our homeowners and affordable housing projects currently face, we urge the City and the Water Board to take every step possible to minimize future rate increases including, among other things, the following:

1) Rebate back to the Water Board the rent paid to the City in excess of the debt service on the City's water-related general obligation bonds starting in the current Fiscal Year in order to reduce rate increases. The excess rent, which functions as a subsidy for

other City programs, should not be provided by the water rate payers. While the City will lose income, that loss could be allocated over a broader City budget minimizing the effect on our housing stock.

2) Continue and accelerate the Water Board's efforts to improve collections.
3) Accelerate the revision of the Multifamily Conservation Program and expand the opportunity for deserving multi-family projects to qualify for capped billing.
4) Devise and implement rate programs that provide some degree of assistance to needy senior and disabled citizens and to lower-income citizens and affordable housing projects facing foreclosure or lien sales.
5) Improve billing dispute operations so that water bills based on inaccurate meter readings can be rectified in a timely and respectful manner.
6) Aggressively expand water reuse programs that reduce sewerage overflows and related capital expenditures.
7) Set water rates in early July to insure that all Water Board revenues from the prior year are included in the rate calculation.
8) In conjunction with the rebate referred to above, explore options to restructure the City's water-related general obligation debt that would provide debt service relief in the near term and which could be retired with City funds when the City's economic condition improves.

Affordable housing options are the lifeblood of commerce and a decent living standard in our great City. As we face rough economic waters ahead, I strongly urge the Water Board to take all steps possible to avoid these huge and destructive water rate increases.

TESTIMONY BY
DEPUTY COMPTROLLER CAROL KOSTIK ON BEHALF OF
NYC COMPTROLLER WILLIAM C. THOMPSON, JR.

RE. PROPOSED WATER RATE HIKES FOR NEW YORK CITY
BEFORE THE
NEW YORK CITY COUNCIL FINANCE COMMITTEE

MONDAY, MAY 5, 2008

Good afternoon Chairman Weprin and members of the Finance Committee. My name is Carol Kostik. I am Deputy Comptroller for Public Finance and am here representing New York City Comptroller William C. Thompson, Jr.

With me today is Deputy Comptroller for Budget Marcia Van Wagner. We appreciate this opportunity to comment on proposed new water rate increases by the New York City Water Board.

At time when all New Yorkers are feeling the pinch of rising food, energy and shelter costs, they will soon find out how much deeper they'll be asked to dig into their pockets to pay for yet another essential need: water. After experiencing an 11.5 percent rate increase last July, the City's Water Board now proposes to raise rates by another 14.5 percent in the current year.

One year ago, Comptroller Thompson testified before you regarding a proposal my office had prepared advocating that the city rebate excess rent collected by the Water Board back to the water system for the benefit of ratepayers. He had formally proposed such a plan in prior testimony before the New York City Water Board.

The Comptroller's proposal was well-received by the Water Board, which has itself advocated for the rent rebate. Sadly, it has to date been rebuffed by the City. The Comptroller feels that it is critical to our water system's financial health and credibility that the City stop using water revenues to subsidize the general fund.

What makes the water system so thirsty for our dollars? For starters, the system's expenses are dominated by the cost of servicing almost $20 billion in outstanding debt to maintain and upgrade the city's vast network of water and sewer infrastructure.

Much of this investment is mandatory because the water system must comply with state and federal standards for water purity. The Water Authority will issue another $9.35 billion in debt between Fiscal Years 2009 and 2012 according to its capital financing plan, and no matter how much or how little water we consume, water rates collected must cover the costs of servicing this debt.

As Comptroller Thompson has testified before, since 2005 water rental payments have exceeded the amount needed to pay down our General Obligation water-related debt. This "excess rent" will total $68 million in Fiscal Year 2008 and will grow to over $207 million by Fiscal Year 2012. Because this money flows into the city's general fund, to be used as any other general revenue, some have called it a backdoor tax.

Covenants to bondholders require that the Board set rates at a level high enough to collect extra revenue. Therefore, water rates can not responsibly be reduced by the amount of the excess rent.

Comptroller Thompson has proposed instead to rebate the excess rent back to the Water Board and use it to offset the cost of running the water system. The excess rent should be split equally for two purposes: pay-as-you-go capital and current year expenses. The latter would lessen the need for rate increases. Using the excess rent in this way would save ratepayers approximately $276 million during fiscal years 2009 to 2012 while protecting our bondholders.

Some will argue that the Comptroller's proposal is untenable under current law. In fact, the Water Board lease with the City stipulates a rent up to 15 percent of debt service, but only as requested by the City. Without amending the lease the City could execute a Memorandum of Understanding with the Water Board committing to only request the amount needed to cover debt service on existing General Obligation debt issued for water and sewer purposes.

An independent, self-sustaining City water and sewer utility was a great idea in 1985 and it's a great idea now, but the City has to be open to improvements in the structure that reflect today's realities.

Creation of the Water Authority gave the City a secure, high quality funding stream for this essential service. As a water utility, the system has a separate rate base, rate setting powers, and legal covenants to protect bond holders. This has paid off with high ratings – AA+, Aa2, AA from S&P, Moody's and Fitch respectively – and a low borrowing cost.

However, while the cost of the capital program has grown exponentially, funding sources have shifted such that the Authority debt is now the primary source of funds.

In Fiscal Year 1986, its first year of operation, Authority debt as a percent of utility "plant in service" was approximately 7.6 percent. By 1990, it was 36 percent. It crossed the 50 percent mark in 1992, the 70 percent mark in 1997, and at the end of Fiscal Year 2007 stood at 96 percent.

Since rental payments to the City are calculated at 15 percent of debt service, the growing role of Authority debt has led inexorably to the current situation. It is not unreasonable after 23 years of operations to find that adjustments – within the established and proven legal framework – are warranted.

Some critics of the excess rent rebate proposal have suggested this would hurt the Water Authority's credit ratings. That is not the case. As the City's chief financial officer, Comptroller Thompson would not be advocating for an idea that did not protect and even enhance the Authority's financial health.

Our rebate proposal works within the Authority's existing legal framework and preserves covenanted revenue-raising functions. By dedicating half of the rebated excess rent to pay-go capital, the plan would strengthen the Authority's balance sheet and reduce future debt service expenses. And rebating the excess would enhance public support of the water system. These are good for our credit.

Finally I'd like to note that while we have been discussing excess rent today, that is merely one component of the water and sewer system's current water rates and its long term financial health.

The Comptroller has called on the Water Board to independently examine the long-term financial viability of the system's current funding structure given the system's growing capital obligations. This should include a review of which items of infrastructure are being funded by water ratepayers and what can be done to bring down the system's capital costs.

Because some 95 percent of the DEP's expenses are covered by water ratepayers, consumers have a right to expect that the DEP impose fiscal discipline by seeking out efficiencies and setting productivity targets like other city agencies are required to do. We must also consider whether it is feasible to stretch out portions of DEP's capital plan.

Our office has recently initiated an audit of the DEP's progress in constructing the Croton Water Filtration Plant. The audit will determine whether DEP is carrying out the construction effectively, and in accordance with all applicable regulations and governmental requirements.

DEP has done a good job of managing relationships with its regulators, as shown in the recent 10 year Filtration Avoidance Determination, or FAD. We believe that by acting in good faith on the excess rent issue, the City has the opportunity to build broader coalitions behind sensible regulations.

It is Comptroller Thompson's firm belief that the proposed new 14.5 percent rate increase should be reduced by a rebate of this year's excess rent. As the council debates the Mayor's proposed Budget and Financial Plan for the coming fiscal year, it should consider eliminating this backdoor taxation for future years and agree to return these dollars to the water and sewer system where they belong.

At a time of belt-tightening, New York City consumers would reap savings through more moderate water rate increases and benefit from the prudent and transparent use of their taxpayer dollars that they have a right to expect.

We appreciate this opportunity to provide testimony today and now we would be happy to answer any questions.