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# Rethinking the Water System Rental Payments

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Presentation by Marcia Van Wagner  
Deputy Comptroller for Budget  
At University Neighborhood Housing Program  
Water Summit  
April 10, 2008

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# Goals

- Reduce burden on rate payers
- Decrease debt service
- Protect strong Water Authority credit ratings
- Move capital program forward

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# Context: Relentless Rate Pressure

- DEP Capital Program 2008-2017 is \$19.5 billion
- Upward cost pressure from regulatory environment, increasing cost of labor and material, and new needs
- Debt Service exceeding \$1.5 billion by 2011 (70% increase from 2007 to 2011)
- O&M increasing approximately 20% from 2007 to 2011, to \$1.2 billion.
- Escalating Rental Payment
- Rent Formula established in 1985; dramatic change in regulatory and economic environments has created unanticipated consequences

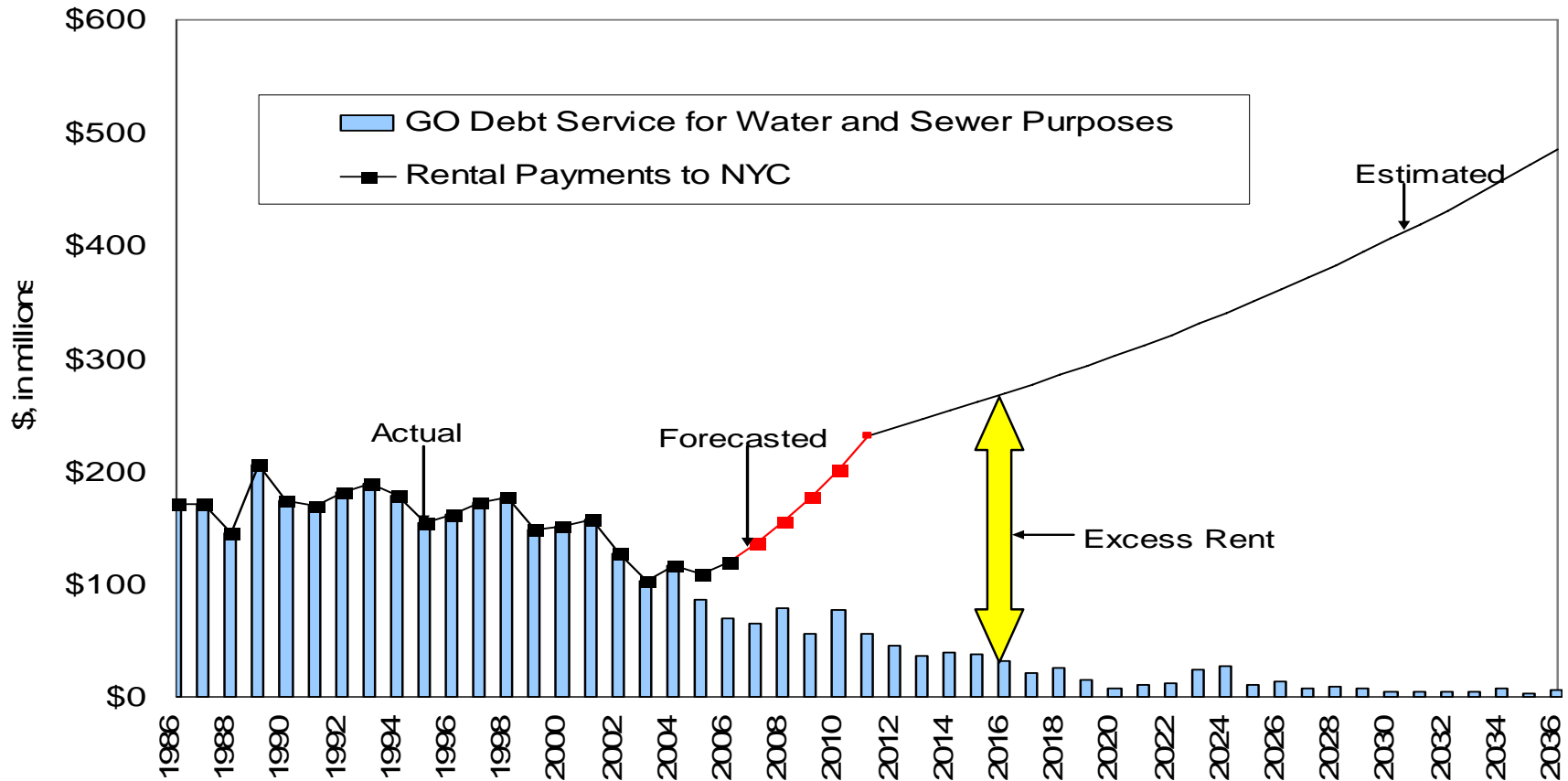
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# Rental Payment

Rental Payment = the greater of cost of debt service on GO bonds issued for Water purposes or 15% of Water Authority debt service

- Water Board required to set rates to cover costs of debt service, O&M, and rental payment
- “Cross-over” reached in 2005
- Rent forecast to increase 70% from \$136 million in 2007 to \$232 million in 2011
- Water Authority Rental Payment increases while GO Debt Service for Water Decreases

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



# EXCESS RENT

\$ in million

| Year | 15% Water Authority Debt Service | GO Debt Service for Water Purposes | Excess Rent |
|------|----------------------------------|------------------------------------|-------------|
| 2007 | \$135.9                          | \$65.3                             | \$70.6      |
| 2008 | 155.0                            | 78.3                               | 76.7        |
| 2009 | 176.8                            | 55.8                               | 121.0       |
| 2010 | 200.3                            | 77.0                               | 123.3       |
| 2011 | 231.7                            | 56.6                               | 175.1       |
| .... | ....                             | ....                               | ....        |
| 2036 | 485.2                            | 6.1                                | 479.1       |

Total Excess over 30 years = \$8.9 billion assuming 3 percent annual growth during FYs 2012-2036

# Status Quo

- May 14, 2007 – New York City Water Board approved 11.5 % rate increase for FY 2008
- Double digit rate increases are projected from 2009 through 2011 due to continuing pressure
- Significant impact on rental properties and small homeowners

Average Annual Payment

| Type                  | FY'08 average increase | 2008  | 2009  | 2010  | 2011  | 2012    |
|-----------------------|------------------------|-------|-------|-------|-------|---------|
| Multi-family/per unit | \$61.26                | \$594 | \$662 | \$738 | \$821 | \$871   |
| Single Family         | \$72.07                | \$699 | \$779 | \$868 | \$966 | \$1,025 |

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# Thompson Proposal

- Rebalance financial relationships to address system capital needs and ratepayer impacts
- Rebate excess rent to Water Board:
  - 50% ratepayer relief
  - 50 % pay-go capital
- Excess rent realized at end of FY and applied to subsequent year
- Impact on rate-payers: save \$278 million during FYs 2009-2012
- Generate additional \$248 million for pay-go capital during FYs 2008-2011, reducing borrowing and saving money over 30 years

# Thompson Proposal:

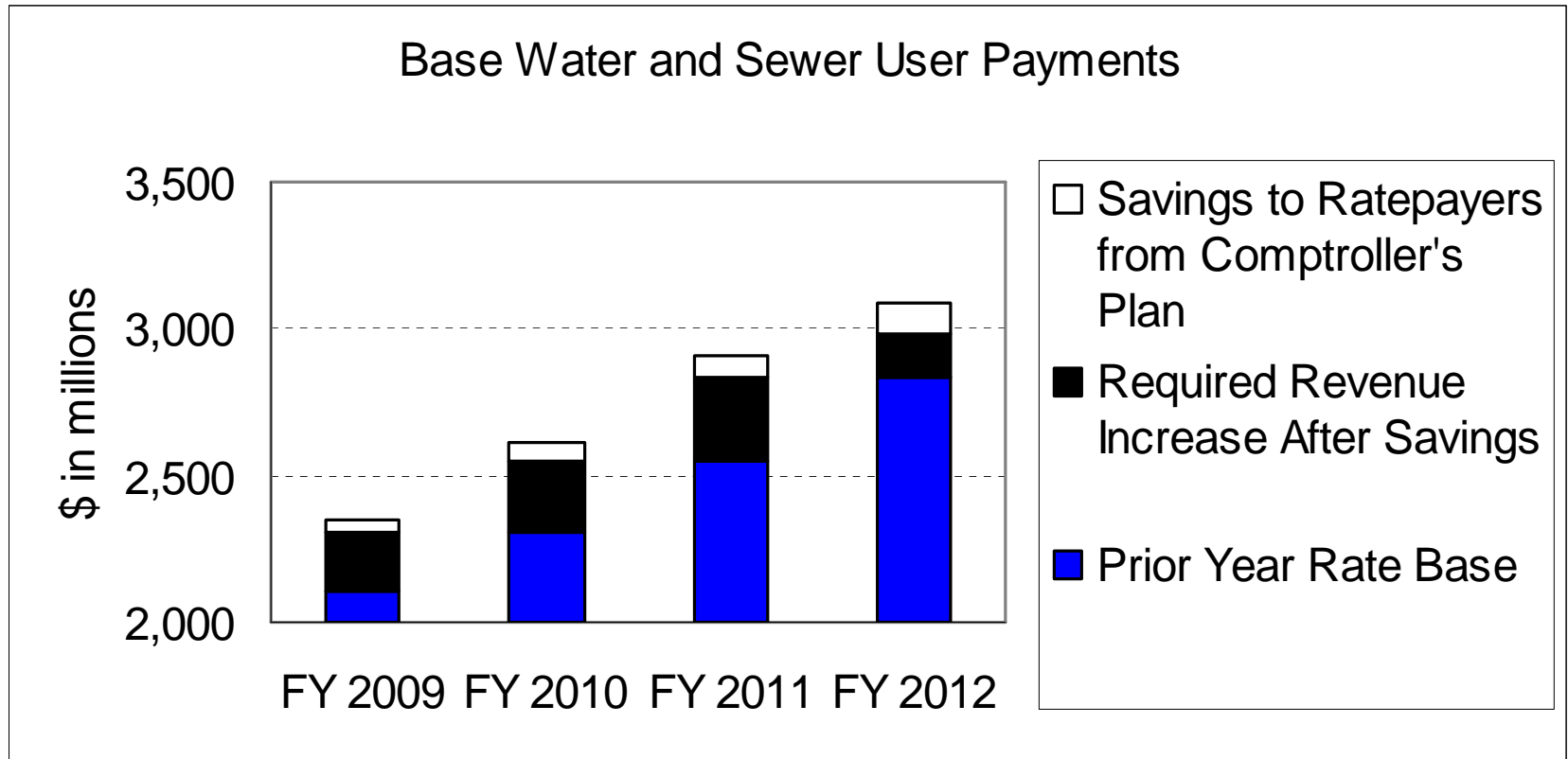
## 50 % rate relief & 50% pay-go

| Year    | Proposed Rate Increases | Savings to Ratepayers* | Adjusted Rate Increases off Lower Rate Base |
|---------|-------------------------|------------------------|---|
| FY 2009 | 11.5%                   | \$39.7                 | 9.61%                                       |
| FY 2010 | 11.4%                   | \$65.3                 | 10.49%                                      |
| FY 2011 | 11.3%                   | \$70.7                 | 11.38%                                      |
| FY 2012 | 6.1%                    | \$102.0                | 5.15%                                       |

\* from prior years excess rent roll forward

# Thompson Proposal

## 50 % rate relief & 50% pay-go



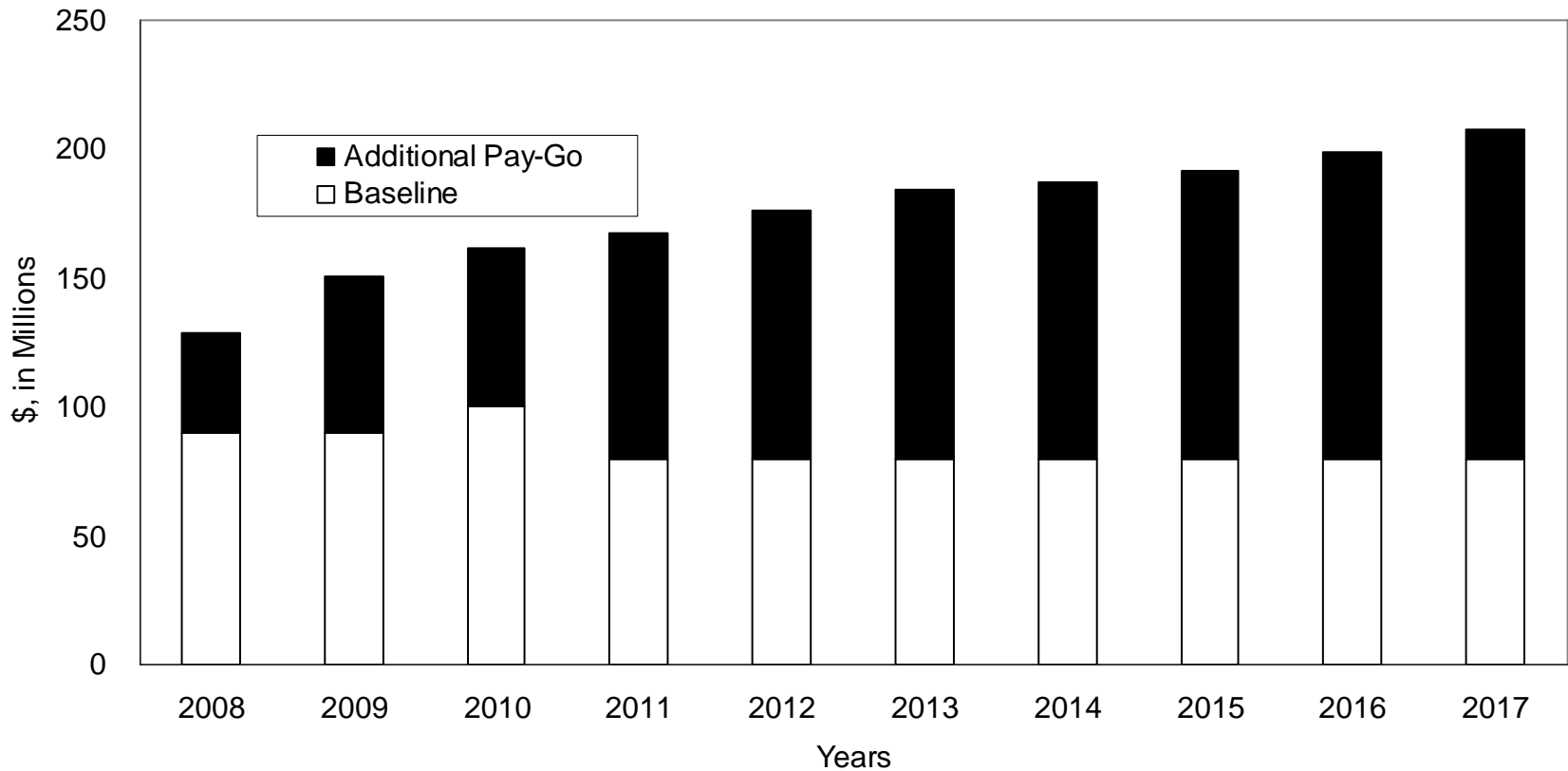
The ratepayers would save an estimated \$278 million during FYs 2009-2012.

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# Value of Pay-Go Capital Financing

- Long-term benefit to ratepayers from lower debt burden and lower debt expense
- Benefits build over time
- Comptroller plan provides \$914 million of additional pay-go from 2008 -2017
- Use of pay-go plan through 2036 avoids \$9.7 billion in debt service (assumed 30 year amortization)

# Pay-go Capital Financing Doubles over 10 year capital strategy





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WILLIAM C. THOMPSON, JR.  
COMPTROLLER

April 9, 2008

Mr. Alan Moss  
Member of the Board  
New York City Water Board  
59-17 Junction Blvd., 8<sup>th</sup> floor  
Flushing, NY 11373-3586

Dear Mr. Moss:

As you recall, last May I expressed my concerns regarding the burden to City water and sewer ratepayers that results from the terms of the Water Board's lease with the City. Those terms include a rental payment tied to the Water Authority's mounting debt service, the end result of which is a growing subsidy to the City's general fund. The letter in which I laid out those concerns is attached.

You were also kind enough to invite me to speak at a meeting of the Board, where I laid out in detail my proposal to rebate a portion of the rental payment to the benefit of the water system. I am encouraged that you have been receptive to this proposal and advocated for it in your testimony to the City Council on the water lien sale.

In my presentation and in my previous letter to you, I focused on the amount of money being paid to the City as "excess rent," or funds in excess of the value of outstanding GO bonds for water purposes. This amount is slated to grow from \$77 million this year to \$174 million in FY 2011.

Unfortunately, the Water Authority has shown little interest in addressing this inappropriate cross-subsidy despite your advocacy. This is discouraging but I believe that you are in a position to ensure that this issue is given the attention it deserves, especially in the face of what we expect will be continued double-digit rate increases for fiscal year 2009 and beyond. The Board could now consider:

- Requiring that the Authority's rate increase request for the coming fiscal year 2009 delineate the amount of excess rent and identify the savings to ratepayers if this rent were to be rebated and applied to reduce capital borrowing and/or subsequent years' costs.

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- Independently examining 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.
- Engaging its own attorney to explore legal options (as provided for in the lease agreement), if the City continues to be unwilling to negotiate a more equitable treatment of ratepayers.

It is my hope that you will begin to address these issues when the Water Board meets on April 11 and as the rate-setting process moves forward. New York City's water and sewer ratepayers will welcome your advocacy in seeking a fair method of financing this critical resource.

Water Board members are committed to responsible stewardship of our essential water resources and you are to be commended for your continued efforts in this regard. The challenges of this task have grown considerably over the years, and I am ready to assist you in whatever manner I can.

Very truly yours,

William C. Thompson, Jr.

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# Recommendations

- The Water Board should consider the following actions:
  - Requiring Water Authority's rate increase request delineate amount of excess rent and identify savings to ratepayers if rent rebated and applied to capital and operating expenses
  - Independently examining long-term financial viability of system's current funding structure given growing capital obligations.
  - Engaging its own attorney to explore legal options (as provided for in lease agreement) if City continues unwilling to consider rebate.
  
- Benefits of action NOW: Opportune Timing
  - Making this change becomes more difficult as City's dependence on excess rent grows
  - New York Water Authority has highest ratings ever - proposed change will protect credit
  - DEP Capital Program is rapidly expanding and action now accrues benefits over time

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# SUMMARY

- Reduces burden on rate payers
- Decreases debt service
- Protects high Water Authority credit ratings
- Contributes to low cost of borrowing
- Moves capital program forward