

***CRA Infrastructure & Engineering, Inc. in association with
Amawalk Consulting Group LLC***

July 27, 2009

Reference No. 630671

Mr. Carmen A. Colao, Chairman
Chairman and Members
Niagara Falls Public Water Authority
5815 Buffalo Avenue
Niagara Falls, NY 14304

Mr. Michael McNally, Chairman
Chairman and Members
Niagara Falls Water Board
5815 Buffalo Avenue
Niagara Falls, NY 14304

Re: Continuing Disclosure Report of the Consulting Engineer and Rate Consultant
Water, Wastewater and Stormwater System

Dear Chairmen and Members of the Authority and Board:

The purpose of this letter and the accompanying 2009 Continuing Disclosure Report (“2009 CDR” or “2009 Report”) is to update the conclusions of our independent engineering and financial analysis that were presented in the 2008 Continuing Disclosure Report (the “2008 CDR”), dated June 30, 2008.

The Niagara Falls Public Water Authority (the “Authority”) and the Niagara Falls Water Board (the “Board”) are required to deliver certain financial information and operating data in each Fiscal Year to each nationally recognized municipal securities information repository (“NRMSIR”) and to any State information depository (“SID”), if created. This 2009 CDR is intended to meet those requirements. The information and data is for the benefit of the beneficial owners of the bonds issued for the Board by the New York State Environmental Facilities Corporation (“NYSEFC”) in 2003 and 2005 (the “2003 EFC Bonds” and the “2005 EFC Bonds”, respectively) and the bonds issued by the Authority in 2003 and 2005 (the “2003 Authority Bonds” and the “2005 Authority Bonds”, respectively), collectively referred to as the “Outstanding Bonds”. All terms referred to in this letter and the accompanying 2009 Report that are not defined herein are as defined in the Official Statements for the Outstanding Bonds.

The projections presented in this letter and the accompanying 2009 Report are preliminary in nature and are based on the recent financial experience of the Board and the Authority and assumptions regarding future policy decisions of the Board and its performance. The projections include provisions for the financing of future improvements to the Water, Wastewater and Stormwater System (the “System”) of the Board as reflected in the Preliminary Capital Improvement Program (the “CIP”). The projected cash flows are also presented as a preliminary draft. The projected cash flows are intended to assess the ability of the Board and Authority to meet the operating costs, working capital needs and other financial requirements, including the debt service requirements associated with the Outstanding Bonds and additional bonds which the Authority anticipates will be issued during the four years ending December 31, 2012 (the “Projection Period”). All references to years in the 2009 Report refer to the fiscal years of the Board and Authority which end on December 31.

As Consulting Engineer to the Authority, CRA Infrastructure & Engineering, Inc. (“CRA”) provides the engineering and operations-related opinions of this letter and the 2009 Report. In order to assess the anticipated operating condition of the System during the Projection Period, CRA evaluated the proposed improvements and additions to the System under the CIP. The Amawalk Consulting Group LLC, as Rate Consultant to the Board, provides the financial and management consulting opinions of this letter and the 2009 Report.

In preparing this 2009 Report, we reviewed, to a reasonable extent, the books, records, reports, operating information and statistical data of the Authority and the Board, and conducted other investigations and analyses as deemed necessary to prepare this 2009 Report.

Based on our studies, we offer the following opinions and conclusions:

- The System is currently in Adequate condition to support the delivery of water, wastewater and stormwater services and the generation of user revenues. The water treatment facilities are in Good condition, requiring few modifications during the projection period. The water distribution system is currently in Adequate condition overall although the rate of leakage is higher than industry standards. The wastewater treatment facilities are in Adequate condition overall, but certain components are in Poor to Adequate condition. During the projection period, the wastewater treatment facilities will require both routine and non-routine repairs, replacements and improvements as described herein. The wastewater collection system is in Adequate condition overall but certain facilities require capital improvements as described herein. As described in the 2009 Report, certain improvements to the wastewater treatment facilities and the Gorge Pumping Station have been recently completed addressing many components that were previously in Poor condition. Additional capital improvements will be implemented in 2009 and 2010 within the wastewater treatment facilities and collection system.
- Board staff, including management and operations personnel, are well qualified and effectively organized. The Executive Director will be leaving the Board effective January 31, 2010. The Board is conducting a search for a new Executive Director.
- Through appropriate technology, staffing, tools, and equipment, the Board has operations and maintenance programs that are capable of ensuring the continued effective operation of the System. The System should continue to provide high levels of service with minimal disruption.
- The Board is currently in compliance with the conditions of all existing permits, regulations, and other requirements governing safe drinking water standards. The wastewater treatment facilities have been in compliance with all existing permits, regulations, and other requirements, with certain minor exceptions. The New

York State Department of Environmental Conservation (“NYSDEC”) required the Board to make improvements to the Gorge Pumping Station. These improvements were completed in late 2008. The wastewater discharge permit requires that additional improvements be made within the sewer collection system, principally relating to Combined Sewer Overflow (CSO) and Sanitary Sewer Overflow (SSO) abatement. The Board, in conjunction with professional engineering consultants, prepared separate plans to address the CSO and SSO issues. Both plans were approved by the NYSDEC. The CIP includes funding for anticipated capital improvements that will address the requirements of the permit during the Projection Period.

- In 2004, the Board authorized the development of a Master Plan for wastewater treatment (the “Strategic Wastewater Treatment Master Plan”). The Master Plan concluded that the upgrading of the existing wastewater treatment plant was more cost effective than other Board-sponsored alternatives such as the construction of a new treatment plant. The Master Plan identified the need for significant capital improvements at the wastewater treatment plant. The Board has retained firms to provide program management and engineering design services in support of the planned improvements. The improvements to the carbon filter valves; carbon building; heating, ventilation and air conditioning (“HVAC”); main wetwell area; and headworks at the wastewater treatment plant (the “Phase 1 Project”) were completed in early 2009.

The design of the next phase of the wastewater treatment plant improvements, which includes additional carbon filter valve replacement and automation of the carbon filter system (the “Phase 2 Project”) was completed in May 2009. The Board anticipates that construction of the Phase 2 improvements will be completed in mid-2010. The first phase and second phase improvements to the wastewater treatment plant will upgrade the status of much of the equipment and other components that were poorly-rated in 2008 to adequate or good condition. The third phase of potential improvements is in the predesign/scoping stage of development. The Board will consider retaining design services for the third phase of improvements in late 2009/early 2010.

The Board has also initiated the design of significant necessary repairs to maintain proper functioning of the electrical service at the plant. Improvements to the wastewater treatment plant electrical substation will be started in 2009.

- The Board reached an agreement with the New York Power Authority (“NYPA”) related to the infiltration of water from NYPA’s hydropower intake facilities into the Falls Street Tunnel (the “FST”) of the Board. Currently, this infiltration accounts for over 20% of the total influent flow into the wastewater treatment plant of the Board. Under the terms of the Agreement, NYPA paid \$19 million to the Board in November 2007; the proceeds of which are intended to reduce or

eliminate the NYPA FST inflow. The Board completed a predesign feasibility study in 2008 which evaluated the alternatives that would achieve that objective. It is anticipated that design of the recommended improvements will begin in 2009 and construction will be initiated in 2010. The current estimate of the cost of the recommended alternative is significantly less than the funds paid to the Board. Any monies remaining from the \$19 million payment after completion of the FST repairs will become available for one or more of the following purposes: other wastewater system capital projects identified in the Board's CIP, the defeasance of outstanding debt, or other purposes that are permissible under the Bond Resolution. Policy decisions will be made by the Board regarding the intended use of any remaining monies.

- The Board was recently awarded \$11 million in funding from the 2009 American Recovery and Reinvestment Act ("ARRA") to complete the second phase of cleaning and restoration of the North Gorge Interceptor ("NGI"). The funding will be administered through the NYSEFC with \$6.3 million provided in the form of a subsidized loan at 50% of the market interest rate, and \$4.67 million in principal forgiveness (the "ARRA grant"). The first phase of the NGI work was completed in 2005. The Board has begun the design of the second phase, with plans to start construction in late 2009 and to finish construction within two years.
- The Board approved the purchase of an enterprise-wide computerized maintenance management system ("CMMS") that will be a critical element of the efforts to protect the Board's infrastructure investments now and into the future.
- It is anticipated that the Board will fund the CIP through the following sources: existing monies in its Construction Fund; the proceeds of the anticipated ARRA grant and NYSEFC loans; the proceeds of anticipated future bonds issued by the Authority; proceeds from the NYPA payment; and surplus funds generated in each year. Significant additional improvements to the wastewater treatment plant will be required both within and beyond the Projection Period.
- In January 2008 the Board reached a settlement in the collective bargaining agreements with all four of its labor unions. The six-year agreements create a second tier benefit package for employees hired after January 2008. This new tier will provide significant long-term savings to the Board as new employees supplant outgoing retirees. The package includes a more modest health care plan with a 20% employee contribution, a halving of paid sick and holidays, and a new paid time-off plan. Nearly one-half of Board employees are eligible for retirement within the next 5 years.
- In 2004, the Board authorized the preparation of a Competitiveness Plan for its operations. The Competitiveness Plan identified opportunities to optimize operations and maintenance services while reducing the required number of

employees over time through increased automation, employee training, improved tools and equipment and other techniques. From September 2003 to the date of this letter, the number of employees declined from 141 to 97. Further declines are expected in 2009 and future years. The intent of the Board is to implement changes in technology and business processes simultaneously with attrition in the workforce in order to optimize the efficiency and effectiveness of its operations.

- Water consumption by customers of the System increased in 2005 by 2.2% compared to 2004. In 2006, 2007 and 2008, consumption declined by 1.7%, 1.2% and 5.5%, respectively, compared to the demand in the prior year. The financial projections assume that consumption by all customers declines at the rate of about 2.0% per year during the Projection Period. Year-to-date billed consumption through May 31, 2009 is 12.2% lower than during the same period in 2008. Reductions in usage are evident in all customer classes and likely reflect, in part, the effects of the economic recession.
- The year-to-date billings through May 31, 2009 are 9.5% lower than during the same period in 2008. The difference between the percentage decline in billings and the decline in usage is attributable to the effects of the rate structure being used by the Board, including the use of minimum billings to customers and service availability charges. Year-to-date cash collections from customer payments through May 31, 2009 are approximately 12% below expectations for the period. The primary factors affecting cash collections are the reduction in demand and an increase in customer payment delinquencies. The increase in delinquencies is related, in part, to delays in issuing delinquency notices as a new billing system was implemented. The mailing of delinquency notices was recently initiated. The year-to-date financial results through April 30, 2009 show that operating expenses are somewhat lower compared to the expectations at the beginning of the year.
- Based on the year-to-date results through May 31, 2009, the Board will have to take certain actions in 2009 in order to comply with the rate covenant of the Resolution in 2009, including the debt service coverage requirements. If actions are not taken to increase revenues and/or decrease expenses, the Board may not achieve the required debt service coverage in 2009. The 2009 Report outlines some of the potential actions that have been identified for consideration by the Board. These potential actions were reviewed with the members of the Board at the Board meeting of July 16, 2009 in advance of the issuance of this Report.
- The Board did not change the rates for water service and wastewater service in the City for 2009. The preliminary projections of percentage increases in water and wastewater rates and charges for 2010 through 2012 for customers within the City of Niagara Falls (the “City”) are presented below.

<u>Year</u>	<u>% Increase</u>
2010	6.0 %
2011	6.1 %
2012	6.6%

The preceding projected increases in rates are preliminary and subject to change. The future increases in the rates of the Board are dependent upon upcoming Board policy decisions regarding: the size, scope and timing of the CIP; the use of the remaining monies from the NYPA settlement; and potential reductions in annual operation and maintenance expenses. Future increases in rates are also dependent upon actual experience and future assumptions regarding customer demand as well as other factors. As a result, actual increases adopted by the Board may differ from the amounts shown above.

As part of the 2010 budget development process, the Board has requested that its staff evaluate the feasibility of maintaining water and wastewater rates at their current levels. The Board also requested that any resulting decline in service level be quantified in terms of percentage increase in rates necessary to retain that service level. This budget development methodology will allow the Board to better assess the value and priority of the services it provides. The impact of this request will be analyzed and is expected to be presented to the Board in October 2009.

- Current rates for water and wastewater service are somewhat higher than the average rates of other cities.
- The Board is in compliance with the reserve fund requirements of the Resolution, including the required amounts on deposit in the Debt Service Reserve Fund and the Operating Reserve Fund.
- During the analysis of 2009-2012 revenues and revenue requirements, the Amawalk Consulting Group LLC reviewed certain assumptions with respect to conditions, events and circumstances, which may occur in the future. The firm believes that these assumptions are reasonable and attainable, although actual results will differ from those forecasted as influenced by the conditions, events and circumstances that actually occur.

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We wish to extend our gratitude to the Board and the Authority for the support provided in preparing this report. We appreciate the opportunity to be of service in this important matter.

Very truly yours,

Very truly yours,

Robert P. Lannon, Jr., P.E.
CRA Infrastructure & Engineering, Inc.
Consulting Engineer

Edward J. Markus
Amawalk Consulting Group LLC
Rate Consultant

Continuing Disclosure Report of the Consulting Engineer and Rate Consultant

Introduction

This 2009 Continuing Disclosure Report, prepared in June 2009 (the “2009 CDR” or the “2009 Report”), provides information to supplement and update information presented in the Feasibility Report of the Consulting Engineer and Rate Consultant, prepared in August 2005 (the “2005 Report”), included in the Official Statement for the 2005 Authority Bonds, the 2007 Continuing Disclosure Report prepared in June 2007 (the “2007 CDR”) and the 2008 Continuing Disclosure Report prepared in June 2008 (the “2008 CDR”), collectively referred to as the “Prior Reports”. Except where noted, the table numbers and titles used in the 2009 CDR correspond to the table numbers and titles in the Prior Reports. In matters presented in the Prior Reports where we have been advised by the Board that no material change has occurred since the preparation of the Prior Reports, no additional information is presented in this 2009 CDR. Throughout the 2009 CDR, references are made to the Water, Wastewater and Stormwater System of the Board (the “System”) which serves the City of Niagara Falls (the “City”) and provides water service to small portions of adjacent communities.

Board and Authority Members

Mr. Michael McNally became the Chairman of the Board in 2008. Mr. Marchelos is the Vice Chairman of the Board and Mr. Jonathan Campbell is the Treasurer of the Board. Mr. Thomas Vitello and Mr. Morreale are members of the Board.

Mr. Carmen Colao is the Chairman of the Authority, a position he has held since the Board acquired the System in September 2003. Mr. Patrick Brown is the Treasurer and Secretary of the Authority. There is currently one vacancy on the Authority.

Organization and Staff of the Board

Mr. Gerald Grose is the Executive Director of the Board. Mr. Grose has over 29 years of experience with the System. He has served as Director of Operations, Acting Director and the Chief of Maintenance. As Chief of Maintenance he was responsible for all Water System-related maintenance including water distribution, meters and in-plant maintenance. Mr. Grose initiated and provided oversight for the implementation of a comprehensive computerized maintenance management system and an indexed equipment manual library for the Water System. In addition to his operating responsibilities, he directed the efforts of the City of Niagara Falls (the “City”) to create the Authority and the Board from 2001 through 2003. Mr. Grose is a graduate of

Oklahoma State University and has a NYSDOH Grade IA and D Public Water System Operator Certificate. After nearly three decades with the System, Mr. Grose will retire from service to the Board on January 31, 2010. The Board will conduct a search for a new Executive Director.

The total staffing levels have declined since the Board acquired the System in September 2003. Staffing levels are expected to decline in the future as the Board increases the automation of the System and provides enhanced employee training, new business processes and improved tools and equipment.

The table presented on the following page illustrates the staffing levels for the System as of April 30, 2009.

	Staff Positions*
Water Facilities Division	44
Wastewater Facilities Division	53
Total System	97

* Denotes filled positions. Authority and Board members as well as City personnel providing support services are not included in the above figures. The above totals also do not include staff members that are currently on unpaid leave.

The City has historically provided certain support services to the System in the form of engineering, legal, billing and collection, accounting and fleet maintenance services. Under the terms of the Operations Agreement between the City and the Board, the Board notified the City that it wished to assume direct responsibility for the support services provided by the City. For example, the Board has installed a new financial management system and began billing customer accounts and directly receiving customer non-cash payments during 2009. The City continues to work with the Board in providing collection services for overdue accounts and other services. Under the terms of the agreement, the Board will pay the City approximately \$70,000 per year for the services it receives.

Water Treatment

The average daily output from the Board's water treatment plant for 2005 through 2008 is shown below.

Average Daily Production of Treated Water

Year	2005	2006	2007	2008
Flow (MGD)	16.47	16.36	16.78	16.30

Unaccounted-for Water

The Water Facilities Division calculates the percentage of unaccounted-for water based on the difference in quantity between the treated water pumped into the Water System and the number of billed units provided to customers, divided by the treated water pumped. Unaccounted-for water has been 50% percent or more of treated water for the last four years, a percentage that is greater than generally accepted industry standards. The table presented below shows the average percentages of unaccounted-for water by year.

Unaccounted-for Water

Year	Percent of Treated Water
2005	51 %
2006	52 %
2007	54 %
2008	54 %

The marginal cost to the Board of treating and pumping water that is not sold is relatively low. Notwithstanding the absence of a significant cost incentive, the CIP for the Water System is focused primarily on improvements to the distribution system that, over time, should result in a decline in unaccounted-for water.

Water System Staffing

The table presented below illustrates the number of personnel in each of the eight (8) sections of the Water System as of April 30, 2009.

Water System Staffing

Section	Staff Positions
Laboratory	2
Administration	7
Information Technology	2
Engineering	2
Purification Operations	8.5
Purification Maintenance	5
Outside Water Maintenance	12
Meter Shop	5.5

Total Water System Staff	44.0
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Based on our review of the Water System, including interviews and discussions with its management and staff, we believe that the Water System is adequately staffed and key management personnel have the qualifications and experience commensurate with their responsibilities.

Wastewater Treatment

The following table identifies the historical flows through the wastewater treatment plant (“WWTP”).

Average Daily WWTP Flow

Year	2005	2006	2007	2008
Flow (MGD)	32.5	33.4	30.9	33.1

Wastewater System Staffing

The table presented below illustrates the number of personnel in each of the six (6) sections of the Wastewater System.

Wastewater System Staffing

Section	Staff
Monitoring and Compliance	4.5
Analytical Services	7
Sewer Collection System Maintenance ⁽¹⁾	10
Administrative/Technical	4
Plant Operations	15.5
Plant Maintenance	12
Total	53

⁽¹⁾ Includes sanitary sewers, combined sewers and storm sewers.

Based on our review of the Wastewater System, including interviews and discussions with its management and staff, we believe that the Wastewater System is adequately staffed and key management personnel have the qualifications and experience commensurate with their responsibilities.

Preliminary Capital Improvement Program (CIP)

The Board and the Authority have the responsibility to adopt and implement the CIP for the System. Table 1 presents the CIP for the System for 2008 through 2011. The CIP was prepared in November 2007 and reviewed in 2008. The amounts presented include an allowance for inflation. The Board plans to review and update the CIP by the end of 2009; thus, all projects and amounts for 2010 and 2011 are preliminary and subject to change. The planned capital spending for 2012 will be included in the updated CIP. This update will also include the addition of projects for the North Gorge Interceptor (“NGI”), the Falls Street Tunnel (“FST”) and electrical improvements at the WWTP as described herein.

Table 1
Capital Improvement Plan (CIP) (\$)

Project		2008	2009	2010	2011
ID Ref	Name				
C-04-03	IT Plan Implementation	350,000	30,000	20,000	15,000
W-03-02	Meter Changeout/Fixed Network	1,000,000		600,000	400,000
C-03-01	Rate Restructuring 60/40	150,000	50,000		
C-03-02	Fleet Replacement	80,000	80,000	300,000	80,000
S-03-24a	WWTP Rehabilitation/Repair	4,000,000	1,000,000	2,400,000	2,400,000
S-03-09	Sanitary Lift Station Upgrades	110,000			
S-03-10	Gorge Pumping Station Rehabilitation	400,000			
S-03-22	Sewer Replacements & Repairs	250,000	250,000	250,000	250,000
S-03-02	LaSalle Area Sewer Improvements (SSO)	300,000	300,000	300,000	300,000
S-03-06	Combined Sewer Overflow Long Term Control Plan (CSO LTCP) Evaluation				
S-03-07	Combined Sewer Overflow Long Term Control Plan (CSO LTCP) Implementation	50,000	200,000		
S-03-07a	CSO Outfall Structural Repairs				2,500,000
S-03-01	NGI Obstruction	300,000	3,000,000	250,000	
S-03-23	Pollutant Minimization Plan	35,000	40,000	10,000	10,000
W-98-01	Military Road Main,, bet. Jacob and Cayuga:	180,000			
W-95-01	Ontario Ave Main, - 13th to 18th Street		250,000		
W-01-02	Lewiston Road Main, Ontario to Chasm	160,000			
W-06-01	97th Street - 98th to NF Blvd	400,000			
W-99-01	Hennepin Ave Main,- S. 86th to S.89th Street			510,000	
W-01-03	72nd St Main, Buffalo Ave to Stephenson Ave w/ 8"				450,000
W-89-02	Hydrant Replacement			65,000	65,000
W-89-03	Large Valve Replacement	100,000	100,000	100,000	100,000
W-96-01	Pierce Ave Main, - 18th to Hyde Park with 8"		500,000		
W-91-01	Buffalo Avenue Water Mains & Valves	400,000	100,000		
W-04-02	Security Upgrades at WTP				50,000
W-94-04	Rivershore Drive Main, - S.86th to 91st Street				
W-04-03	Valve Inventory/GIS	25,000	25,000	25,000	25,000
W-04-04	Water Miscellaneous Improvements	65,000	65,000	65,000	65,000
W-94-05	Loop "D" St Main, - Falls St to Gill Creek			70,000	
	Planned Commitments	8,355,000	5,990,000	4,965,000	6,710,000

The CIP for the Water System is focused primarily on distribution system improvements to enhance overall water quality and system reliability, including an annual water main replacement and relining program. A significant water pipeline break occurred in March 2009. While the Board believes that the financial effects of the break will not be material to its annual cash flow, the break highlighted the long-term need for distribution system repairs. The updated CIP is expected to continue to budget funds for replacement and repair of critical Water System infrastructure.

The CIP for the Wastewater System is focused primarily on the wastewater treatment plant improvements, the cleaning/rehabilitation of the NGI, and removal of infiltration into the FST.

The CIP includes funding for certain improvements at the WWTP. These improvements are reasonable and necessary given the age and condition of the facility. The construction of the Phase 1 Project of the plant was completed in early 2009. The first phase work included: the replacement of equipment in the influent facilities; replacement of several carbon filter valves, piping and control equipment; improvements to the filter effluent area; as well as several new HVAC units to improve atmospheric conditions and protect the new equipment. State-of-the-art control technology has been installed as equipment is replaced, resulting in greater operational efficiency.

The Board completed the design of the second phase of the capital improvements for the WWTP in 2009. Construction contracts were awarded for the Phase 2 Project in June 2009 and the Board anticipates that the improvements will be complete in mid-2010. The Phase 2 project includes replacement of more carbon filter valves, piping and instrumentation, and automation of the carbon filtration process. Additional rehabilitation and replacement projects are likely to be undertaken at the WWTP each year for the foreseeable future. Plans for the Phase 3 Project are in the predesign/scoping stage of development. The Board will consider beginning the design of Phase 3 improvements in late 2009/early 2010.

Significant rehabilitation and replacement work at the Gorge Pumping Station, the largest pumping station in the System was completed in late 2008. This work satisfied a New York State Department of Environmental Conservation (“NYSDEC”) Administrative Consent Order requiring the Board to make improvements to the Gorge Pumping Station. Improvements to the smaller pumping stations are likely to be needed beyond the Projection Period.

Improvements to the 115 kV electrical substation at the WWTP will also be initiated in 2009. Deficiencies that were discovered during recent maintenance testing have required the Board to add this project to the capital budget. Design of the repairs was initiated in June 2009. It is anticipated that the improvements will be completed in 2010.

The CIP includes funds in 2009 and 2010 for additional cleaning and restoration of the North Gorge Interceptor. The first phase of this work was completed in 2005. The next phase was studied in 2008, and the design is currently underway. The amounts included in the CIP were intended to cover part of the cost of the additional cleaning and restoration. The Board was awarded \$11 million in funding from the 2009 American Recovery and Reinvestment Act (“ARRA”) to complete the second phase of work which should enable the Board to substantially complete all of the remaining cleaning and restoration of the NGI. The funding will be administered through the New York State Environmental Facilities Corporation with \$6.3 million as subsidized loan at 50% of market interest rate, and \$4.67 million in principal forgiveness. Construction is expected to begin in late 2009 and be completed within two years. It is anticipated that the 2009 update of the CIP will reflect the expanded scope of the project.

The Board reached an agreement with the New York Power Authority (“NYPA”) related to the infiltration of water from NYPA’s hydropower intake facilities into the Falls Street Tunnel (FST) of the Board. Currently, this infiltration accounts for over 20% of the total influent flow into the WWTP of the Board. Under the terms of the Agreement, NYPA paid \$19 million to the Board in November 2007; the proceeds of which are intended to reduce or eliminate the NYPA FST inflow. The Board completed a predesign feasibility study in 2008 which evaluated all alternatives that will achieve that objective. It’s anticipated that the design of the recommended improvements would begin in 2009 and construction would be initiated in 2010. The current estimate of the cost of the recommended alternative is significantly less than the funds paid to the Board. Any monies remaining from the \$19 million payment after completion of the FST repairs will become available for one or more of the following uses: other wastewater system capital projects identified in the Board’s CIP, the defeasance of outstanding debt, or other purposes that are permissible under the Bond Resolution. Policy decisions will be made by the Board regarding the intended use of any remaining monies. The preliminary sources and uses of capital funds as shown in Table 2 of this Report reflects the use of the additional monies from the NYPA payment towards the cost of other capital projects, recognizing that Board policy decisions may change the amount of funds that are used for this purpose.

The Board and two other communities have received a shared \$400,000 grant from the State of New York to examine options for the potential consolidation of water and wastewater facilities

in the region. The intent of the study is to identify the most cost-effective long-term approach to delivering water and wastewater services for the communities and could involve, among other things, the consolidation of some treatment facilities, the expansion of certain facilities and the modification or elimination of some treatment facilities. The study is ongoing with preliminary results expected in late 2009.

The CIP addresses several sewer capacity issues through a variety of individual projects in the combined wastewater and stormwater sections of the System and improvements in the separated LaSalle portion of the System. Funding is included in the CIP for the upgrading of certain CSO facilities. Beyond the Projection Period, it is expected that there will be a continuing need for improvements to the sewer collection system.

In the opinion of CRA Infrastructure & Engineering, Inc., the CIP for the System is reasonable and will help ensure that high quality water and wastewater services are delivered to customers in a reliable manner.

Sources and Uses of Funds

Table 2 presents the anticipated sources and uses of funds for the CIP as well as the FST and NGI. The amounts shown are preliminary, pending the 2009 update of the CIP.

Table 2
Sources and Uses of Funds for the CIP (\$)

Sources of Funds					
Line	Construction Fund	2009	2010	2011	2012
1	Opening Balance	2,459,348	19,519,317	7,459,213	1,699,213
2	Deposits from EFC Loan Proceeds	3,150,000	3,150,000		
3	Deposits from EFC ARRA Grant Proceeds		4,670,000		
4	Deposits from Water Authority Bond/Note Proceeds			4,000,000	5,000,000
5	Deposits from Prior Year Surplus	3,500,000	400,000	400,000	400,000
6	Deposits from NYPA Proceeds	19,000,000			
7	Withdrawals for Construction Cash	<u>(8,590,031)</u>	<u>(20,280,104)</u>	<u>(10,160,000)</u>	<u>(6,200,000)</u>
8	Ending Balance	19,519,317	7,459,213	1,699,213	899,213
Uses of Funds					
Line	Withdrawals for Construction Cash	2009	2010	2011	2012
1	WWTP Rehabilitation	2,000,000	6,000,000	2,400,000	3,000,000
2	NGI Project	2,510,031	8,515,104		
3	FST Project	500,000	3,250,000	3,250,000	
4	Other Projects in the CIP	<u>3,580,000</u>	<u>2,515,000</u>	<u>4,510,000</u>	<u>3,200,000</u>
5	Total	8,590,031	20,280,104	10,160,000	6,200,000

In 2009 through 2012, it is anticipated, on a preliminary basis, that the annual construction cash flow requirements shown in Line 7 will be met through a combination of the beginning Construction Fund balance on January 1, 2009, deposits from EFC Loan proceeds, ARRA Grant proceeds and Authority Bond proceeds (Lines 2 through 4), available cash (surplus) from prior years (Line 5) together with the proceeds of the NYPA payment (Line 6). The construction cash flow requirements in Line 5 of the Uses of Funds differ from the annual totals included in the CIP since the CIP amounts reflect the anticipated contractual commitments and do not include the second phase of the NGI project or the FST project.

Table 2 assumes that a portion of the cash from the proceeds of the NYPA payment may be available to fund other CIP projects. This assumption is subject to the review and approval by the Board at the time the CIP is updated. Please see the discussion under Preliminary Capital Improvement Program regarding the potential use of a portion of the proceeds of this payment.

Outstanding Debt

The following table summarizes the outstanding bond issues and remaining principal amounts attributable to the System as of December 31, 2008.

Table 3A
Outstanding Debt (\$)

Debt Instrument	Remaining Principal
2003 NFPWA Series A	25,510,000
2003 NFPWA Series B	10,845,000
2003 EFC Series G, Clean Water	16,495,000
2003 EFC Series G, Drinking Water	5,580,000
2003 EFC Series H	17,730,000
2004 EFC Series A	4,095,000
2005 Series A&B (NGI/EFC)	5,420,000
2005 Series Capital	7,000,000
2005 Series C Refunding 2003A	16,115,000
Total Amount	\$108,790,000

The Authority did not issue additional debt in 2008. The final debt service payments for all outstanding Authority bonds are due in 2034. The annual principal and interest payments associated with the outstanding debt during the Projection Period are included in the Projected Cash Flows that are shown in Table 4.

Historical Cash Flows and Debt Service Coverage

The Board acquired the System from the City in September 2003. The Board has now completed five full years as the owner and operator of the System. A summary of the financial performance achieved during the years ending December 31, 2006, December 31, 2007 and December 31, 2008 is provided in the table 3B.

Table 3B
Historical Financial Performance
(All amounts in \$, except Line 15)

Line	Description	2006	2007	2008
1	Payments by Customers	22,969,196	22,715,143	23,823,728
2	Payments from Occidental	2,700,000	2,500,000	2,300,000
3	Interest Earnings	2,008,541	1,641,006	1,782,690
4	Proceeds from Sales of Assets	23,620	0	0
5	Total Cash Receipts	27,701,357	26,856,149	27,906,418
6	Start-up Expenses	171,016	42,097	8,714
7	Payments to Employees	9,674,791	8,075,998	8,394,022
8	Payments to Suppliers	6,947,861	7,030,721	5,127,438
9	Total Operating Expenses	16,793,668	15,148,816	13,530,174
10	Cash Available for Debt Service (Line 5 - Line 9)	10,907,689	11,707,333	14,376,244
11	Interest Payment	4,538,306	4,534,558	4,598,091
12	Principal Payment	2,480,367	2,440,000	2,477,960
13	Total Debt Service	7,018,673	6,974,558	7,076,051
14	Surplus (Line 10 - Line 13)	3,889,016	4,732,775	7,300,193
15	Debt Service Coverage (Line 10/Line 13)	1.55	1.68	2.03

The preceding table has been prepared based on information presented in the annual Financial Statements of the Board. The Financial Statements of the Board for the Years Ended December 31, 2008, December 31, 2007 and December 31, 2006 were prepared by the firm of Toski, Schaefer & Co., P.C., Certified Public Accountants.

For the period of 2006 through 2008, total cash collections from customer billings were approximately 97% of the total amount billed. The amounts collected included payments related to current billings as well as arrears payments.

The cash collections from customers for the first half of the 2006 fiscal year were lower than was expected for that period. Part of the decline was attributable to a delay in receiving payments from the City for delinquent water payments that are recovered after the conclusion of each year through in-rem proceedings. The Board took legal action to facilitate the transfer of such funds from the City and was successful in its efforts. The City transferred most of the payments due to the Board in late 2006. Part of the funds received by the Board should have been transferred by

the City in 2005. As a result, the amount of the transfers by the City to the Board in future years will likely be somewhat less than the amounts transferred in 2006.

Water sales in 2007 were approximately 1.2% lower than in 2006. This decline was consistent with the budgeted sales projections for the year. Water sales in 2008 were approximately 5.5% lower than in 2007. This decline exceeded the assumed rate of decline in sales of 1.6%.

Interest earnings on the funds of the Board in 2007 and in 2008 were higher than previously expected due to the effects of higher interest rates as well as one-time increases in interest earnings.

The results for the year ending December 31, 2007 indicate that the actual debt service coverage achieved by the Board was 168%, exceeding the minimum requirement of 115% of debt service. The results for the year ending December 31, 2008 indicate that the actual debt service coverage achieved by the Board was 203%, exceeding the minimum requirement of 115% of debt service.

The Board negotiated with the labor unions representing most of its employees in 2006 and reached agreement of a new health care plan that reduced the health care-related expenses of the Board in comparison to the plan that was previously in effect. The decrease in personnel-related expenses in 2007 reflects the effects of the changes in the health care plan as well as the impacts of the reduction in Board personnel.

In January 2008 the Board reached a settlement in the collective bargaining agreements with all four of its labor unions. The six-year agreements create a second tier benefit package for employees hired after January 2008. This new tier will provide significant long-term savings to the Board as new employees supplant outgoing retirees. The package includes a more modest health care plan with a 20% employee contribution, a halving of paid sick and holidays, and a new paid time-off plan. Nearly one-half of Board employees are eligible for retirement within the next 5 years.

Compliance with Reserve Fund Requirements

Under the terms of the Financing Agreement between the Board and the Authority, the Board is required to maintain minimum balances in reserve funds relating to its operating expenses and debt service. The amounts on deposit in the Operation and Maintenance Reserve Fund must equal or exceed two months' of the anticipated operation and maintenance expenses in the upcoming year. The amounts on deposit in the Debt Service Reserve Fund must equal or exceed the maximum annual debt service in any future year. The amounts on deposit in the Board's

Operation and Maintenance Reserve Fund and Debt Service Reserve Fund as of December 31, 2008 are in compliance with the requirements of the Financing Agreement. The Board expects to continue to be in compliance with these requirements during 2009.

Projected Cash Flows and Rates

The preliminary projection of cash flows of the System is presented in Table 4. These projections are preliminary and subject to change. The future cash flows of the Board are dependent upon upcoming Board policy decisions regarding: the size, scope and timing of the CIP; the use of the remaining monies from the NYPA settlement and potential reductions in annual operation and maintenance expenses. Future increases in rates and revenues are also dependent upon actual experience and assumptions for regarding customer demand as well as other factors. The achievement of any projection of future conditions is dependent upon the occurrence of other future events and circumstances such as changes in the local and national economy, demographic changes, variations in interest rates and inflation, new regulatory agency initiatives and other factors that cannot be predicted. Therefore, the actual financial requirements and performance of the System may vary from the estimates presented herein, and such variations could be material.

The year-to-date cash receipts through May 31, 2009 are significantly below the amounts that would be expected for this five month period. Water consumption by customers has declined by 12.2% in 2009 compared to the same period in 2008. The year-to-date billings through April 30, 2009 are 9.5% lower than during the same period in 2008. The difference between the percentage decline in billings and the decline in usage is attributable to the effects of the rate structure being used by the Board, including the use of minimum billings to customers. Year-to-date cash collections from customer payments through May 31, 2009 are approximately 12.2% below expectations for the period. The primary factors affecting cash collections are the reduction in demand and an increase in customer payment delinquencies.

Beginning in late September 2008, the Board implemented a new customer billing system. Delinquency and shut-off notices were not mailed to customers from September 2008 through May 2009. Board staff believes that a substantial portion of the increase in receivables is due to the absence of notification and enforcement. The mailing of delinquency and shut-off notices to customers was initiated in June 2009. The Board expects that all customers with significant delinquencies will receive appropriate notices by mid-August 2009.

The collection of delinquent bills will help improve System cash collections in 2009. Nonetheless, if the significant decline in billed customer usage continues for the remainder of the

year, the Board will not achieve the debt service coverage requirements of its Bond Resolution unless it takes corrective action. If expenses remain at budgeted levels and the decline in usage remains steady for the remainder of the year, the estimated shortfall due to the decline in revenues is approximately \$1.85 million. This estimate includes the anticipated effects of interest earnings that will likely be less than budgeted levels. In recent years, actual interest earnings exceeded budgeted amounts. Although the Board's reserve funds are fully funded and the Board has significant funds on hand to use for future construction, interest earnings rates in the financial markets are substantially below the rates available in prior years resulting in lower interest earnings than was achieved in prior years.

Based on our review, it appears that the Board's options for eliminating the shortfall include the following:

- Using available capital funds in lieu of annual revenues to pay for carbon replacement at the wastewater treatment plant and the salaries and pension/fringe benefits of personnel time associated with the CIP. It is estimated that the substitution of capital funds will reduce operating expenses by about \$850,000. Table 2, Sources and Uses of Funds for the CIP, and Table 4, Preliminary Projections of Cash Flows and Rates, assume that the Board will implement this option.
- Reducing other operating expenses by about \$1 million. The figures shown in Table 4, Projected Cash Flows and Rates, assume that the Board will implement this option and that the effects of such a reduction (reflected in the line item "Other Expenses") will carry forward to future years. It is recognized that this represents a large reduction in expenses which requires staff analysis to determine its effects on System operations. As reductions in expenses are proposed by the staff of the Board, the Consulting Engineer will have to review the proposed reductions to assess the potential impact on Board operations and maintenance.
- Increasing water and sewer rates prior to 2010. If the Board were to implement a rate increase that was effective for customer billings in the last quarter of 2009, System revenues could be increased in 2009 recognizing that the effects of such an increase would apply to only about one-quarter of annual customer usage.

The projected cash flows in 2010 through 2012 assume that the Board will enact increases in water and wastewater rates and charges of an average of 6.0% in 2010, 6.1% in 2011, and 6.6% in 2012. The projection indicates that under the conditions reflected herein, the System will

generate operating revenues of approximately \$19.9 million in 2009, increasing to approximately \$22.5 million in 2012. Taking into consideration non-operating revenues, total revenues available for debt service and expenses are projected to be \$22.7 million in 2009, increasing to \$24.8 million in 2012. Each of these projections is preliminary and subject to change as noted above. The projected increase in user payments reflects the assumption that water consumption by customers will decline at the rate of about 2% annually. If the rate of decline in customer usage is greater than the assumed percentage, the Board will have to increase water and sewer rates at a pace that is greater than assumed and/or decrease expenses in order to achieve the debt service coverage requirement.

As part of the 2010 budget development process, the Board has requested that its staff evaluate the feasibility of maintaining water and wastewater rates at their current levels. The Board also requested that any resulting decline in service level be quantified in terms of percentage increase in rates necessary to retain that service level. This budget development methodology will allow the Board to better assess the value and priority of the services it provides. The impact of this request is expected to be analyzed and presented to the Board in October 2009.

The preceding analysis will take into consideration the financial performance of the Board to date in 2009, trends in water and wastewater sales and proposed expenditures for 2010. At the time of this 2009 CDR, it is not possible to predict the potential outcome of this analysis and the resulting effects on the projected rate increases, cash flow and debt service coverage of the System as presented in this 2009 CDR.

On a preliminary basis, operating expenses are projected to increase from approximately \$14.5 million in 2009 to \$15.8 million in 2012. The Board will review its current operating expenses as part of the potential steps to take corrective action in 2009 and the preliminary projections of operating expenses in future years. Operating expenses are expected to increase with inflation. However, a portion of the inflationary increase is assumed to be offset by salary and benefit reductions attributable to reductions in the number of personnel as well as savings in non-labor costs through the implementation of the Competitiveness Program.

The projected debt service includes principal and interest payments on outstanding bonds as well as anticipated future bonds of the Authority. It is presently anticipated that the Authority will issue \$4.4 million in additional debt in 2011 and \$5.5 million in debt in 2012. The proceeds of such bonds or notes will primarily be used to pay a portion of the costs associated with the CIP. The preceding amount includes an allowance for deposits to the Debt Service Reserve Fund and the costs of issuance. The projected debt service assumes that the anticipated future bonds will

have a 30-year term at an average interest rate of 6.75% and level principal and interest payments.

In 2009, pursuant to its agreement with the City, the Board is obligated to begin making annual payments in lieu of taxes to the City. The projected amount to be paid from 2009 through 2012 is \$700,000 per year.

The debt service coverage ratios in Table 4 are based on total revenues available for expenses and debt service minus Operating Expenses divided by Total Debt Service. It is projected that debt service coverage will be equal to, or greater than, the minimum requirement of 1.15 throughout the Projection Period. All projections are presented on a preliminary basis and are subject to change. This conclusion assumes the following: the Board takes corrective action as noted above in 2009 and continues the effects of such action in future years, the Board adopts the projected rate increases described above, expenses are maintained at or below projected levels and the future declines in customer usage are consistent with the assumed rate of decline. As noted earlier, the actual financial requirements and performance of the System may vary from the estimates presented herein, and such variations could be material. With regard to the figures presented in Table 4, the preliminary projections show that debt service coverage is maintained at approximately the minimum levels required by the Bond Resolution. The Amawalk Consulting Group recommends that the Board consider taking the actions necessary such that future revenues and expenses are such that the debt service coverage and surplus exceed the minimum requirement of 1.15 throughout the Projection Period so that if adverse changes occur (e.g., a greater than assumed decline in customer usage), the Board will have some flexibility to address such changes.

Table 4
Preliminary Projections of Cash Flows and Rates
(All amounts in \$ for Lines 1 through 20)

<u>Line</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues				
1 Water & Wastewater User Payments	19,941,072	20,738,755	21,582,173	22,531,836
2 Interest Earnings	643,139	403,469	432,552	422,352
3 Occidental Payment	2,100,000	2,000,000	1,900,000	1,800,000
4 Total	<u>22,684,211</u>	<u>23,142,224</u>	<u>23,914,726</u>	<u>24,754,189</u>
Operation & Maintenance Expenses				
5 Salaries & Benefits	8,251,452	8,416,481	8,584,811	8,756,507
6 Chemicals/Sludge	2,347,592	2,464,972	2,588,220	2,717,631
7 City Services	70,000	72,100	74,263	76,491
8 Insurance/Safety	437,300	450,419	463,932	477,850
9 Maintenance	970,671	999,791	1,029,785	1,060,678
10 Utilities	1,513,376	1,558,777	1,605,541	1,653,707
11 Other Expenses	778,048	816,950	857,798	900,688
12 Authority/Board Expenses	106,000	109,180	112,455	115,829
13 Total	<u>14,474,439</u>	<u>14,888,670</u>	<u>15,316,804</u>	<u>15,759,381</u>
14 Revenues Available for Debt Service	8,209,772	8,253,553	8,597,921	8,994,808
Debt Service				
15 Debt Service on Outstanding Bonds	7,132,166	7,131,271	7,126,907	7,128,930
16 Debt Service on Future EFC Loans			342,539	342,539
17 Debt Service on Future Authority Bonds				<u>345,717</u>
18 Total	<u>7,132,166</u>	<u>7,131,271</u>	<u>7,469,446</u>	<u>7,817,187</u>
19 PILOT Payment	700,000	700,000	700,000	700,000
20 Surplus	377,606	422,282	428,475	477,621
21 Debt Service Coverage	1.15	1.16	1.15	1.15
Rate Increase		6.0%	6.1%	6.6%

Water Sales by Customer Class

Table 5 illustrates the water consumption by customer class for each of the last four years.

Table 5
Water Consumption by Customer Class
(hundreds of cubic feet)⁽¹⁾

		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
District 1					
Residential	1st. Billing	125,259	119,316	113,574	110,953
	2nd. Billing	132,041	119,766	117,723	119,113
	3rd. Billing	128,293	122,458	117,512	118,284
	<u>4th. Billing</u>	138,290	132,154	131,168	123,273
	Total	523,883	493,694	479,977	471,623
District 2					
Residential	1st. Billing	143,707	128,819	135,803	136,020
	2nd. Billing	144,011	130,735	137,431	127,049
	3rd. Billing	164,413	156,563	154,364	148,148
	<u>4th. Billing</u>	<u>149,531</u>	<u>138,654</u>	<u>152,573</u>	<u>145,911</u>
	Total	601,662	554,771	580,171	557,128
District 3					
Residential	1st. Billing	108,966	96,802	95,647	101,750
	2nd. Billing	105,768	96,729	90,247	80,900
	3rd. Billing	122,294	111,655	111,904	105,743
	<u>4th. Billing</u>	<u>100,651</u>	<u>102,156</u>	<u>104,212</u>	<u>92,352</u>
	Total	437,679	407,342	402,010	380,745
District IND.					
Industrial	1st. Billing	238,084	230,435	265,495	237,383
	2nd. Billing	212,189	207,192	194,754	205,213
	3rd. Billing	256,750	269,156	246,523	219,887
	<u>4th. Billing</u>	<u>333,042</u>	<u>338,603</u>	<u>315,330</u>	<u>293,529</u>
	Total	1,040,065	1,045,386	1,022,102	956,012
District SIU					
Lg Industry	1st. Billing	300,287	314,856	382,118	250,269
	2nd. Billing	293,064	311,361	343,039	290,671
	3rd. Billing	311,157	319,573	287,183	302,672
	<u>4th. Billing</u>	<u>389,150</u>	<u>381,708</u>	<u>287,063</u>	<u>366,565</u>
	Total	1,293,658	1,327,498	1,299,403	1,210,177
District NR					
Outside City	1st. Billing	785	870	806	855
	2nd. Billing	861	794	780	895
	3rd. Billing	831	941	983	948
	<u>4th. Billing</u>	<u>880</u>	<u>791</u>	<u>1,055</u>	<u>906</u>
	Total	3,357	3,396	3,624	3,604
Grand Total ccf		3,900,304	3,832,087	3,787,287	3,579,289
% Change from Prior Year		2.18%	-1.75%	-1.17%	-5.49%

Notes:

(1) Data reflects the four billing quarters in each year.

Water sales to customers declined by 24.8% from 2002 through 2005. In 2006 through 2008, the demand for water decreased by about 1.7%, 1.2%, and 5.5%, respectively. Part of the decline in

2007 and 2008 was attributable to the closure of Ferro Industries. Year-to-date consumption in 2009 is 12.2% lower than for the same period in 2008. Part of the decline in 2009 is due to a change in water use by one large industrial user; instead of relying on water from the Board, the industry now draws water for its industrial processes directly from the Niagara River. The industry is still a wastewater customer of the Board. Year-to-date billings are 9.5% lower than for the same period in 2008. The Board is conducting inspections of the meters of large users to assess whether there are any meter malfunctions that may be contributing to the decline in measured usage.

The ten largest water customers and wastewater customers are listed in Table 5A below.

Table 5A
Ten Largest Water and Wastewater Customers

<u>Name</u>	<u>12/31/2008</u> <u>Revenue</u>	<u>% of</u> <u>Total</u>	<u>4/30/2009</u> <u>YTD</u>
1 E.I. DuPont	\$1,746,223	33.82%	\$ 583,335
2 Norampac Industries	\$1,076,035	20.84%	\$ 120,440
3 Seneca Niagara Casino	\$ 439,766	8.52%	\$ 165,892
4 Allied Waste Systems	\$ 436,732	8.46%	\$ 246,593
5 Durez	\$ 392,674	7.61%	\$ 86,580
6 Niacet Corporation	\$ 248,044	4.80%	\$ 138,698
7 Covanta Niagara	\$ 235,885	4.57%	\$ 79,490
8 Goodyear Chemical	\$ 217,559	4.21%	\$ 65,026
9 Saint Gobain	\$ 199,757	3.87%	\$ 32,364
10 Washington Mills	\$ 169,948	3.29%	\$ 43,727
	<u>\$ 5,162,623</u>	100.00%	<u>\$ 1,562,145</u>

Notes: YTD 2009 revenues reflect 2 billing periods.

Rates for Water Service and Wastewater Service

The rates for water service and wastewater service in 2009 within the City stays unchanged from the rates charged in 2008. The rates for water customers outside of the City in 2009 also remain the same as the unit rates charged in 2008. The Board does not provide wastewater service to customers outside of the City. The Financial Statements of the Board for the Year Ended December 31, 2008 present the rates for water service and wastewater service in 2008 and 2007. The consumption-related water rates of the Board for 2009 are shown below:

Table 6
2009 Rates for Water Customers

	Inside City (\$/ccf)	Outside City (\$/ccf)
First 20,000CF	2.79	7.62
Next 60,000 CF	2.42	6.65
Next 120,000 CF	2.05	5.54
> 200,000 CF	1.70	4.66

The rate structure for sewer service consolidates all consumers into two classes: Significant Industrial Users (SIU), and Commercial, Small Industrial, and Residential Users (CSIRU). The user charge system includes ten Substance of Concern charges that are assessed exclusively within the SIU class.

The wastewater user charges for the CSIRU class of customers in 2009 are summarized in Table 7.

Table 7
2009 Wastewater Rates for CSIRU Customers

<u>Minimum Charge</u>	<u>Volume Charge</u>
All meter sizes and flow up to 1,300 cf \$45.57	Usage in excess of 1,300 cf per quarter (per 100 cf) \$3.72

Three of the wastewater user charges for the SIU class of customers in 2009 are summarized in Table 8 below.

Table 8
2009 Wastewater Rates & Charges for SIU Customers

Flow Charge (\$/MG)	Solids Charge (cents/lb)	SOC Charge (cents/lb)
2,626	0.87	1.50

Interest Earnings

The System will earn interest on the funds maintained by the Board and the Authority. Based on the anticipated balances in each fund and the current investment rates, Table 9 presents the estimated interest earnings for 2009.

Table 9
Estimated Interest Earnings - 2009

Fund	Average End of Month Balance (\$)	Interest Earnings Rate	Estimated Annual Earnings (\$)
Debt Service Reserve Fund	439,000	4.00%	17,560
Debt Service Reserve Fund (A.)	7,386,000	2.45%	180,957
Debt Service Reserve Fund (B.)	7,386,000	0.58%	42,470
Debt Service Fund	3,532,614	2.00%	70,652
Construction Fund	3,000,000	1.00%	30,000
O&M Reserve Fund	2,725,000	1.00%	27,250
NYPA Payment	19,500,000	1.15%	224,250
Working Capital	5,000,000	1.00%	50,000
			<u>643,139</u>

Notes

(A.) Interest earnings for 6 months at 4.9% annual rate

(B.) Interest earnings for 6 months at 1.15% annual rate

Interest earnings rates are much lower than historical rates. This situation is affecting the revenue of water utilities across the country.

System Operating Expenses

The System's expenses include the costs associated with the operation, maintenance and administration of the water treatment facilities and distribution system, as well as the costs associated with the operations of the wastewater collection and treatment facilities and stormwater facilities. The principal components of operating expenses other than labor as projected for 2009 are shown in Table 10.

Table 10
Major Components of Other Than Labor Expenses - 2009

Item	Amount (\$)
Chemicals	2,625,592
Utilities	1,513,376
City Services	70,000
Sludge Disposal	372,000
Insurance/Claims	437,300

The Board completed a competitive assessment of its operations and initiated the implementation of significant operational changes to improve the efficiency and effectiveness of its operations. Some cost savings from this initiative were realized in 2007 and 2008; additional savings are expected in 2009 and in future years.

Representatives of the Board exchanged information on a preliminary basis with representatives of the United States Government regarding the possibility of entering into an agreement whereby the Board could provide operation, maintenance and other services for the water distribution system that is located within the Base of the Niagara Falls Air Reserve Station (NFARS). The Board currently supplies most of the water that is used at the Base. There is no current activity regarding a potential agreement between the parties. In the event that the parties reach agreement for the provision of services in the future, it is not anticipated that such an agreement will have a material impact on the projected rates, annual surplus or debt service coverage of the Board.